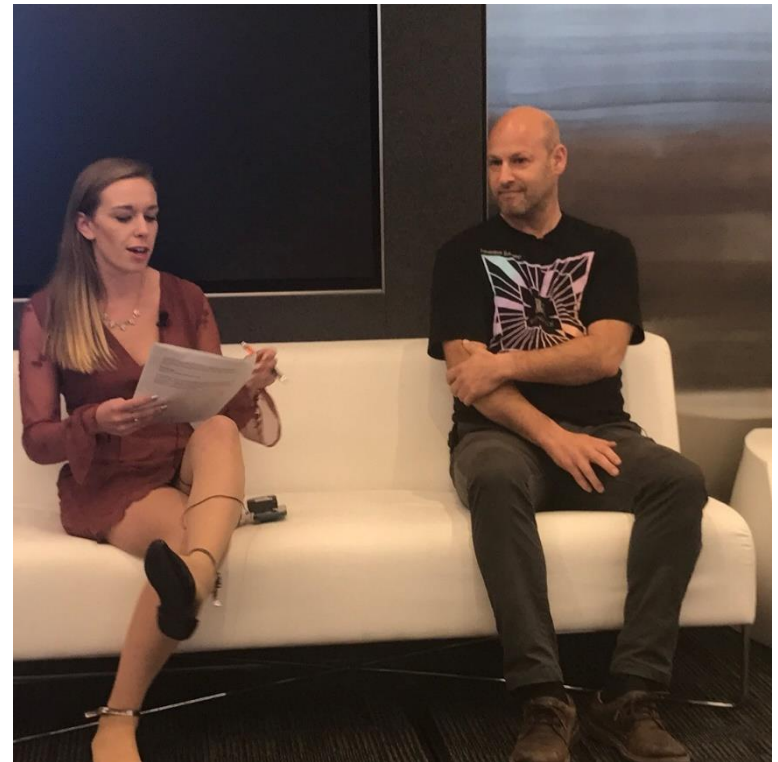


FinTech and Financial Stability

Daniel Heller

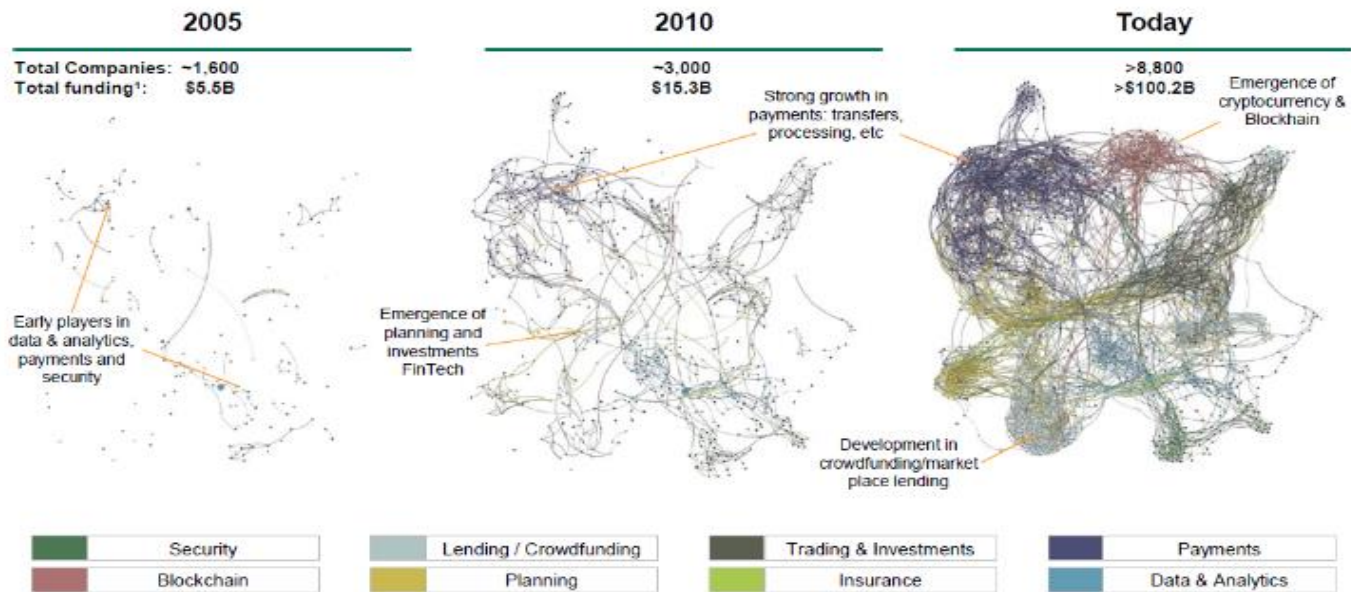
Santiago de Chile – January 2018

FinTech: where worlds meet (clash?)





