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France: a European powerhouse for financial service innovation

Good morning to all of you. I am delighted to be here today. Who could have imagined just a few years ago that a central banker would be making an appearance at a forum on innovation? I remember when we first met up, about a year ago, with the developers from the start-up Labo Blockchain to work on a Proof of Concept, everyone from the Banque de France had made an effort: they'd dressed casually for the occasion... except that all the developers had decided to turn up in a suit and tie. It was a complete role reversal! But things change very rapidly. Today, our dealings with innovators go far beyond any of the assumptions we might have had about each other: the Banque de France is testing blockchain technology and is opening a LAB to work with start-ups; the ACPR (the supervisory body which I chair) has welcomed more than 100 key innovators since the creation of its FinTech Innovation Unit, and has set up a FinTech Forum with the AMF to increase our interaction with innovators. For all actors in the financial industry, including for the Banque de France and the ACPR, the digital revolution is creating challenges but also incredible opportunities that are just waiting to be seized, whether by FinTechs themselves, by the entire financial system – banks and insurers – or by the French and European economy as a whole.

1. What are the challenges for FinTechs?

It's hard to imagine how we would get by today without cash-gifting sites to fund events, aggregators to draw together our different bank accounts, or peer-to-peer payments to split restaurant bills or rents for flat-shares. Steve Jobs coined the well-known mantra: "simplicity is the ultimate sophistication", and I think all of these innovations have managed to offer a simple, often cheaper solution to new user habits and needs. They combine cutting-edge technology with user-friendly interfaces. And, in many cases, they've been developed by nimble start-ups that are in tune with the market and have the freedom to think outside the box. Today, France is Europe's second biggest crowd-funding market, after Great Britain, and one of the most dynamic markets in Europe for payment innovations.

Today, what I want to say is this: we are learning from you. Through your technology, you too can contribute towards making the financial system more secure. The artificial intelligence and chatbots you are developing will help us respond more effectively to the public's needs; big data, machine learning and biometrics will help us to better prevent fraud; blockchain technology and smart contracts will help to optimise transactions; and your APIs (Application Programming Interfaces) and open source technologies will help to make financial technologies more interoperable.

When I think, in turn, of what the Banque de France and ACPR can contribute, I'd say this: stable, reliable and agile regulation. Stable because we have a strong anchoring in European regulation: this means that FinTechs established in France can offer their services in all countries in the European Union – it's what we call "the European passport". Reliable, because we strive to limit potential risks, so that innovation is always synonymous with customer protection, payment security, IT security and financial stability. But also agile, because innovation must not be stifled by administrative red tape; that's why we are developing regulations that are based on objectives and principles rather than on rules, and that are proportionate to the scale of the risks. New FinTech players also help to stimulate competition with digital incumbents, and in particular with the initiatives launched by the US web giants. The industrial stakes are high: we need to foster this active competition, which is by far preferable to monopolies, even technological ones. Stable, reliable and agile regulation is a basis for confidence. And confidence is a basis for success in innovation. We want to build this regulation with your active participation. We need your answers in order to transpose PSD2 quickly and efficiently; we also need your active involvement in order to build the best possible RegTech.

2. What are the challenges for the French financial industry?

Innovation does not just concern new entrants, of course. For banks as well as insurers, the digital revolution is disrupting traditional customer relationship models. One figure is particularly revealing: the level of footfall in high street bank branches. In 2007, 62% of French people visited their branch several times a month. In 2016, the figure had fallen to just a third of that: 20% – and to as low as 13% for the 18-34 age group.¹ Customer journeys are becoming increasingly digitalised: France currently has the highest rate of usage among large European countries for internet banking services (69% of customers).² But, beyond customer relationships, financial companies need to take a more comprehensive approach if they are to succeed in the digital transition - placing innovation at the heart of their strategic management, as well as rethinking their business models. These are difficult choices that naturally need to be taken by the companies themselves; the answers are not easy or uniform, but I would like to share with you a few avenues for thought.

