



MAXIMISING FINTECH'S POTENTIAL

FOSTERING FINANCIAL INNOVATION WHILE
SAFEGUARDING FINANCIAL STABILITY AND
CONSUMER PROTECTION:

An OECD perspective

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FinTech and disruptive innovation in finance

- What are the *main issues*?

"FinTech" = innovation involving use of technology for the provision of financial services

*with potentially **disruptive effects** on the financial industry*

Main drivers

financial inclusion,
efficiency/speed,
simplicity,
transparency,
margins,
disintermediation

Benefits for customers

improved access to
financial services,
"customer
experience", wider
range of products,
services and
information at a
lower cost

Benefits for companies

lower-cost &
improved internal
processes, tracking,
risk management,
compliance;
enhanced customer
interaction, targeting,
engagement

Risks

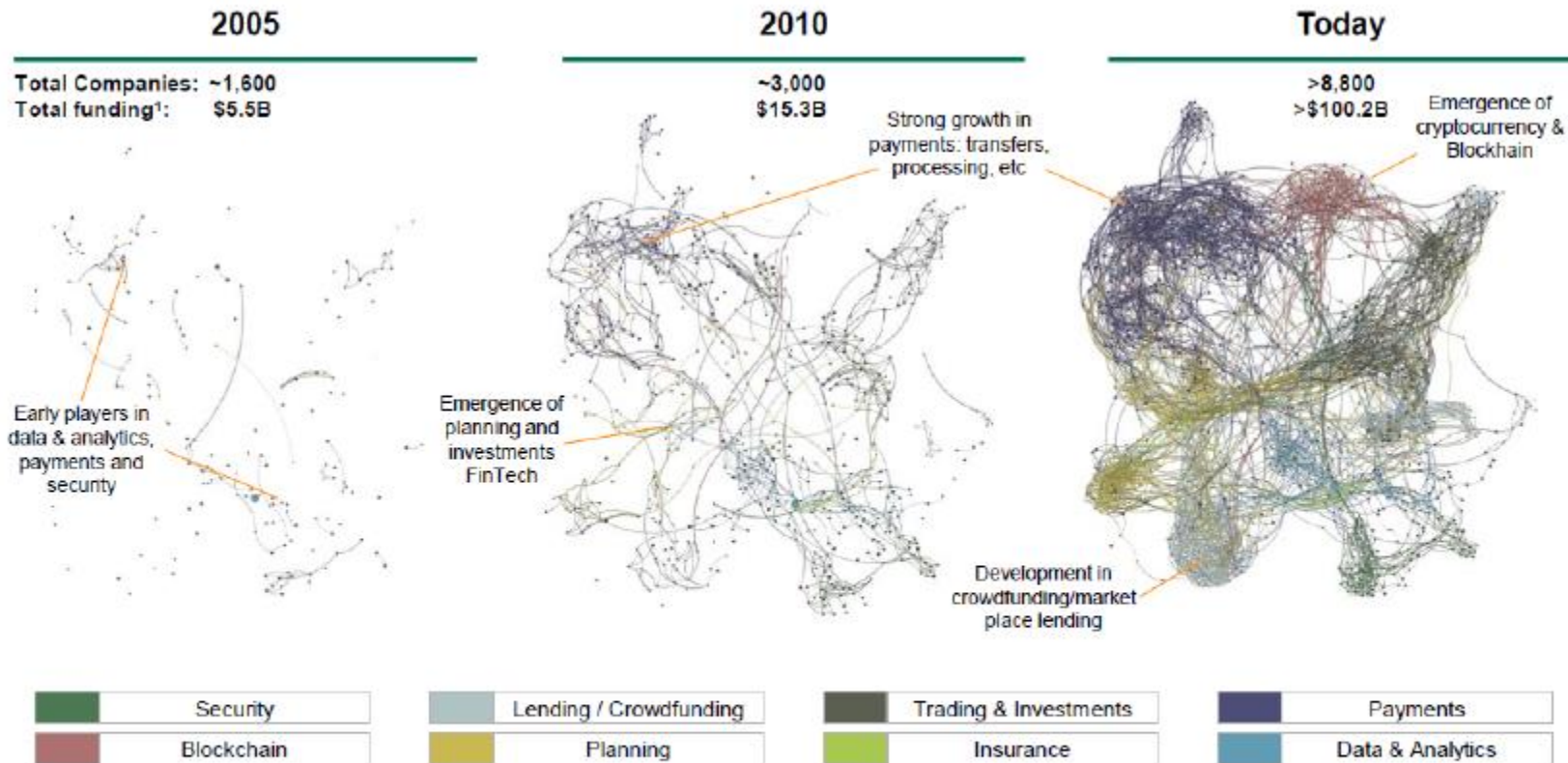
Data security &
privacy, fraud,
financial (and
economic)
exclusion, systemic
& cyber risk,
regulatory/supervis
ory evasion, ...

