High-level considerations for policy makers and the international community
Fintech: New technology impacts a wide range of financial services

Example areas of innovative financial services in core banking functions

Survey of key provider per fintech activity (2016)

Source: Basel Committee Banking Supervision (February 2018)
Potential for Fintech to:

• Reimagine financial processes and business models

• Enable new entrants and competition within the financial service value chain (disaggregation, specialization, open APIs)

• Enable services to be more accessible (incl. through mobile networks), often at lower cost

• Leverage electronic data to tailor product design, reach new consumers, accurately price risks (and to enable AI)

Potential Fintech-enabled Outcomes

Improved coverage of/access to financial services

Enhanced efficiencies and reduced costs, and also risk management

New and more tailored types of products, services, and delivery channels
Financial institutions and customers can benefit

1. Improved Customer experience
   - Remote access, convenience, and security
   - Tailored financial products and services
   - An opportunity to build financial history

2. Revenue growth
   - Expand customer base to include new and remote areas
   - Ability to provide products to new market segments including unbanked
   - Cross-sell opportunities

3. Reduction in Costs
   - Lower delivery and channel costs
   - Reduce cost of funds (deposit gathering, capital markets funding)

4. Strengthened risk management
   - More data and automation for credit underwriting, portfolio monitoring and collections
   - Straight-through processes reduce error rates, investigations, re-work
Digital is key to reaching universal financial access

How to get there?

Transaction account

UNSERVED
- Have no basic bank account
- Have no (or restricted) access to financial services
- Rely on a cash economy

SERVED
- Have a transaction account
- Use broad range of financial services

What’s needed to get there?
- Broader inclusion
- Customer-centered product innovation
- Financial capability
- Strong consumer protection
- Better financial infrastructure
- More & interoperable access points

Banks
Microfinance Institutions
Mobile Network Operators

Card Companies
Postal Networks
Financial Cooperatives

Savings
Credit
Payments
Insurance
Remittances
### Context

1. **Rapid transformation of financial sector via advances in technology**

2. **Given fintech’s global nature, country authorities’ requests to facilitate information sharing and cooperation**

3. **Outline high-level considerations for policy makers and the international community – still at early stages of information gathering**

4. **Engagement with Standard Setters**

5. **IMF-World Bank interest reflects our universal membership, focused on respective areas of expertise and mandate**
Need for a balanced approach: Four broad policy challenges

- Foster enabling environment to harness opportunities
- Promote international collaboration
- Strengthen financial sector policy framework
- Address potential risks and improve resilience
Fostering **enabling environment** to harness opportunities

(I) **Embrace the Fintech revolution**

*Key issues:* strengthen institutional capacity; improve communication with stakeholders and across agencies; and expand consumer education

(II) **Enable New Technologies to Enhance Financial Service Provision**

*Key issues:* facilitate development of and fair access to telecom and internet infra; financial infrastructure, digital IDs; digitize Government data repositories; and leverage technology to make cross-border payments efficient.
Fostering enabling environment to harness opportunities

(III) Reinforce Competition and Commitment to Open, Free, and Contestable Markets

Key issues: treat similar risks equally, apply laws and regulations proportionately; avoid market concentration and abuse; foster standardization and interoperability

(IV) Foster Fintech to Promote Financial Inclusion and Develop Financial Markets

Key issues: embed fintech in national financial inclusion and literacy strategies; foster knowledge exchange; digitize government payments; leverage fintech to advance financial sector development
Strengthen financial sector policy framework...

(V) Monitor Developments Closely to Deepen Understanding of Evolving Financial Systems

(VI) Adapt Regulatory Framework and Supervisory Practices for Orderly Development and Stability of the Financial System

(VIII) Modernize Legal Frameworks to Provide an Enabling Legal Landscape

Key issues: enable flexible data gathering frameworks to identify obstacles to innovation and new risks

Key issues: ensure regulation remains adaptable and conducive to development, inclusion, and competition; consider new approaches like regulatory sandbox; address new risks and (cross-border) arbitrage

Key issues: legal predictability to spur investment; legal basis for smart contracts and electronic signatures; address legal gaps

Data Privacy
Data Security
Smart Contracts
Payment
Insolvency
Resolution
Address potential risks and improve resilience...

(VII) Safeguard Financial Integrity

Key issues: mitigate AML/CFT risks that crypto-assets and other Fintech developments may pose, potential of Regtech to strengthen AML/CFT compliance

(IX) Ensure the Stability of Monetary and Financial systems

Key issues: Digital currencies, distributed ledger applications to payments, lender of Last Resort and other safety net arrangements

(X) Develop Robust Financial and Data Infrastructure to Sustain Fintech Benefits

Key issues: Cyber security and operational risk management, risk of concentration in third-party service providers, data governance frameworks
Promote international collaboration

(XI) Encourage International Cooperation and Coordination, and Information Sharing

(XII) Enhance Collective Surveillance and Assessment of Financial Sector Opportunities and Risks

Key issues: to avoid regulatory arbitrage and a “race to the bottom”, to monitor global risks, to facilitate a global enabling regulatory and legal environment for fintech, and to stimulate sharing of opportunities

IMF and World Bank can provide capacity development in the areas of financial inclusion, consumer protection, statistics gaps, financial integrity, regulatory and legal frameworks, and cyber security
Country experiences: Emerging policy challenges

- Balancing competing policy priorities
- Foundational legal, regulatory and infrastructure constraints
- Data protection
- Cybersecurity
World Bank approach

- Legal and regulatory framework
- Financial infrastructure
- Access to transaction accounts
- Access to financial services
- Capacity building