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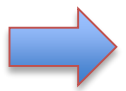
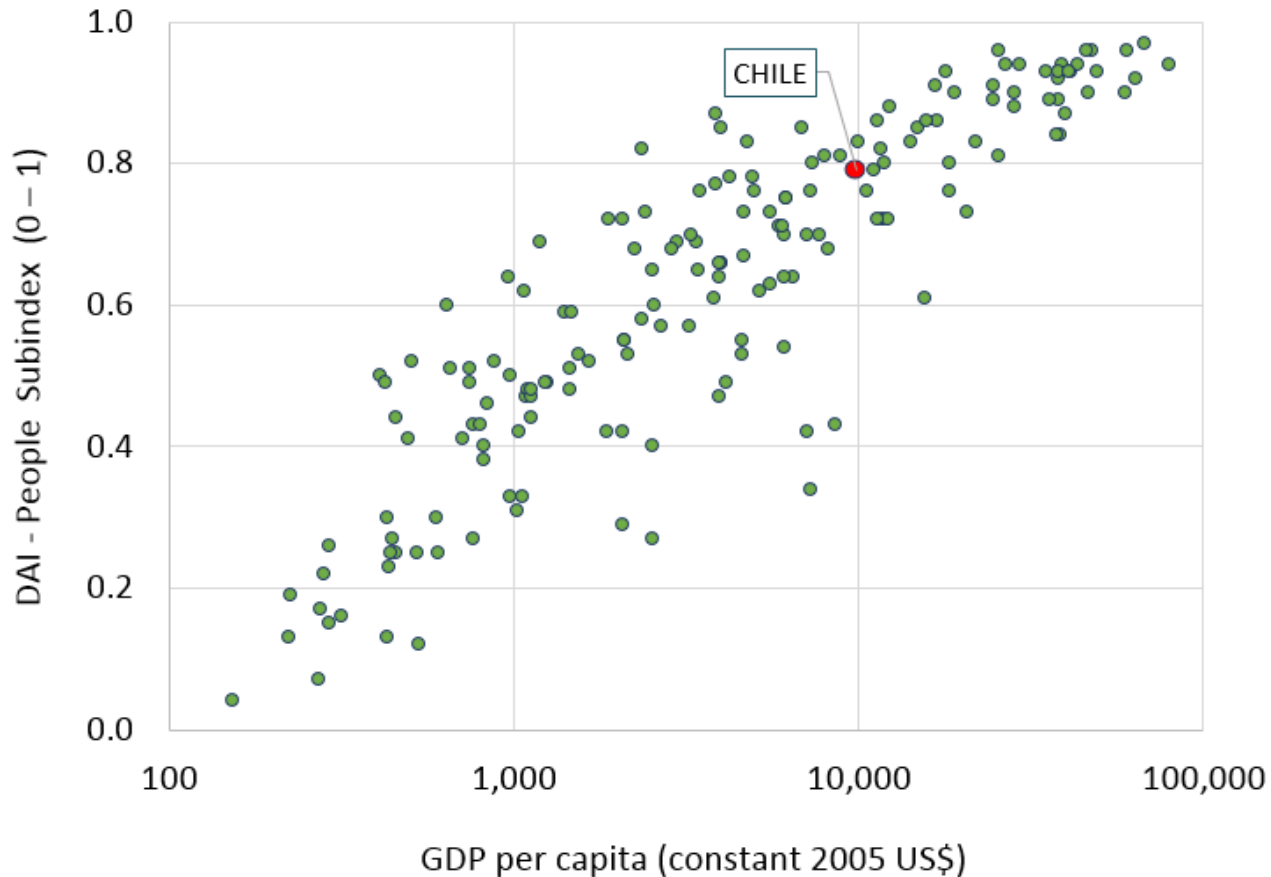
FinTech and the (potential) evolution of finance

Chilean Banking Association

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FinTech innovations may have an impact on several areas of the financial system; but at the end, the most relevant area is its impact on people

Digital Adoption Index (DAI) – People Subindex^[1] (Scale from 0 to 1)



Source: World Bank (2016): “World Development Report 2016 – Digital Dividends”.