Needs appropriate regulatory responses:

unlocking benefits
vs. financial
stability, consumer
protection, and
trust



FinTech is developing exponentially...



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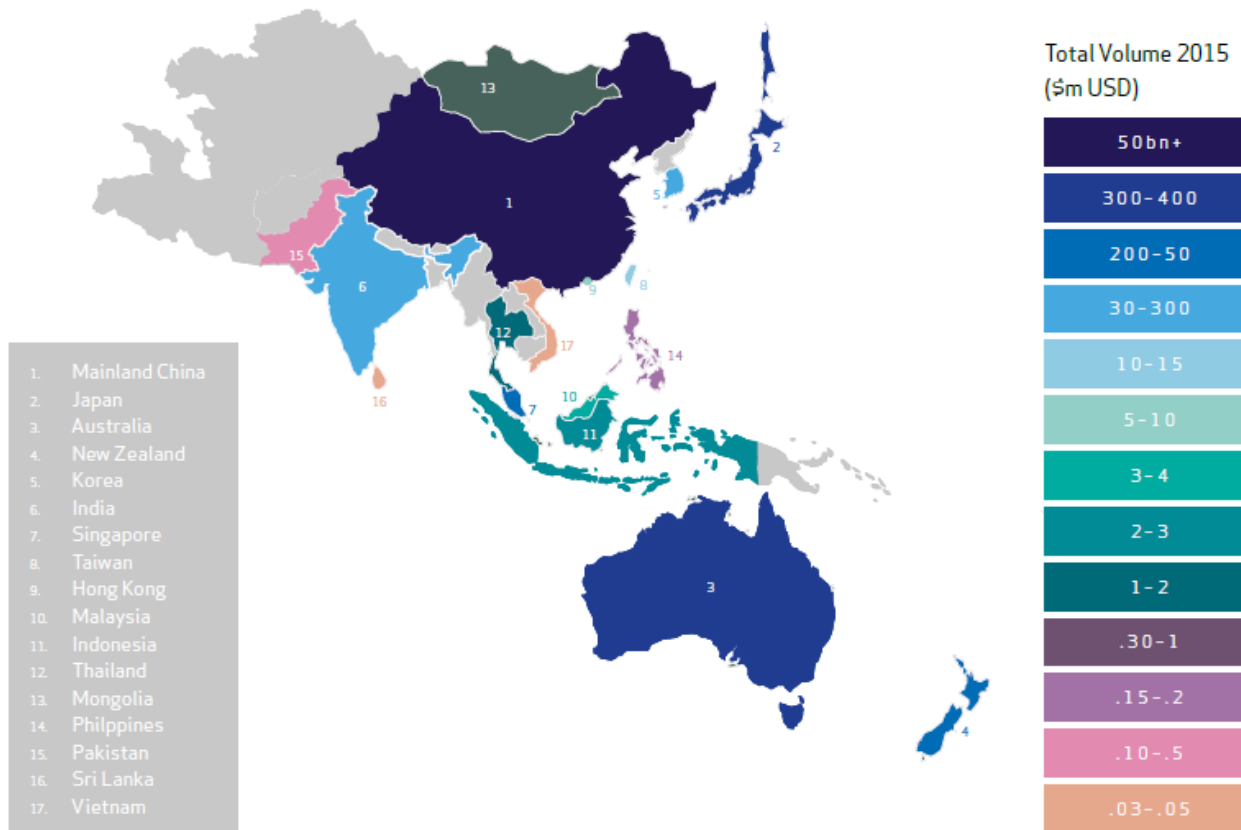
Visualization based on ~1,800 FinTechs receiving the highest amount of private funding. Dataset mapped with Quid and allowed to cluster based on similar products, technologies, customers etc.
1) Data based on over 8,800 companies which were discovered across over 4 data sources. Total funding based on date of funding. Total companies based on founding year. Data as of November 2016.
Source: Quid, BCG /Expand/BCG Digital Venture/B Capital analysis

