2022 IMF-WBG Annual Meetings Executive Panel
The Promises and Perils of Digital Transformation

Opening Remarks:

The Honourable Ian Gorst
Minister for Treasury and Financial Services, Government of Jersey

Panelists:

Dietrich Domanski
Secretary General, Financial Stability Board

Cecilia Skingsley
Head, Bank for International Settlements Innovation Hub

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Deputy Director, Monetary and Capital Markets Department, International Monetary Fund

Moderator:

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Publish Date:

October 28, 2022

Transcript:

Babak Abbaszadeh:

Okay. Good morning, distinguished guests, the Honourable Minister. Welcome to Toronto Centre's Executive Panel on Promises and Perils of Digital Transformation. I'm Babak Abbaszadeh, CEO of Toronto Centre. By the way, Toronto Centre will soon be celebrating its 25th anniversary.

In our first quarter century, we have trained more than 20,000 central bankers and other financial supervisors from 190 countries and territories to become change agents for building more stable and inclusive financial systems. New digital transformations are triggering profound changes in the financial sector and the economy, and can play a pivotal role in enhancing financial stability, consumer protection, greater financial inclusion, and in expediting the implementation of the SDGs, sustainable development goals. That's why digital transformation is one of the three pillars of the upcoming G20.

While the opportunities are plentiful, we also need to avoid pitfalls, such as financial crime, cyber risk, operational risk, and breaches in data and privacy protection. For SDGs, the promise that digitization holds for financial inclusion, empowerment of women in developing countries, and climate action will not fulfill itself.

Financial regulators play a big role and must work collaboratively with other stakeholders within the developing ecosystem to design risk-based oversight that not only mitigates risks, but also promotes innovation.

Today, our distinguished speakers will share their knowledge on this complex issue. They are Dietrich Domanski, who is on his way. He's the Secretary General of the Financial Stability Board. Cecilia Skingsley, Head of BIS Innovation Hub, and Mr. Dong He, Deputy Director, MCM of IMF. We're also happy that our wonderful colleague, Nathalie Aufauvre of Bank de France, is moderating this important conversation. You have already seen their bios. Toronto Centre's mission is generously supported by our key institutional funders, Global Affairs Canada, the Swedish Sida, and the IMF. We're also very fortunate to receive project-specific support from the Jersey Overseas Aid, which is also a key part of the Government of Jersey's international outreach.

Today it's my pleasure to introduce our opening speaker, the Honourable Ian Gorst, the Minister of Treasury of the Government of Jersey. For more than two decades, he has held leadership roles in Jersey's government. I have had the pleasure of being in Jersey and for those of you who may not be familiar, it has a long history from fishing cod to being home of the world-famous Jersey cow and jersey's royal new potatoes, and in recent decades, more impressively, has diversified its economy by becoming a sophisticated financial services centre working alongside London and New York. As an island off the coast of France, Jersey understands the importance of cooperation and collaborative action to address the global social, economic and environmental issues of our time. The minister's colleague, the Honourable Caroline Labey, whom I had met, she's the minister responsible for Jersey Overseas Aid and International Development, and the organization is highly committed to increasing financial inclusion and they do fund strongly Toronto Centre's programs in Ethiopia, Rwanda, Malawi, Nepal, and Zambia. Without further ado, please join me in welcoming Minister Gorst to the podium to deliver his brief marks. Thank you.

Ian Gorst:

Thank you very much indeed. And good morning, everyone. It's a pleasure for me to be here this morning and I'd like to thank the Toronto Centre for bringing us to gather today. As the Minister for Treasury for the Government of Jersey, the policy, tools, projects and programs that help governments to achieve healthy and stable economies are of particular interest and importance, and in the face of the current economic, social and environmental challenges facing governments around the world as has been the subject of much discussion during this week of IMF and World Bank meetings. The work of organizations such as the Toronto Centre is absolutely critical. I'm delighted that Jersey has such a close and long-standing relationship with the Centre, particularly as we've just heard through our development agency Jersey Overseas aid. As we work together on initiatives that promote greater financial stability, better financial preparedness and management and greater financial inclusion, the Government of Jersey is committed to maintaining its support for its aid agency with an annual grant to help deliver its wide-ranging program of international development and humanitarian aid.

