

37th ABA General Meeting and Conference

**Session Three : Regulator' Roundtable : Current Banking
Trends and their Implications on Regulatory Policies**

**Dr. Tien-Mu Huang
Chairperson
Financial Supervisory Commission
August 2021**



I. Preface

➤ The major issues in current international forum

- Climate change
- Corporate Social Responsibility (CSR)
- Environmental, Social, and Governance (ESG)
- Green or Sustainable Finance
- The development of emerging technologies
- Responsible Innovation
- Information security
- Widening wealth gap
- Financial Inclusion





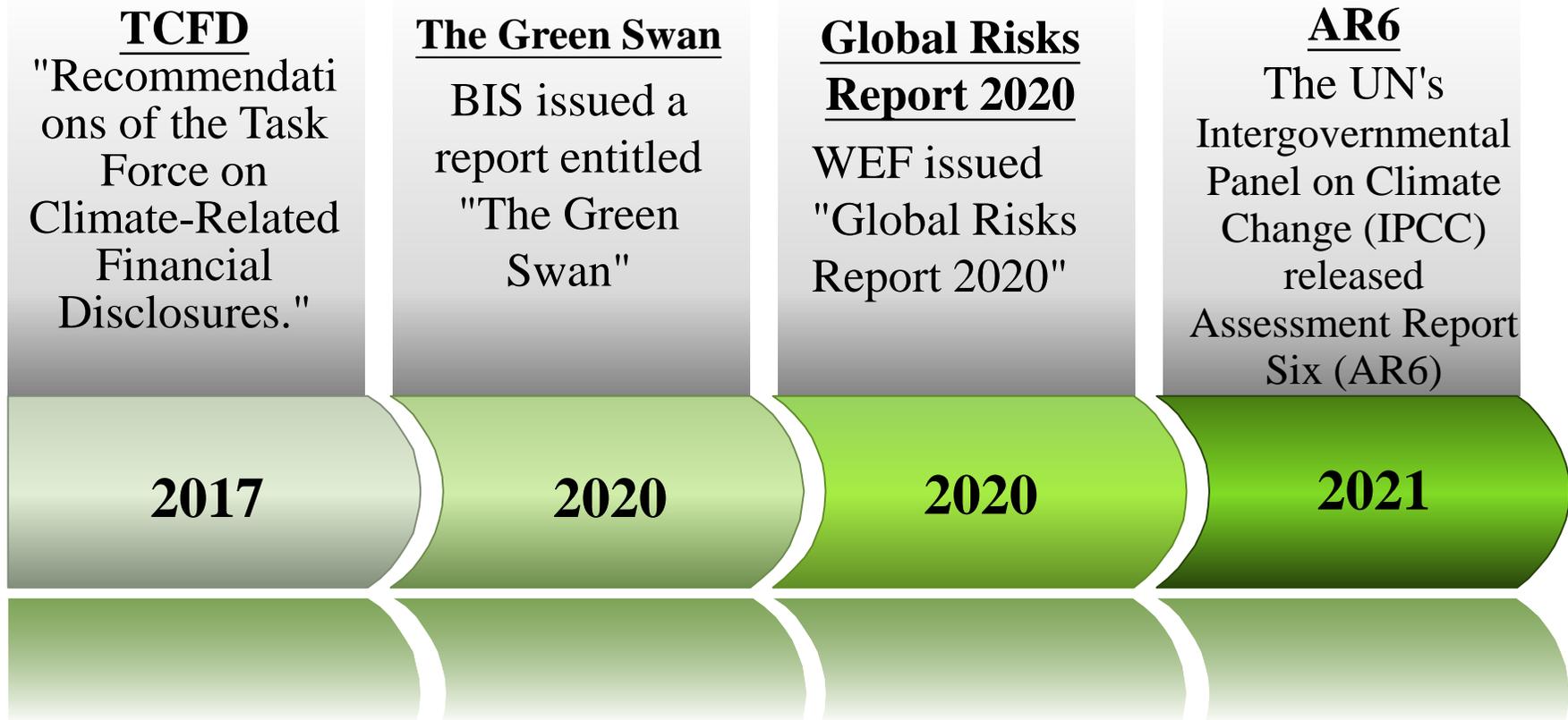
Strengthening financial resiliency

➤ Strengthening financial resiliency

- **At the end of Q1 2021, the capital adequacy of domestic banks were as follows**
 - Common Equity Ratio: 11.85%
 - Tier 1 Ratio: 12.81%
 - Total Capital Adequacy Ratio: 14.77%
- **At the end of June 2021, the NPL and the coverage ratio of domestic banks were as follows**
 - NPL Ratio: 0.21%
 - NPL Coverage Ratio: 647.45%
- **2021 Supervisory stress test**
 - The result of the stress testing : the average common equity ratio, tier 1 capital ratio, capital adequacy ratio, and leverage ratio under the adverse scenario and the severely adverse scenario were above the minimum regulatory requirement.
- **Adopting Basel III Framework**
 - Keeping in step with international practice.
 - Following the financial supervisory authorities in major countries, the FSC announced deferral the implementation schedule of the Basel III finalized document in Taiwan by one year to 2024.



