

## Customers not regulators should set the digital agenda

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Digital could well be the panacea for many of financial services challenges by providing consumers with choice, radically cutting costs and suiting many citizens' lifestyles; equally, does it create more problems than it solves? Roadblocks exist, some real and some manageable, which industry and regulators will need to work together on to overcome.

Digital offers significant potential for a Europe looking for solutions to economic growth, SME finance and long-term retirement provision. In markets such as Asia, there has been much more focus on digital transformation for some time. Perhaps in part as less management focus has been on regulation than in Europe.

There have been successes. In wholesale markets data and technology are transforming operations and opportunities, leading to market growth and boosting Europe's competitiveness against the US and Asia. In retail, payments account for 25 percent of the top firms in KPMG's 2015 FinTech 100 research.

Customers increasingly expect a sophisticated digital experience. Firms with the technological ability to deliver are gaining competitive advantage and seeing the cost benefits digital transformation brings. But regulation creates a unique set of challenges in financial services, weighing more heavily on the incumbents than the disruptors. A proactive approach to some of the major roadblocks is needed:

- Meeting the advice gap - customers need to be told what they are getting, and understand the difference between advice and guidance, but detailed product disclosure and contractual agreements don't lend themselves to digital channels.
- Data privacy - who owns customer data, what happens to the analytics and how it is used will increasingly become difficult questions.
- Customer outcomes - digital is an enabler to customer choice, creating greater transparency on features and performance, but also challenges over cybersecurity and fraud.
- Who owns the risk? - on digital channels it is less clear where the ultimate risk resides - is it with the distributor or the manufacturer? Can it be, or is it appropriate that it is passed on.

So far regulators have stayed on the edge, albeit with recent warnings from the Financial Stability Board. As digital changes financial services, regulation will need to evolve but shouldn't stifle innovation. More regulation is inevitable but compliance will likely change the customer experience. Regulators need to take care to not solve problems that don't exist.