



CENTRALE BANK VAN ARUBA

The next disruptive wave: digitalized financial ecosystems in the new sharing economy

Designing a roadmap towards optimal preparedness from a central banker's perspective

A speech by Jeanette R. Semeleer, President of the Central Bank of Aruba, on the occasion of the Conference on Financial Technology and the Future of Money

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"For the first time in human history, nonstate, multistakeholder networks are forming to solve global problems"- Don Tapscott and Alex Tapscott

Bon dia dama y cabayeronan,

Den nomber di Banco Central di Aruba un cordial bon bini na boso tur, in particularmente na e miembronan di Hunta di Comisario di Banco Central di Aruba.

Ladies and gentlemen, distinguished guests, once again a warm welcome to all of you to CBA's Conference on Financial Technology and the Future of Money. The organization of this special conference is part of the celebration of CBA's 30th anniversary. We, therefore, truly appreciate that you have taken time of your busy schedule to join us today at the Marriott.

Our main goal is to have a very productive day for all of us by sharing knowledge and new insights, as well as engaging discussions on, and fostering understanding of innovative developments in financial technology and how they are already dramatically reshaping the financial landscape.

I am deeply convinced that by having a highly knowledgeable and well-prepared community, we will be able to safely surf the new waves of disruptions. In the literature these life-changing and metamorphic events are being caused by what is often being referred to as the "Fourth Industrial Revolution", "Second Machine Age" or the "Third Automation". Impactful and radical automation, including the application of artificial intelligence, and global connectivity at very low costs are the main driving forces.

Ladies and gentlemen, I happy to state that we are not breaking any new grounds today. This important journey already started two years ago when a local group of young and courageous entrepreneurs, under the strong leadership of Mrs. Varelle Croes and Mr. Tristan Every, brought us ATECH to foster a new vision of the future of extreme digitalization that was already knocking on our doors.

When Varelle and I spoke on the telephone about three years ago for the first time on FinTech, I must admit that I did not fully understand the language she was using in reference to this new phenomenon. Thank god that Varelle did not give up on me -an old and conservative central banker- so easily. She patiently fed me with many linkages to acquire the needed knowledge about start-up hubs, crowdfunding, co-labs, entrepreneurial ecosystems, angel sponsorship, and organic growth.

Ladies and gentlemen, just to make sure, I not talking about organic food funded by collaborative angels. These are only a few of the many many words that we need to familiarize ourselves with, to understand their new meanings from a financial and technological perspective. Only then, we will be able to see through the complex concepts, manage the increasing risks, create new business models, and fully grasp the opportunities that lay ahead of us.

The question is why are we as central bankers interested in FinTech? Aren't we supposed to be old-fashioned and traditional gatekeepers and full-bred regulators?

The simple answer to these questions is that FinTech is transforming the traditional banking and other financial services' business models at an overwhelming pace, challenging important stakeholders, including currency issuers and regulators like the CBA, on a number of topics.

How do we provide the most adequate policy response?

1. The changing landscape of the financial sector

Allow me to take you back to January 1, 1986. An important milestone in our history, when our country was born amidst major economic and financial uncertainties which over time we have overcome. Maybe some of you don't remember, but that is also the same date that the Central Bank of Aruba was established to be the guardian of our newly minted and printed florin, the supervisor of our financial institutions, and the protector of our gold and foreign exchange reserves.

It seems like yesterday to many of us, when electric typewriters, carbon copies, telex, and fax machines were the essential tools for communications. Financial technology back then was mostly supportive of the traditional banking tools, such as accounting and dataprocessing. As technology slowly progressed, we moved to more modern products and services, such as the ATM, which remained the king of innovation for a couple of decades, making 24 hours banking possible.

With the major and accelerated advancement in technology in recent years, costs of computation and telecommunication have declined dramatically to almost zero. The combination of these two pushed financial innovation to unprecedented levels.

Financial innovation took a leap from ATM cards to POS debit cards and online banking (remote access), and most recently to mobile payments and cryptocurrencies, such as the bitcoin through blockchain technology.

In the unraveling of the process of financial intermediation through advanced development of financial products and services, FinTech companies have altered their traditional role from being the supplier of technological services to the banking sector to become their competitors.