Sustainable Finance & ESG (1)





Sustainable Finance & ESG (2)

➤ In response to climate change

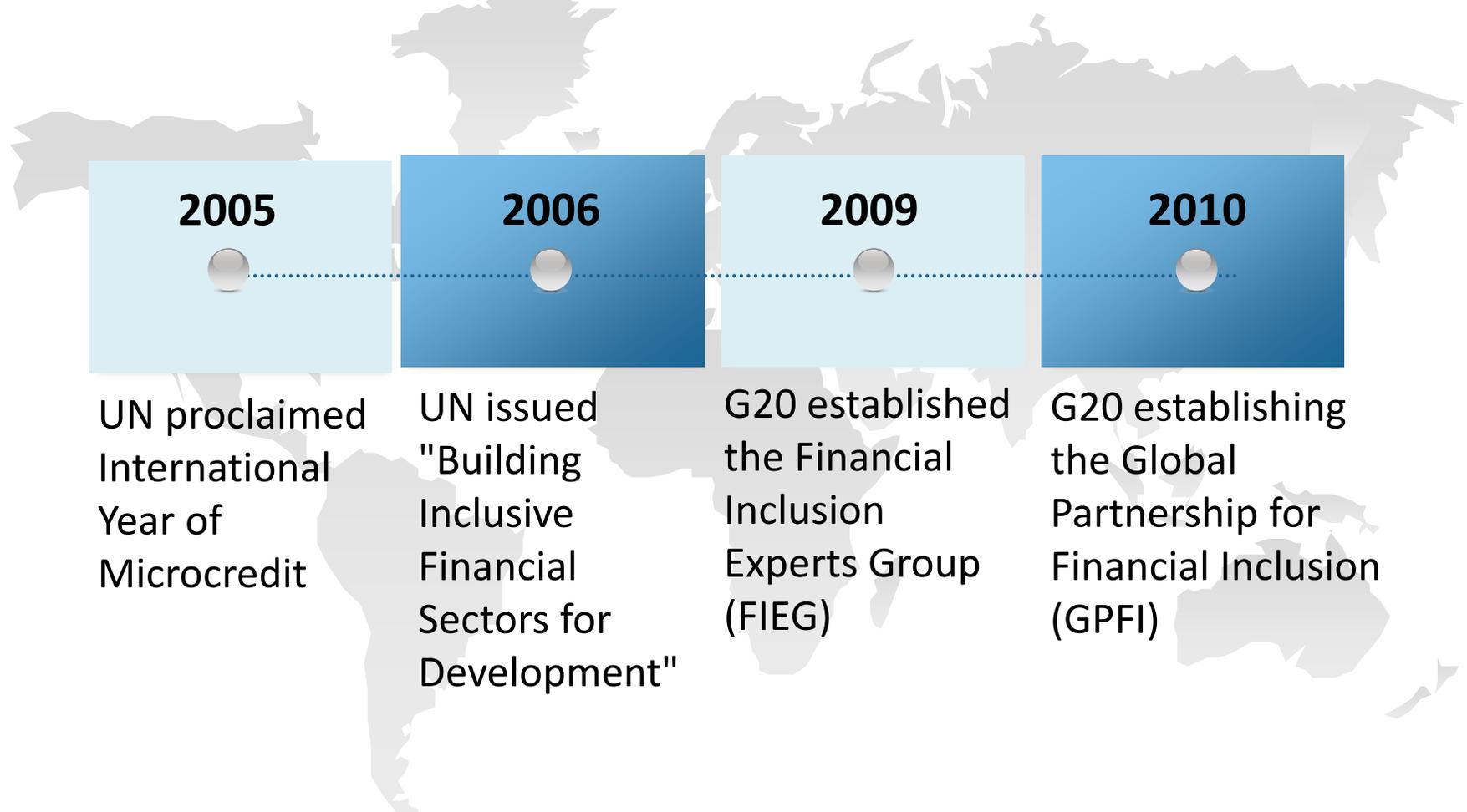
- **Launched the Green Finance Action Plan 2.0 in 2020**
- The plan covers 7 main areas to promote sustainability :
 - Extension of credit
 - Investments
 - Fundraising in the capital market
 - Nurturing professionals
 - Information disclosure
 - Promotion of green finance products or services
 - Private-public cooperation





Financial Inclusion & Fintech (1)

➤ Promotion of financial inclusion





Financial Inclusion & Fintech (2)

➤ Promotion of financial inclusion

- Adopted a set of "Financial Inclusion Indicators for Taiwan" in January 2020.
- Amended laws and regulations to ensure that persons with physical and mental disabilities have fair and convenient access to financial products and services.
- Promoting micro-whole-life insurance, micro-insurance, and reverse mortgages.
- Encouraging banks to take strong steps to implement relief measures adopted by central government agencies.
- Continuing to improve various outreach and financial literacy programs directed at different types of people.



