



*Conference on Banking
Development, Stability and
Sustainability*

*Santiago
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Beyond Basel III

Digital disruption and new regulatory paradigms

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Agenda

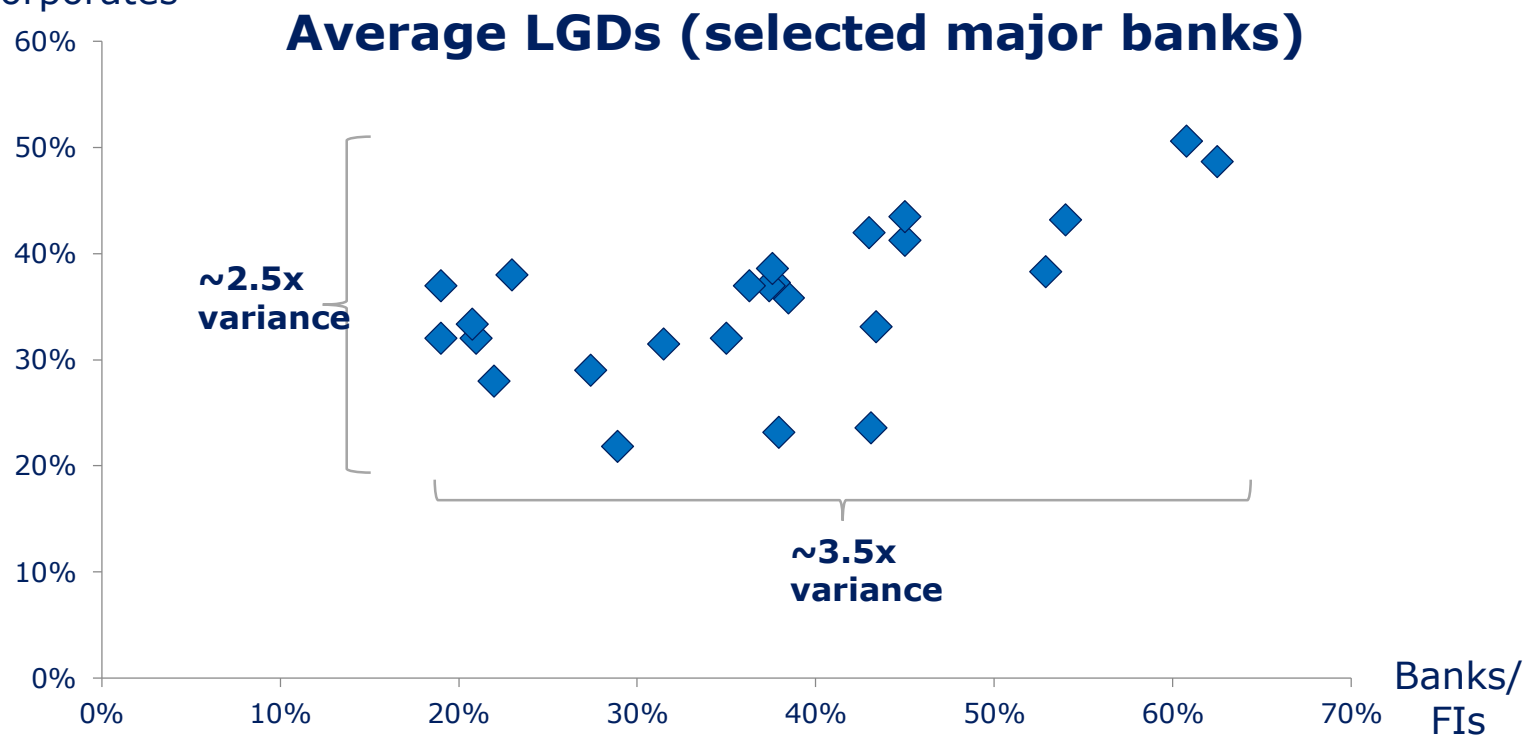
- 1. Basel III implementation**
- 2. Digital: new risks**
- 3. Digital: innovative response**
- 4. International co-operation and consistency**

Basel III recap: how we got here

Building on the first two accords, Basel III addressed known shortcomings:

- Quantity and quality of capital
- Gaps in risk coverage
- Insufficient liquidity buffers
- Excessive variance in capital calculations

