Czech National Bank

Enhancing Regulatory Processes through RegTech: The CNB’s challenges in FinTech Supervision

Vladimir Tomsik, Vice-Governor
vladimir.tomsik@cnb.cz

Global Policy Forum 2018
Central Bank of Russia and Alliance for Financial Inclusion
7 September, Sochi
Market situation in the Czech Republic

- **Constant evolutionary changes** on the market.
- **Most innovations in the financial sector** are driven by established market players such as banks (e.g. internet banking upgrades, mobile applications).
- So far we have received only four requests for innovative payment service licences (PSD2 – Payment initiation or Account Information Service Providers).
- **Small innovative businesses** more or less imitate already announced or running projects in other countries.
The CNB’s approach

Our approach is based on three main principles:
  - Technological neutrality
  - Consistent application of current regulatory rules
  - Openness to discussing individual innovative business cases

We do not believe that the first response to FinTech risks should be creating new regulatory rules.

The CNB does not restrain any RegTech development as long as the entities using its solutions comply with already applicable rules.

Regulation should not “create” financial innovation. New approaches should be assessed and regulation adapted if necessary, when FinTech activities achieve significance.
Supervisory challenges

- **Challenges of supervising FinTech companies:**
  - Understanding a rapidly evolving financial market
  - Keeping abreast of technology developments
  - Maintaining effective communication channels with stakeholders
  - Managing industry expectations, statutory requirements and limitations of the supervisory authority (e.g. regarding innovation facilitation schemes – sandboxes)
  - Acquiring and retaining skilled staff with FinTech expertise
  - Maintaining the right balance between enabling financial innovation on the one hand and market and financial integrity, consumer protection, and financial stability on the other.
Opportunities for firms

• Ongoing innovation and technological advances benefit:

Firms:
• Reducing costs, increasing efficiency
• New entrants in the market increase competition and diversity (reducing systemic risks)
• Access to financing (for small businesses)
• Supporting broader economic development, facilitating international payments
Opportunities for customers and supervisors

- **Ongoing innovation and technological advances benefit:**

**Customers:**
- New convenient, cost-effective and innovative services
- Narrowing information asymmetry and broadening access to financial services

**Supervisors:**
- Simplifying and strengthening regulatory compliance and supervisory processes
- Enhancing knowledge of supervised entities, better analyses of large datasets
Preconditions for reaping potential RegTech benefits

- RegTech has a potential to **alleviate the regulatory burden**, but companies would need to find more:
  - interoperable standards
  - open source solutions

- **RegTech may change the way supervision is performed**, but supervisory authorities would need to:
  - continue to create necessary internal competencies and capabilities
  - be more effective in data assessment, and
  - focus less on formal procedures
  - tackle technological risks (data security, privacy, AML/CFT)
RegTech tools used by the CNB

- **MKT (capital market monitoring) tool:**
  - market abuse monitoring and client protection
  - analysis of market trade data based on multiple scenarios
  - automatic alerts generated on a daily basis
  - data sources from national reporting and EU exchange mechanism

- **Blackbox (ICO analysis) tool:**
  - initial assessment of ICOs and their relationship to CZ
  - starting point for deeper analysis of relevant ICOs
  - quick and dirty open source tool built on Python 3
  - internally developed employee project for policy purposes
  - currently 3,860 ICOs
I believe that the Czech Republic has all the prerequisites to create favourable market conditions for new technology. In fact, the word “robot” is of Czech origin, first used by writer Karel Čapek in 1921.

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Na Příkopě 28
115 03 Praha 1