And my colleague, as we've just heard, the Minister for International Development, Deputy Labey has spearheaded the evolution of our aid objectives to key areas of delivery now being its program of work to support greater financial inclusion in developing countries. As a successful hub for professional services, Jersey understands the value of financial services and that access to, and the use of such services is critical in driving global development. Digitization, the theme of today's session is a vital enabler of this. The benefits of financial inclusion are hard to overstate. As we all know, there are roughly 1.7 billion people around the world that are unbanked and do not have access to financial services. This means that they cannot easily save for their children's education, take out a loan to buy seeds and fertilizers or buy insurance to protect them from medical or natural disasters. Digital innovation can be a game changer for those that are traditionally marginalized.

When used effectively, digital solutions can empower people to have a better future. Firstly, digital payments address the inefficiencies of cash by reducing the time and the costs of having to travel to transact. Secondly, digitization plays a critical role in leveraging digital technology to drive financial inclusion through meeting the specific needs of currently excluded market segments. And thirdly, digital payments to the financially excluded can also present an opportunity to access other financial services such as savings, credit, and insurance. Jersey's financial inclusion program targets poor and marginalized groups and delivered in conjunction with the Toronto Centre is helping to widen financial inclusion globally.

Jersey's relationship with the Centre not only includes the work of Jersey Overseas Aid, but also engagement through our regulator, the Jersey Financial Services Commission. The commission, the representatives have undertaken workshops with the Toronto Centre in recent years, including securities training alongside global partners from regulatory bodies and central banks. This has helped to build sound regulatory practices across the globe and develop leaders who can implement and promote better financial stability. By creating a more socially conscious financial ecosystem, the Toronto Centre's work with development agencies such as the JOA can drive progress by bringing more people into the financial community and promoting an inclusive approach to financial regulation. So once more, I'd like to thank the Centre very much for facilitating this discussion and I look forward to hearing its conclusions. Thank you.

Babak Abbaszadeh:

Okay, I promise it's the last time you'll see me. Minister, thank you very much for your inspiring comments. As a minister of Treasury, we have to get you a bodyguard to get you out of here. So please bear with us, safety in numbers and now that without further ado, please take it away.

Nathalie Aufauvre:

Thank you. Thank you very much Babak and good morning, everyone. I'm very pleased to be here for this discussion to moderate this panel and I thank the Toronto Centre for organizing this forum. Maybe a few words as introduction. As you mentioned, digital transformation is moving at a fast pace, but it goes beyond just technology, and it has become part of any business strategy for both public and private financial players. I think it's important to have this in mind. Of course, digital transformation presents opportunities for faster and cheaper operations, and we see new players bringing new services at a lower competitive cost. It's a real transformation. In particular, in the payment ecosystem, it was mentioned, but we see also movements in the financial markets and with the emergence of so-called tokenized finance and the series of enablers for it, crypto asset, stablecoins, and more broadly distributed ledger technologies.

So as promoters for payment system security, but also innovation, of course, the public authorities have started to study how they could embrace new technologies to improve their own services and processes. And it led, for example, to the investigation of Central Bank Digital Currencies, CBDCs, and the Bank of France has been very active in this field with experiment and many central banks actually are conducting experiments. So, Cecilia will expand on the most up-to-date overview of innovation for central banks and CBDC, a project around the world and there are many, many, but on the other side, many opportunities but also many risks. So, we really need to look at how risks are allocated among these new players with these new assets, with this new technology. And the recent crypto winter, as we call it, is a good illustration of that. So, this calls for an appropriate international response from public authorities in a coordinated manner.

The IMF has been regularly advocating for international coordination and Dong will give us his perspective. Of course, also many standout settlers are working on this issue of regulation of crypto assets, stablecoins, the battle committees, the CPMI, IOSCO, et cetera. And of course, it is under the umbrella of the financial stability board. The FSB and Dietrich will certainly comment on that. So, this is for our first round of discussion and in the second round of discussion we will explore more the impact of digital transformation for cross-border payments. We have this G20 roadmap for cross-border payment, improvement of cross-border payment, which is a top priority and maybe this new technology could really be a game changer. So, I start if you agree, Dong, with you. The financial sector has undergone deep changes over a recent decade. In your opinion, what are the three main issues stemming from digital transformation that we've been observing and what can policymakers do about them?