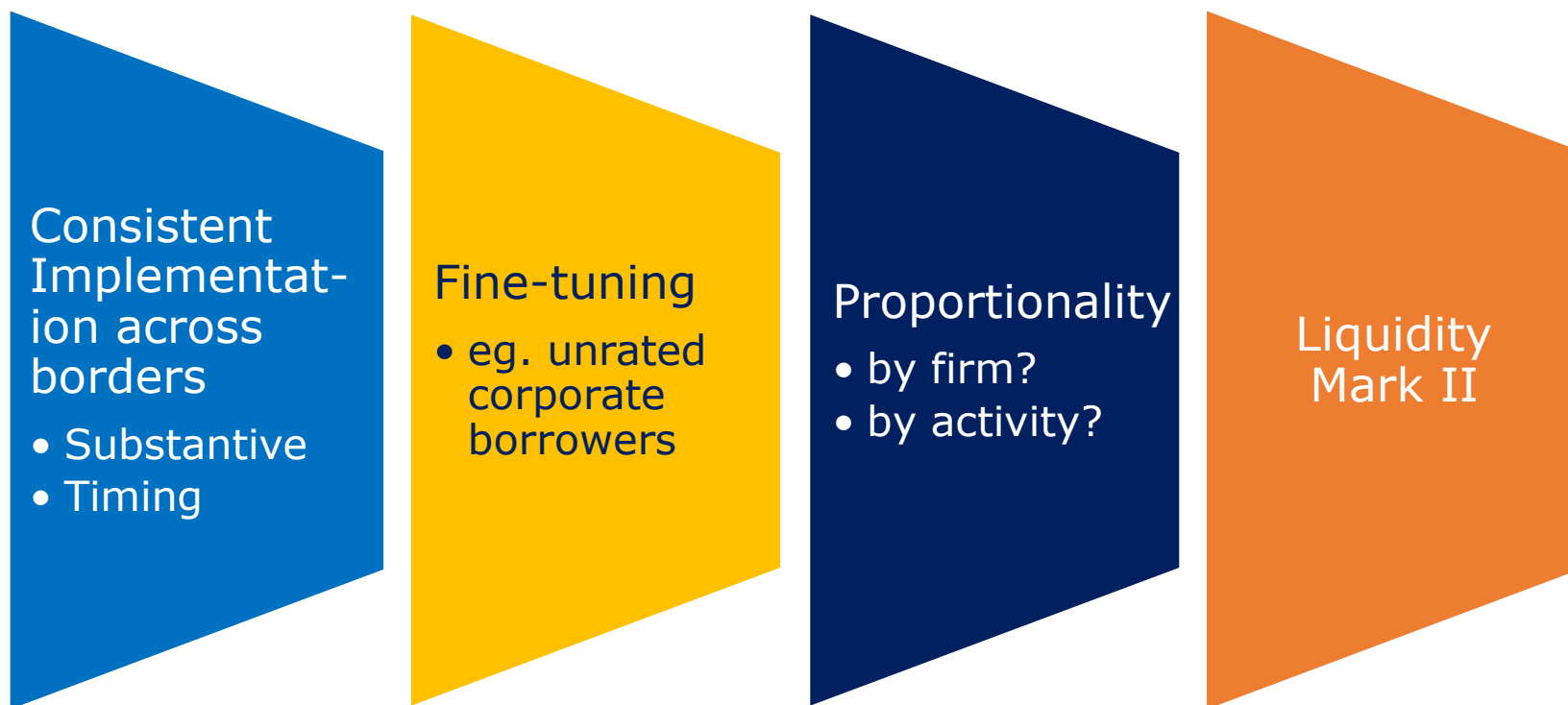
Corporates



Source: Annual Reports, Pillar 3 Reports

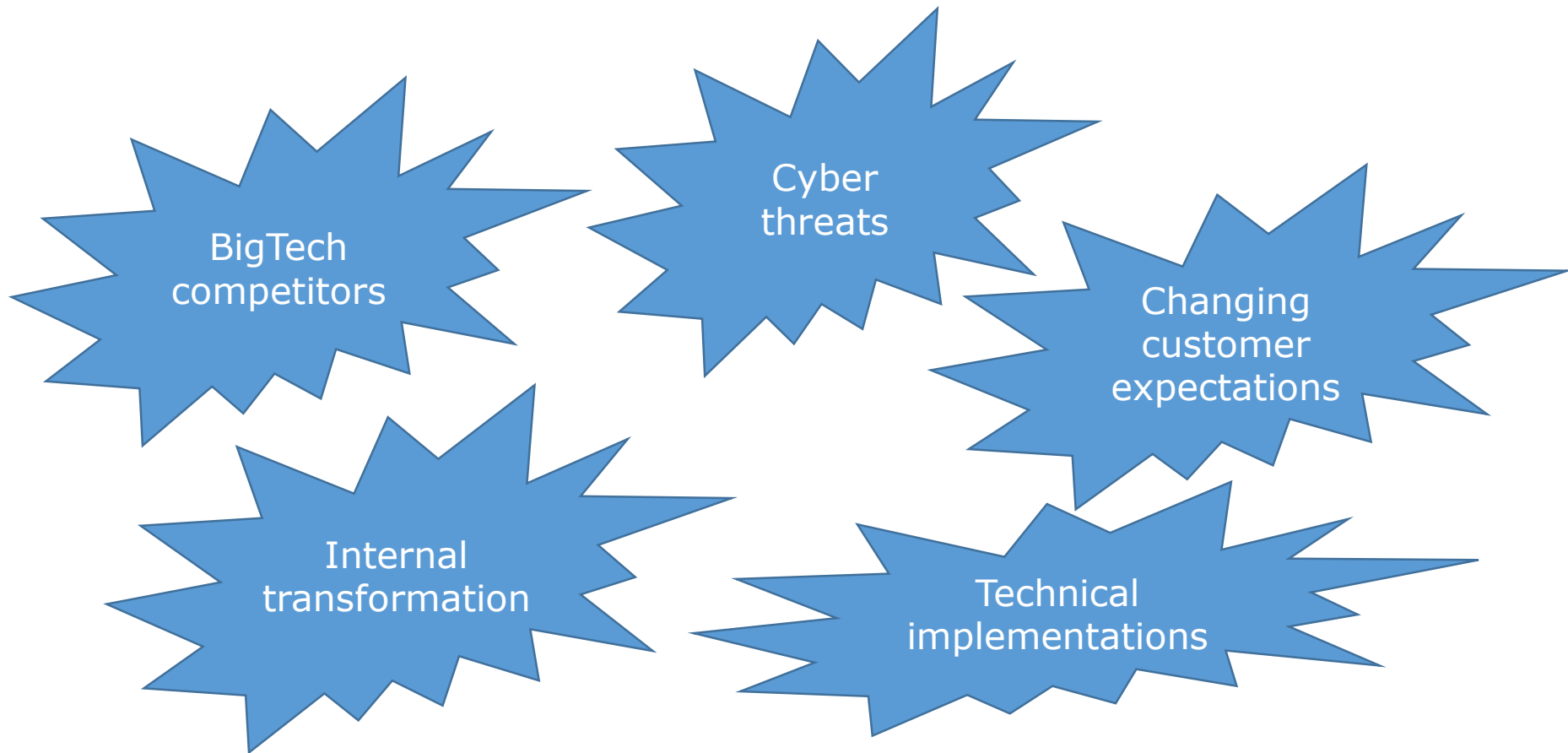
Basel III: global rules finalized, what next?

The relative certainty of the global rules finalized in December 2017 is welcome, but some issues remain.



Digital Era: emerging threats and risks

The advent of the digital era brings new technical risks and strategic (business model) risks.



'Open Banking': a new type of competition

Open Banking (data sharing) offers great potential social & customer benefits, but key design & implementation considerations will determine whether it meets the goals of promoting competition & empowering customers.

Data Sharing

Safeguards

Protection of customer data: emulating existing standards?

Symmetry

Asymmetrical data flows across different types of market participants

Liability

Procedures & resources for compensating customers on frauds & errors

Data Scope

What data? Raw or produced/enhanced?

Digital Era: transformative response

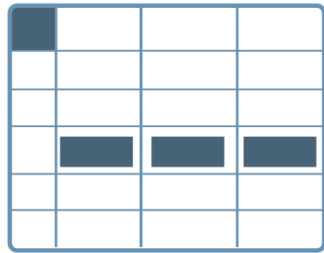
Managing to the new environment requires transformative change, with renewed focus on the customer and enhanced risk management – which in turn require adopting and embedding new technologies.



