Fintech and the IMF

MARCH 27, 2019

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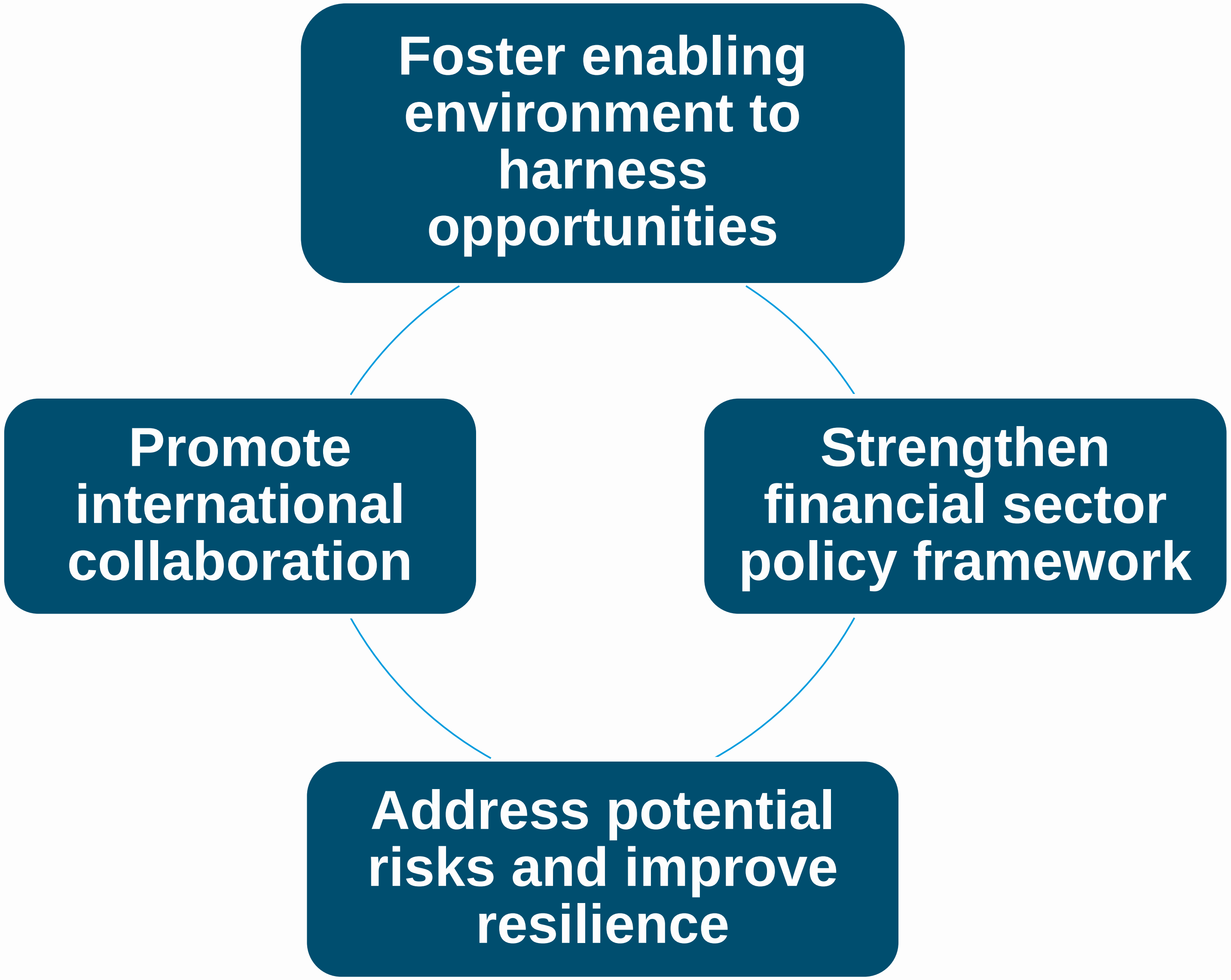
Agenda

- The IMF – World Bank Bali Fintech Agenda
- The case for central bank digital currency

The Bali Agenda: Context

- Rapid transformation of financial sector via advances in technology
- Given fintech's global nature, country authorities' requests to facilitate information sharing and cooperation
- Outline high-level considerations for policy makers and the international community – still at early stages of information gathering
- Engagement with Standard Setters
- IMF-World Bank interest reflects our universal membership, focused on respective areas of expertise and mandate

