International Experience and China's Approach to Financial Data Governance

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Abstract: With the rapid development of the financial industry and the improvement of information technology, data has become an important asset in the financial industry, and financial data governance has become an important issue in the industry. Financial data governance is necessary for ensuring data security, improving data value, promoting data circulation, and facilitating risk management. However, in practice, there is insufficient attention to the risks in the data governance process, resulting in many problems in the field of data governance. The author summarizes the dilemma of global financial data governance issues through literature analysis and case analysis, analyzes the successful experience of foreign financial data governance, draws on advanced governance models outside the region, combines with the actual situation in China, further localizes the practice, and proposes a governance path with Chinese characteristics, that is, to improve the existing legal system of financial data governance in China, improve the regulatory mechanism of multi-subject collaborative governance, actively promote the cross-border flow of financial data, and enhance the ability and standardization of financial data governance in China.

Keywords: financial data, governance, international experience

1. Introduction

With the rapid development of Internet big data technology, cloud computing, block chain, information sharing, and artificial intelligence have emerged, and the degree of financial electronization is getting higher and higher. The deep integration of big data technology and financial business, the integration and application of financial data and other cross-field data are constantly strengthened, and the use of big data to drive business operations has become the norm for financial institutions. Although China's financial data governance has made important progress, there are still shortcomings and defects, which restrict the promotion of the development value of financial data. Many countries in Europe and the United States have rich theoretical research and practical experience in the field of financial data governance. These theories and practices provide important guidance for China to improve the legal system of data governance in the financial industry, and can provide valuable experience for the management and control of data governance in China, which is conducive to building a complete data governance system for China and improving the innovation of data governance in the financial field. We will promote the sustained and sound development of financial markets.

2. The dilemma of global financial data governance issues

Firstly, different countries and regions have different definitions, protections, and regulations for financial data, which can cause data inconsistencies, incompatibilities, or conflicts during cross-border data flows, increasing the complexity and challenges of data governance. Secondly, Data breaches, privacy infringements, and security vulnerabilities in the financial industry have occurred frequently in recent years, causing significant losses to both enterprises and customers. Finally, there is no consensus on cross-border financial data management in the international community. Countries have developed different cross-border data regulatory policies and data flow rules based on their own national security and economic development considerations, which can easily lead to conflicts in practice.[1]

3. Extraterritorial experiences on financial data governance

3.1 United States

In the legislative aspect, the United States has formulated Gramm Leach Bliley Act (GLBA), which needs the financial institutions to deal with nonpublic personal information (NPI) without users' consent, the NPI shall not be shared with third party. And about privacy policy, it must be disclosed to users in a clear way. In addition, the United States has established "Data Security Act", the establishment of these two laws in the United States is not only beneficial to ensure the effective

protection and legitimate use of data, safeguard the legitimate rights and interests of individuals and organizations, but also beneficial to enhancing the competitiveness and innovation ability of financial service industry and regulatory agencies for the supervision of financial institutions.

At the regulatory level, the U.S. government has established multiple regulatory agencies to supervise and monitor financial data, improve the regulatory system, such as using the Federal Reserve, Securities and Exchange Commission, Office of the Comptroller of the Currency and other agencies to supervise and regulate financial institutions in banking, securities, insurance and other industries. These agencies are equipped with professional supervisory personnel and technical means to comprehensively and systematically supervise and manage financial institutions' data governance.

In terms of the cross-border flow of financial data, the United States supports the free flow of financial data and alleviates the problem of "data silos". For example, the United States signed the APEC Privacy Framework in 2005. In 2013, the Cross Border Privacy Rules System (CBRP) was signed to facilitate the cross-border flow of financial data. However, for the spillover of domestic data, the United States adopts a relatively strict identification system to protect data security.

