

IOPS Project: Impact of the digitalisation of financial services on supervisory practices in the private pension sector

**Nina Paklina
IOPS Secretariat**

**IOPS Technical Committee meeting
22 February, 2018
Dublin, Ireland
www.iopsweb.org**

Work in progress

- Project being part of POW 2017-2018
- Stocktaking of
 - Major FinTech developments in the pension sector
 - Existing and evolving supervisory approaches to FinTech developments
 - How supervisors use innovative technologies to make oversight and communication with stakeholders more cost efficient and effective
- Potentially develop IOPS Good Practices in the area

Dublin Roundtable

- Objective of today's Roundtable is to learn from the experiences of:
 - Belgium
 - Hong Kong, China
 - Iceland
 - Kenya
 - Mauritius
 - Mexico
- Tour de table to have input from as large number of Members as possible



Innovations in financial sector

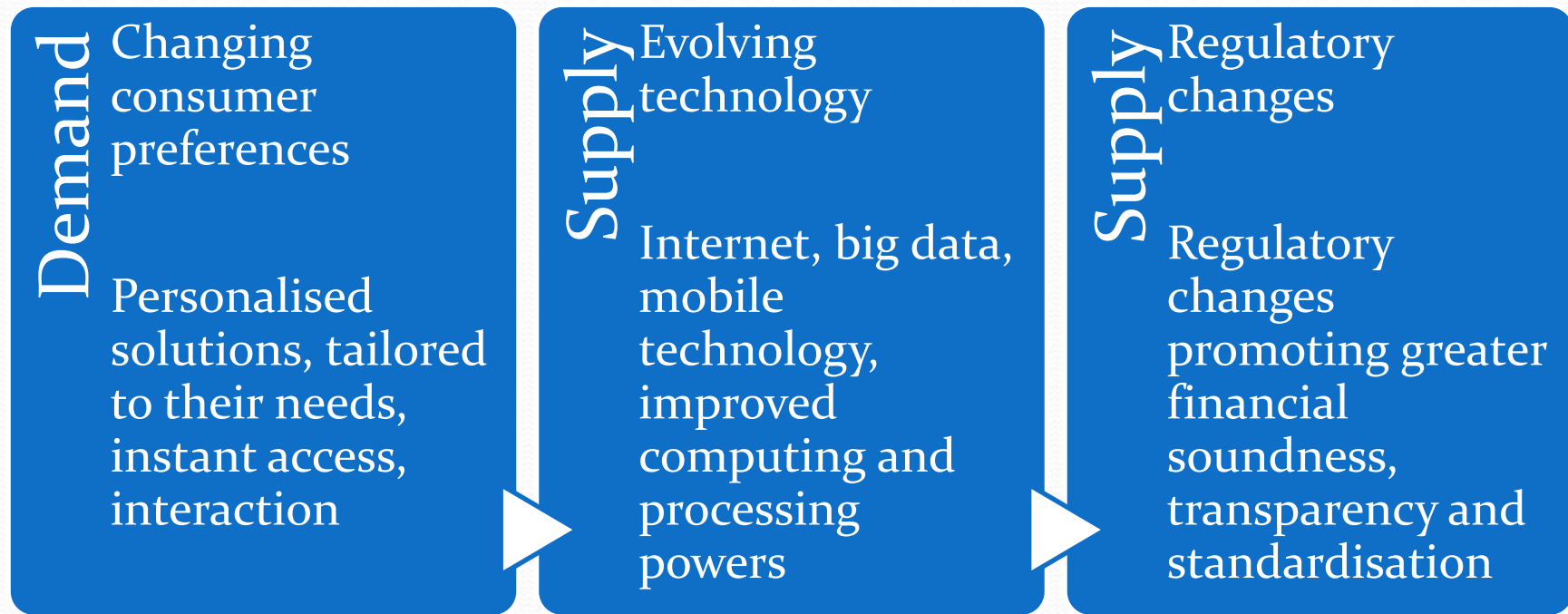
At present innovative technologies are more used in

- Payment services (mobile and web-based payment platforms: Apple Pay, PayPal, M-Pesa, Alipay)
- Lending business (credit scoring, capital raising through crowdfunding, peer to peer or peer to business lending)
- Investment services: securities trading (HFT), digital clearing and settlement
- Asset management (robo-advice)
- Financial analysis
- Insurance (electronic sales of certain products - CHN)

Some developments observed in private pensions



Drivers of financial innovation:





Developments in pension sector

- Increasing coverage and facilitating retirement savings
 - Use of mobile app. and other smart devices (HK, KE, MX, MU)
 - Emerging ecosystems (MX)
- Helping to engage with pensions
 - Technology based business: Spaceship Super (AU)
<https://www.spaceship.com.au/>, Changjiang (CHN)
 - Robo-advice
- Improve administration and operational efficiency and delivery of better services
 - Single electronic platform (e-MPF, HK)
 - Digital auto-enrolment platforms (UK)
 - Cloud solutions for accounting (IS)
 - Robo-trustees?



Benefits and risks

- Potential benefits (for consumers):
 - New services
 - Reduction of costs (due to competition with incumbents)
 - Improved trust (block chain techniques)
- Potential benefits (for industry):
 - More efficient information processing
 - Quality (rapidness) of execution
- Risks
 - Fraud, misleading information, misselling
 - Operational risks
 - IT risk and Cyber crime



Current and evolving supervisory approaches

- Dual approach : flexible and vigilant
 - Offer support –meetings, Innovation Hubs, Sandboxes
 - Closely monitoring and addressing any emerging risks
- Adapt supervision to specific features of FinTech companies
 - Setting up dedicated teams
 - Continued learning
- Generally, PSA should apply technology neutral approach to FinTechs:
 - Risk oriented regulatory and supervisory framework:
‘Same business, same risks, same rules’



Challenges for monitoring FinTech activities

- Entities or activities that fall outside regulatory framework
- Use of unrelated data (quality of data)
- Protection of personal data
- Cyber-security
- Cross-border issues
- Supervisory capacity (staff, resources)



Key areas for supervisory attention (FSB: 2017)

1. Managing operational risk from 3rd party service providers
2. Mitigating cyber risks
3. Monitoring macro financial (concentration) risk
4. Cross-border legal issues
5. Governance and disclosure frameworks for big data analytics
6. Assessing regulator perimeter and updating it on a timely basis
7. Shared learning with private sector parties
8. Development of open lines of communication between the authorities
9. Building staff capacities
10. Studying alternative configurations of digital currencies



How supervisors are using innovative technologies

- Putting certain supervisory services on-line through digital portals (authorisation/licensing, NL, SG, MU)
- Fully automated reporting and collection procedures: online platforms for collection, compilation and analysis of data
- Use of block chain for record of data and statistics (MU, RF)
- On-line platforms to facilitate on-site inspection (MX)
- Creation of national pension database (BE and MX)
- Technology driven complaints handling processes (HK, NA)

How supervisors are using innovative technologies (cont.)

- Innovative technologies could potentially offer benefits in the following areas [in experimental stage]
 - Information sharing (shared utilities, cloud or on-line platforms)
 - Understanding of regulatory and supervisory requirements (machine readable regulations, robot-hand books)
 - Supporting supervisory decisions with use of Big Data or AI that offer advanced analytical solutions, risk and compliance monitoring
 - Achieving better compliance – inbuilt compliance systems