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Rapid growth in FinTech credit carries opportunities and risks: report

FinTech platforms account for an increasing share of credit provision and policymakers have to consider the opportunities and risks such activity brings, a new report by the Committee on the Global Financial System (CGFS) and the Financial Stability Board (FSB) finds.

The report analyses the nature of FinTech credit and finds wide variation in the business models of the electronic platforms involved. Platforms facilitate various forms of credit, including consumer and business lending, lending against real estate and business invoice financing. The profile of investors, which platforms match to borrowers, also differs across countries.

Although FinTech credit markets are currently small in size relative to traditional credit markets, they are growing at a fast pace.

“A bigger share of FinTech credit in the financial system could have both financial stability benefits and risks,” says CGFS chairman William C Dudley (President, Federal Reserve Bank of New York).

Potential benefits include increased access to alternative funding sources in the economy and efficiency pressures on incumbent banks. At the same time, risks may arise, including weaker lending standards and more procyclical credit provision.

“The emergence of FinTech credit markets poses challenges for policymakers in terms of how they monitor and regulate such activity. Having good-quality data will be key as these markets develop,” said chairman of the FSB Standing Committee on Assessment of Vulnerabilities Klaas Knot (President, De Nederlandsche Bank).

This report complements a number of other recently released studies by official bodies on other aspects of FinTech. The FSB will also publish a report, before the G20 Leaders’ Summit in Hamburg in July 2017, on the financial stability implications of FinTech in general. More details about the FSB’s work on FinTech is available on its website.