Financial Inclusion & Fintech (3)

➤ Promotion of Fintech

● Fintech Development Roadmap

- One-stop communication platform
- Data sharing
- Regulatory adjustment and code of ethics
- Capacity Building
- Digital infrastructure
- FintechSpace
- International networking
- SupTech/RegTech



Cybersecurity and Fintech-Risk Management

- **Consumer protection**

- "Policy Guidance on Financial Consumer Protection Approaches in the Digital Age." (G20 and OECD)

- **Strengthening of cybersecurity**

- "Summary Report on Financial Sector Cybersecurity Regulations, Guidance and Supervisory Practices." (FSB)
- "Regulatory approaches to enhance banks' cyber-security frameworks." (FSI)

- **Artificial intelligence and ethics**

- "OECD Principles on AI." (OECD)
- "Ethics Guidelines For Trustworthy AI" (European Commission)



Cybersecurity and Fintech-Risk Management

- **Released the Financial Cyber Security Action Plan**
 - Shapes a corporate culture that emphasizes information security
 - Enhances the management of information security on emerging technologies
 - Promotes the cybersecurity training and education
 - Resource sharing and international cooperation

- **Discuss measures for business continuity of banks**



IV. Conclusion

**Formulating
a New Model
for the future**

**More resilient, highly innovative,
and sustainable.**

**Creating financial services that
provide a new type of value.**



New-Generation Banking: A Supervisor's Perspective

*37th ABA General Meeting and
Conference*

Chuchi G. Fonacier
Deputy Governor

26 August 2021



This Presentation



**Regulatory
and
Supervisory
Adjustments**

**Performance of
and Outlook on
Banking
System**

**Key Strategic
Supervisory
Thrusts**

**Other
Initiatives in
the Pipeline**

**Key
Takeaways**



BSP Pre-Pandemic Reforms and Policies Prepared the Banking System to Weather the Impact of COVID-19



COVID-19
PANDEMIC

*BSP had a long history of structural reforms and prudent macroeconomic policies, which paved the way for the **strong risk governance and financial condition** of the banking sector.*



BSP Implements Time-Bound Regulatory and Operational Relief Measures



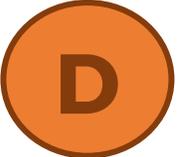
MAINTAIN DOMESTIC LIQUIDITY



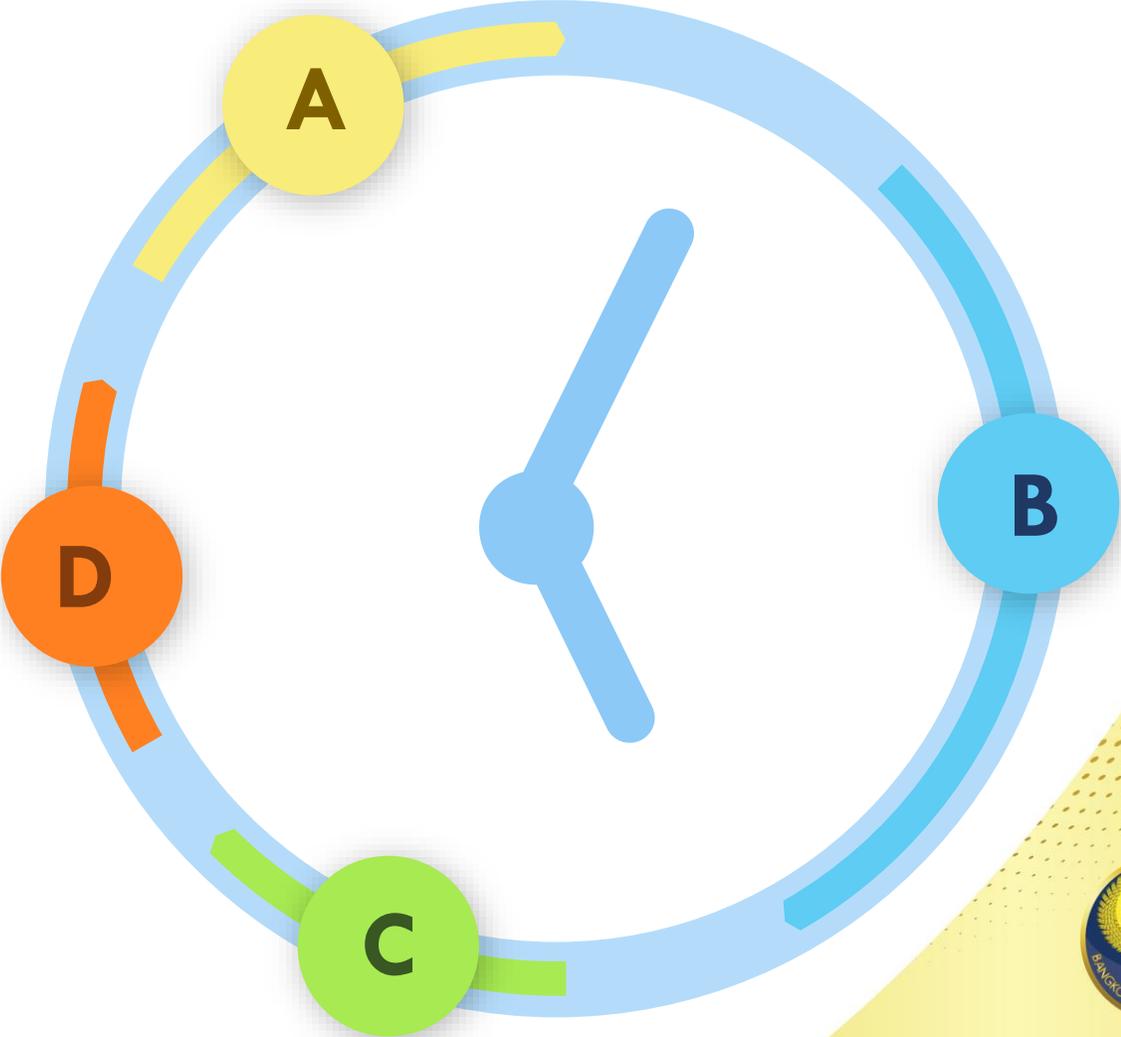
GRANT FINANCIAL RELIEF TO THEIR CUSTOMERS