Source: IOSCO Research Report on Financial Technologies (Fintech), February 2017.

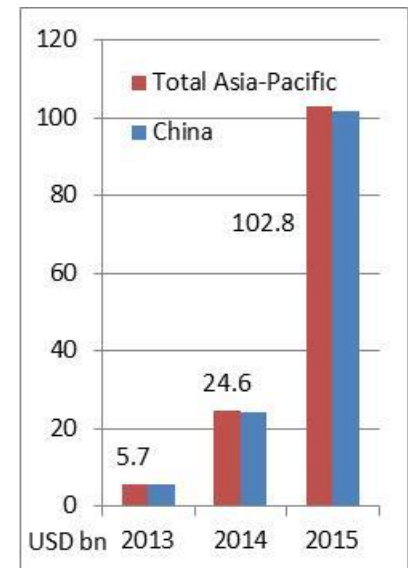


...and has made strong inroads in Asia

Comparative Market Volumes of Alternative Finance Transactions in the Asia-Pacific Region (2015)



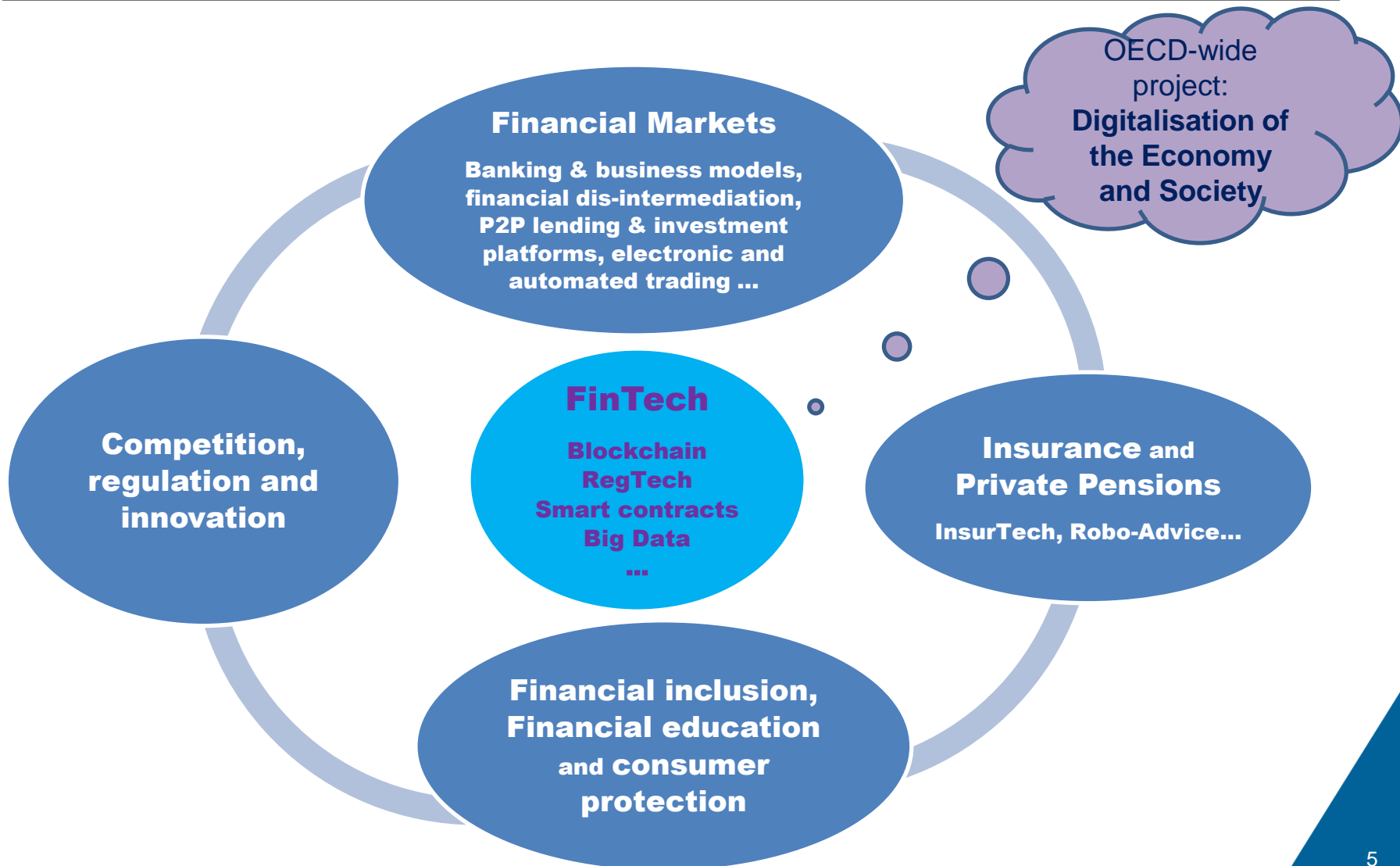
