FSB FINANCIAL STABILITY BOARD

Press release

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FSB report assesses FinTech developments and potential financial stability implications

The Financial Stability Board (FSB) published a report today on *FinTech and market structure in financial services*. The publication is part of the FSB's ongoing work to monitor FinTech market developments and their potential implications for financial stability. The FSB defines FinTech as technology-enabled innovation in financial services that could result in new business models, applications, processes or products with an associated material effect on the provision of financial services.

Technological innovation holds great promise for the provision of financial services, with the potential to increase market access, the range of product offerings, and convenience while also lowering costs to clients. At the same time, new entrants into the financial services space, including FinTech firms and large, established technology companies ('BigTech'), could materially alter the universe of financial services providers. Greater competition and diversity in lending, payments, insurance, trading, and other areas of financial services can create a more efficient and resilient financial system. However, heightened competition could also put pressure on financial institutions' profitability and this could lead to additional risk taking among incumbents in order to maintain margins. Moreover, there could be new implications for financial stability from BigTech in finance and greater third-party dependencies, e.g. in cloud computing services.

Some key considerations from the FSB's analysis of the link between technological innovation and market structure are the following:

- To date, the relationship between incumbent financial institutions and FinTech firms appears to be largely complementary and cooperative in nature.
- The competitive impact of BigTech may be greater than that of FinTech firms. BigTech firms typically have large, established customer networks and enjoy name recognition and trust.
- Reliance by financial institutions on third-party data service providers (e.g. data provision, cloud storage and analytics, and physical connectivity) for core operations is estimated to be low at present. However, this warrants ongoing attention from authorities.

Notes to editors

The digitalisation of finance has the potential to significantly change the current functioning of the global financial system, which raises a number of possible benefits and risks. The FSB is monitoring digitalisation trends, to assist in harnessing the benefits while mitigating risks. This includes analysis of the financial stability implications of technological innovation.

In this context, the FSB published in June 2017 a report on the *Financial Stability Implications from FinTech*. The report identified 10 areas that merited authorities' attention, of which three were seen as priorities for international collaboration:

- managing operational risk from third-party service providers;
- mitigating cyber risks; and
- monitoring macrofinancial risks that could emerge as FinTech activities increase.

This report follows up on these issues, providing further evidence on FinTech and resulting changes in market structure in the period since June 2017. As FinTech firms, BigTech firms, and the markets for third-party services continue to develop, it will be important to continue monitoring these developments and their financial stability implications. Further efforts on third-party dependencies are ongoing in the standard-setting bodies. The FSB Financial Innovation Network (FIN) is further exploring the market for third-party services for financial institutions, including how they manage lock-in risk and cross-border issues. Moreover, FIN is looking into the activities of BigTech in finance, including cross-border activities.

The FSB coordinates at the international level the work of national financial authorities and international standard setting bodies and develops and promotes the implementation of effective regulatory, supervisory and other financial sector policies in the interest of financial stability. It brings together national authorities responsible for financial stability in 24 countries and jurisdictions, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. The FSB also conducts outreach with approximately 70 other jurisdictions through its six Regional Consultative Groups.

The FSB is chaired by Randal K. Quarles, Governor and Vice Chairman for Supervision, US Federal Reserve; its Vice Chair is Klaas Knot, President, De Nederlandsche Bank. The FSB Secretariat is located in Basel, Switzerland, and hosted by the Bank for International Settlements.

For further information on the FSB, visit the FSB website, www.fsb.org.