FSB issues a report on the financial stability implications from FinTech

The FSB has been analysing the potential financial stability implications from FinTech with a view to identifying supervisory and regulatory issues that merit authorities’ attention. Ten areas have been identified, of which the following three are seen as priorities for international collaboration:

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

Addressing these priority areas is seen as essential to supporting authorities’ efforts to safeguard financial stability while fostering more inclusive and sustainable finance.

“Regulators need to understand the impact that developments in FinTech can have on financial stability, especially given the rapid rise of innovation in this space,” said Carolyn A. Wilkins, Senior Deputy Governor at the Bank of Canada and chair of the FSB’s FinTech Issues Group.

“Our report today sets out a clear picture of supervisory and regulatory issues, which the FSB will continue to monitor and discuss going forward.”

The report developed a framework that defines the scope of FinTech activities to be covered and classifies them by their primary economic function. This enables the analysis to be technology neutral. Applying the framework to various case studies then helps to draw out the potential benefits and risks from FinTech.

Potential benefits identified in the report include decentralisation and increased intermediation by non-financial entities; greater efficiency, transparency, competition and resilience of the financial system; and greater financial inclusion and economic growth. Potential risks include institution-specific micro-financial risks that could emerge and system-wide macro-financial risks, for instance increased connectedness and correlation risk.

The report notes the need for the official and private sectors to improve data on FinTech applications, and for regulators to understand how businesses and the market structure are changing. In particular, international bodies and national authorities should take FinTech into account in their risk assessments and regulatory frameworks.

The FSB will continue to monitor and discuss the evolution of the potential financial stability implications of FinTech developments.
Notes to editors

At the 17 November 2016 FSB Plenary meeting, members agreed to establish a FinTech issues working group to identify key issues for authorities from a financial stability perspective associated with developments in FinTech. These issues identify questions regarding both the nature of regulation as well as the perimeter defining those activities or entities to which regulation applies. This effort supports the German G20 Presidency in its priority of exploiting the potential of digitalisation as an engine of productivity and growth. The FSB will deliver this report, on the main supervisory and regulatory issues from FinTech meriting attention, to the 7-8 July Hamburg G20 Summit.

In addition, in May 2017, the FSB published a report together with the Committee on the Global Financial System (CGFS) on the growth in FinTech credit, which aims to help policymakers understand the functioning of FinTech credit markets, including the size, scope and growth of these activities.

The FSB has been established to coordinate at the international level the work of national financial authorities and international standard setting bodies and to develop and promote 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. Through its six Regional Consultative Groups, the FSB conducts outreach with and receives input from an additional approximately 65 jurisdictions.

The FSB is chaired by Mark Carney, Governor of the Bank of England. Its 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.