Online Alternative Finance Market Volumes in AP dominated by China (2013–2015)



Source: Cambridge Centre for Alternative Finance et al., *Harnessing Potential* – March 2016.



OECD's take on FinTech





Competition, regulation and innovation

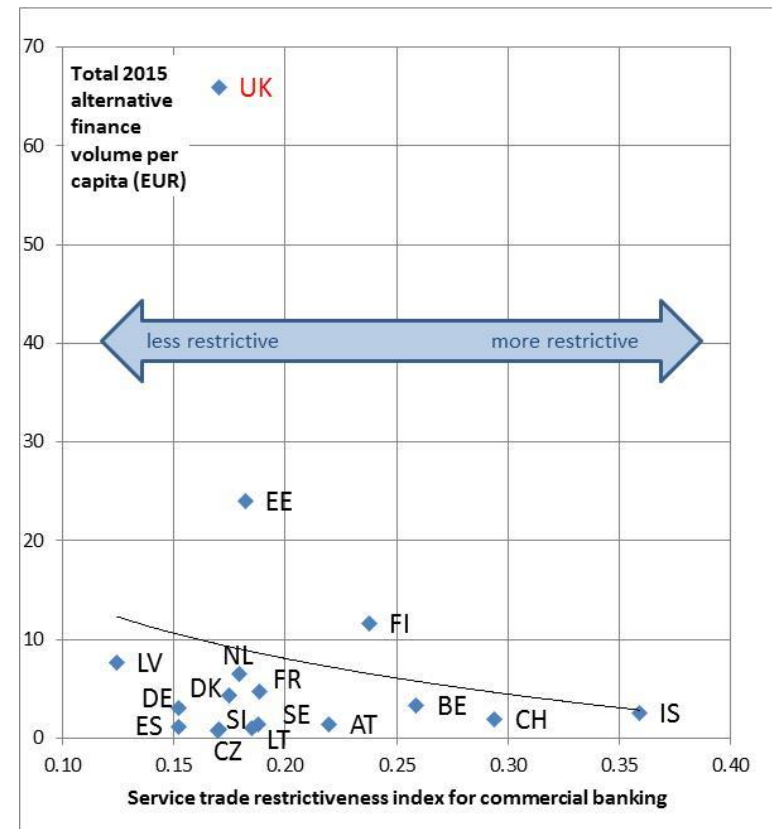
Fintech and Competition in the Financial Sector

