

**Document Title:**

- Cross Border Data Flows for the Financial Services Industry

**Purpose:**

- For Consideration

**Issue:**

- Avoid fragmenting and localizing data flows to improve the efficiency and effectiveness of regional financial systems in support of enhanced regional economic integration

**Background:**

- Financial institutions rely heavily on gathering, processing, and analyzing customer information in order to provide financial services tailored to client needs. Data processing operations therefore are a critical component of financial services providers' business. Restricting the cross-border flow of data by forcing operations onshore will hinder the ability of financial services firms in the region to support their clients.
  - Regional data centers enhance risk management for capital and liquidity because financial institutions can mitigate or accept risks based on a composite impact analysis, rather than through isolated and market-specific analyses.
  - Regional data hubs also provide in many cases higher data security than could be attained in numerous, smaller sites across the region.
  - Regionalizing data processing operations promotes innovation. Processing data at regional centers provides a better vantage point to determine what is working well and how the financial institution can build on the product or service to further optimize the experience for the customer.
  - In addition to the importance of cross-border data flows to financial institutions, such flows are important to the credit bureaus that facilitate modern risk management and underwriting, and ensure portable credit files to an increasingly mobile talent force across the APEC region. Full-file credit bureaus are key components of APEC financial inclusion initiatives, but could be hampered by undue restrictions on cross-border data flows.
- Infrastructure is critical not only for goods but for the financial service firms that support regional commerce. Financial institutions rely heavily on gathering, processing, and analyzing customer information. This is true for both global, regional, and national institutions.

**Proposal/Recommendation:**

ABAC should recommend that member economies avoid taking steps that will localize and fragment data flows in the region, thereby increasing barriers to entry and hindering regional commerce. ABAC should also recommend that governments not limit the utility of regional data centers and instead allow financial institutions to transfer information into and out of their territory for data processing and storage.

**Decision Points:**

- Endorse of the recommendation listed above for inclusion in the 2011 ABAC Report to Finance Ministers.

## **Background**

Financial services firms are frequently confronted with non-tariff barriers in the form of regulatory restrictions, lack of regulatory coherence, and poor transparency in the development, implementation, and application of regulations. These barriers can prevent access in much the same way as tariffs, but unlike tariffs, no quantitative mechanism exists to reduce them.

For effective risk management, improved efficiency, and enhanced support of cross-border clients, data processing facilities are often operated on a regional basis through data hubs that depend on cross-border data flows. The economies of scale that exist in data hubs yield cost savings that allow firms to purchase and employ state-of-the-art technology to protect the integrity, security, and confidentiality of data. Regional data centers improve service quality and allow financial services providers to maintain consistent processes across regions and worldwide. Such centers provide an "end-to-end" view of data, improving the quality and timeliness of service.

Financial institutions rely heavily on gathering, processing, and analyzing customer information in order to provide financial services tailored to client needs. Data processing operations therefore are a critical component of financial services providers' information technology environment. Credit bureaus rely on gathering and transfer of credit information to facilitate the review of credit files, authorize the extension of credit to borrowers, and help lenders comply with prudential lending norms, including BASEL-related risk capital requirements.

## **Benefits from Regional Data Hubs**

- Regional data centers enhance risk management for capital and liquidity because financial institutions can mitigate or accept risks based on a composite impact analysis, rather than through isolated and market-specific analyses.
- Regional data hubs improve the quality of service and allow firms to better comply with legal and regulatory requirements because they provide an "end-to-end" view of the data. More work can be done in one facility versus transferring data multiple times to complete a job.
- Regionalizing data processing operations promotes innovation. Processing data at regional centers provides a better vantage point to determine what is working well and how the financial institution can build on the product or service to further optimize the experience for the customer. Firms investing in one regional hub have more ability to maintain the efficiency and effectiveness of that hub.
- Infrastructure is critical not only for goods but for the financial service firms that finance regional commerce. Financial institutions rely heavily on gathering, processing, and analyzing customer information. For global financial services institutions, data processing centers are the core infrastructure, and a substantial investment and national requirements can pose major challenges to the integrity of a regional system while also creating regulatory and investment barriers to entry. For national financial services institutions looking to expand to other regional markets lacking a global network, these barriers to entry can often not only be challenging ,but insurmountable.

In sum, the private sector's ability to centralize data processing functions in regional hubs increases data security, enhances global risk management, facilitates legal and regulatory compliance, contributes to regional economic development, and promotes stability and cost effectiveness for financial services firms, their clients, and the financial sector overall.

## **Important Steps in Enhancing Cross Border Data Flows**

As APEC works towards the goal of a Free Trade Area of the Asia-Pacific, it should build on a best of breed provisions from recent bilateral and regional trade agreements. For example, commitments should include allowing financial institutions with operations in foreign economies to transfer information to other economies for processing. Commitments should also be made that allow financial institutions to perform certain functions, such as trade and transaction processing, in their home office rather than requiring that those activities be conducted by a local affiliate.

- Economies should recognize that domestic legislation concerning privacy protection and cross border flows of personal data may hinder cross border flows;
- Member economies should endeavor to remove or avoid creating, in the name of privacy protection, unjustified obstacles to cross border flows of personal data;
- Member economies should take all reasonable and appropriate steps to ensure that cross border flows of personal data, including transit through a Member country, are uninterrupted and secure.
- Member economies should also ensure that procedures for cross border flows of personal data and for the protection of privacy and individual liberties are simple and compatible with those of other Member countries which comply with these Guidelines.

### **Proposal/Recommendation:**

ABAC should recommend that member economies avoid taking steps that will localize and fragment data flows in the region, thereby increasing barriers to entry and hindering regional commerce. ABAC should also recommend that governments not limit the utility of regional data centers and instead allow financial institutions to transfer information into and out of their territory for data processing and storage.