12 Elements, grouped into 4 Objectives



(I) Foster enabling environment to harness opportunities

(1) Embrace the Fintech revolution	**(2) Enable New Technologies to Enhance Financial Service Provision**
Strengthen institutional capacity; improve communication with stakeholders and across agencies; and expand consumer education	Facilitate development of and fair access to telecom, internet, and financial infrastructure, digital IDs; digitize government data; and leverage technology to make cross-border payments efficient.
(3) Reinforce Competition and Commitment to Open, Free, and Contestable Markets	**(4) Foster Fintech to Promote Financial Inclusion and Develop Financial Markets**
Treat similar risks equally, apply laws and regulations proportionately; avoid market concentration and abuse; foster standardization and interoperability	Embed fintech in national financial inclusion and literacy strategies; foster knowledge exchange; digitize government payments; leverage fintech to advance financial sector development

(II) Strengthen financial sector policy framework

(5) Monitor Developments Closely to Deepen Understanding of Evolving Financial Systems	(6) Adapt Regulatory Framework and Supervisory Practices for Orderly Development and Stability of the Financial System	(7) Modernize Legal Frameworks to Provide an Enabling Legal Landscape
Enable flexible data gathering frameworks to identify obstacles to innovation and new risks.	Ensure regulation remains adaptable and conducive to development, inclusion, and competition; consider new approaches like regulatory sandbox; address new risks and (cross-border) arbitrage.	Provide legal predictability to spur investment; legal basis for smart contracts and electronic signatures; address legal gaps.

(III) Address potential risks and improve resilience

(8) Safeguard Financial Integrity	(9) Ensure the Stability of Monetary and Financial systems	(10) Develop Robust Financial and Data Infrastructure to Sustain Fintech Benefits
Mitigate AML/CFT risks that crypto-assets and other Fintech developments may pose, potential of Regtech to strengthen AML/CFT compliance	Digital currencies, distributed ledger applications to payments, lender of Last Resort and other safety net arrangements.	Cyber security and operational risk management, risk of concentration in third-party service providers, data governance frameworks

(IV) Promote international collaboration

(11) Encourage International Cooperation and Coordination, and Information Sharing	(12) Enhance Collective Surveillance and Assessment of Financial Sector Risks
Avoid regulatory arbitrage and a “race to the bottom”, monitor global risks, facilitate a global enabling regulatory and legal environment for fintech, and stimulate sharing of opportunities	IMF and World Bank can provide capacity development in the areas of financial inclusion, consumer protection, statistics gaps, financial integrity, regulatory and legal frameworks, and cyber security

Broad Trends (Not from Bali Agenda stocktaking)

1. **Mobile finance** and, to a lesser extent, **cryptocurrencies** are the two most mentioned "Fintech issues" in member countries