ENSURE CONTINUED ACCESS TO FINANCIAL SERVICES



GRANT FINANCIAL RELIEF TO BORROWERS



Banks Register Strong Financial Position Amid the Pandemic



Continued Asset Growth



Manageable Loan Quality



Adequate Capitalization



Sufficient Liquidity Buffers



Banking System Will Remain Stable in Next Two-Year Horizon



Double-digit growth in assets, loans, investments, deposits and net income



Higher but *manageable level of non-performing loans accompanied by high loan-loss provisioning*



Asset quality and credit risk emerged as top-most risk



Shift towards sustainable financing



Above-standard capital and liquidity buffers



BSP Pursues Prudential and Financial Sector Reforms to Maintain Financial Stability

Strengthening
Risk
Governance

Improvement in
Supervisory
Approaches

Digital
Transformation

Instilling Culture
of Sustainability



Progressive Risk Governance Reform Agenda Lends Support to the Sector's Strength and Resilience

1. Maintain Adequate Buffers
2. Adopt More Resilient Systems
3. Adhere to Tenets of Good Governance



BSP Monitors Emerging Risks that may Pose Repercussions on Banking System

BSP will continue engaging banks relative to any changes in their risk appetite



BSP Heightened and Intensified Surveillance and Data Analytics



BSP Promotes Responsible and Responsive Digital Innovation

NATIONAL
RETAIL PAYMENT
SYSTEM
FRAMEWORK

OPEN
FINANCE
ECOSYSTEM

USE OF
TECHNOLOGY
IN SUPERVISION

DIGITAL PAYMENTS TRANSFORMATION ROADMAP



Volume: ↑ by **520.5%**

Volume: ↑ by **455.5%**

Value: ↑ by **153.5%**

Value: ↑ by **430.5%**

Digital payments continue to surge since the onset of crisis in March 2020



BSP Advances the Sustainability Agenda in the Financial System



Issuance of Sustainable Finance Framework



Launching of Sustainable Central Banking Program



Implementation of Other Green-related Initiatives



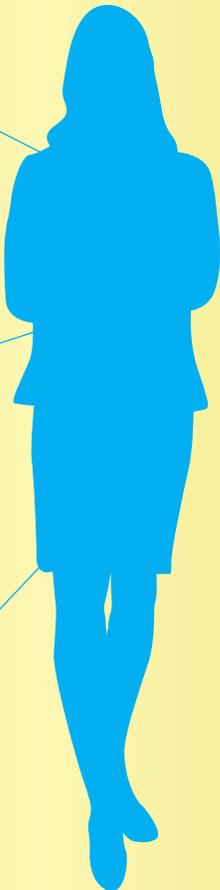
Strengthen Engagement with Key Stakeholders in Promoting Sustainability Principle

BSP Personnel Remain Competent and Qualified Amidst Fast-Paced and Ever-changing Banking Landscape

Capacity-Building Program to Supervisors

Digital Learning Facility

Scholarship Programs



Professional Excellence Program for Supervisors

Capacity Building to Key Stakeholders

Vulnerability assessment and Stress Testing Exercises



Key Takeaways

BSP has put in place corporate governance and risk management policy reforms

We remain supportive of further improving banking sector defense framework

BSP is embracing growth opportunities on digital transformation

We are promoting sustainable finance in banks' strategic agenda

We will maintain close coordination and strengthen collaboration with stakeholders





New-Generation Banking: A Supervisor's Perspective

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Chuchi G. Fonacier
Deputy Governor

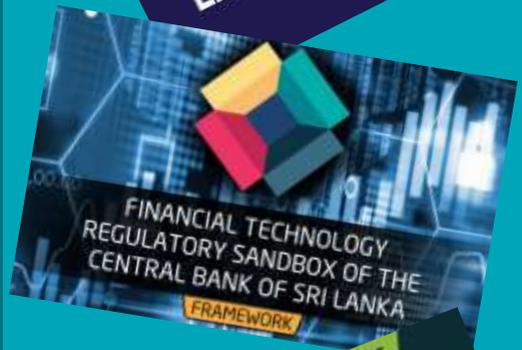
26 August 2021



Current Banking Trends and their Implications

- Regulatory perspective -

Recent Developments



The Central Bank of Sri Lanka welcomes the adoption of new technologies while ensuring the safety and soundness of the banking system

Emerging partnerships between banks and FinTechs in the country paves the way to an industry revolution

A recent initiative by the Central Bank of Sri Lanka is aimed at establishing a less cash society

