

IMF-JFSA-BOJ Conference on FinTech

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Session 3 – Implication of FinTech Developments in Asia (2) – The Perspective of Financial Industry



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Outline

Session 4 – FinTech in Asia: the Financial Industry View

1) Fintech: a Definition

2) Market Structure

Effects of fintech on financial services' markets

3) Risks and Opportunities

Financial & payment system stability, monetary policy

4) Regulatory Implications

Central bank, supervisors, and financial institutions

5) Way Forward

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(1) Fintech: a Definition

What is new / why now?



"Recent technological innovations in the financial services sector"

"Leverages big data on individuals and firms, advances in computing power, AI, and cryptography, and the reach of the internet"

"Gives rise to new applications in services From payments and financing, to insurance, asset management, and advice"

"May emerge as competitive alternatives to traditional financial intermediaries, markets, and infrastructures"

"This is a world of six-month product development cycles and constant updates, primarily of software, with a huge premium on simple user-interfaces and trusted security. A world where data is king. A world of many new players without imposing branch offices."

- Madame Lagarde

"Let's look at lending, where they're using big data for the credit side. And it's just credit data enhanced, by the way, which we do, too. It's nothing mystical. But they're very good at reducing the pain points."

- Jamie Dimon

(2) Market Structure

Safeguarding Trust in Times of Change

Impact of FinTech on financial stability...

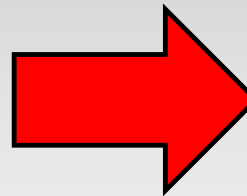
New risks and shifting risk landscape

Changing **business models**

Regulatory perimeter, unregulated players and products

Higher and more opaque **interconnectedness**

Cyber risk (its own category)



... Requires a shift in approach:

Need to understand and evaluate new and emerging concepts and technologies, in particular:

- Emergence of **hybrid business models** (and “techfins” versus “fintechs”);
- **Blurring boundaries** between incumbents and new entrants;
- Changing **entry barriers**;
- How is “**trust**” safeguarded?

(3) Risks and Opportunities

Balance between Stability and Innovation

• Financial and Payment System Stability

- Fintech will likely lead to **major changes** in the organization of financial services.
- **Cross-border payments** stand to gain most.
- Changing payments landscape likely to have profound **implications for central banking**.
- A good **understanding** of technology, risks and opportunities is needed: requires research, practical expertise, and coordination.

• Monetary Policy

- As a medium of exchange, **private crypto-assets** have properties that central bank money in its current forms (cash, and commercial bank reserves) does not have – central banks can learn from these properties, e.g., **central bank digital currencies**.
- But, the benefit of enhanced monetary policy effectiveness may need to be traded off against the potential cost on **financial stability**.

• Innovation

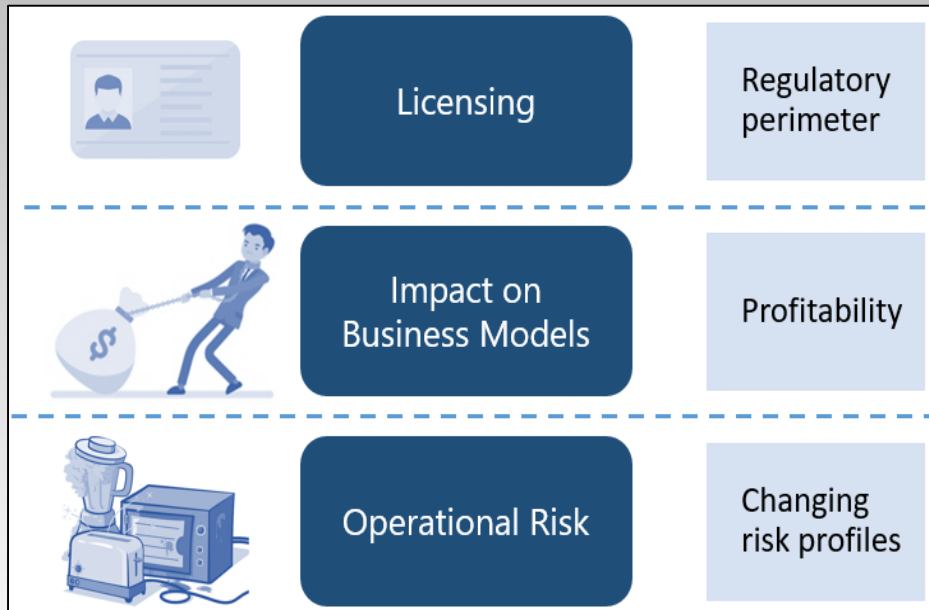
Crypto-assets / cryptography, cloud computing, and AI/ML offer **opportunities** to improve financial services (“regtech”), financial supervision (“suptech”), financial inclusion (“edtech”), and central banking.

