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BANQUE DU LIBAN

Banking Technology: A Disruptive Necessity

Raed H. Charafeddine, First Vice-Governor, Banque du Liban

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I. Introduction

Excellencies, respected country participants, ladies and gentlemen,

It is with great pleasure that I am given the chance to address you today on such a vital topic, which is banking technology. I regret my inability to participate in person in this important summit due to my engagement in an urgent formal mission abroad.

In my discourse, titled "Banking Technology: A Disruptive Necessity". I will first highlight some of the merits and opportunities of financial technology versus its detriments and risks. Second, I will underline Banque Du Liban's vision and policy directions concerning banking technology, before I end up with few concluding remarks.

II. Technological Opportunities versus Detriments of Technology

Financial technology is not the first global disruptive phenomenon to be experienced, nor will it be the last. Electricity, aviation, nuclear energy, the World Wide Web, and many other phenomena, represented revolutionary, yet challenging disruptions to human kind throughout history. In his book, *The Great Disruption*, Francis Fukuyama compared the impact of late-20th-century information technologies on economic and social life with the revolution unleashed by industrialization in the late 18th century.[i]

Globalization, once largely measured by trade in goods and cross-border finance, is now converging with digitization. In a quick overview that depicts the rapidly evolving growth of Fintech, as a combination of technology and financial services, global Fintech financing has risen seven-folds over the past three years alone to an estimated $20 billion in 2015, a rise of 66% on the level of investment over 2014.[ii] Additionally, it is estimated more than 50 percent of inflow revenues of US and European banks will come from digital sales by 2018.[iii]

As technology continues to shake-up the banking industry through the new technological notions of the SoLoMo (Social, Local, Mobile), Uberization of finance, data analytics, cloud and digital platforms, blockchain cryptocurrencies, and the Internet of Things, these innovations present both a disruption (through payments providers such as PayPal and Google Wallet) and an opportunity (through collaboration and wearable devices that enable fast, self-serve employee interactions, and training).

Two of the major technological opportunities created by Fintech can be expressed as follows:

a) Creating a competitive environment that fosters an agile banking ecosystem, thus helping banks to drive the change and seize the momentum of technological innovation through adopting multiple dynamics, namely:

enabling personalized experiences using the Internet capacity; adopting an outcome economy through a device-driven refocus on banking solutions; creating a platform revolution and evolution through utilizing cloud/mobile platforms and application development; implementing intelligent enterprise technologies that enable better regulatory compliance and help reduce errors and risks arising from workforce activity; and reimagining workforce through integrating employees and intelligent machines,[iv] and

b) Providing the means to creating sustainable businesses with the social objective of improving income, promoting financial inclusion, and mitigating wealth inequality. These means, if prudently implemented, gain support of the general public as well as governments, from both the financial and social aspects. Such means are: low profit margin, asset lightness, scalability, innovation, and ease of compliance.[v]

As for detriments created by Fintech, some of the significant ones are:

1. The sharp rise in criminality, chiefly because of the alarming spread of cyber-crime in an increasingly borderless market, particularly data theft. This is closely associated with technology risk where underinvestment and obsolescence present major challenges. This is clearly reflected in a recent annual report about bank risk conducted by the Centre for the Study of Financial Innovation, where Criminality and Technology Risk ranked among first four out of 24 risks;[vi]
2. Risk of substantial losses through peer-to-peer lending, digital crowdfunding platforms, and the chaotic spread of capital democratization;[vii]
3. The disruption of banking services carried out by new Fintech entrants that notably target the millennials, with huge asset and data base, advanced digital technology, high risk appetite, high outreach, customer-centeredness, and very few regulatory constraints. This will, in effect, empower Fintech startups and affect global sourcing and other ecosystems based on industries influenced by digital disruption;[viii]
4. Shifting risk to the end-consumer, who often may not understand unregulated financial products and their associated risks;
5. The deregulation of digital banking that weakens the control mechanisms of central banks and other financial regulators, in addition to the destabilization of existing compliance frameworks;
6. The reduction of the use of cash, hence decreasing seigniorage, and, ultimately, contributing to the creation of global imbalances, the hindrance of national economies, and the damage to financial stability; and
7. The undermining of national reputation and social stability through opinion survey fraud that may occur in digital social activism.

III. Banque Du Liban's Fintech Vision and Policy directions

Ladies and gentlemen,

Banque Du Liban's vision pertaining to the Fintech trend has always been focused to retain a balanced pattern that combines prudence and innovation. In this context, Banque Du Liban has set the foundations of a monetary policy that seeks solutions aiming at social stability and public interest rather than products targeting instant profit. Hence this pattern has guided several policy directions:

1. Regulation is the ultimate condition for formalizing any technological financial service, so as to preserve monetary, financial, and socio-economic stability. From this perspective, Banque Du Liban has regulated electronic banking and financial operations, in addition to encouraging banks to embrace Fintech applications.
2. Financial consumer protection has to be constantly integrated with financial innovation in order to actualize the true objective of innovation, i.e. consumer and communal welfare.
3. Enhancing and orienting the financial capabilities of citizens. This is accomplished through adopting financial literacy policies that create awareness about risks from unregulated service providers and their products, increase understanding and use of regulated financial services, improve people's financial knowledge, and improve financial and economic inclusion; and
4. Engaging into internal comprehensive modernization action plans that addressed payment systems as well as internal automation and operational functions.

IV. Concluding Remarks

In conclusion, Fintech can be viewed as a blessing, as a curse, or as both. As a prospective strategy, banks need to capitalize on the blessings of Fintech and curb its curses. Here are few concluding remarks that serve to this end:

First, central banks have to emphasize their regulatory mission, and, parallely adopt a proactive and dynamic regulatory and monitory policy that can capitalize on the benefits of disruptive technology and preserve the supervisory, regulatory, and sovereign role of central banks.

Second, banks need to build a synergetic culture, espouse an integrative vision, and embrace an abundancy mentality towards technological players (such as telecommunication and Internet-based companies) so as to drive the change and seize the momentum of technological innovation with a win-win attitude.

Third, banks should create their own digital ecosystem and consider new digital channels as part of an integrated strategy, switching digital from a supporting role to the primary sales and communication channel in order to satisfy customer needs (especially millennials) and remain competitive and relevant.

Fourth, banks and monetary authorities are urged to reengineer their processes around public interest, communal benefits, sovereign governance, and consumer protection, all being the supreme sustainable objectives.

Banks still have enormous advantages, such as their experience with government regulation and their existing large client bases. So far, they have benefited from digital technological advances generating huge trading profits. Whether or not banks can ultimately resist the sweeping transformations brought about by Fintech's "great disruption" is yet to be determined.

Thank you.

References

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