- **Innovators** need to be able to **contest markets, stimulate competition** and **enhance productivity**, especially in financial services where **network effects can create natural monopolies**, concentrate rents and render financial services expensive and exclusive.
- **Regulatory frameworks should encourage** the introduction of new business models and technologies – and not stifle them at too early a stage

Source: OECD Working Party No. 2 on Competition and Regulation, *Hearing on Disruptive Innovation in the Financial Sector* [DAF/COMP/WP2(2015)9] (October 2015).

Favourable regulatory environment can support innovation

Alternative financial transaction (crowdfunding, peer-to-peer lending) volume vs commercial banking regulatory restrictiveness



Source: OECD STRI database and Cambridge Centre for Alternative Finance.

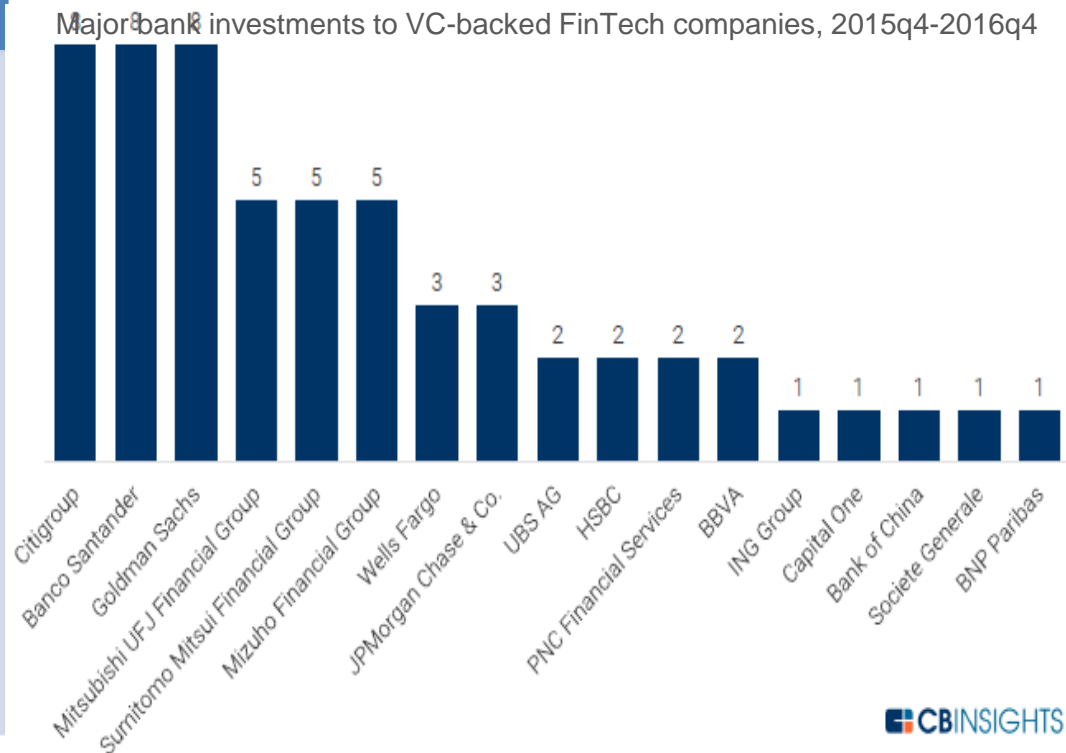


The banking industry perspective

Cooperation vs competition? Mutual benefits:

- **For incumbents:** FinTech helps overcome burden of legacy systems, lower costs, increase efficiency, cope with competitive pressures more generally.
- **For Fintechs:** incumbents help to **scale up**, tap into client base, **enhance trust** through the regularity umbrella.