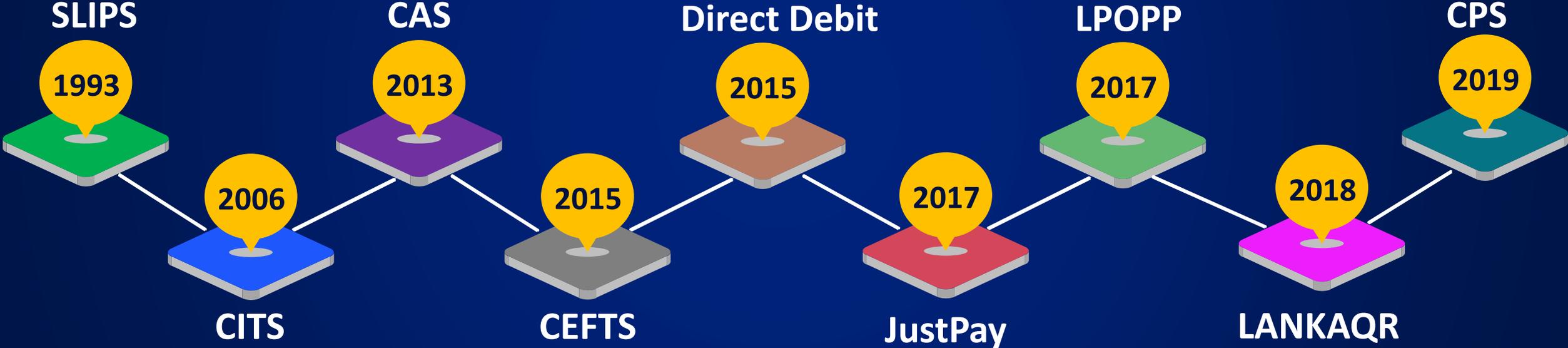
Major Trends in Payments

- ❑ Payments Value Chains are witnessing a high-level of Front-end Innovation
- ❑ Regulators are increasingly focusing on fostering innovation
- ❑ Payment processing is undergoing transformation building next-generation infrastructure
- ❑ Implementation of real time payments is accelerating globally
- ❑ Banks and non-banks are focusing on new technologies such as Blockchain

Major Trends in Payments

- ❑ Payment Service Providers are increasing focus on using data driven solutions such as Artificial Intelligence (AI)
- ❑ Increased global e-commerce and cross-border payments
- ❑ Increased investments in Security and Authentication methods to avoid fraud and data breaches
- ❑ Developing Economies are witnessing disruptive innovation in Payments and leapfrogging the developed nations

Adoption of new technologies- initiatives taken as a regulator



Initiatives taken as a regulator..some highlights

CEFTS

LankaPay CEFTS real-time fund transfer switch has enabled any peer to peer or corporate payments between any LankaPay CEFTS member bank or financial institution, real time 24 x 7 x 365 days. Customers can avail themselves of this service by simply logging into their internet banking, mobile banking portal or via ATM and over the counter.

JustPay

JustPay allows customers to make retail payments using smart mobile devices by transferring funds from their current or savings account to the merchant's account directly. With a slab based, extremely low tariff scheme, JustPay provides a convenient, secure and affordable option for retail payments which are primarily made by cash and cards. JustPay aims to convert over 95% of the retail transactions that currently made via cash into electronic modes.

LANKA QR

LANKAQR is a project initiative from the Central Bank of Sri Lanka to ensure all QR codes and QR based transactions in Sri Lanka are standardized and interoperable. LankaClear has been entrusted by CBSL to implement and operate LANKAQR. LankaPay – Common EF Switch (CEFTS) and JustPay payment platforms will be used by LANKAQR members to ensure interoperability.

Initiatives taken as a regulator..some highlights

LPOPP

Launched in 2017, LPOPP is a payment platform that facilitates online real time payments to Government and other institutions through CEFTS

As of 30 July 2021, consisted of 15 members (14 LCBs and 1 LSB)

Maximum limit for payments to Sri Lanka Customs is Rs.20 bn

Maximum fee per transaction is Rs. 50.00

Institutions linked with LPOPP

Launched

- Sri Lanka Customs
- Board of Investments of Sri Lanka (BOI)
- Sri Lanka Ports Authority (SLPA)

Approval granted and will be integrated in future

- Inland Revenue Department (IRD)
- e-Local Government
- Colombo International Container Terminal (CICT)
- Lanka Government Payment Services (LGPS)
- Employees' Provident Fund (EPF)
- Lanka Electricity Company (LECO)

Initiatives taken as a regulator - Mobile phone-based E-money systems

- First launched in 2012, mobile phone-based e-money systems issue monetary value upon receipt of funds and store electronically.
- These systems enable you to perform a wide array of financial transactions using your mobile phone, anytime, anywhere without a bank account (e.g., eZCash & mCash)



Facilities:

- Send/receive money
- Account top-up
- Balance inquiries
- Reload
- Bill payments
- Utility payments
- Merchant payments
- Institutional payments
- Internet payments
- Inward remittance services
- Making donations

Initiatives taken as a regulator - National Card Scheme (NCS)

Introduced in 2017 and issued the first card in 2019.

A national initiative, implemented under the supervision of the Central Bank of Sri Lanka to cater for domestic requirements with lower fees and charges. This enables banks to develop electronic card product options to cater for the under-banked and unbanked population of Sri Lanka.



