RESERVE BANK
OF NEW ZEALAND
TE PŪTEA MATUA

The FinTech Opportunity in Personal Finance

A speech delivered at the Singapore FinTech Festival

On 13 November 2019

By Simone Robbers, Assistant Governor & General Manager Governance, Strategy and Corporate Relations[1]

[1] My thanks to Nick Jeffs for his contribution to this speech

It is a huge privilege to be part of the discussion today, and to hear the insights and sharing of perspectives and experience from around the world. Thank you to my fellow panel members and to the Monetary Authority of Singapore for the opportunity.

As a country, New Zealand rates very highly as a place to live. We have a high standard of living and connected to this, relatively high rates of educational attainment, financial literacy and financial inclusion. However, like other OECD countries, we do have issues with inequality across some of those key areas.

We have an opportunity to ensure we are taking a long term and sustainable approach to building our economy. A big part of that is enabling innovation and supporting financial inclusion. We need to ensure that these positive statistics are not masking parts of our society that do not live in this so called 'paradise' and that our policies support the well-being of vulnerable parts of our society.

FinTech has the potential to enhance financial sector efficiency and inclusion, but may also create new risks to financial sector stability. So while we have seen some notable financial sector innovations in our part of the world, so far the overall impacts have not been substantive. Up until now the Reserve Bank's response has been limited to monitoring the emergence of FinTech developments. We recognise however that we can play a more active role to better enable innovation in the financial services sector and help harness opportunities for increasing financial inclusion and financial literacy.

Today, I would like to cover three main areas, focusing on:

- the types of considerations we need to take into account when looking at a FinTech proposition. I also want to touch on the areas that central banks and prudential supervisors are looking at currently, both new and old.
- I'd then like to share two examples that are close to the work which I'm responsible for, both have a very strong financial inclusion aspect. The first of these is an international example of work we are doing to help remove some of the barriers and constraints around money remittances in the South Pacific region.
- the second example is closer to home and relates to the work that we are doing on the future suitability of our currency model, to ensure cash is accessible to a range of participants across society.

I'd like to highlight the risks and opportunities, but also I hope to highlight that in any innovative solution, whether FinTech or more conventional, we want to help increase participation in the financial system, and meet the needs of society, including the vulnerable.

As with most regulatory issues, the Reserve Bank always needs to weigh-up the risks and opportunities that a FinTech proposition, be it a new entrant or a new product, presents to us. And with the proliferation of new FinTech propositions entering the market over the past ten years, there's no shortage of activity to focus on. But when it comes to choices, in simple terms, there are two things we need to think about.

Do we focus on the risks associated with new entrants and new technologies, often on the regulatory perimeter?

Or do we embrace the opportunity they present to improve the financial system's ability to innovate and meet customer needs, provide financial services at lower cost, driving incumbent firms to compete and enhance their existing offer?

On the risk side, we have articulated this previously, particularly around the risk of unbundling of services provided by existing financial service providers, with more nimble start-ups or large nonfinancial new entrants potentially capturing market share. Unbundling could lead to some fragmentation of the financial system and weaker profitability for incumbents.

This poses some risks to our soundness objective, but in the long run a less concentrated financial system may also be more resilient and more efficient. In New Zealand, the role of banks in facilitating open banking for example, hasn't been mandated, but the banking sector has recognised the need to enable innovation and the opportunities and is leading a co-ordinated approach – such as developing a set of API (application program interface) protocols and standards. This will be a game changer in terms of the structure of our financial system and the way people access their personal finance and products. It is an important area for us as regulators to keep in step with.

However we have not been as vocal around the opportunities that FinTech also presents. This is not unique to New Zealand as many central banks world-wide have typically been sceptical to new developments that could destabilise financial systems. But the context is changing – we are hearing more about digital currencies, central bank currencies and particularly innovations in retail payments systems. Many now acknowledge that unless you have an inclusive system, that's open to new technologies, then you run the risk of a non-sustainable or unstable system. Other central banks and prudential regulators have started this dialogue and it's an area that we are focusing on ourselves. I would by no means say we are leading the way in this space, but we are actively following and working alongside others internationally and domestically. The Governor of the Bank of England for example recently stressed (and I am paraphrasing):

- there is a need to embrace new financial technologies to make the financial system more efficient, effective and resilient.
- FinTech might support our mission to promote the good of society by maintaining monetary and financial stability
- we should seek to understand what FinTech means for our ability to perform our operational and regulatory roles.