Indeed, banks themselves invest in FinTechs



CBINSIGHTS

Source: OECD Financial Roundtable on *FinTech implications for bank business models, financial intermediation, and implications for policy* [DAF/CMF(2016)21] (October 2016).

Source: CB Insights, *The Global Fintech Report: 2016 in Review*



FinTech and private pensions

How might FinTech affect the provision of private pensions?

Benefits

- improved **communication** with plan members, including reporting, advice and education
- improve existing **practices and processes** across many other activities such as product design, transaction processing, risk management and compliance.
- could also lead to as yet unknown **new solutions**

Risks

- **less educated and less well paid workers might be excluded** from technological progress because they cannot or will not engage with new methods of communicating.
- **cherry-picking** of some aspects of pension provision by technology providers, leaving traditional players with less profitable businesses and creating **regulatory risks**
- **reduced involvement by employers**
- **data protection** issues



Example: Robo-advice

Benefits

- Reduced
 - **financial costs**
 - **search costs**
- Increased
 - **accessibility**
 - **investment** in stock markets
 - **objectivity** of advice
 - **consistency** of recommendations
 - **transparency** of advice

Risks/challenges

- Application of **current regulation**
- **Suitability**
- Potential hidden **conflicts of interest**
- **Robustness** of algorithms
- Consumer **disengagement**
- **Sustainability** of business model
- **Pro-cyclicality**



FinTech and insurance

How might InsurTech affect the insurance industry?

Benefits

- Greater efficiencies in underwriting
- Greater access to underserved markets
- Easier comparison of contracts
- Reduced reinsurance cost
- More rapid payouts

Risks

- Reduction in pooling mechanism of insurance resulting in un-insurability
- Learned bias and unjustified discrimination
- Privacy issues
- Cybersecurity and insurability of cyber risks



Consumers and small businesses perspective (G20/OECD Highlights and Report 2016/7)



Risks have emerged due to the spread of digital innovation..

- **Market driven:**
 - New types of fraud and misselling and safety and confidentiality of data
 - Increasing use of digital profiling
 - Easier access to short-term credit (notably) and questionable market practices reinforce behavioural biases
- **Regulation and supervision driven:** Uneven protection within (inadequate disclosure and redress mechanisms) and across countries (variety of providers, cross border selling, regulatory arbitrage)
- **Consumer driven:** increased digitalisation of life coupled with remaining low digital and financial literacy



...potentially impacting consumers and small businesses

- Lack or uneven consumers/small businesses safety and trust in DFS
- **New types of exclusion :**
 - for particular groups : elderly, women, MSMEs, low level of digital and financial literacy
 - from particular policies : insurance, credit
- **Over-indebtedness** of particular groups (potentially especially young)



Where do we stand? Policy Implications

Policy makers will have to:

Balance innovation vs. stability, enable competition and the benefits of disruption...

Protect and equip financial consumers and micro and small businesses (including potential groups at risks) with needed new skills;

Provide a regulatory level playing field but with some **proportionality**: lighter (at least temporarily) rules to allow innovators/startups to compete.

Facilitate international coordination of regulation for FinTech (which is potentially borderless)

Tackle obstacles and unintended consequences (technical, economic, legal, societal...)