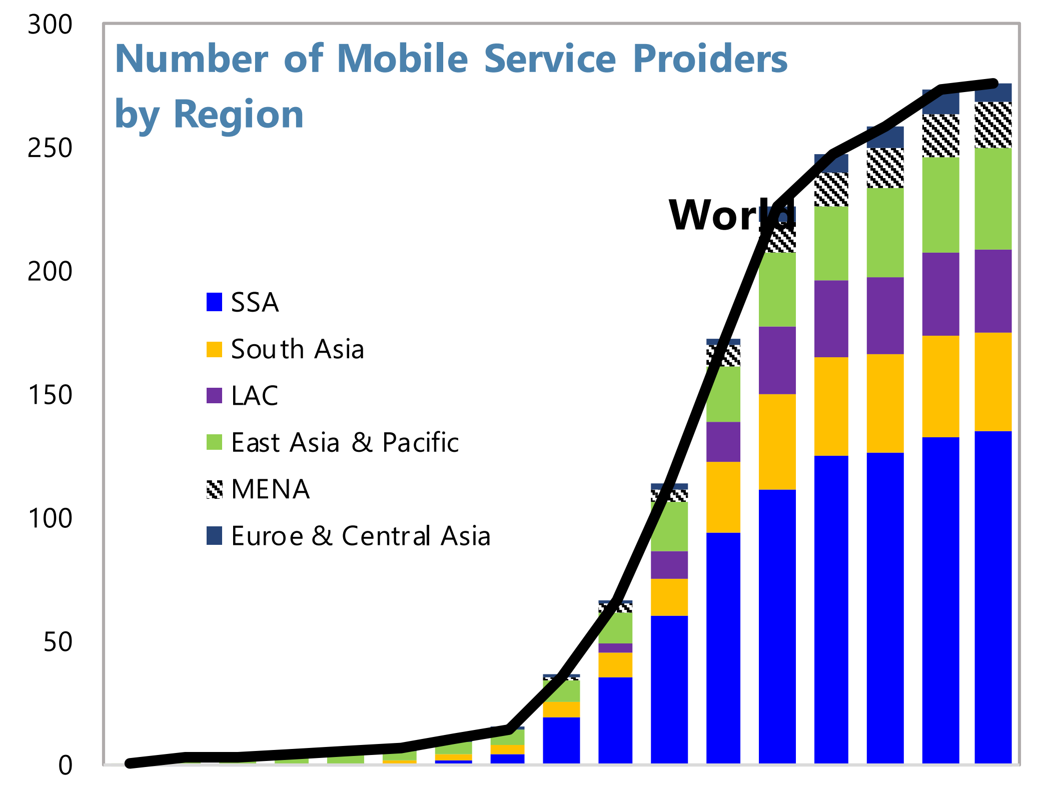
2. Many acknowledge the **regulatory/supervisory challenges** to leverage Fintech-related innovations while mitigating the associated risks

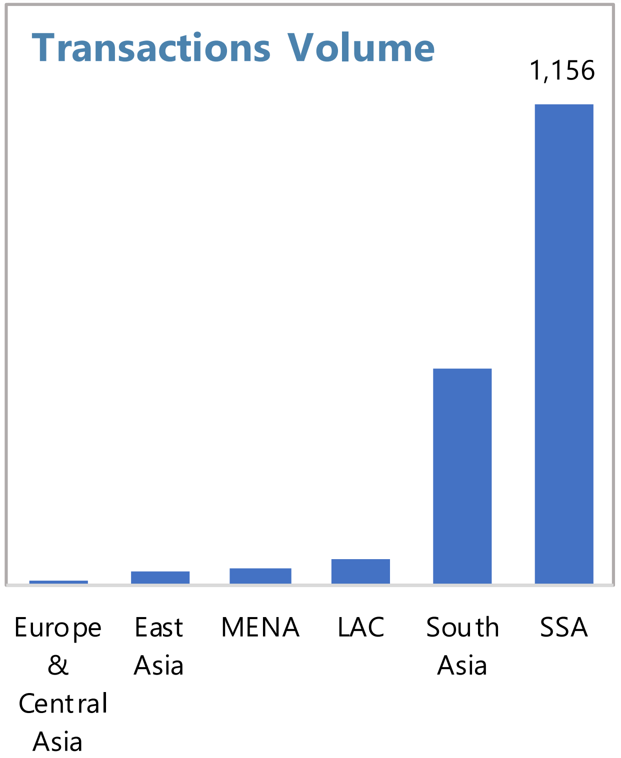
3. AFR and APD countries particularly draw a link between Fintech and **financial inclusion/access** while more EUR countries see in Fintech an opportunity to **improve competition** in the financial sector

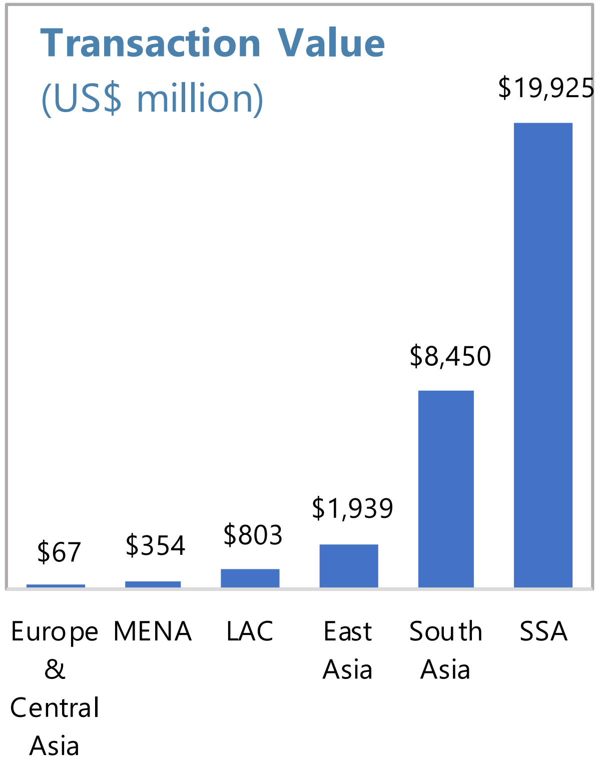
4. **AML/CFT** and **cyber security** are the most highlighted concerns