Investments in Fintech



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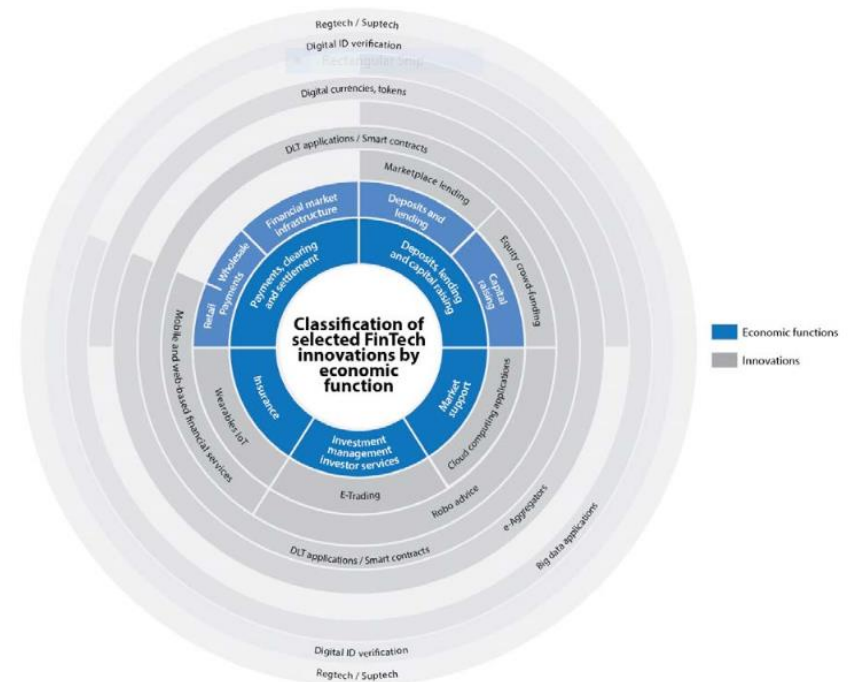
Visualization based on ~1,800 FinTechs receiving the highest amount of private funding. Dataset mapped with Quid and allowed to cluster based on similar products, technologies, customers etc.
1) Data based on over 8,800 companies which were discovered across over 4 data sources. Total funding based on 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: Fintech Control Tower, Expand, November 2016

Economic functions affected by FinTech (FSB 2017)



- Payment clearing and settlement
- Deposits, lending and capital raising
- Market support
- Investment management and investor services
- Insurance





IOSCO FinTech Report (2017)

1. Alternative Financing Platforms
 - Peer-to-Peer Lending and Equity Crowdfunding
2. Retail Trading and Investment Platforms
 - Online Brokerage and Asset Management Platforms;
Exchange based distribution platforms
3. Institutional Trading Platforms
4. Distributed Ledger Technology (DLT)

Others: big data analytics, artificial intelligence, regtech, cyber security, cloud based technologies

Risks potentially increased by FinTech



Microfinancial

- Maturity mismatch
- Liquidity mismatch
- Leverage
- Operational risk
(governance, cyber risks, legal, outsourcing/3rd party reliance)

Macrofinancial

- Excessive credit growth
- Increased inter-connectedness and correlation
- Incentives for greater risk-taking by incumbent institutions



FSB conclusions

“There are currently no compelling financial stability risks emerging from FinTech innovations”