Dong He:

Thank you very much, Nathalie. Thank you to Toronto Centre for inviting me here. It's an honour to be on the same stage as Cecilia, Dietrich and Nathalie. So, in the IMF, of course, we have a very large membership, and we see these issues affecting their policymaking on a daily basis. So, we have been having a lot of bilateral conversations with the regulators at central banks during the annual meetings. But I think to my mind, there are three top-cut issues from both a domestic and international point of view. So, the first question is really from a prudential and conduct regulatory point of view. What are the new challenges for both efficiency and the stability? How do we take advantage of efficiency gains? But also managing the risks or guiding against the risks. Here maybe we should start just step back a little bit to think what is the nature of digital innovation? What does it do?

Given the rapid progress in digital technology such as very easy access or proliferation of mobile devices, particularly younger generation, even in lower-income countries, mobile penetration really has been picking up tremendously. So easy access and proliferation of mobile devices, cloud computing which has made computing much cheaper and easier. And of course, distributed ledger technology which makes peer-to-peer transfers transactions possible. These changes really are leading to a change in the financial landscape in the sense that we are seeing both new instruments, new service providers and the new networks of services: new instruments, new players, and the new networks. So let me expand a little bit on each of that. New instruments, of course, we have seen crypto assets and now we are talking about central bank digital currencies. The official sectors are reacting to the challenges of a rising of new instruments and new players.

We have the FinTech startups, they have entered financial services and of course, we have the big tax. They are also entering financial services. So, what's the challenge of these new players for the traditional financial institutions like commercial banks? Is that going to change how we think about the advantages of commercial banking, both in terms of economies of scale and economies of scope? Economies of scale, in the sense that when you expand your customer space the average cost of servicing declines, how much advantage do they have? These are the big tax. And the economies of scale in the sense that traditionally banks benefit by offering a multiple range of products to the same customer. So, the average cost of serving the customers decreases when you increase the range of products by making use of the fixed set of information about a particular customer.

So, is the entry of big tax changing the economies of scope as well? These are the questions that new players are posing to how we think about the risks or advantages of traditional commercial banking. One quick example is that as we know, traditionally commercial banks really find it very expensive to serve small customers, the small deposits and small loans. That's because the unit cost of commercial banks of serving these customers is really high and the entry of big tax by making use of big data is going to reduce that cost dramatically. So, this is where the opportunity for financial inclusion comes. Now, new networks, the third element of what I said, is that we are really seeing new rails. For example, Cecilia's innovation hub is experimenting with all these new rails of connecting across different systems. That's a very different system, different network or different rail as compared to the traditional commercial correspondent banking relationships which are based on bilateral economic relationships.

So, we'll talk about that in the second. So, the new instruments, new players and new networks are creating new risks or not. So, the idea of same risk, same regulation or same activity, same regulation, to a large extent it still applies. The challenge here is how do we classify these new instruments, new players and new rails into the existing framework? But there is also the challenge, are we seeing new things that we cannot neatly fit into the current framework? Is the current net regulatory framework, does that have the need to evolve? So, these are some of the big questions in the first top of issues of Prudential and the market conduct regulatory issues. The second one is really from a macro-financial point of view. As the fund, we care a lot about macro-financial issues. So, for example, we have seen crypto assets in some economies the adoption has become higher.

So, what does that mean for the status of legal tender for many smaller economies? How do we safeguard mandatory sovereignty and mandatory stability? That's one important macro financial issue. The second issue is from tax, from fiscal policy point of view. Do we tax them? How do we safeguard revenues? Are these new activities posing challenges to fiscal policy frameworks? The third one of course is capital flow management. We know many of these crypto assets, newer trading channels are creating new patterns of capital flows. Are they creating challenges for the traditional way of managing capital flows? So that's a very important question for a lot of emerging markets and the lower income countries. That's the second bucket or the second issue of new challenges. And finally, this international collaboration or global collaboration, we know that many of these instruments are borderless, it's by nature.