5. More than a quarter of countries surveyed report **no or limited Fintech activities beyond mobile services**, citing gaps in **information and communications technology** infrastructure and/or under-development of financial markets as main reasons

LAC Mobile Money Services Remain Low







Sources: International-American Development Bank and Finnovista "Innovations You May Not Know Were From Latin America and the Caribbean (IDB and Finnovista, 2017).

The Case for Central Bank Digital Currency

Which central banks are exploring issuing central bank digital currency and why?

The case for and against central bank digital currency

Central bank digital currency design and policy choices

Central Banks Are Exploring Digital Currencies

- Diminishing cash usage
- Cost of cash
- Financial inclusion
- Monopolies in payments

Countries Where Retail CBDCs Are Being Explored (31 + 11 + 13?)	
Australia (on hold)	Israel (rejected)
Bahamas	Jamaica
Bahrain	*Korea* (and *rejected*)
Canada	Lebanon
China (and here)	New Zealand (on hold)
Curaçao en Sint Maarten	Norway (ongoing)
Denmark (rejected)	*Palestine*
Eastern Caribbean	Philippines
Ecuador (pilot complete)	*Russia*
Egypt	Sweden
European Area (and rejected)	*Switzerland*
Hong Kong	Ukraine
Iceland (rejected)	United Arab Emirates
India	United Kingdom
Indonesia	Uruguay (and here)(pilot)
Iran	

Central Bank Rationales for CBDC Explorations

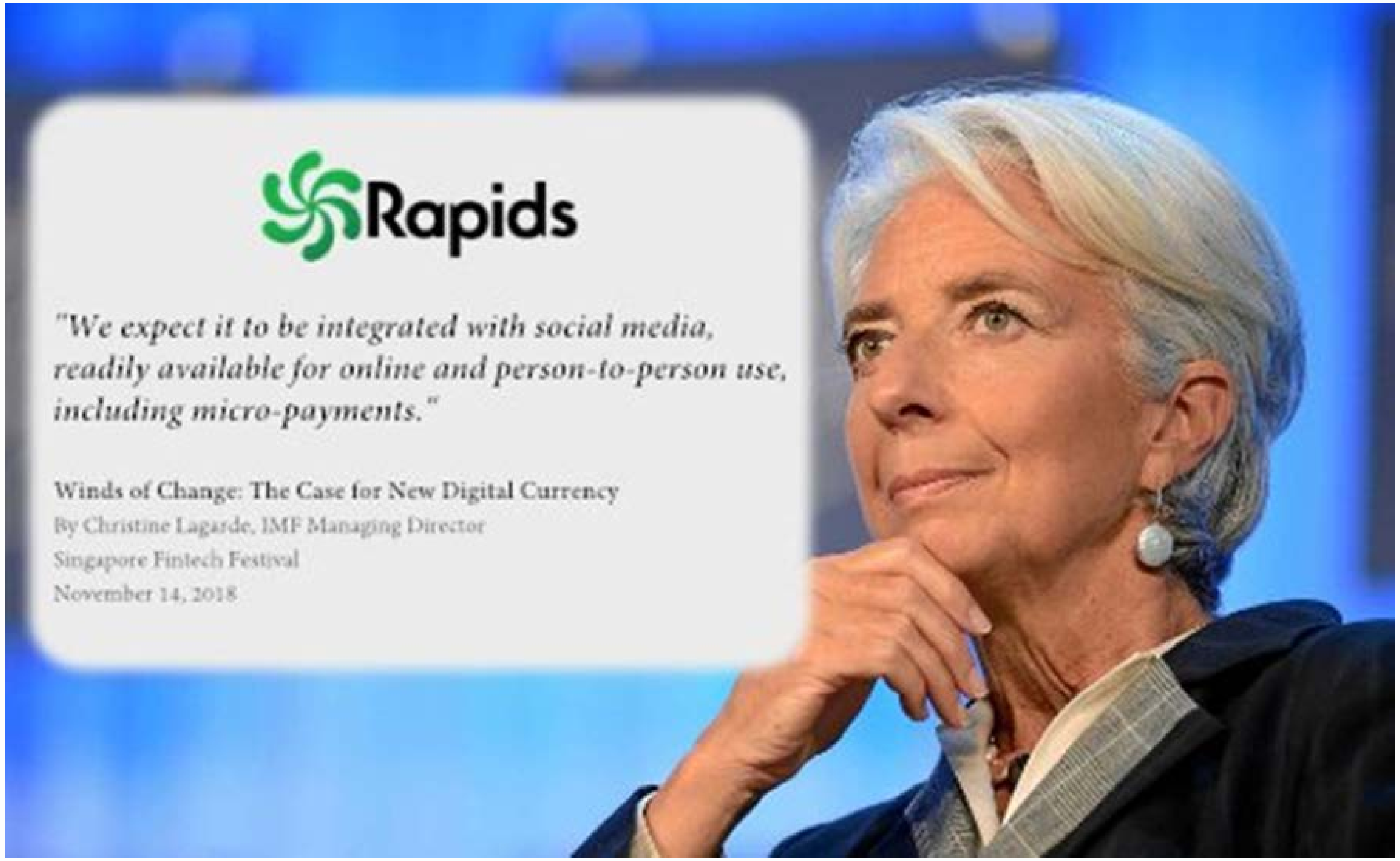
			Diminishing cash usage	
	Financial inclusion	Cost efficiency	Monopoly distortions	Operational risks
Bahamas	√			
CBCS	√	√		√
ECCB	√	√		√
Ecuador		√		
Senegal	√			
Tunisia	√			
Uruguay	√	√		
China	√	√	√	√
Canada			√	
Norway			√	
Sweden			√	√

