

## Data Localization

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*What sounded novel a decade ago is now accepted as simple fact: all financial institutions are inherently data businesses. Yet the free flow of information is under threat today as concerns about privacy, security, and competitiveness, among others, threaten to create new barriers between countries and trading blocs. That backdrop generated a lively discussion at the first session of our new series, DataTalk, which the IIF launched this month with knowledge partner, the Oliver Wyman Forum. This note provides a brief summary of the key themes that emerged in our discussion, respecting that this roundtable discussion of leading industry experts, tech firms, officials and academics was conducted under the Chatham House rule, and comments are therefore not attributed.*

**There is no magic bullet to addressing pressures for data localization.** In a world where almost everything is data – payments, phone calls, an email – it’s not always clear what calls for localization really mean and how they might be implemented. The motivations run the gamut from protecting privacy to combatting fraud and crime to promoting financial inclusion and safeguarding national security and competitiveness. Privacy and human rights were the drivers behind the European Union’s General Data Protection Regulation while some Asian and African nations tend to emphasize data regulation from an economic perspective. Such differences pose major obstacles to any globally coordinated approach and raise the risks of fragmentation.

**Start small when it comes to trade negotiations.** Data is a fundamental trade issue but the chances of achieving a global solution in the foreseeable future are remote. It is more practical to focus on a bottom-up approach of bilateral deals, such as the Digital Economy Agreement that Australia and Singapore put into effect in December, or pacts among groups of like-minded countries. Other practical measures could include mutual recognition of standards or equivalency regimes for things like obligations for securely handling and storing data. The Financial Stability Board, which played a key role in harmonizing tighter capital standards in the aftermath of the global financial crisis a decade ago, could play a similarly useful role in data regulation today, or serve as a template for an equivalent body.

**Financial institutions need to find new ways to approach the issue.** Regulators and politicians often face pressure to impose regulations because of data breaches, misinformation, cyber hacks and other abuses, as well as protectionist motivations. While industry should continue to highlight the economic benefits of data flows, and that the quickest recoveries from the pandemic have relied on digital strategies and technologies such as cloud, this has not moved the dial so far. We need to complement this by addressing the other motivations, for instance articulating that you don’t necessarily need data to be stored in your country to make sure it’s secure. In the interim, it is unfortunately expected that firms will have to implement a patchwork quilt of cross-border controls in order to mitigate the impact of different national requirements and concerns.

**Put trust at the core of everything you do.** Far from conflicting with each other, cross-border data flows and responsible data use go hand in hand. Trust is what binds the global payments system together and fuels the ability of established players and new entrants to compete. Policies that provide consumers with more transparency and greater control over their data will tend to enhance trust, acknowledging that nations approach this from different starting points.

*The debates over data localization will continue, and will feature prominently in the IIF’s exploration of a potential ‘Digital Bretton Woods’.*

*We also look forward to continuing the DataTalk series in May, when we will discuss the intersections and overlaps of Risk and Data Management functions.*