There's the idea of a geographically located service provider providing services to local populations or residents that just doesn't apply many of these instances. And CBDCs, foreign CBDCs might also be very easily accessible to foreign residents. These are creating important challenges for global collaboration and why one can easily think about a foreign service provider. We know actually that for the crypto space, 80% of the trading volumes provided by service providers located is in a cluster of foreign offshore financial centres, let's say. And they offer services to many customers who are located in developing or emerging markets. How do we deal with these international collaborative issues? Can we set up new supervisory arrangements to deal with cross-border provision of these services? These are some of the important global issues. And finally, from a longer-term point of view, by the way, the American futurist Roy Amara, this is the so-called Amara law, but we tend to overestimate the short-run effect of a technology but underestimate the longer-term effect of a technology.

Thinking from a longer-term point of view, are we going to see very fundamental changes in the international monetary system? That's an important challenge. For example, would new arrangements of using Central Bank Digital Currencies, would that change the way firms invoice their export or imports? Would that change the demand for reserve assets? All these new issues will have some impact for the international monetary system, but of course, that's for the longer-term, but for IMF staff and we are gathering of efforts to try to understand issues. So let me stop here. I'm overrunning a little bit, but these are the top three issues on my mind.

Nathalie Aufauvre:

Very important issues, very broad issues, and of course a lot of work to do in order to find the right answers to all these questions. And maybe one of the possible responses is innovation by public sector, public authorities in order to be able to compete with the private sector and offer a safer solution. Cecilia, where is your view and your priorities in this digital era?

Cecilia Skingsley:

Yeah, so thank you very much first, Nathalie, for setting the stage, really fascinating to listen to you and thank you Toronto Centre to keep inviting me back. That's a good reassurance. I'm a month into my new job at the BIS Innovation Hub. So let me just say a couple of short words around what that is about and then I'll answer your questions. So, BIS you probably already know, Bank for International Settlements, an old international organization based in Basel in Switzerland organizing and helping central banks, has a mandate to promote global monetary and financial stability and is also hosting some of the standard-setting bodies regarding the financial system. And the technology and technology development is obviously happening at a rapid speed and most of it is pretty mind-boggling, especially for people like me who is used to be a slow adapter when it comes to tech.

But now I've gone all into it. So, I'm with the latest iPhone, I have a Robo Hoover in my flat and it talks to me and it's quite rude actually. It tells me to clean up and the likes. It's a fantastic time to live in. But we need, from our perspective, central banking perspective, think about "all right, so given all these changes, how do we upgrade ourselves to become a better version of ourselves in terms of harnessing these possibilities and upgrading our systems so that the private sector can innovate from that." So, you said, shall we compete with the private sector and then try to run ahead of them? My short answer to that is no, we should be very clear about the distribution of responsibilities here and the private sector will always be much better at knowing what the customers need and then providing for that with that sort of service and goods.

But when it comes to money and payments, history has taught us that it doesn't work very well if the public sector is doing all of it, but it doesn't work very well either when the private sector is the sole issuer on money and provider of payment methods. Finding the right responsibilities here and move into this new world with the digital solutions is a very exciting one. So, the BIS innovation hub was set up some three years ago as a collaboration between one hand BIS in Basel, but also on the other hand, central banks around the world. Currently, we have six Centres, two in Asia and four in Europe. And then we have one coming up also in Canada. And we have a collaboration with the Federal Reserve in New York, they have a similar activity. Six focus areas, financial market infrastructure, CBDC is obviously interesting in what we're talking about here today, but we are also looking into cyber security, green finance, open finance, and the SupTech, RegTech.

But it's all about not being another think tank, it's about looking into real problems that the public sector have in achieving their various roles and see what can new technology actually do to help that. There is a number of really exciting technological projects that is looking at these things and coming out with prototypes and proof of concepts along the way. We have more than 20 projects currently. We also have a tech sprint, coding competitions, and it's not only these host central banks that are collaborating in the projects with the BIS, but they also a number of other central banks, more than 10 others are picking and choosing and collaborating with us that they find interesting. But tech is only part of the story and I'd like to point out that there could be a bit of drama sometimes in this space.

Very welcome on the panel, Dietrich. Looking into the future, our colleagues at the monitoring and the economics department at the BIS have laid out what I think is a very beautiful vision for what the future digital monetary system could look like. It's in chapter three in the annual general management annual report of the BIS that was published in June. It elaborates on how to find and maintaining this best divisional responsibilities where a central bank sits at the core and the roots of the monetary system of the world. But the private sector are the branches and the leaves of the monetary tree and each country has one tree each and the canopies are connecting and that's where you have the cross-border payment solutions and all these countries' financial systems are creating a forest and a healthy forest.