A new entrant to the financial market with attractively new products and services. Should we be worried or be supportive?

2. The opportunities and threats

Financial innovation has both opportunities and threats. I will mention only a few without going in too much details, as these will be discussed further in the upcoming presentations. I would like to start with

Opportunities:

1. Improved productivity through lower (transaction) costs and greater efficiency
2. Free and easy accessibility to knowledge
3. More choice and freedom for both consumers and businesses
4. Small and big data analytics, which enhance data collection and analysis to improve performance
5. Financial inclusion, and lastly
6. Digital money

With regard to Threats,

1. The automation revolution has led to a sharp decline in demand for workers doing routine work.
2. Through their displacement by higher computer skilled workers, average wages for the previously mentioned group have fallen sharply.
3. Widening social inequality, as income distribution becomes more misaligned.
4. Increased social tensions with workers frustrations (in its inability to cope with rising costs of living and meet basic needs).
5. A fast growing global network of cybercriminals. (pushed up by increasing global connectivity and the absence of adequate law enforcements in many countries), and lastly,
6. Unregulated financial service providers.

3. Looking ahead: riding the waves

In looking at what is lying ahead of us, there are several short-term actions the CBA is planning to undertake. I will mention only a few of them:

a. *Bela yen*

We have designed a 5 year strategic plan for the CBA called BelaYen, that covers the period 2016 through 2020. We will soon share this plan with the Aruban community.

b. *Market assessment*

In the coming two weeks, the CBA will conduct an assessment of the current practices of the payments system, via survey and stakeholders' meetings with the assistance of the Dutch central bank. The results and the recommendations of this assessment, based upon best practices, will be shared with our stakeholders.

c. *Legal framework of the CBA*

We will propose changes to the current legal mandate of the CBA to enable the regulation of the payments system in Aruba, as well as the conduct of oversight on the market participants, and product offerings.

d. *Governance: National Payments System Forum / "Forum di Pago Nacional"*

A National Payments System Forum will be established by the CBA, whereby various stakeholders representing providers of products and services, as well as the users of the payments system, will be invited to actively participate.

This forum is intended to promote the safety, reliability, and efficiency of the payments system, while fostering financial and technological innovation in the products and services being offered, as well as the distribution channels hereof.

e. *Establishment of a Payments System Department*

The CBA will create a Payments System Department dedicated to the payments system. This department will be entrusted with the development, execution and monitoring of the policies related to the payments system. It will also conduct oversight on the market participants and their product offerings.

f. *Financial inclusion*

Last but not least, we will aim at enhancing financial inclusion based on best practices. This entails increasing the accessibility of the payments system to consumers and businesses, as well as reducing costs and other barriers to products and services.

We will also promote financial education and innovation through the design of a Financial Incubator (FinCube), that will also include digital leadership programs to incubate and foster new ideas in the financial services.

4. Conclusion

In conclusion I would like to state the following.

The international financial landscape is undergoing major transformation through extreme digitalisation and connectivity. Several countries are now on the forefronts to implement much needed study to be able to understand the impacts hereof and what best policies to adopt.

By now we all realize that Aruba's financial sector will not be isolated from this wave of technological change that has no frontiers. It is unstoppable. As more than 85 percent of the Aruban population has internet connections, more than 95 percent has mobile phones, and 65 percent has computers, the effect will be large. If we quickly move to adopt the right financial innovation and accordingly revamp our educational system, there will be many winners. If not, there will be losers.

Therefore, it is of crucial importance that we create a common vision and strategy on the future of banking and money to reap the maximum benefits of financial innovation for the entire Aruban community.

Besides partnering with other experienced central banks, financial institutions, FinTech companies, and fully embracing ATECH and its low hanging fruits, the National Payments Systems Forum will become an important vehicle towards this end. We look forward to collaborating with all of you.

Before finishing, I would like to thank CBA's staff under the dynamic leadership of Mr. Ryan Peterson for organizing this important conference. They have been able to set up for us an interesting program, with great local and international speakers. I hope you will be staying with us the whole day, having also a nice lunch and after conference drinks and snacks to wrap up the day.

I thank you all for your attention and wish you a very innovative day.

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