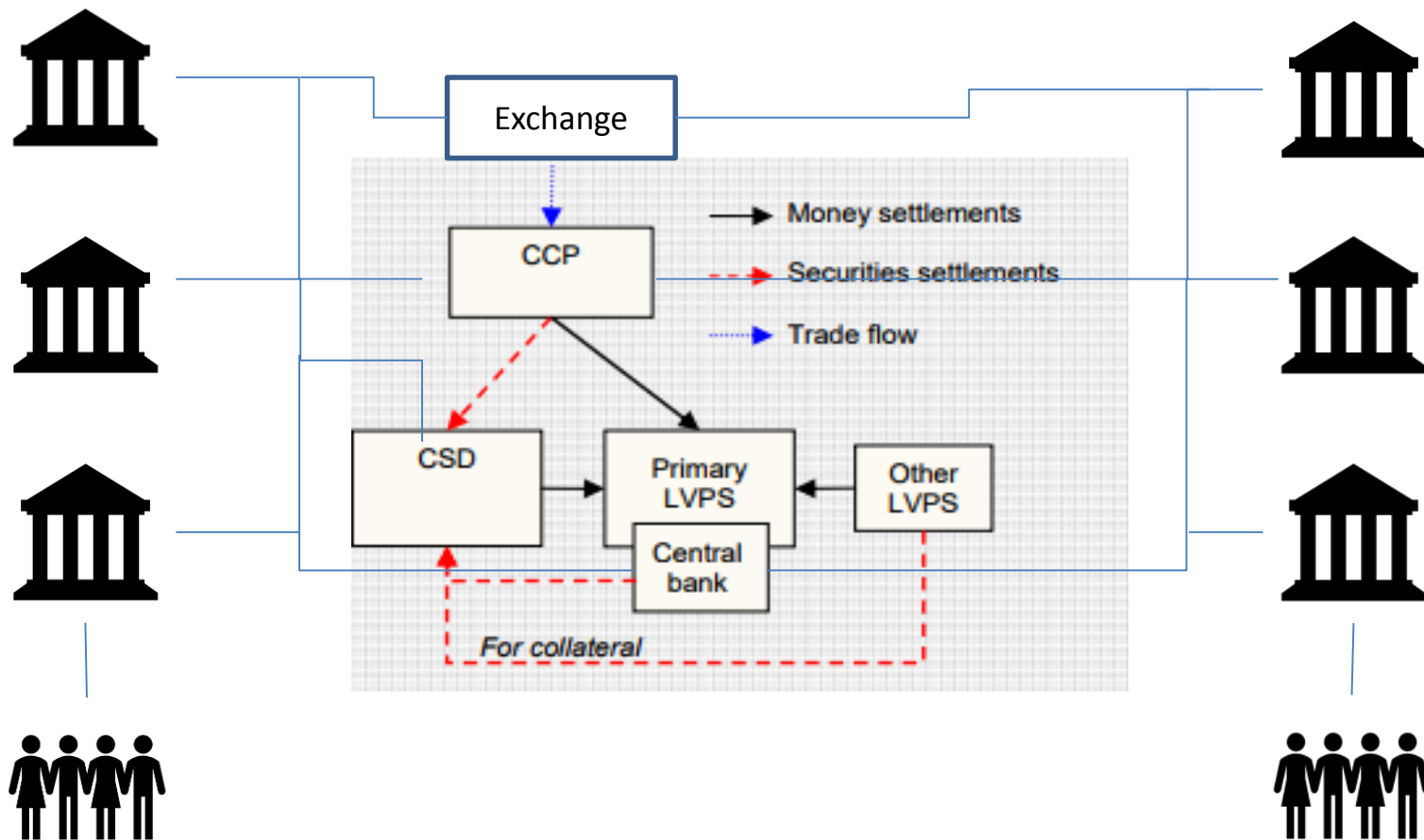
Risk mitigation through Fintech

1. Decentralization and diversification
2. Efficiency
3. Transparency
4. Access and convenience



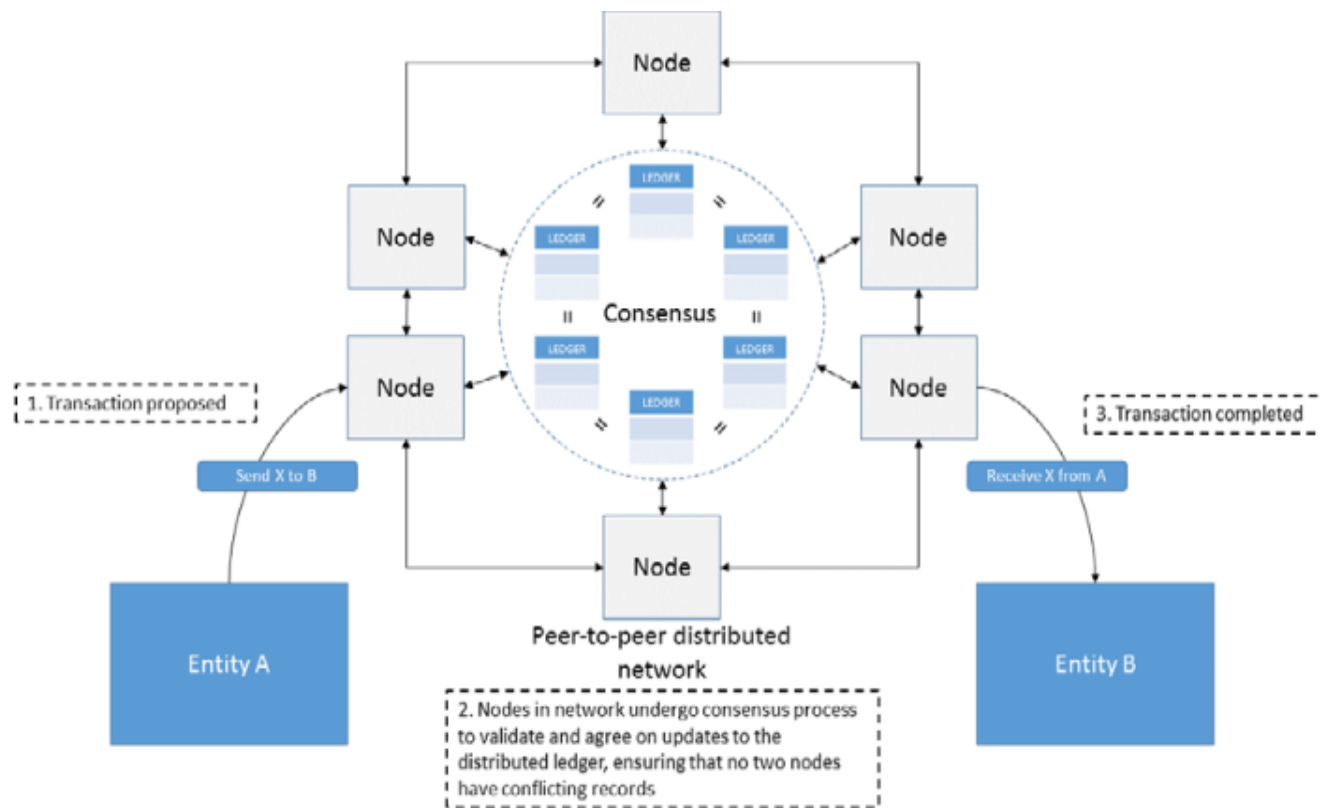
FinTech
does not
eliminate
credit risk

Conventional domestic financial market infrastructure



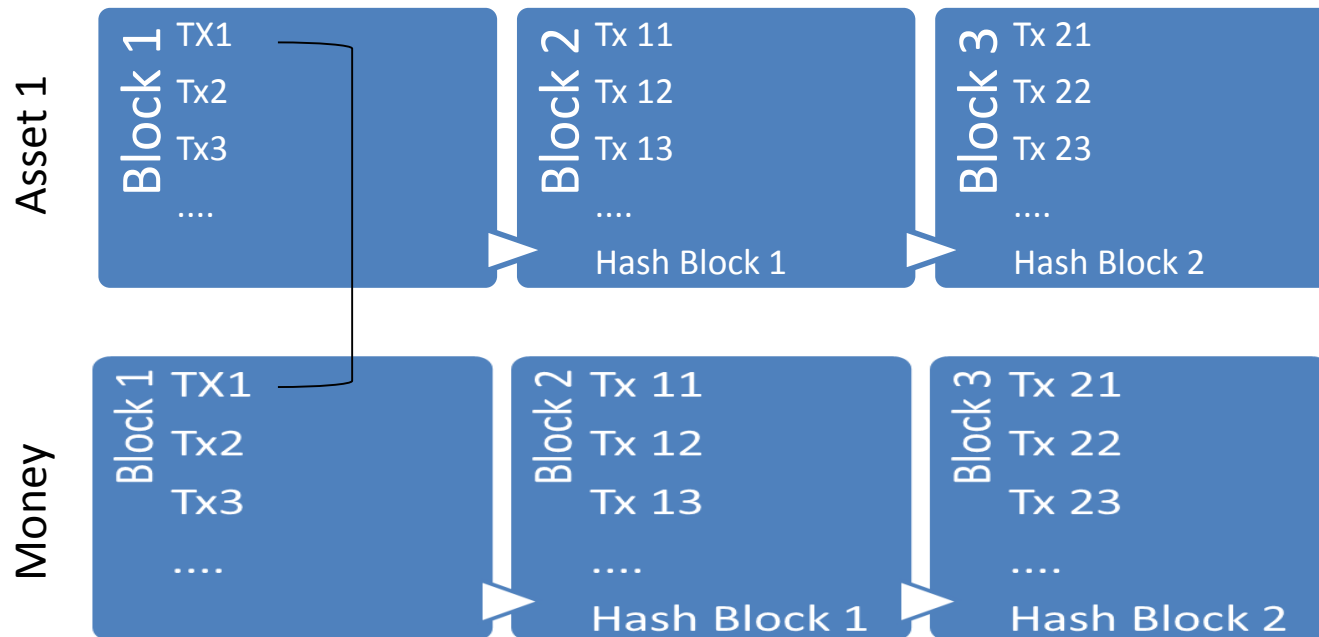


A payment on a distributed ledger





A financial system on DLT



Trading and asset depository decentralized

No settlement lag (T+2; T+3)

Delivery vs Payment through 2 linked blockchains (atomic swap)

What is the settlement asset?

Will the financial system become more decentralized?



- «Why do we need DLT/blockchain?» is the wrong question
- Technology "is getting there", but waters are untested
- The financial system is not a green field project
- Fast transformation/disruption is unlikely
- Pilots with certain assets will lead the way

Implications for central banks and regulators



- Watch FinTech developments very closely
- Provide a level playing field for all participants
- Be ready to adjust the regulatory framework
- Central banks to study money on the blockchain