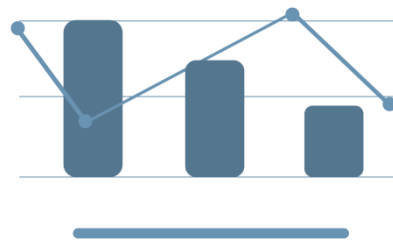
The new risk: not innovating

Innovation is critical to keeping pace with evolving customer expectations, competitors offering and best practice risk management.

As well as considering the benefits, risks and risk mitigants of each innovation, we must consider that the biggest risk may in fact be in not innovating.



Data aggregation
& collation



Modeling &
forecasting



Real-time customer
fulfilment



Identifying clients
and legal persons



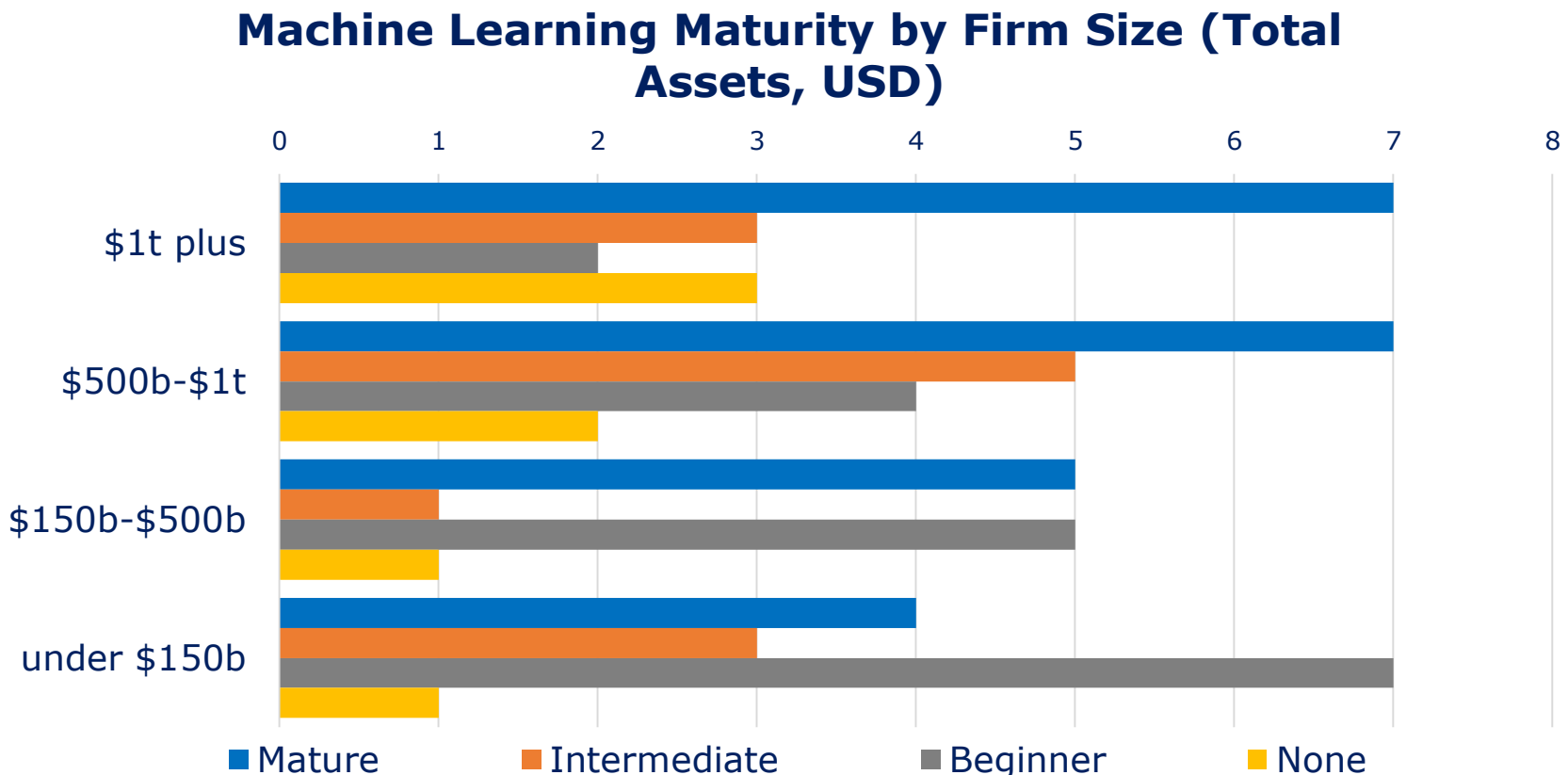
Monitoring payments,
AML reporting



Monitoring internal
culture & behavior

Innovation: progressing across the industry

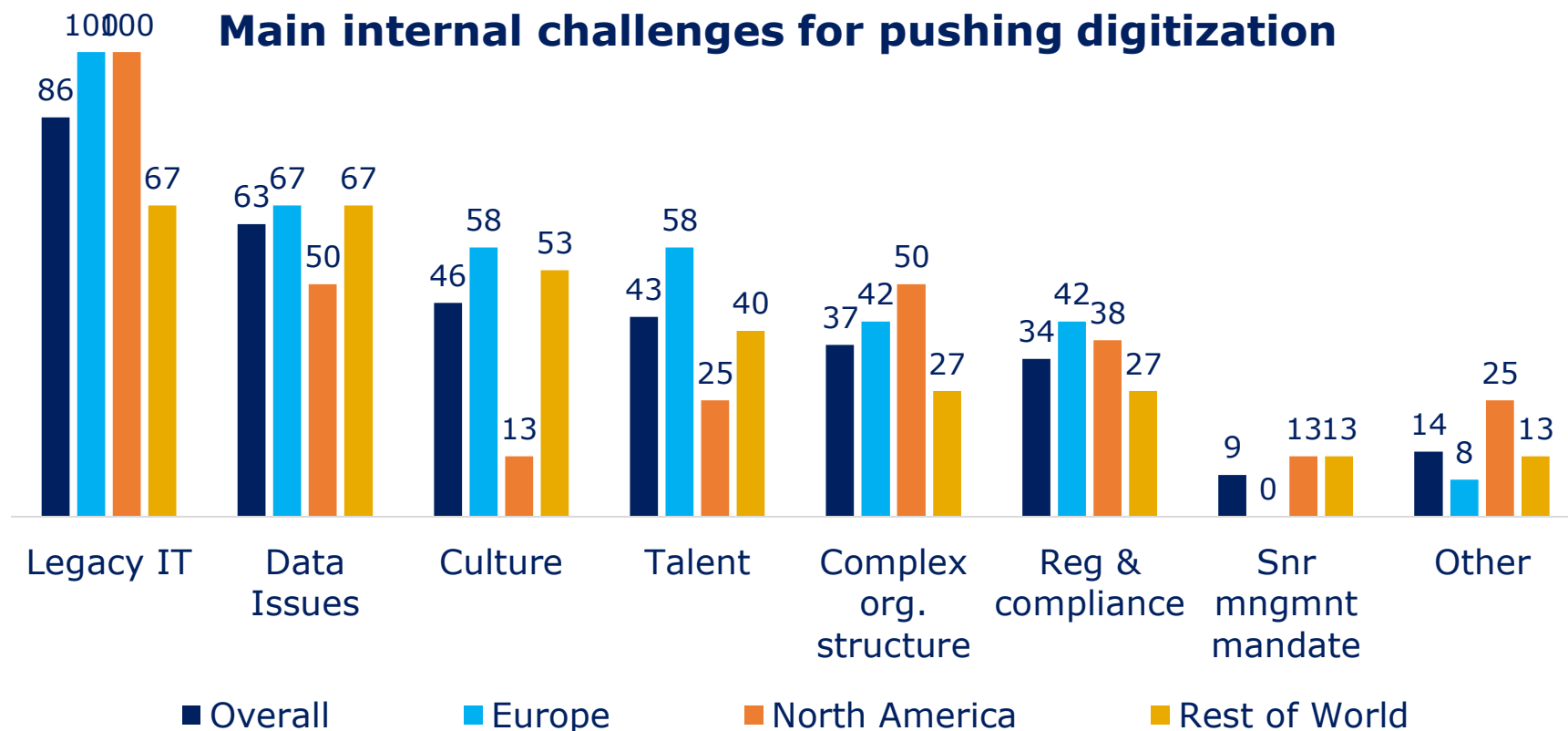
The rate of adoption of new technologies can vary markedly according to banks' strategies, investment plans and transformation agendas; but less so by geography or bank size.