So, we are looking into can you do payments programmable? Can you tokenize? Can you use these technologies to increase inclusion? But all with safety, stability, the accountability of central bank money, but also making sure that the private sector develops things in a way that is safe, efficient, innovative in the life. And to stop this part of the discussion, the way we see the future monetary system could possibly then have three components. So, wholesale CBDCs, you can think about it as just the next-generation version of central bank money that facilitates transactions between central banks and financial institutions. Second, those who choose to offer retail CBDCs in their domestic jurisdictions, fast payments is an alternative or they could work side by side. And last but not least, arrangements that also enable cross-border operations. Technology can take us part of the way, but there are also other things that need to be done. But I'll save that for my next intervention, thanks.

Nathalie Aufauvre:

Thank you. Thank you very much, Cecilia. And welcome Dietrich. Of course, we have spoken of opportunities, risk and central banks' possible responses with CBDCs, but what we see currently is the development of crypto assets, which is in the non-regulated space for the time being. Maybe in parallel with this work conducted by central banks, of course, we need to regulate and to be sure that these new risks or maybe not new, but born by new actors are well under control. So, Dietrich, can you please elaborate on the risks, these new assets, crypto assets, stable coins or SOPOs, both at the domestic and international levels and how can we organize ourselves in order to ensure that crypto assets will be subject to robust regulation and supervision?

Dietrich Domanski:

Thank you, Nathalie. And apologies for being late, just too much going on these days. So, I think everybody can appreciate it. So crypto assets, the FSB has been monitoring and assessing risks from crypto assets from a financial stability perspective early on, starting in 2018 and maybe to put our current work on crypto asset regulation to context it may be useful to distinguish four phases of market development. The first phase of development was between early 2018 and mid-2020 and that was essentially the first boom of bitcoin and other, what these days we'll call unbacked crypto assets. And at the time we developed a framework for monitoring and identified four channels through which crypto assets might impact financial stability. One, if widely used as an investment vehicle as an investment instrument through wealth effects. Second, if widely used for payment purposes through disruptions in payment services. Third, through growing and close interconnections with the established financial system. And fourth, through confidence effects affecting trust in the financial system and potentially not only in the crypto asset part.

Now in 2018 during this first phase, our assessment was that crypto-assets do not pose a risk to global financial stability simply cause of the limited interconnections with the established financial system and the relatively contained size, phase one. Phase two started with the announcement of Facebook to launch Libra. That changed the landscape completely because the announcement was aching to essentially supplying digital payments instruments that could be used such by everybody that what was at least the original marketing pitch on a global scale. And there immediately financial stability issues were raised related to the stability of payment systems, confidence effects of course, but also more from a macro-financial angle related to currency substitution, monetary sovereignty, the ability of monetary policies to exert control over financial conditions.

At that time the FSB launched work to develop a framework for the regulation of stablecoins and in October 2020 we issued high-level recommendations for the regulation of stablecoins. And on this basis, there has been intensive work by the sectoral standard setters CPMI, IOSCO, to primarily look at how existing regulations apply to stablecoins. And I think one milestone in this regard is the CPMI IOSCO consultation on the applicability of the PFMIs, the principles for financial market infrastructures, two stablecoins that are systemically important. That's phase two. Phase three started in 2021 I would say, which was the second wave, the second boom of stablecoin markets. Sorry, of crypto asset markets. Then sort of comprising new instruments, unpacked crypto stablecoins plus sort of a rapidly evolving defi ecosystem and rapid growth. And on the basis of this rapid development, we updated our risk assessment early this year and said, "look these markets are evolving so rapidly and even if they do not pose a risk to global financial stability at the current phase, we are getting close to that point."

