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4th Fintech & Open Banking Forum – *Expansión* newspaper

Closing address

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I would like to thank the newspaper *Expansión* for this invitation to bring the *4th Fintech & Open Banking Forum* to a close. It is a pleasure for me to take part in this event, focusing on the latest developments in payment methods. I would like to share a few thoughts with you on innovation in this field, as well as on the role of central banks and other authorities, not only within a domestic setting, but also in a European and even global context.

The digitalisation of payment services has a great deal to offer society: increased efficiency, lower costs, greater access to financial services, enhanced security... the list goes on. The launch of instant transfers and the ability to make mobile payments are just two textbook examples of the advantages these developments have to offer to the general public.

However, the new technologies, agents and products now emerging also come with risks. In some cases, these are similar to those posed by traditional payment methods, and we are well used to dealing with them. Elsewhere, however, new risks emerge, which must be identified and assessed so as to determine how best to address them.

The financial authorities must take note of this combination of risks and opportunities, which calls for understanding the latest developments in the sector, an increasingly complex task given the fast-evolving, heterogeneous and global nature of innovation.

However, it is not enough simply to understand how the market is changing, as a proactive approach is also required. Initiatives such as the digital euro and the regulatory sandbox are cases in point.

As you all know, in 2021 the Eurosystem decided to embark on a project to research the possible issuance of a digital euro. This is a complex issue with a host of implications and aspects to be analysed. The aim is to ensure that we are ready to respond swiftly in the event that, for instance, the role of central bank money in anchoring the monetary system were to be undermined by developments in the payments ecosystem. We are currently at the stage of analysing the changes that are taking place and looking into the possibilities the technology has to offer so as to determine the best means of preventing unwanted disruption to the stability of the financial system. This will lay the groundwork for the design of a secure, efficient solution that caters to the preferences and needs of all the parties involved. To this end, communication with the different market agents is paramount. Here, I would like to highlight a recently published report setting out the conclusions drawn from an initial user perspective.¹

As far as the sandbox is concerned, as you are all well aware, this tool is used by the financial authorities to enhance their understanding of new technologies and help agents better understand the supervisory and regulatory expectations. The Spanish sandbox was launched at the start of 2021, and we are now receiving the applications for the third wave, while simultaneously preparing the start-up of the projects submitted in the first wave. In the first two calls for submissions, the Banco de España received a total of 49 applications, of which 36 have been formally assessed and 11 have been given a favourable preliminary assessment. This is a very instructive, dynamic tool for both the financial authorities and developers.

¹ https://www.ecb.europa.eu/paym/digital_euro/investigation/profuse/shared/files/dedocs/ecb_dedocs220330_report.en.pdf.

On the payments front, the submissions include innovative projects that could yield significant breakthroughs. For instance, some of these projects use distributed ledger technology and artificial intelligence to reduce firms' liquidity needs when settling their debts or to facilitate the real-time reconciliation of international positions within a single corporate group.

The sandbox represents a unique opportunity for the authorities to learn, through specific projects, not only the opportunities yielded from using such new technologies in the area of payments, but also their potential risks.

Another key aspect I would like to stress here is the need for international coordination and cooperation, at both European and global level, in order to improve payment services.

Payments have changed a great deal in recent years, generally for the better. And yet there are clear asymmetries across geographical regions. In strictly domestic terms, the advances in payment infrastructures, services and methods have been truly striking, enabling users to conduct their transactions swiftly, securely and for modest fees. Making on-the-spot P2P payments using a mobile phone, without needing to remember account numbers or other tiresome details, is no pipe dream, but rather has been a reality in Spain for some time now. This achievement, moreover, is thanks to a collective effort that I think we can all legitimately take pride in and which demonstrates that Spain is a leader in this field.

However, we cannot simply restrict ourselves to the domestic arena. The way in which borders have become blurred is probably among the most visible effects of digitalisation. We have become accustomed (even more so after the pandemic) to making purchases and accessing content online without a thought for where the provider might be based. This calls for harmonised, efficient and secure payment services that go beyond national borders. In the euro area, the fact that we share a common currency means that the need to harmonise and improve the functioning of the payments market has been clear for some years now. Looking back over the period since it was first created, it is safe to say that the Single Euro Payments Area (SEPA) has been a resounding success. Transfers and debits are exchanged across the entire area using standard formats, on the same conditions and for the same prices as domestic payments.

But drawing attention to the success of SEPA does not mean we can afford to be complacent, far from it. The environment is a tremendously dynamic one, and it should come as no secret that new challenges lie ahead, many of which have been mentioned during the roundtable discussions. For instance, the application of PSD2 and, in particular, the opening up of account information services, have led to problems and frictions; the emergence of unregulated crypto-assets poses challenges across an array of spheres; the point-of-sale payment experience is still not standard across Europe; instant payments do not cover the SEPA in its entirety... the list goes on.