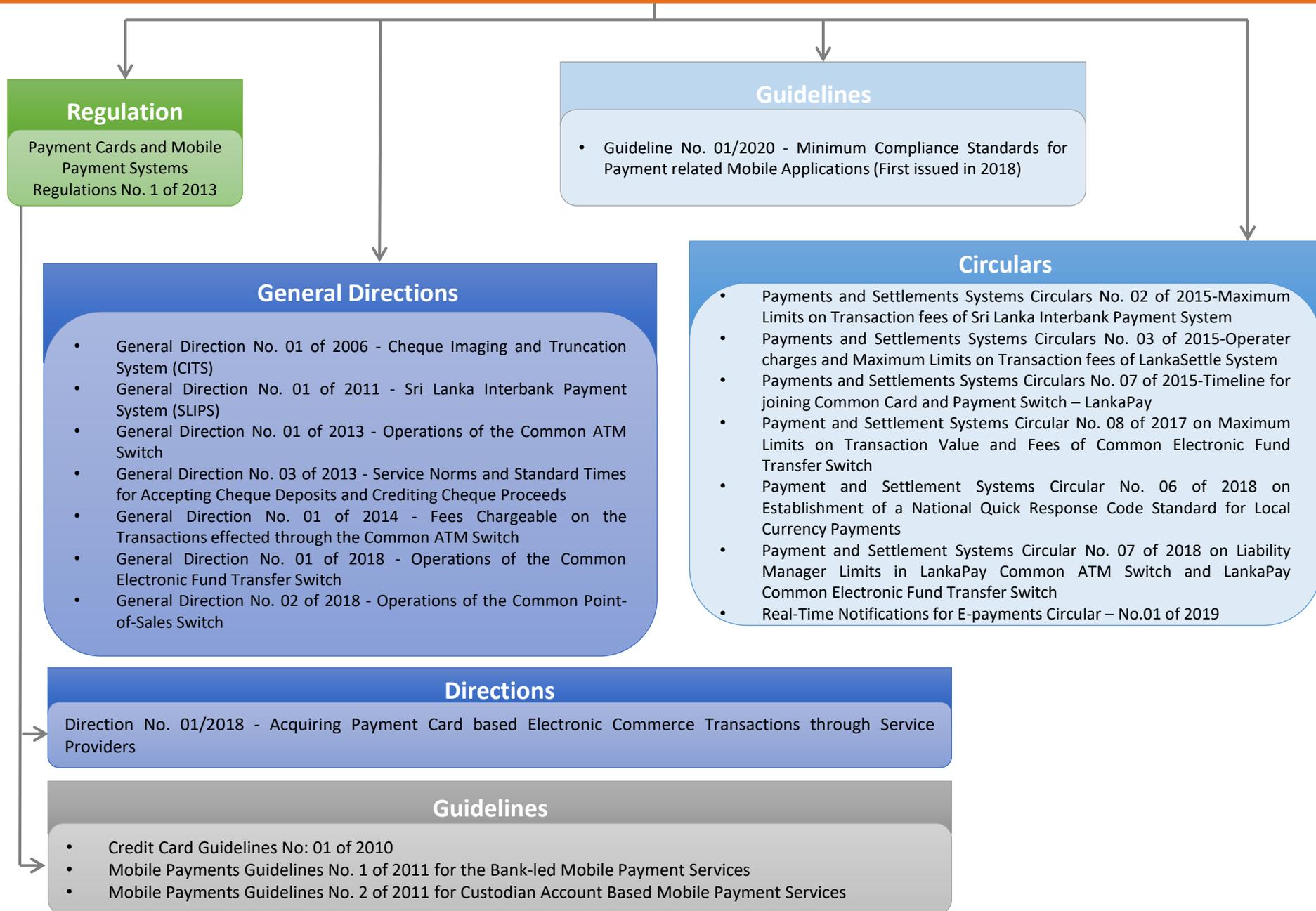
NCS Benefits:

- Help saves valuable foreign exchange paid to international payment card scheme
- Lower fee structures for card issuing banks and finance companies
- Payment information remains within the country
- Can be used to issue prepaid cards to distribute social security payments
- Can be used as a transport card (National Card Scheme)
- Lower merchant charges and discount rates (MDR is less than 1%)
- Functions as a debit/credit card with ATM, POS access and Online Pay
- Contactless operations with Tap & Go facilities
- International access through JCB International
- Cash management cost of the country can be reduced
- Maximum fee
 - per cash withdrawal when using another bank's ATM is Rs. 15.00
 - per balance inquiry when using another bank ATM is RS. 7.50



Regulatory interventions

Regulatory interventions under Payment and Settlement Systems Act, No. 28 of 2005



Guideline on Minimum Compliance Standard for Payment Related Mobile applications

- First launch in 2018 and replace with newest version in 2020

- Objective

To set minimum standard in payment related mobile applications to be adopted by any Payment Service provider.

- Payment service Provider

Any licensed commercial bank
Licensed specialized bank
Licensed finance company
Licensed operator of a mobile phone-based e-money



Areas covers by the Guideline



Regulatory interventions

Continuous Monitoring and Supervision

- Annual compliance review for each payment application in the market
- Observations shared with FIs for improvements

Innovation with compliance

- Time extension to adopt to the guideline.
- Guideline facilities to meet compliance with business decisions by the Board of Directors of FI
- Measures to protect Financial systems and Customer