Source: IIF Machine Learning in Credit Risk survey, March 2018.

Digital transformation: challenges & barriers

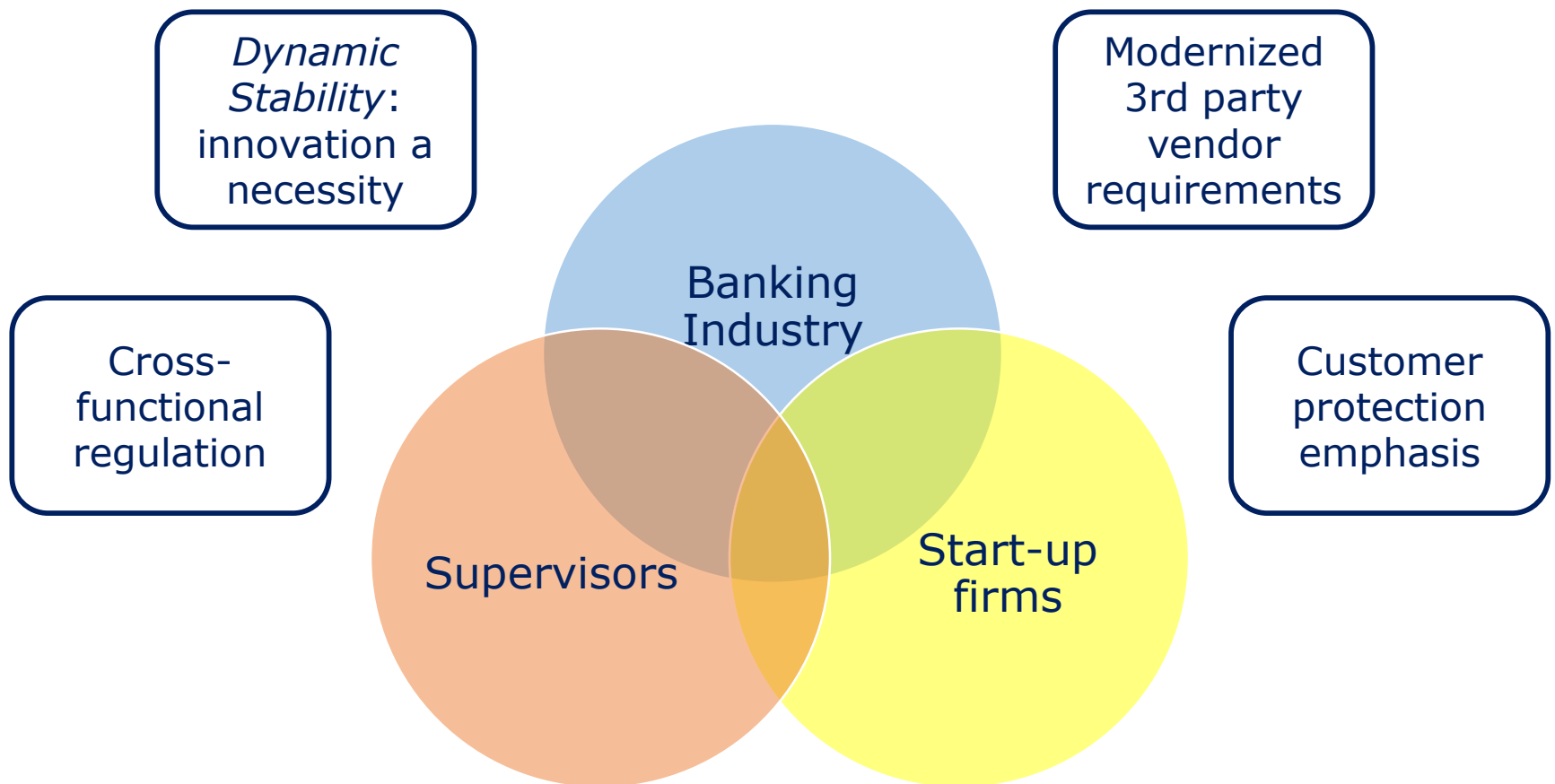
The central challenges facing banks' digitization agendas relate to (i) data and legacy infrastructure, and (ii) people & skills.