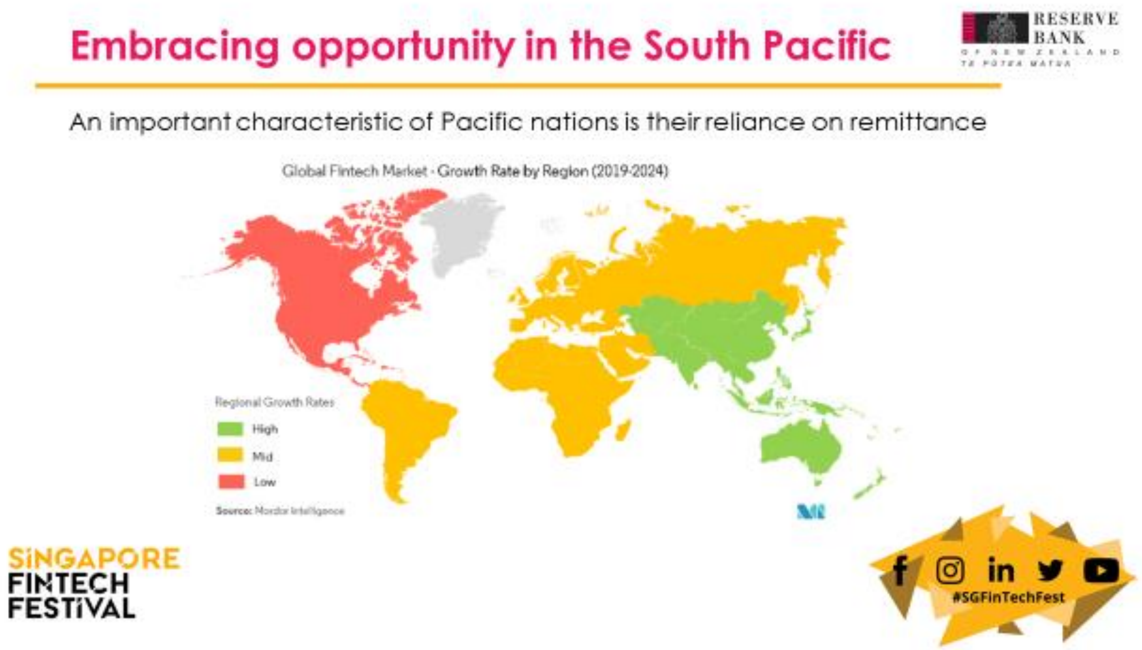
In the space of financial inclusion and FinTech, there's a lot more we can look at both domestically and internationally, and where we need to be more active. This will take a number of forms, but as an initial step we need to make sure that our regimes do not hinder innovation. We know that FinTech businesses need to navigate regulations such as AML/CFT (Anti-Money Laundering and Countering Financing of Terrorism), data protection and privacy laws – plus the challenge of different rules in jurisdictions they want to offer services in. We need to be in a position to assist, co-ordinate across borders and ensure that we are visibly open for business for FinTech innovation.

When looking at FinTech, there's a number of ways that jurisdictions, government agencies and regulators facilitate FinTech development by providing a 'sandbox' or playing a support role through an 'incubator' for new entrants. Singapore is a fabulous example of leadership for central banks in this area. We have undertaken research to gain a better understanding of the implications of FinTech for our regulatory responsibilities. Similar to others, our research has focused on distributed ledger technology, digital currency including crypto-currency, and open banking.

We're also more rapidly keeping abreast of new technologies that are assisting those in developing nations, quite often on the payments side. This is an exciting area for us. As we have heard in sessions over the last two days, there are still 1.7 billion adults in the world without a bank account at a formal institution. With the growth of FinTech solutions the 'un-banked' are quickly gaining access to key financial services which allow them to participate more in local economies.

Some may ask why this is relevant in the New Zealand context, given our high standard of living and rates of financial inclusion, but we can't stand still: there are still pockets of inequality and we need to continue to open up opportunities for people to participate in financial products and services where they have not been before, for innovation to flourish and to ensure initiatives do not inadvertently exclude those who may need access to products and services the most.