User awareness

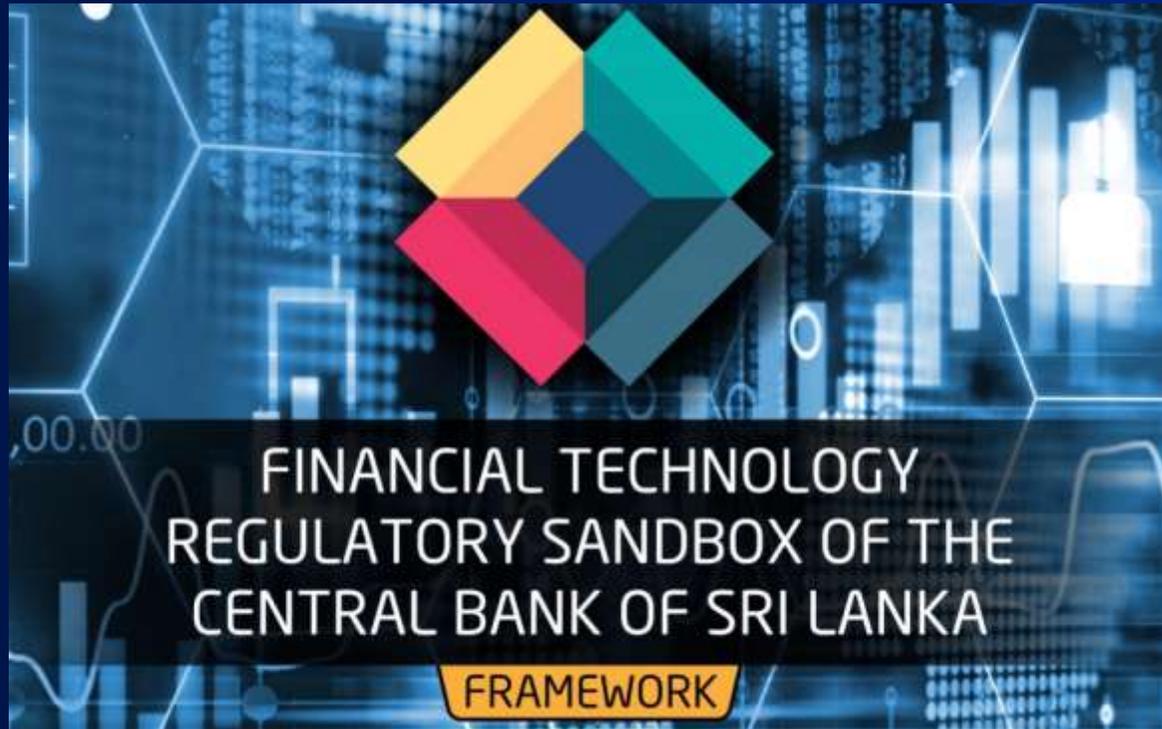
- Specific section on the guideline
- Handling customer issues/ complains reported to CBSL related to payment applications

FinTech developments –Regulator's point of View

- Any gaps in perceiving consumers interests over FinTech business models.
- Platform/ technology unreliability or vulnerabilities may result adverse impacts to consumers such as third-party frauds, loss of data integrity.
- FinTech business solutions that fails to complete with established financial service providers.
- Challenges impose by digital environments such as limitations on disclosure and transparency, sophistication etc.
- Lack of digital literacy and inexperience in FinTech products.



Regulatory intervention - Fintech development - Regulatory Sandbox



- Launched in February 2020 by CBSL
- A framework that allows small-scale, live testing on innovating FinTech Products under the financial sector regulator's supervision

Fintech Regulatory Sandbox

FinTech Regulatory Sandbox provides

A safe space in a controlled live environment for selected innovations to test their products and services without the risk of infringing on regulatory requirements

For Innovators

This process provides innovators with an opportunity to better equip themselves to seek regulatory approval

Intension

- Create robust and sustainable innovations that can provide more efficient financial intermediation and greater financial inclusion
- Help creating a less-cash society through digitalization



The infographic features a central image of a person's face overlaid with digital data and charts. The word 'FINTECH' is written in a glowing font at the bottom of this image. The background is dark blue with various data visualization elements like bar charts and line graphs.

SRI LANKAN FINTECH REGULATORY SANDBOX

With the rapid growth in Financial Technology (FinTech) innovations, the Department of the Central Bank of Sri Lanka has identified the need to regulate and promote their advancement whilst maintaining appropriate risk levels. The Central Bank aims to establish a Sri Lankan FinTech Regulatory Sandbox to enable FinTech initiatives that promote efficiency and increase financial inclusion.

PURPOSE OF A FINTECH REGULATORY SANDBOX

A FinTech Regulatory Sandbox provides a safe space in a controlled live environment for selected innovations to test their products and services without the risk of infringing on regulatory requirements. This process provides innovators with an opportunity to better equip themselves to seek regulatory approval. It is intended to enable FinTech initiatives that can provide more efficient financial intermediation and create a less-cash society through digitalization.

THE SCOPE OF THE REGULATORY SANDBOX

The Central Bank is in the process of identifying the scope of the Sandbox. To ensure that it will be inclusive, the Central Bank is inviting all relevant stakeholders involved in FinTech innovations at entrepreneurial, non-government and multi-lateral agency levels, including banks, and non-bank financial institutions to provide their knowledge and experience in the format provided at <https://www.cbsl.gov.lk/en/press/mediacenter>. Please email the completed form to sandbox@cbsl.lk on or before 31st May 2018.

When determining the scope of the Sandbox, the Central Bank will consider the responses received and may contact relevant stakeholders for further information. The Central Bank reserves itself the right to determine the scope of the Sandbox without assigning any reasons thereof, and may also invite other stakeholders to participate in the Sandbox.