This assessment then triggered work that we took forward in parallel to our work on stablecoins on other crypto assets to develop a framework for or regulatory approach to address financial stability risks from the crypto asset ecosystem as a whole. Now the fourth phase started in April/May with the turmoil in crypto-asset markets that then resulted in the crypto winter. And that I think has been interpreted in two ways. One was to say well we haven't seen wider financial stability impact so there's no reason to worry. The other interpretation which has informed our work was to say okay there is a temporary setback, a correction if you like in the markets, but crypto asset market development is going to continue, markets are going to come back. So, we should use this time to advance our work on a robust regulatory framework, not to curb innovation but to strike a good balance and provide clarity from the regulatory side on how the global regulatory community sees a way forward that balances the containment of risks to financial stability but also others market integrity and so on, while leaving room for beneficial innovation to develop.

And this is where we are now and this is what is reflected in the reports that we covered this week, which set out in the form of high-level recommendations, how to approach all types of crypto asset activities and markets that may have impact on financial stability and we also refined our recommendations for stablecoins. I'm happy to come back and provide more detail on that but let me stop you for the moment.

Nathalie Aufauvre:

Thank you. Thank you very much, Dietrich. It was very clear to see the four faces and the development and clearly now crypto assets are in our landscape and they will stay there. Different types of crypto assets, the first-generation bitcoin like the stablecoins and we have the development of decentralized finance with all the types of activities. Of course, it raises the issue of interoperability, of fragmentation, of new actors. You mentioned that, Dong. If we start our second round, focusing more on the cross-border payments, how do you see the interconnection among all these different forms of digital assets? We could expect that digital platforms will play a greater role, but how ensure security in these platforms? We saw some cyber-attacks on this platform. How do you see the shape or the future cross-border payments, interoperability among blockchains among CBDCs, between the stablecoins and the traditional finance? How would this affect monetary policy and financial stability? [inaudible 00:41:06] three minutes.

Dong He:

Should I start?

Nathalie Aufauvre:

Yes.

Dong He:

Okay. Thank you. Thank you, Nathalie. I think as cross-border payments certainly are a very fascinating area and important for the fund members. So maybe let me just start by saying that cross-border payments work reasonably well among advanced economies corridors, let's say. So, between two pairs of advanced economy, the correspondent banking relationships work reasonably well. But for many lower-income countries in the emerging markets, some of the corridors really suffer from very costly prices. High, very expensive, low efficiency takes time, lack of transparency. So these are the problems that have plagued developing countries for a long time. So digital assets really provide a new opportunity for us to fix this decades-old problem. But it's not easy. Cecilia, I think you were the chair of the future of payments, building blocks of the cross-border payments initiative coordinated by the FSP.

You know very well what are the challenges we have to overcome. But in order to understand these challenges and implications for mandatory and the financial stability, it's probably useful to start to ask what is the problem with cross-border payments? Why is it so difficult? I think just to spend maybe 30 seconds on this, that in the modern economy we have basically central bank money and the commercial bank money that are primarily used for payments. In the domestic setting, it's not that difficult, because all the banks probably know each other, they are under the same regulatory regimes, the laws are the same. But when you cross border then all these things change in the sense of the basic requirements.

When I put my money in the bank as a deposit, that's commercial bank money, I have to trust that this bank will pay me back. That's one important requirement, I have to trust the bank. The bank has to trust me that I have financial integrity in the sense that I'm not a terrorist, I'm not laundering money. So these are very basic requirements. But when we cross border, these requirements become exceedingly difficult because they're located in different jurisdictions. The banks find it very hard to trust each other, particularly for countries that probably have smaller markets, they have only one or two correspondent banks relationships in the economy. So that's why it takes a lot of effort to establish these correspondent banking networks and they often don't work very well.

It's a very multilayered long payments chain kind of problem. Now digital assets provide an opportunity because as I mentioned earlier if we can establish new instruments like central bank digital currency, it's very safe. If we have new rails like multilateral platforms to trade this central bank digital currency directly and ask commercial banks to join on other non-bank players or join on the same network, that would make it make life much easier. They are subject to same governance rules that will certainly make life easier to be of course supported by, for example, digital IDs. We know how to check financial integrity issues, but from a macro-financial point of view, what are the newer issues? If it becomes very easily accessible at a large scale, of course maybe traditional risks like dollarization could become more acute. You could have digital dollarization, so that might be a downside for some of the economists.