One example of opening up access in New Zealand is an online service called Sharesies – it has opened up investment in the capital markets to anyone with a mobile phone, a bank account and $50 to invest. Sharesies' open dialogue with regulators has been cited as the critical factor in its success. They can now also provide digital financial advice to their customers – contributing to informed decision making.



In regards to the South Pacific, the Reserve Bank is taking a more active role, not just as part of the central banking community, but also due to our shared history and relationships through migration and common ancestry. We are essentially a Pacific nation.

An important characteristic of Pacific nations' economies is their reliance on remittances, which are an important source of external finance. These heavy remittance inflows occur due to substantial levels of migration to neighbouring countries. Both Australia and New Zealand have typically had high Pacific populations and are expanding their seasonal-worker programmes, which bring thousands of Pacific workers to fill labour shortages in agriculture, as well as in the accommodation and tourism sectors.

Cultural traditions in Pacific countries are deeply rooted in family and community values. Workers from the small Pacific islands feel the social obligation to set aside part of their income to support their immediate and extended families. However, the average transaction costs of sending remittances to these countries are amongst the highest in the world. Lowering these transaction costs could therefore have great potential of contributing to economic growth and development for Pacific nations.

For the Reserve Bank and our international counterparts such as the Reserve Bank of Australia, this has become the biggest regulatory issue in the South Pacific and something that we are committed to resolve. Tackling this issue is crucial not only for economic and social development, but also for improving financial inclusion both in the South Pacific and in New Zealand.

There are a number of reasons why remittances have become costly, and we know this is not unique to this region. Structural reasons include the size of these economies, the remoteness of these island nations and limited infrastructure capable of keeping up with payments and remittances developments. International financial regulations and associated de-risking are compounding this problem as Pacific-based banks struggle to access global financial services that enable money transfer to and within the Pacific.

The Reserve Bank, in partnership with others, are looking at what practical steps could be taken to alleviate some of the constraints. As part of this assessment we are exploring what options may be available, such as a ‘Know your Customer’ (KYC) utility model and adapting this to meet the unique needs of the South Pacific System.

A KYC utility in the Pacific region will, if successful, harness technology to allow easy identification and meeting of international AML/CFT rules. It will give banks and other financial institutions confidence that those they are dealing with have met regulatory requirements, and critically, it will lower the cost of transacting in the region over time. Ultimately it will enable access to financial services for sectors of the Pacific region that are in danger of being financially isolated.

Alongside the KYC solutions we are looking longer term at improving the payments infrastructure in the region. We will be watching FinTech developments for payments and settlement infrastructure with interest so we can help develop a sustainable solution.

Lastly, I wanted to share some of the work we're doing to assess the implications on New Zealanders of falling cash use for every-day transactions. With the developments in payments systems and emergence of propositions like Facebook's Libra and central bank digital currencies, it may seem strange to be talking about the role of cash. But the consultation we ran on The Future of Cash – Te Moni Anamata, attracted the highest number of submission ever received by us, with some 2,700 respondents. While this work intersects with FinTech, our conclusion is that cash provides access to the financial system for those who face barriers to financial inclusion. Further, in a society with less cash, digital exclusion goes hand-in-hand with financial exclusion.

What we found through our consultation is that people who do not have a bank account, or have limitations to access the banking system, tend to be people without identification and proof of address, people with convictions, people with poor credit histories, people with disabilities, illegal immigrants and children. Elderly people typically rely more than others on cash as a form of payment. These are who we consider to be the most vulnerable in society and who could face further exclusion if we depend solely on digital forms of payments.

So we need to be very careful about getting the balance right between FinTech being an enabler or a barrier for financial inclusion.

New Zealanders are generally using cash less, but there are some people within our society for whom other options to pay are not practical or accessible. As cash use declines the per-unit cost of providing it rises. The cash system is coming under pressure as the traditional organisations that bear the costs are faced with growing commercial incentives to contract out their cash networks and reduce cash services.

We are concerned that, without innovation and intervention, there may come a time when people who rely on cash may not be able to access or use it. So more than ever we need to work with those who are thinking about innovative solutions for personal finance.

We need to make sure that we don’t enable an environment which meets the needs of many, but excludes the vulnerable few. Financial services, and FinTech specifically, should present solutions for a range of participants in society and this is what we should be driving towards.

We are open minded and committed to working with industry and with our global counterparts to ensure resilient and sustainable solutions for our financial system.

Thank you for listening – I look forward to the discussion with our panel members.