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Central banks and trends in digital innovation

One of the pandemic's most long-lasting consequences has been a change in the way we work. We are experiencing, first-hand, global collaboration through technology and platforms. Covid-19 has also accelerated trends in digital innovation that were already well under way.

The pandemic has also shown that it is technology that enables our globally connected world, and the provision of money, to go round. Technology has been indispensable in helping to mitigate the economic and social impact of the Covid-19 crisis by enabling economic activity to continue at arm's length and partially overcome social distancing protocols. Consumers in many countries have stepped up their use of contactless payments, and as bricks-and-mortar stores temporarily closed, e-commerce activity surged. With the rise of "decentralised finance" (DeFi), financial services more broadly are experiencing a quieter but momentous revolution.

International collaboration is essential to underpin technological capabilities, ensure interoperability between national systems, enhance cross-border payments and remittances, support financial inclusion, and prevent geographical and social fragmentation. This is the essence of the roadmap from the Financial Stability Board and the Committee on Payments and Market Infrastructures for enhancing cross-border payments, as endorsed by G20 Finance Ministers and Central Bank Governors in October 2020 and actively supported by the Bank for International Settlements (BIS).

In the past few years, we have witnessed the rise of cryptoassets and a global regulatory discussion around stablecoins. Moreover, some big techs have entered credit markets, either directly or in partnership with financial institutions. The expanded use of digital payments brought about by Covid-19 could fuel a rise in digital lending as companies accumulate consumer data and enhance credit analytics. This, in turn, presents new and complex trade-offs between financial stability, competition and data protection.

Central banks will continue to safeguard essential trust in money in this rapidly changing environment. To identify these trade-offs, design sound regulatory responses and continue to fulfil effectively their mission to deliver monetary and financial stability, central banks need to be at the cutting edge of technology.

It is for these reasons that the BIS has established its Innovation Hub (www.bisih.org) to spearhead the central bank response to digital innovation. Reflecting the global nature of innovation and technology, the BIS Innovation Hub already has centres across Europe and Asia. It has formed a strategic partnership with the Federal Reserve System in New York, and in the next few months it will open new centres in Toronto with the Bank of Canada, London with the Bank of England, Frankfurt/Paris with the Eurosystem, and Stockholm with a group of Nordic central banks. The Hub catalyses collaborative efforts among central banks and cooperates with academia, financial service providers and the broader private sector.

Our work programme is built around six key themes of critical importance to the central banking community: (i) suptech and regtech; (ii) next-generation financial market infrastructures (encompassing capital markets projects, foundational digital infrastructures, tokenisation of assets, cross-border payments and payment infrastructures); (iii) central bank digital currencies; (iv) open finance (encompassing application programming interfaces in the open banking context and related data issues); (v) cyber security; and (vi) green finance.

This work is directed towards practical solutions rather than conceptual research. We are building a portfolio of projects across these six themes – typically as proofs of concept to be delivered to central banks. In doing so, we are helping them to harness the benefits of technology while understanding its limits – and to make global financial markets safer as catalysts, overseers, operators and regulators.

Multilateral collaboration and practical thinking will be essential for building a financial architecture that is future-proof against a large range of shocks.