

Questions for KNF from the Financial Supervisory Commission (Taiwan)

1. The report “Activities of the Special Task Force for Financial Innovation in Poland” published in Nov. 2017 mentioned (p5 right) that extensive and burdensome reporting requirements present a significant barrier to the development of the FinTech sector. We would like to know your previous reporting requirement and procedures; why market participants felt extensive and burdensome; what the KNF did to improve the situation and whether the KNF adopts RegTech or SupTech; and whether your improvement involves on-site examination practices? We would like to know more about KNF’s experience on this regard because our commission is planning to adopt automated reporting mechanism.

The KNF is aware that excessive reporting requirements constitute a significant barrier to the development of the fintech sector. Although it generates quite significant costs, preparing certain information does not pose a major problem for large entities. However, for micro-enterprises, this is a major burden in terms of time and spending. There is an ongoing expectation along with market requests to review the regulatory requirements, particularly in terms of duplicating duties for reporting to various authorities and administrative bodies of the as well as to eliminate reporting duties with regard to data already in possession by public authorities. Moreover, market participants indicate that it would be desirable to adjust the reporting requirements to the scale of operation of individual financial institutions in each case (the rule of proportionality). On the other hand, it should be noted that some reporting requirements result directly from the EU law so potential changes may be limited.

For several years the KNF has been introducing new technologies in the area of supervisory and reporting processes. One of the examples is a communication system called “Portal” thanks to which banks can submit reports and other information to the KNF in electronic form, and vice versa.

Another example is the KNF’s Inspection Support System for activities in the area of banking, credit unions and domestic payment institutions that was launched in 2017. The implemented system supports the following stages of inspection processes: a) planning control activities; b) preparing, conducting and summarising the results of inspections; c) monitoring the course of inspections; d) monitoring the implementation of recommendations and conditions; e) recording the working time of inspectors; f) carrying out cross-sectional analyses on the basis of collected data. The use of the System by nearly 300 users significantly improves the KNF’s internal processes in the area of control and validation activities.

Currently the KNF is preparing a new strategy on regtech and suptech area. In 2018, the KNF has launched the Innovation Hub Programme under which the supervisory body maintains market dialogue with fintech companies providing them with explanations on legal, regulatory and licensing requirements. It is planned to extend the Innovation Hub Programme for companies from regtech and suptech industry. The KNF assumption is that opening up the Innovation Hub for regtech and suptech will enable market to grow and develop; on the other hand, it will allow the supervisor to better understand the market needs. The fintech ecosystem will also benefit from open conversation in the areas where the new solutions can be introduced – for example API economy, analytical and information hub, cloud computing, digital identity or cybersecurity.

2. In the same report (p5-P6), outsourcing and cloud computing provisions are mentioned. We were wondering if the KNF could share with us on your move after knowing market participants' opinions.

During the work of the Special Task Force for Financial Innovation in Poland (FinTech), market participants pointed out that outsourcing and use of cloud computing services is a business necessity. Financial institutions to stay competitive have to implement new services for clients as well as to improve performance of internal business processes. Very often it is cheaper to implement existing solution on the market than to build the new one tailored for a given financial institution.

In Poland outsourcing in the financial market is regulated. One of the key problems is a lack of possibility to limit the liability of a service provider to the principal and limited possibilities for banks to sub-outsource. After publishing the Report, the Ministry of Finance have taken actions to remove these barriers.

Also to help market participants to use cloud computing, after publishing the Report, the KNF have released "Position of the Office of the Polish Financial Supervision Authority on the use of cloud computing services by supervised entities" (October 2017). Recently, the KNF has initiated works to create data governance model for cloud data processing and will soon appoint the Plenipotentiary for Cloud Data Security, in order to streamline cloud adoption in financial sector.

The full position is available on the KNF website at the following link: https://www.knf.gov.pl/knf/en/komponenty/img/Cloud_computing_Stanowisko_UKNF_ENG_61423.pdf

3. Given that Taiwan is unlocking the establishment of internet-only banks (virtual banks) and that virtual banks in Poland have been running for 10 years, we were wondering if the KNF could share with us your experience of supervision on virtual banks. For example, the current states (numbers, financial soundness, business types, etc.) of virtual banks, legal requirements on their backup (co-location) mechanisms and business continuity, and whether you have specific requirements for them different from ordinary banks? In addition, do the KNF also give green lights to the establishment of virtual insurance companies?

From a legal point of view, virtual banks in Poland act the same way as traditional banks. The banking activities are regulated by the banking law based on the EU directives and by the guidelines issued by the KNF. Both virtual and traditional banks have to obey the capital requirements for investment firms and credit institutions (CRD IV/CRR).

Due to exercising all communication with clients on the Internet, we observe that virtual financial activity is more exposed to cybersecurity threats. That's why the KNF put more effort on prudent and stable information technology and ICT environment security management, in particular regarding management of risk associated with these areas. In this regard the KNF has issued "Recommendation D on the Management of Information Technology and ICT Environment Security at Banks" that is available on the KNF website at the following link:

https://www.knf.gov.pl/knf/en/komponenty/img/Recommendation_D_44255.pdf

Currently there are no virtual insurance companies in Poland. Establishment of such entities would be possible provided that all regulatory requirements are met. It should be emphasized that virtual insurance companies would be treated as traditional insurance companies and they would be obliged to obey the same rules. There is no legal difference when applying for a permit for insurance activity. In the case of virtual entities more emphasis would be placed on the security of IT solutions. As for banks, the KNF has issued “*Guidelines on the Management of Information Technology and ICT Environment Security for Insurance and Reinsurance Undertakings*”. The document is available on the KNF website at the following link:

https://www.knf.gov.pl/knf/pl/komponenty/img/knf_136110_KNF_IT_Guidelines_for_Insurance_41873.pdf

The above-mentioned guidelines cover the issues of information technology and ICT environment security strategy and organization, ICT environment development and maintenance/exploitation of ICT environment.