[1] The Digital Adoption Index (DAI) is based on three sectoral subindexes covering businesses, people, and governments, with each subindex assigned an equal weight. The DAI-People Subindex is the simple average of two normalized indicators from the Gallup World Poll: mobile phone access and internet access at home.

- Accelerating **digitization** of our physical world and **interconnectedness** has radically **changed client expectations**.
- Customers expect not only **immediate access** to services, but also **simplification**.
 - Accordingly, the focus should be: automatization, self service, give clients choice and control.
- **Data** (a true digital oil?) can power **new services** and drive **strategic change**.
 - In fact, with it is becoming increasingly possible to **create services and experiences tailored to each individual**.

1. What is FinTech?

- There are many definitions of **FinTech**.
- However, the concept converges to the following elements:
 - The adoption of **new information and communication technologies**,
 - That allow the development and massification of **financial products**, and
 - Introduce a certain degree of **disruption** to more traditional services.

2. Is FinTech a new phenomenon?

- No

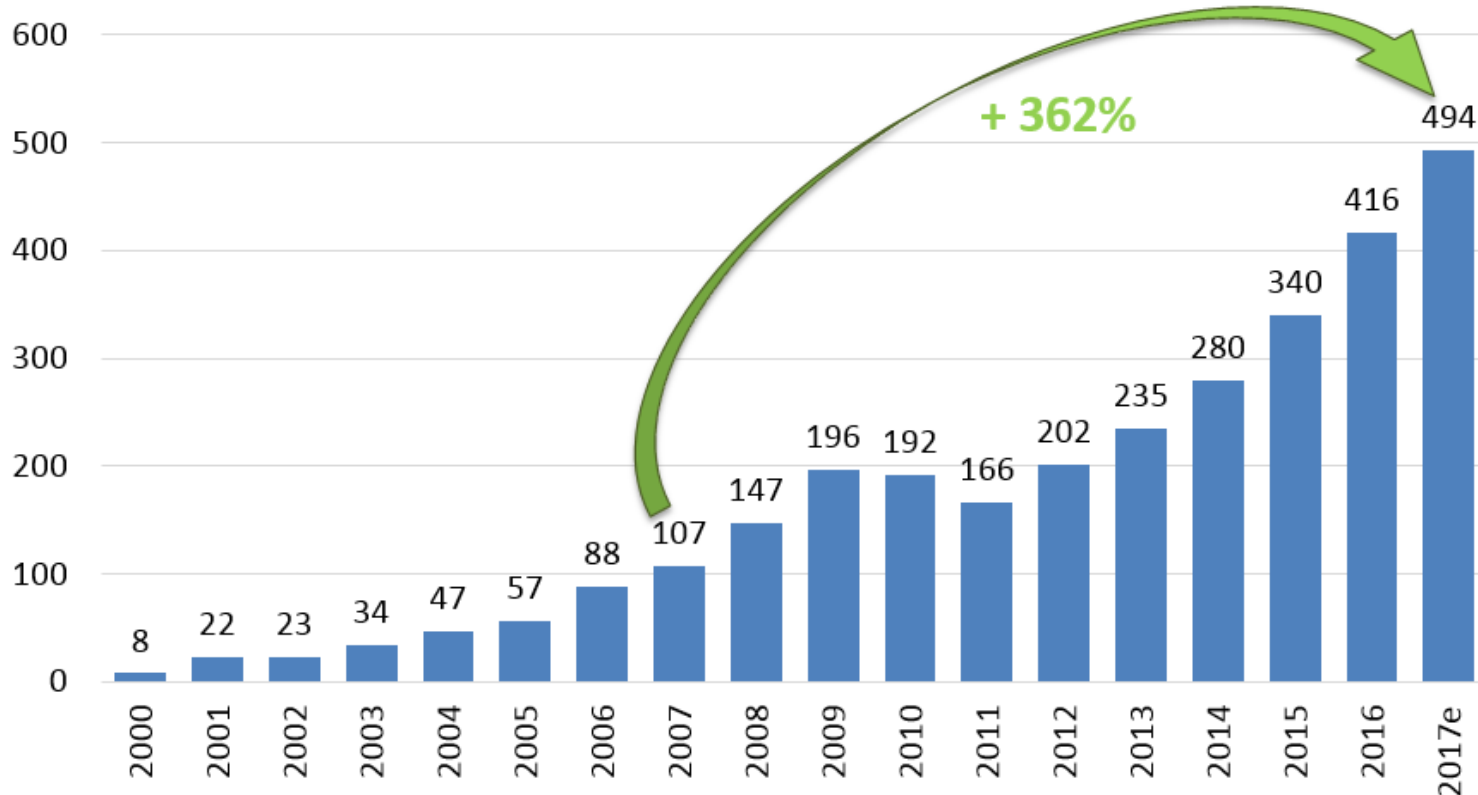
- The banking industry has always been characterized by the adoption of new technologies (ATM's, credit cards, online banking, mobile banking, etc.).

