FinTech: Challenges For Regulators and Deposit Insurers

Symposium Esisuisse/EFDI/URPP/Financial Market Regulation
«Fintech – A new Challenge for Deposit Insurance?»

Session: «Chances and Challenges to Deposit Insurers»

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Has financial intermediation become cheaper over time?

Figure 3: Unit Cost of Financial Intermediation

Source: Phillippon (2015)
Fintech: who are we dealing with?  
... Two different perspective

1

Fintech ... The aim is to inflict death by a thousand cuts.  
Fintech start-ups are nimble piranhas, each focusing on a small part of a bank’s business model…”

2

... Fintech, as the Golden Goose
Financial Innovation is good...but

1. Stimulate entry and support innovation
   «Right» Balance

2. Regulation

Any negative economic externalities?

Financial Stability?  Consumer Protection?
The big question is not «if regulate Fintech» but «how to regulate it»

1. Is the current regulation appropriate for Fintech?
   - Or we need another financial crisis to better understand the emerging phenomena?

2. Do we fully understand the new FinTech business models?
   - Do we fully understand their risks? Are we able to measure them?
   - Many Fintechs are in their start-up phase and their business models are evolving.
Regulatory approaches

Closed Approach: Overprotect incumbents by erecting barriers

Open Approach: Regulating newcomers less stringently

Mixed Approach: Reliance on existing regulation and monitor the market
Challenges
(for both deposit insurance regulators and deposit insurers)

1. Discuss the definition of Deposit
   (What is a deposit? Which deposits need to be insured?)
   - Answers are becoming difficult as digital transformations continue to evolve
   - 3 approaches to deposit insurance for digital products: “Exclusion”; “Direct”; “Pass Through”


3. Enhance Cooperation (DIs Cross Border and Cooperation with Regulators)

4. Assess the Use of FinTech in Deposit Insurance
Let me conclude…

FinTech need to be regulated, but…

… Let’s make sure to avoid killing the golden goose!

Thank you!