They have to worry that if their own residents have much easier access to foreign currencies, would that make their own monetary policy and implementation less effective? That's one worry. From a financial stability point of view, it's very easy to have access to a foreign safe settlement asset like central bank digital currency or a very well-run stablecoin. Would that increase risks of bank runs in the local system in times of stress? That's a question that's certainly worth considering. These are some of the newer issues. On the one hand, we see probably a very important opportunity to improve the efficiency to have more financial inclusion. We have more households and smaller firms to be included in cross-border payments for them to have better access to lower-cost payments. On the other hand, these are some of the potential risks we have to think about how to manage.

Nathalie Aufauvre:

Okay, and Cecelia, several [inaudible 00:46:34] have experimented cross border payments with CBDC. Do you think that all these expectations and improvements can be provided by these CBDCs?

Cecilia Skingsley:

I think Dong outlined it very well. Infrastructures are mainly national, but the world has gone global. And if you think about our predecessors who are used to sat in this chair sort of fifties, sixties or maybe seventies and eighties, they built rails for institutional money and then the multinational corporations. They have a pretty good setup of making transactions across the world. What we're really talking about now is people's ability to make payments. I'm quite optimistic, I think about other sectors in our world where it's possible. We fly across borders, there is a system for airlines and security, and we trust phone calls, we take our phones across the world. If these sectors manage to provide that kind of services a society, we should be able to do it when it comes to payments. Getting more specifically into your question, yes, we have a number of interesting projects, so I'll mention three of them.

Enbridge, Dunbar and Jira, number of central banks including Bank de France has been important in experimenting. But it's about next-generation version of collaboration between central bank on one hand and the financial institutions on the other. And from the same DLT platform, there's been different experiments happening in these three projects. I'm not going to get too much into the details, but I can tell you a little bit about the results and it's clear that they are using what's called wholesale multiple CBDCs is operationally feasible, and it can bring efficiencies such as lower costs and faster settlements and also operational transparencies. So that is the CBDC space when it comes to the service from central banks on one hand and financial institutions on the other. But we're also looking into different aspects of what's called retail CBDC panel for person-to-person payments or for person-to-merchants or to public sector and vice versa.

Currently, Project Icebreaker from the Nordic Centre compares DLT payment systems in the retail space from Israel, Sweden, and Norway and look into can that be used for cross-border payments? We're looking into offline payments, how to make it private but not too private to sort out this anonymity, one side privacy on the other hand. We also take part in the G20 efforts to improve cross-border payments. The last thing I'll say, is the hub is about figuring out and showcasing what can be done. What should be done is a different matter and here we have to bring in governance rule books, possibly reviews in national legislations because it's clear that national legislations did not accommodate for a world where everything was on paper to a world where nothing is on paper. I think there's a lot of work to be done, we are showcasing what could be done.

The last thing also, is that we need to collaborate with the ecosystem on this rather than working in silos. I think there's always this fear that public sector is overstretching or competing, but I think that sometimes in history public sector plays a role as nudging and pushing the private sector into a new equilibrium. I think when it comes to cross border payments and inclusion efficiency, that we have reached that point in history and we should take that and if it works, to do it will be good for society, would be good for economies and that, ladies and gentlemen, would be very good for the banks as well. Long term it would be very useful for banks to have well-working societies which is growth-enhancing policies. I'll stop there.

Nathalie Aufauvre:

But in that case with this optimistic view, when do you think it could fly?

Cecilia Skingsley:

Well, I think the technology takes us part of the way, but at the end of the day it comes down to political willingness and I think those who can should take the bowl and run with it. We are seeing some examples in the world where that is happening and I think BIS here plays an important role as the bridge between those who run a little bit faster and creates things. But we want other countries to onboard, and I think if the BIS could help the conversation across the globe from between those who runs quicker versus those who wants to take a bit more time, then I think we have at least another a very exciting decade. I think you've heard of us in this area. Diplomatic answer.

Nathalie Aufauvre:

So, in addition to CBDC, the FSB has also mentioned that well-regulated stablecoins could help to address existing frictions and lowering costs for users in cross border context. So Dietrich, how do you see this perspective? Do you expect that we could define and see well-regulated stablecoins? Because for the time being, stablecoins are not so stable and so do you see that it is really a possibility for cross-border payments?