- Clients benefit from innovations:
 - Banks today are closer than ever to its clients.

 - Higher use of banking services through multiple platforms.

2. FinTech is not a new phenomenon for Chile

Online banking transactions ^[1]
(Million of transactions per year)

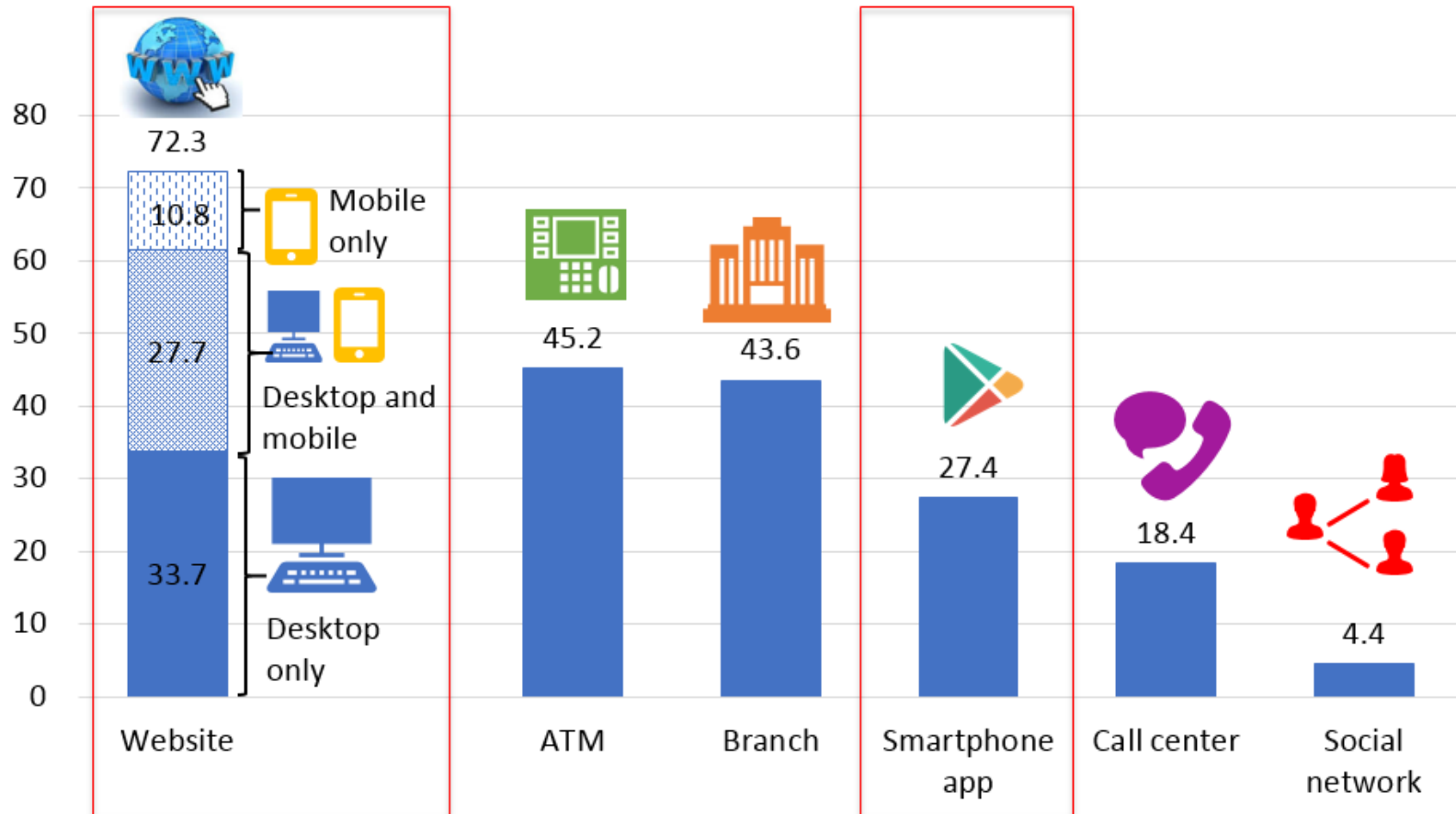


Source: Asociación de Bancos based on Superintendencia de Bancos e Instituciones Financiera (SBIF).

[1] Transactions include electronic funds transfer between accounts and payments (bill paying service, paying for financial products, etc.) Does not include checking of account balances and other information requests. Data for years 2000 to 2010 are annualizations of monthly data corresponding to June and December of each year. 2011 to 2016 are annual data. 2017e was estimated based on monthly data for the period from January to October of 2017.

2. FinTech is not a new phenomenon for Chile

Use of retail banking channels ^[1] (Percent of checking account holders)



Source: GfK Adimark, Índice de Satisfacción Industria Bancos, October – December 2017.

[1] Results based on telephone interviews of 1,110 checking account holders who live in the largest Chilean cities and belong to socioeconomic groups C1, C2 y C3 (intermediate). "In the last 3 months, which of the following channels did you use at your bank?"

3. Are those innovations going to intensify in the future?

- Yes, because of today's FinTech trend and...
- ...the potential of some technological developments that are just apparently starting to materialize.
- Examples are: **Blockchain** and its potential applications (trade repositories, central mortgage registers, etc.), **Big Data**, **Artificial Intelligence (AI)** and **Robotics**.
- Fields where FinTech developments could materialize:
 - New forms of finance (P2P lending, crowdfunding)
 - Payment systems (khipu)
 - Lending (PayPal)

4. Are there any challenges?

- Yes,
- FinTech developments could strengthen banking services.
- But they could also compete with banking services.
- While competition is welcome, it requires common and similar rules among the different agents.
- However, today's bank partnerships with tech innovators in AI's ability to look for patterns in large datasets, for example, could be illustrative of a new normal of more collaboration.

4. Regulatory challenges?

- **Consumer consent:** A big challenge, the lack of advances will create regulatory loopholes (regulated vs no regulated), and inhibit new developments
- **Data access for treatment:** Regulation is very complex.
 - Usage and mobility of data vs protection of personal data, and
 - Who regulates in a cross-boarder context?
- **Systemic nature of FinTech companies**
 - FinTech companies could reach higher levels of exposure and interconnectedness than traditional banks (for instance Alibaba)

4. Regulatory challenges?

➤ Who regulates?

- There is few experience in dealing with this issue.
- Defining the scope of regulation should be guided by the systemic role of the different agents and their effects on public faith.
- Chile: the Financial Market Commission's (CMF) legal framework establishes the commission's responsibility of proposing necessary legal changes on that subject.
- Mexico: draft law distinguishes between crowdfunding institutions and institutions handling funds for electronic payments, establishing separate guidelines.

4. How to handle these challenges?

- How to potentiate and/or learn from those initiatives?
 - Sandboxes as an example to follow (UK).
 - Flexibility of regulatory scope and powers.
 - Risk capital funds.