Some Countries Are Exploring Crypto-Asset Issuance

- Legal tender but not CBDC (CB = central bank!)
- Dual currency system raises macro issues

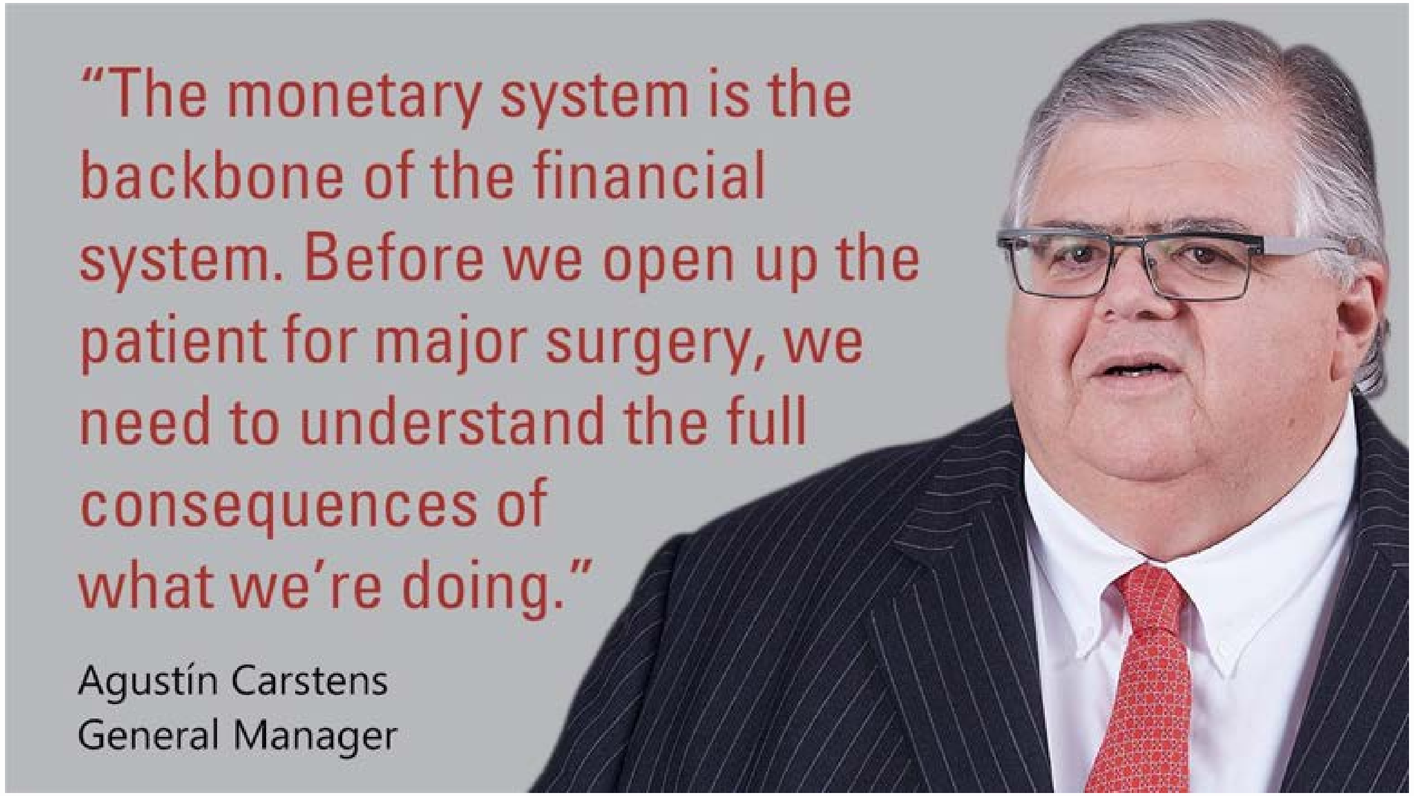
Winds of Change: The Case for New Digital Currency