Dietrich Domanski:

I think that's an excellent question and the short answer is I guess yes, it is conceivable and there are early examples I could say. I think Brazil is a case where we are seeing innovation in the form of tokenization of bank deposits, which you can interpret as a stablecoin issued by a bank. I think a stablecoin that's well-supervised that provides an option for efficient speedy cross-border payments exists. But of course, there are important preconditions that need to be met and maybe it's useful to discuss these or briefly discuss these into context of the alternatives and Dong, you mentioned our cross-border payments roadmap. There we lay out essentially three alternative ways for making cross-border payments more efficient, faster, cheaper, more inclusive, more transparent. One is enhancements to existing systems. There the issue is mainly one about interoperability, I would say. Interoperability in a particular way, namely enhancing the interface between systems that already are there in terms of protocols, in terms of trading times or processing times and so on and so forth.

The second area, the second alternative is CBDC. They're making that work interoperability as Dong and Cecilia discussed is about making sure that new systems are not just technically compatible but also compatible with the notion of monetary sovereignty in individual jurisdictions. And then you have stablecoins. Stablecoins are different in a sense that here talking about private payments means that are subject to network economics, which means that the issue of interoperability is perhaps not so much an issue. It is more to make them robust, reliable, safe on a potentially global scale because they could scale up very quickly. This takes us back to the question of proper regulation and supervision. And here, coming back to your point about interoperability, I would say what is important is, and you could label this interoperability of regulatory and supervisory approaches, is that we have a global framework that is comprehensive and consistent to avoid regulatory arbitrage to avoid that risks can build up in areas that are not supervised.

So, as I mentioned before, we've set out recommendations to this effect. The next stage is implementation, and this implementation phase will be obviously critical. It will involve operationalizing our recommendations, checking to what extent existing regulations at the national level but also at the international level for individual sectoral standard Centres do already apply. I think this is important to note, there is sometimes a sense that well stablecoins, crypto assets they operate in a regulation-free room. This is not the case and I think it is very important to recognize that and clarify that. Finally, it is very important to ensure that there is proper international corporation in terms of information exchange at early stages of implementation, but also on an ongoing basis when it comes to the supervision of service providers that are active in many jurisdictions. I think the task is clear, making it happen is not trivial. So, a lot will be done going forward.

Nathalie Aufauvre:

Okay, So many, many things in our plate, many aspects, many operational aspect but regulatory also and the policy issues also. I suggest that we stop there and check whether we have questions from the audience. We have three minutes left for questions, so don't hesitate. We have touched upon many, many topics.

Dietrich Domanski:

We answered all the questions.

Nathalie Aufauvre:

No, no questions? Okay.

Speaker 8:

My name is [inaudible 00:58:22]

Nathalie Aufauvre:

We can't hear you.

Speaker 8:

A lot of the rationale for innovation often uses financial inclusion as the reason and we find that that is questionable. I'd love to know what you think about this. We totally understand the cross-border facilitating person-to-person that could potentially could have support remittances, but a lot of the challenges that keep people from the formal financial system are precisely because they don't have access to technology or they don't have an ID and so on. I'd love to hear your take on the rationale for some of the digital transformation work using inclusive finance as the rationale for it.

Nathalie Aufauvre:

I don't know who is doing-

Cecilia Skingsley:

So that's a great question and I think the reason for why it's being used is because we are in the business of trying to improve our societies and this is a clear, well so far, not very impressed. My view, it's too much cherry-picking by the private sector and those who really are in the greatest need of being on board with financial services are often left out, which is quite embarrassing, to be honest. I think the reason for why we all talk about it is that we are seeing these technological changes as the leeway, leverage to do something about this to start over in many different ways. I'm not sure exactly why you are questioning this, but I think it's my view that we have reached a time in history, we can really take a step forward in this.

I'm absolutely the first to agree that well, a mother of five in a Pakistani village won't be very happy if we come out with a wholesale CBDC. There's a number of other things that has to be put in place. She has to have a digital ID, she has to be able to understand what she's doing. She has to be able to tell her friends that "yeah, this is a pretty cool thing. It works it repeatedly." And a woman with money in a digital form is a lot better situation to plan and organize a future than a woman who is only having cash. I think the vision here is strong for me.

Nathalie Aufauvre:

We have to stop there. I think it was a very important vision and we can stop this on this vision or the future improvement for the society. Thank you very much.