A multi-stage approach to support the sound development of FinTech

Idea stage

- Platforms for exchange, hackathons

Compliance stage

- Innovation hubs

Financing stage

- Access to investors, grants

Implementation stage

- Sandboxes
 - Recent concept used to test ideas, feedback loop for product design and regulation
 - Criteria generally requires that idea provides real consumer benefit
 - Australia, Canada, Hong Kong, Indonesia, Iran, Malaysia, the Netherlands, Thailand, Singapore, UAE, UK

Expansion stage

- Cross-jurisdictional agreements :
 - To refer successful candidates to other jurisdictions (UK with Australia and Singapore)
 - To facilitate collaboration across jurisdictions (French Tech Seoul, B-hive and Finance Innovate)

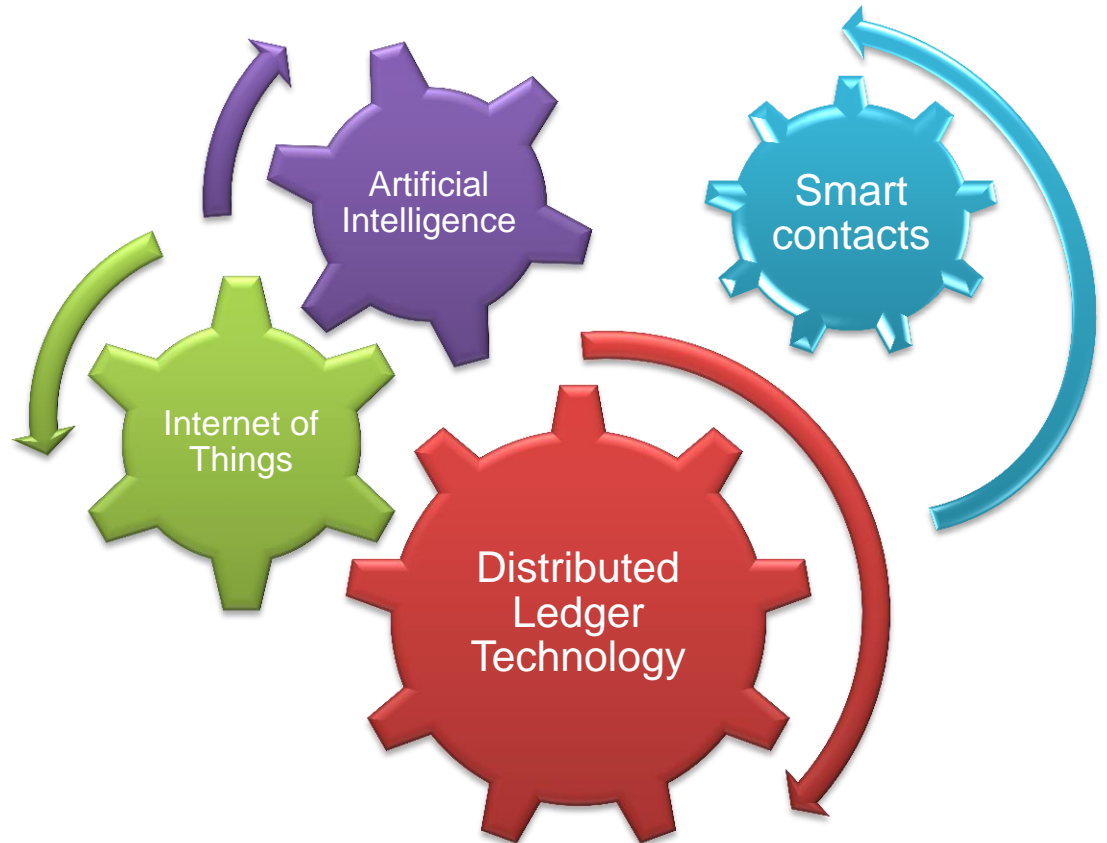


Where do we go from here?

Future scenarios: *known and unknown unknowns*

AI and IoT, in combination with **DLT**, smart contracts etc. may further **disrupt and shortcut financial intermediation** (e.g. payments, trading & settlement, ...)

Potential of **FinTech for sustainable development** (UNEP*: “FT4SD”), e.g. Solarcoin...



*) UNEP report on *Fintech and Sustainable Development*, December 2016)



THANK YOU!