SPEECH

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Transition and adjustment in changing times

It is a pleasure to be here to speak about these important issues – and a pleasure to be part of a panel with such knowledgeable people.

We are here to discuss how new technology and new business models can transform our financial system and the way we make payments. It is, to say the least, a hot topic that is being discussed both in the media and amongst decision-makers in public authorities and companies around the world.

However, I would like to begin today by focusing on *the past*. By 'the past', I mean here the established organisations and structures that make up our financial system – us central banks and what we call the traditional banking sector. When new innovations emerge, it's easy to get the impression that we are the dinosaurs of the modern age: large, but ill-equipped to cope with the new challenges awaiting round the corner.

But let's think back a little. My own central bank, the Riksbank, was established in 1668; the Bank of England was established in 1694; and over the centuries that followed, central banks were established in one country after another. There are also private banks that are roughly the same age.

Just think about everything that has changed in society since then, and all the new technology that has been introduced. This provides a sense of how successfully the old has actually adapted to new circumstances, embraced new technology and updated its working methods. Computers began to be used more and more widely by central banks and commercial banks during the 1950s. Back then, data and programmes were stored on punch cards and fed into large, cumbersome terminals that took up entire rooms. Nowadays, the payment system is almost entirely digital, and payments and banking transactions are increasingly carried out on mobile phones that fit in your pocket.

Today's central banks operate high-tech payment systems that settle central bank money in real time – but they also continue to supply society with cash, as they have done for centuries.

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So – we are embracing new technology and new ways of working, whilst at the same time carrying with us the past, the established ways. My examples show how well the system has so far been able to adapt to and survive such changes.

That is why I also believe that the system will adapt to the wave of change we are currently experiencing. Some aspects of the new technology are already being implemented in the financial system. In Europe, several established banks have joined forces in a consortium to issue euro-denominated stablecoins. At the same time, there is growing discussion of the idea of tokenising one of the very oldest forms of money – bank deposits. It is too early to say how any of these initiatives will develop – but in any case, they demonstrate the adaptability of our financial system.

Since we are in Ireland, let me give an Irish example of the sort of process I am talking about. When Ryanair entered the European aviation market, there were fears that low-cost carriers would drive traditional airlines out of business and take over the market. That's not what happened. Whilst Ryanair did gain market shares and change the competitive landscape, established airlines were also forced to streamline their operations, develop new services and become more customer focused. With the benefit of hindsight, one could argue that competition contributed to innovation and renewal across the entire sector.

Stablecoins and other innovations could play a similar role in the payments market. They are unlikely to replace traditional bank money or central bank money, but they may challenge existing players by offering payments that are faster, cheaper or easier to send between countries. That competition can, in turn, drive innovation, modernisation and greater efficiency within the financial system. The question, therefore, is perhaps not whether stablecoins will take over the market, but how they will shape the entire payment system.

Let's look at a few examples. SWIFT was established in 1973 and is in itself an example of how well the financial system adapted to an increasingly globalised world. Last summer, it was announced that SWIFT is leading a blockchain-based initiative to enable cross-border payments in tokenised deposits. Seventeen banks across six different continents are taking part in the project.

At the same time, central banks are preparing to be able to settle critical functions using risk-free central bank money. The ECB's Pontes and Appia projects are probably the most prominent of the initiatives it has launched.

But this does not mean that we can simply sit back and wait. On the contrary. The financial system and our payment systems must function properly. Every banking crisis clearly demonstrates the scale of what is at stake and why we must be cautious. If the changes happen too quickly, so that we lose the ability to identify the risks associated with these developments and to address them – then we also run the risk of ending up with a system that, at best, functions less effectively than it could and, at worst, not at all. In the latter case, the consequences could be serious.

We can also look at the issue of how payments have been digitalised. Digital payments are a good thing, but in Sweden, where most payments are now made digitally, we are also seeing new problems as cash payments decline. For example, certain groups may find it more difficult to make payments, and the payments system becomes more vulnerable because digital payments rely on electricity and telecommunications. These shortcomings have prompted us to start working on ensuring access to cash through regulation, taking on greater operational responsibilities as a central bank, and improving the offline capacity for digital payments.

If we'd been able to recognise these risks as far back as fifteen years ago, I think we would have taken much more significant action then than we did. Let's learn from this and strive to 'stay ahead of the curve'.

We are now facing a new payment system with *decentralised ledgers* that is based on principles entirely different from those we are used to. At present, our system is based entirely on *centralised ledgers* – where the banks are responsible for holding information about who owns what and how people transfer their assets to one another as they make payments.

A system comprising *decentralised registers* may well offer significant advantages. However, it also carries the risk that it will no longer be as easy for us to determine who is actually responsible for ensuring that a transaction is recorded correctly. *If* – with the emphasis on *if* – we are also facing a systemic shift from centralised to decentralised registers, we must be involved to ensure that it does not happen too quickly and that we get it right in the end. It must not become a question of who is actually responsible.

I therefore believe that the adaptability which 'the old' has demonstrated throughout the ages has not happened automatically. On the contrary, it has required decision-makers to make sound decisions in order to balance the risks and benefits as new innovations emerge.

This means that we, as central banks, need to understand the pressures for change that we are seeing and take action. I see a number of key issues which we will have the opportunity to discuss today and on which I hope to have the opportunity to give my views. I would like to mention three of them in particular.

Firstly, we must, of course, ensure that new means of payment and payment solutions are subject to appropriate regulation. Secondly, we need to ensure that the public and private sectors are pulling in the same direction and are prepared to work together. Thirdly, in these times of geopolitical uncertainty, we need to ensure that our payments system is robust enough to cope with both external and internal disruptions. I will expand on this in the discussion that follows and give some examples of how we have tried to address this in Sweden in recent years.

So, to summarise: Those of us who, to some extent, represent ‘the old’ should welcome the new and recognise the opportunities it offers. But we should not rest on our laurels – adaptation doesn’t happen automatically.