"I believe we should consider the possibility to issue digital currency. This currency could satisfy public policy goals, such as (i) financial inclusion, and (ii) security and consumer protection; and to provide what the private sector cannot: (iii) privacy in payments. [But] the case for digital currency is not universal, we should investigate it further, seriously, carefully, and creatively."



The BIS is not a Big Fan of CBDC

Aside from the run risk, the BIS warns that CBDC could impact monetary policy implementation by changing the demand for base money and its composition in unpredictable ways, and possibly modifying the sensitivity of the demand for money to changes in interest rates. Also, CBDC could lead to a larger central bank balance sheet, which may require it to purchase additional assets, which could interfere with key markets functioning or dry up liquidity.



There is no Universal Case for CBDC

- From the perspective of end users, the demand for CBDC will depend on design features and the attractiveness of alternative forms of money.
- In advanced economies, there may be scope for the adoption of CBDC as a potential replacement for cash for small-value, pseudo-anonymous transactions.
- In countries with limited banking sector penetration and inefficient settlement technology, demand for CBDC may well be greater.
- CBDC **<u>may</u>** reduce the costs to society that are associated with the use of cash.
- Moreover, CBDC may improve financial inclusion in cases of unsuccessful private sector solutions and policy efforts.
- It could also help central banks bolster the security of, and trust in, the payment system and protect consumers where regulation does not adequately contain private monopolies.
- But regulation and, where possible, fast payment solutions could offer compelling alternatives to a CBDC.

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Design and Policies Should Help Mitigate Ensuing Risks

- Monetary policy transmission is unlikely to be significantly affected and may even benefit.
  - The interest-rate channel could strengthen if CBDC increases financial inclusion and, therefore, exposes more households and firms to interest-sensitive instruments.
  - The bank lending channel could also strengthen if banks rely on wholesale funding.
  - the credit and exchange rate channels are unlikely to be much affected.
- Although CBDC could increase funding costs for deposit-taking institutions and intensify run risk in some jurisdictions, design choices and policies can help ease such concerns.
  - Limits on holdings and fees to convert to CBDC; recycling deposits back to the banking system; outsource CBDC management (e.g., wallets) to banks.
  - Deposit insurance may mitigate run risk, plus CBDC could allow the central bank to offer liquidity faster to avoid the first-come-first-serve dynamics that fuels runs.
- Although it will not eliminate illicit activity, CBDC may in some situations enhance financial integrity. However, it also entails risks for financial integrity if badly designed.

And what's next?

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