In the case of banks, it is important that they rethink their sources of income: one response could be to diversify the range of services – both proprietary and via partnerships – that they offer to customers, and possibly change existing pricing policies, with fewer flat-rate prices and more pricing by use. The digital transition will also involve preparing for shifts in jobs and in skills, through dialogue with social partners. It will also require adopting an open approach, with the creation of partnerships with FinTechs and the scientific community. Finally, it will call for major IT investment to provide services that are increasingly aligned with customer needs, to reduce structural costs and improve regulatory compliance. IT systems will need to be – and this is the crux of the challenge – more secure so that they provide strong protection against cyber-risks, but at the same time more flexible and open to interconnectivity.

In the case of insurers, the digital revolution is also starting with a complete overhaul of customer relationships and user habits. But it goes further than that. I'd just like to underline two topics that I think are essential. First, with the help of reinsurers, insurers need to be capable of meeting demand for coverage against cyber-risk, a concern that affects all companies – both small and large. Yet in 2015, fewer than 5% of French companies and 6% of individuals had some form of cyber-insurance.³ Insurers can and should take inspiration from their own experiences in tackling cyber-risk, and use it to develop a more mature

¹ Sources: Fédération Bancaire Française; *Observatoire 2016 de l'image des banques*, published by BVA and based on a survey conducted in May 2016, and *Observatoire 2015*.

² Source: European Commission's Digital Economy and Society Index.

³ Source: *Le marché de la cyber-assurance : la révolution commence maintenant*, PwC, January 2016.

French and European cyber-insurance offering. Second subject: data and big data, with the spread of connected objects that is triggering an exponential rise in the amount of data available on insurance policyholders. Naturally this represents an opportunity: the traditional business of insurance consists precisely in collecting and exploiting data in order to quantify and put a price on risk. Nonetheless, I would urge insurers to take a responsible approach: we need to strike the right balance between segmentation and the sharing of risk between policyholders – the basic principles of solidarity and risk-pooling that are intrinsic to insurance are at stake. And we must not lose sight of our collective values regarding individuals' right to privacy.

3. What are the challenges for the French and European economy?

Let me just remind you of two basic economic facts: there can be no lasting growth without a rise in productivity; and there can be no productivity without innovation and its diffusion. There has been a lot of discussion among economists about the current slowdown in productivity and the threat, as some see it, of a “secular stagnation”. Personally, I think that expression is going too far, and you here stand in proof. But for an economy to be competitive and to grow, it needs to increase innovation and its diffusion, not slow it down. The digitalisation of the financial sector can accelerate this positive process: it helps to disseminate technological advances such as electronic signatures, solutions to defend against cyber-attacks or distributed ledger technologies. Innovative and secure payment solutions, such as tomorrow's blockchains, are also helping to speed up the development of e-commerce and modernise physical trade.

Achieving this will require greater harmonisation at European level: in the precise application of the texts governing the financial industry (definition and security of payment services), in more recent fields (crowd-funding) or in the search for greater interoperability of technologies and standards. But, above all, it is vital that we define an overall strategy for European innovation in financial services. This strategy must cover all the issues raised by digital finance: from data protection to the fight against money laundering; from IT security to consumer protection; from financial stability to the social challenges of banking inclusion; from financial literacy to changes in jobs in the financial sector. It is a project currently being conducted by the European Commission. And the Banque de France and ACPR are both playing a part. Europe depends on it; its independence from the other big global regions depends on it; and so too does the strength of its economy.

My message is clear: we, as regulators, regard innovation as key. Within Europe, France has many strengths that can make it a leader in the digital transition. You are the driving force in this, with your audacity and your successes; it is up to us – the Banque de France and the ACPR – to ensure that we are capable partners - vigilant when necessary and always open-minded. Rest assured we are fully mobilised towards this goal. Thank you for your attention.