5. Main takeaways

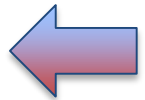
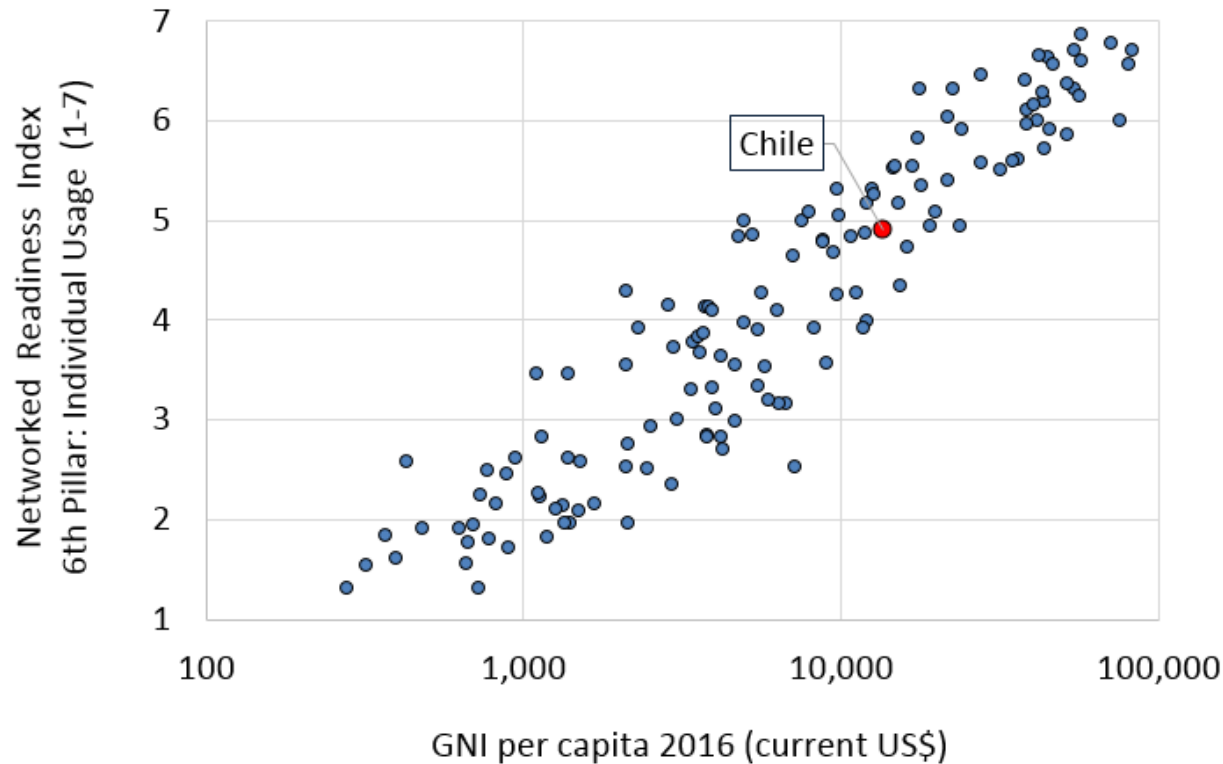
- FinTech are nice and exciting to have...
- ...but, it's required regulation that allows the **use of data**, balancing it with consumer rights.
- Also, it's necessary to make progress on balancing the pros and cons that could come with it:
 - Establish common incentives and rules according to new standards, as **consumer consent**
 - Regulation must avoid suffocating new initiatives (art of regulating)
- It's a challenge to everyone.



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Preparedness for seizing the opportunities presented by the digital transformation.

The Networked Readiness Index (NRI) -Individual Usage Pillar- [1] (Scale from 1 to 7)