Source: IIF/McKinsey 2017 survey on the future of risk management in the digital era

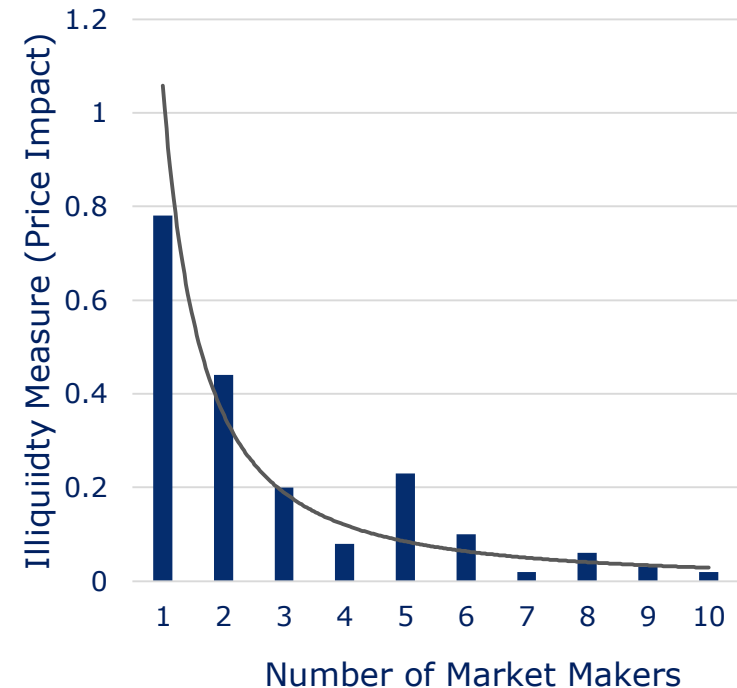
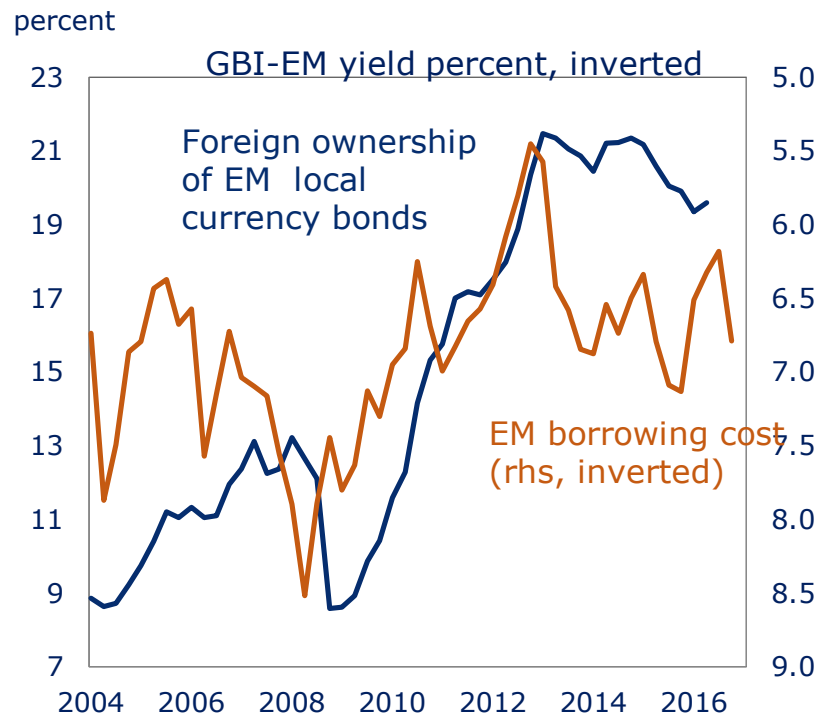
Industry and Regulatory Partnership

In adjusting to the new data ecosystem, banks and their supervisors need a symbiotic relationship; a proactive partnership that reflects the shared journey in learning and adopting new technologies, and adapting to new market conditions.



Cross-border Cohesion Redux

The digital economy amplifies the need for greater cross-broader cohesion in regulation and supervision, beyond known issues of capital, liquidity and resolution. Data standards and Cloud restrictions could become the new barrier to entry.



Source: Trax, PwC analysis