3.2 UK

In terms of financial data governance system, the UK established the Bank of England as a super central bank and a financial stability governance framework with "twin peaks" attributes.[2] Under the new regulatory framework, BOE established the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA), which are responsible for macro-prudential supervision and micro-prudential supervision respectively. The PRC is mainly responsible for the governance of financial institutions, financial markets and their data, with a view to strengthening the protection of financial data and the mining of its value.

In terms of financial data sharing, the UK first proposed the concept of open banking, which is different from the traditional screen scraping model. Open banking can use open and more secure API technology to achieve financial data sharing with third parties. In 2016, the UK's Competition and Markets Commission began to implement the open banking plan, and in 2018, the open banking model became popular in the UK.

In terms of cross-border flow of financial data, the UK has begun to show more openness and freedom than the EU in cross-border flow of financial data, and is committed to developing world-class regulatory technology and data governance strategies[3].

3.3 European Union

At the legislative level, the European Union (EU) has formulated the General Data Protection Regulation (GDPR) to strengthen the protection of the rights of data subjects, and a unified legislative model is adopted for the protection of personal financial data. The legislative framework for the protection of personal financial data is first based on the core regulatory legal documents of the region on open banking, the Payment Services Directive and the Payment Services Directive II.[4] At the same time, through data legislation, financial supervision legislation and business code of conduct, it focuses on data protection, network security and financial consumer rights to carry out collaborative regulation.

At the regulatory system level, the EU has established the Office of the Data Protection Commissioner, which is responsible for supervising personal data and privacy protection, providing policy advice on personal information-related matters, and carrying out information sharing and cooperation within the EU.

In terms of cross-border flow of financial data, the EU has set a high threshold and adopted a strict model within and loose model outside. It encourages the free flow of financial data within the EU, but only countries and regions that have undergone strict examination by the EU can obtain permission for the free flow of financial data, otherwise the data flow is prohibited.[5]

3.4 Basel Committee

The Basel Committee on Banking Supervision has developed a series of banking regulatory rules - the Basel Accord system, aimed at establishing effective regulatory institutions and systems, ensuring that banks comply with laws and regulations, operate prudently, implement comprehensive risk management systems, and enhance financial stability and reduce systemic risks of banks.

From Basel Accord I to Basel Accord III, the banking regulatory system has gradually established a "risk-based" regulatory concept. The second pillar guide mainly focuses on the regulatory review process, pointing out that banks should establish a sound and comprehensive risk management system, including internal data information management systems and business data systems. The Basel Committee adopts a "recommendation" approach, gradually transitioning from a "soft law" approach to a "hard law" approach at the implementation level, establishing a dynamic, flexible, proactive, and highly flexible macro-prudential regulatory framework and micro-prudential regulatory framework. In addition, the Basel

Committee also provides a platform for its member countries to cooperate regularly on banking regulatory matters.

4. The framework construction of financial data governance in China

Firstly, due to the current regulatory model of the Chinese financial industry, which is composed of the State Administration of Financial Regulation and Supervision, the People's Bank of China, and the China Securities Regulatory Commission, there has been a merger of functions compared to the previous regulatory model of "one bank, two regulatory commissions", which has resulted in overlapping and ambiguous division of responsibilities, creating redundancies and shortcomings. China can learn from the achievements and experience of the Federal Reserve to establish full-time positions and professional teams for financial data governance, further improving the effectiveness of financial data governance. Secondly, China can learn from the guiding documents and policies of the Basel Committee to fill the legislative loopholes and gaps in the field of financial data governance in China, formulate more comprehensive financial data governance policies and standards, strengthen the supervision and management of financial data, and prevent major risks. Thirdly, China can also establish corresponding foreign-related data protection agencies and relevant laws and regulations to strengthen the protection and management of cross-border financial information, and promote the sharing and cooperation of information globalization. Finally, China can learn from the achievements and experience of the United Kingdom to further promote the popularization of open banking model in the financial industry in China. The interconnection of financial data among various entities is an important path to further unlock the potential value of data, which not only helps to break down the barriers of "information chimneys", but also facilitates the multi-functional utilization of information.[6]

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