For any clarifications please contact the Payments and Settlements Department of the Central Bank of Sri Lanka, on **011-2477542** between **9.00 am and 4.00 pm** during weekdays on or before 31st May 2018.

New trends and regulatory intervention-Ongoing projects

Projects	Current Status
Virtual Currency	A Committee formed to decide the way forward in relation to Virtual Currency transactions in Sri Lanka, is working on to identify the potential stance that Sri Lanka should take on virtual currency transactions.
Blockchain Based Shared KYC	Testing of all 3 POCs completed. Governance Technical Committee report to be submitted to the CBSL Management
Sri Lanka National Remittance Mobile Application	“Working committee to study and suggest new remittance channels for Sri Lanka” is finalizing the committee report with recommendations and key features to be included in National Remittance Mobile Application.
Multicurrency RTGS	To study the prerequisites for the establishment of a Multi Currency RTGS in Sri Lanka, another internal (PSD) committee was formed. This committee will conduct a basic background study to identify the technical and nontechnical requirements of the process to introduce Multi Currency Settlements through the new RTGS system

New trends and regulatory intervention-Planned projects

Project	Current Status
Open Banking	Internal working committee was formed to review the submitted committee report and to provide recommendations on the implementation stages.
Digital Banking	Internal working committee was formed to conduct a background study on digital banking concepts and to suggest a possible way forward.
AI - Artificial Intelligence	Based on the report submitted by the Road Map monitoring committee, Internal working committee was formed to identify the suitable AI strategy for Sri Lanka's financial system.
Digital Payment Platform (DPP)	DPP committee report submitted, and the committee recommends to invite payment system expert in the country to present a proof of concept (POC) to validate that the proposed architecture of DPP is implementable and viable.
Central Bank Digital Currency (CBDC)	Internal Working committee is formed to conduct a background study on CBDC preconditions in Sri Lankan context and to provide a way forward to implement a CBDC in Sri Lanka.

New technologies - "RegTech" and "SupTech"

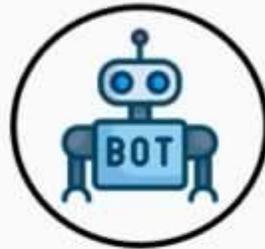
- Emerging technologies can create new and unforeseen risks for consumers
 - RegTech will use technologies such as advanced analytics, robotic process automation, cognitive computing and the cloud to achieve regulatory and compliance outcomes
 - RegTech has the potential to improve service and protection for customers and to help restore trust in the industry
 - Automated reporting and real-time monitoring for supervisory activities
- 
- A decorative graphic at the bottom of the slide consists of a network of thin, light blue lines forming a circuit-like pattern. Small, solid blue circles are placed at various points where the lines intersect or terminate, resembling nodes or data points in a network.

New technologies - "RegTech" and "SupTech"

Top Benefits of Regulatory Technology (RegTech)

Automation and Simplifying of Processes

Automatically identify new regulations and simplify the compliance procedures



Cost Cutting

RegTech solutions have significantly lower cost than traditional approach to regulatory compliance



Regulatory Compliance

Keep financial institutions in checks with regulation deadlines and further regulatory action



Fraud and Risk Management

Use advanced analytics and big data to determine regulatory breach and mitigate similar risks and identifying fraud



Increasing Agility

Cluttered and intertwined data set can be de-coupled efficiently and organised through extract, transfer and load (ETL) technologies



“One way to illustrate the huge growth in regulatory and compliance rules is to measure the time it would take, for example, to read the US banking centred regulations. Based on 2017 data, it was estimated that it would take over 5,700 hours for one individual to read all the relevant regulatory materials (at a reading speed of 300 words per minute). That is almost 3 years of reading time, with only weekends off. In comparison, it would take roughly 50 h to read the collective works of Shakespeare and one would be able to finish the Bible. you would have been able to read through all of Shakespeare’s works more than 115 times before you would be finished once with the US regulatory and compliance rules”.



Recent Regulatory interventions to facilitate Covid 19 related challenges

- CBSL revised the transaction fees of the LankaSettle System in order to promote usage of digital transactions for large value payments. Accordingly, the maximum per transaction fee of RTGS were reduced to Rs. 400.00 from Rs. 1,000.00.
- The Central Bank reduced the CEFTS transaction fee from Rs. 50 to Rs. 30 per transaction, and revised the minimum liability manager limits in CEFTS, thus increasing the utilization of excess capacity of electronic payment systems
- Maximum transaction limit of JustPay, which is a Mobile App based payment solution for low value payments, was increased to Rs. 50,000.00 from Rs. 25,000
- Enhanced limits applicable for merchants of a mobile phone based e-money system in order to facilitate more digital transactions during the period

Recent Regulatory interventions to facilitate Covid 19 related challenges

- Online payments by customers to government and other institutions through the LankaPay Online Payment Platform were further enabled through increasing the maximum per transaction value limit.
- Approval was granted to several mobile application-based payment products to operate subject to certain restrictions, in order to further facilitate digital transactions during the period with travel restrictions within the country.
- Enable online registration facilities and facilitating Know-Your-Customer requirements digitally to all LCBs and LFCs while temporarily increasing the limits imposed on several payment solutions to cater for the increased online transactions.