Here at the Banco de España, as a member of the Eurosystem, and across the industry as a whole, I believe that we are aware of these challenges and of the need to continue developing payment services in Europe so as to respond to the challenges posed by new technologies and new developments. To take one example, given that crypto-assets can be

used as a means of payment in some cases, the response to the challenge they pose comes in the form of the MiCA Regulation.

But I would like to move beyond the European context and take stock of the global situation. Cross-border payment services beyond SEPA have also seen clear improvements in recent years. In some cases, for certain suppliers and brokers, payments are fast and efficient. Yet it is also clear that international payment services are generally more expensive, slower and less accessible and transparent than their domestic counterparts (or, in our case, than those provided in the euro area). The gap in efficiency may even have widened, since the progress made globally has been much slower. Digitalisation and globalisation simply serve to throw these shortcomings into much sharper relief.

With this in mind, it is increasingly necessary to set in motion and coordinate the transition to a scale much larger than the European one, in order to set in place something akin to a “global SEPA”. The public authorities have their part to play in this challenge and, in early 2020, the G20 finance ministers and central bank governors approved the launch of an ambitious programme to improve cross-border payments. This is a collective initiative, coordinated by the Financial Stability Board (FSB) and involving various global committees and authorities. These include the Bank for International Settlements' Committee on Payments and Market Infrastructures (CPMI), the Basel Committee on Banking Supervision (BCBS), the World Bank, the International Monetary Fund and IOSCO.²

Since 2021, the FSB and the other committees involved have begun implementing a roadmap, which will include descriptive works, as well as setting quantitative targets for assessing improvements in the cost, speed, accessibility and transparency of international payments. The periodic publication of these indicators will no doubt help to maintain momentum and keep track of progress in an endeavour that will take several years to complete.

Despite its clear ambition, the international coordination effort does not end there. Given the growing importance of crypto-assets and, in particular, of stablecoins and their possible use in payment transactions, I would also like to mention the work of the CPMI and IOSCO on the application of the standards and principles already applied to systemically important infrastructures to this class of crypto-assets.

So-called “stablecoins” are crypto-assets that seek to control their volatility by using underlying assets (whether currencies or other types of commodity) as collateral.

In this regard, the FSB has published a report assessing the regulatory, supervisory and oversight-related challenges associated with global stablecoins, setting out a range of high-level recommendations for mitigating the potential risks to financial stability. Let me remind you that stablecoins, particularly the global variety, are cause for most concern, because excessive panic around such assets could put the money markets under strain and, by extension, could spread to the entities acting as custodians of the hedging assets.

Moreover, the Basel Committee and the FSB are looking into the macro and microprudential implications of the development of these assets, and such assessments will also serve as

² International Organization of Securities Commissions.

the basis for designing potential initiatives in this regard. The features of the framework that will define the prudential treatment applicable to credit institutions' exposures are also being discussed by the Basel Committee. All such aspects form part of an ongoing debate, which is expected to result in specific actions in the short and medium term.

In short, the challenge posed by improving payment services calls not only for a national or European effort, but also a global one. While central banks across the globe are committed to this initiative for the ultimate benefit of the society we serve, the success of such efforts hangs crucially on the active participation of industry and on dialogue with all of the interested parties. The path ahead is complex, and difficulties no doubt lie ahead. For instance, aside from the appalling human drama it has caused, Russia's recent invasion of Ukraine also poses a threat to various areas of the financial sector, including payment services, which run a clear risk of fragmentation.

I should like to conclude by highlighting the three key messages I have set out in my speech. First of all, the need for coordination if the challenges posed by improving payments services are to be met. These services make up a dense network of interconnections across an array of institutions and infrastructures, and the network can therefore only be improved if the different actors work together. In this regard, central banks will continue to act as drivers of change. Second, optimism. While, admittedly, we will face difficulties and even the occasional setback (I have already touched on the case of Ukraine), the long-term trend is encouraging. If we cast our minds back and take stock of the current situation with the benefit of hindsight, significant progress can be seen. Digitalisation can help us to further enhance efficiency. Lastly, I invite you to be ambitious, to think big. While payment services have room for improvement close to home, it is above all at global level where there is a gap to be bridged.

The regulatory and supervisory authorities must continue to work on analysing international standards and guidelines and decide whether the principles applicable to institutions and infrastructures need to be applied more uniformly or whether there are differences that should be addressed.

I encourage you all to keep a close eye on developments and to take part in this complex, yet also exciting, collective effort.

Thank you very much.