(See: IMF Global Financial Stability Report, April 2018)

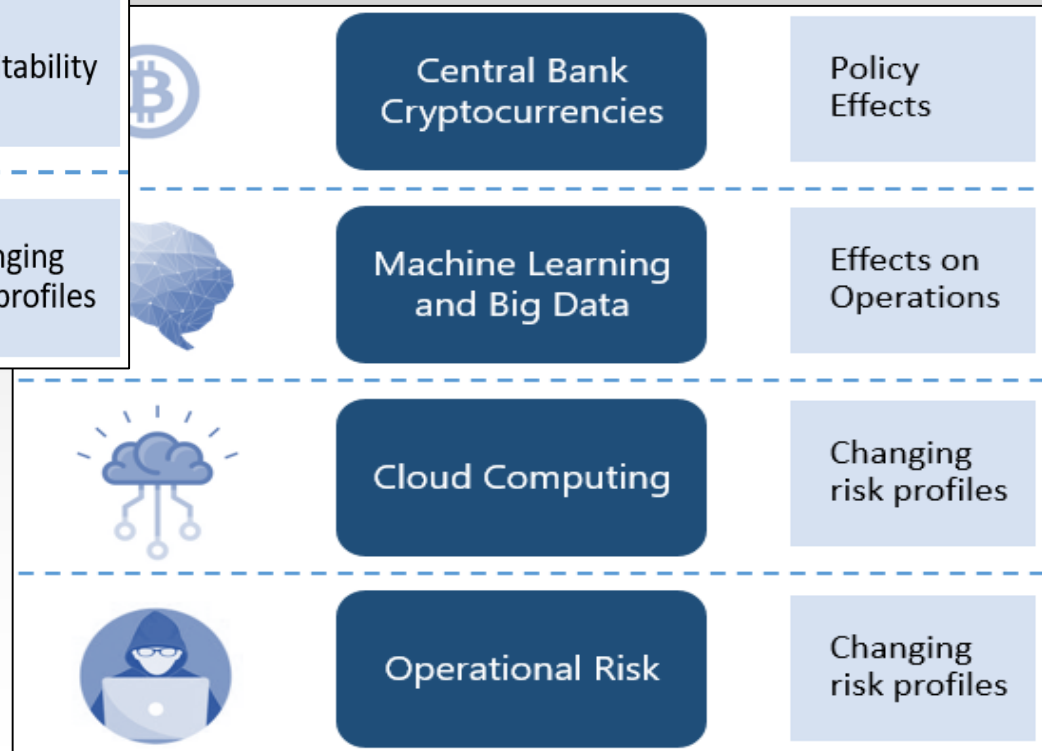
(4) Regulatory Implications

Financial Sector: Central Banks, Supervisors, and Institutions

Financial Institutions and Supervisors



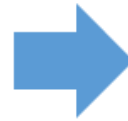
Central banks



(5a) Way Forward

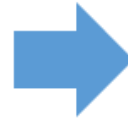
IMF involvement

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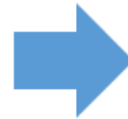
Helping members adapt and apply regulatory frameworks and supervisory approaches

FSAP



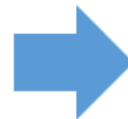
Impact on risk vulnerability, standards and codes?

Policy



Engaging with global standard-setting bodies and policymakers

Surveillance



Using new approaches (e.g. Machine Learning) to increase accuracy and efficiency of Fund surveillance work

(5b) Way Forward

Current Issues

1) Regulation:

- definition of fintech / cryptos;
- what to regulate, and how (rule-based vs. principle-based); scope for self-regulation; proportionality;
- international level playing field; and
- balance between innovation and regulation.

2) Financial Stability: risks currently limited. But: consumer & investor protection, financial integrity? Two-tier system for central bank digital currency allows for maintaining of financial intermediation.

3) Cooperation: e.g., [Global Sandbox](#) (UK), [ASEAN financial innovation network](#), [Fintech Accelerator](#) (Singapore).

4) Cyber-security: concerns might be exacerbated by fintech developments.

5) Algorithmic governance: requires proper understanding by supervisors.

End of presentation
Thank you for your attention!

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