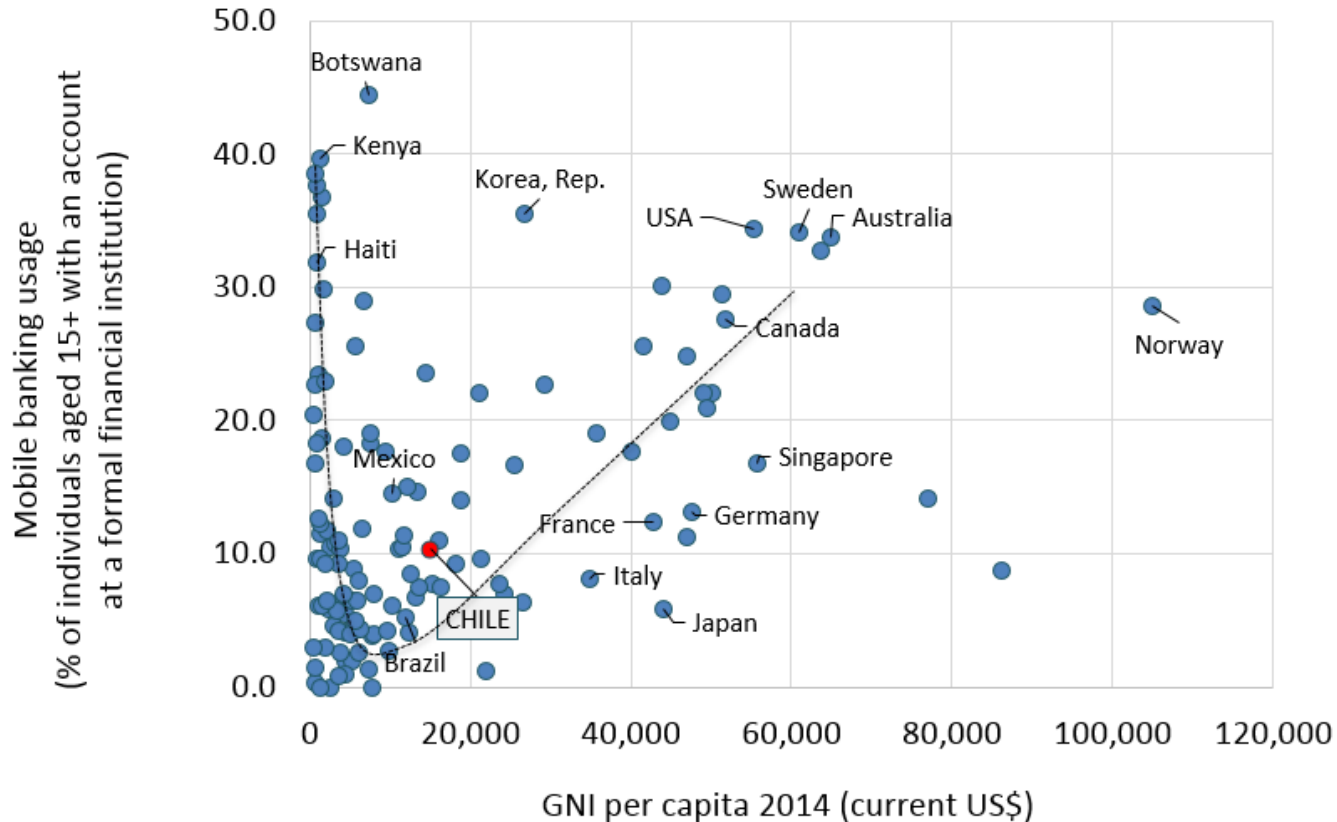


Source: World Economic Forum (2016): "Global Information Technology Report 2016".

[1] The Networked Readiness Index (NRI) represents a key tool in assessing countries' preparedness to reap the benefits of emerging technologies and capitalize on the opportunities presented by the digital transformation and beyond. The NRI aggregates a total of 53 indicators grouped into eight pillars. The Individual Usage pillar considers seven indicators: 1) Mobile phone subscriptions per 100 population, 2) Percentage of individuals using the Internet, 3) Percentage of households with a computer, 4) Percentage of households with Internet access, 5) Fixed broadband Internet subscriptions per 100 population, 6) Mobile broadband Internet subscriptions per 100 population, and 7) Use of virtual social networks.

Relation between income and mobile banking usage is not linear but V-shaped.

Mobile banking usage vs GNI per capita (2014) [1]



Source: World Bank, Global Findex (2014).

[1] "In the past 12 months, have you ever made a transaction with money from your account at a bank or another type of formal financial institutions using a mobile phone? This can include using a mobile phone to make payments, buy things or to send or receive money."

