# FinTech Agreements in the Pacific Alliance

**Symposium:**
**Latest developments in deposit insurance, resolution and FinTech**

Fogafín
Fondo de Garantías de Instituciones Financieras

Entidad adscrita
MINHACIENDA

GOBIERNO DE COLOMBIA

**Esisuisse – University of Zurich**
**Zürich, November 15th, 2019**

Fogafín
Fondo de Garantías de Instituciones Financieras

# The Pacific Alliance

- The Pacific Alliance is an initiative of regional integration comprised by Chile, Colombia, Mexico and Peru, officially established on April 28th, 2011.
- The AP works in different sectors, including commerce, development, finance, among others.
- The Alliance has a Council of Ministers of Finance.

1. Fintech evolution in the Pacific Alliance

2. Fintech regulation landscape in the Pacific Alliance

3. Guiding principles for Fintech regulation in the Pacific Alliance

# Some initial thoughts:

- Latin America is already highly connected, most of the population have a mobile phone, 50% of the population owns smartphones, yet only 1/3 of the population with Internet access, low indexes in financial inclusion and cash as the main payment method in the economy (90% of consumer payments).

- Local game-changers are emerging, representing both start-ups and innovative arms of traditional companies.

- These players have identified the inefficiencies generated by traditional models, homed in on market opportunities and created innovative ways of attacking underserved market.

- Innovation can´t seem to wait.

- Mexico and Colombia closely follow Brazil in the field of innovation where it is not only about new technology and devices, it's also about the business model, corporate culture, openness and collaboration (many financial institutions are incubating, investing or acquiring star-ups to learn and experience).

**WHAT MAKES THEM INNOVATIVE?**

**80%** have a dedicated innovation team

Average of **141 APIs** 45% are open

Average of **15** partnerships with start-ups

Average of **57** proofs of concept in the past three years

Deployment in **<5** months

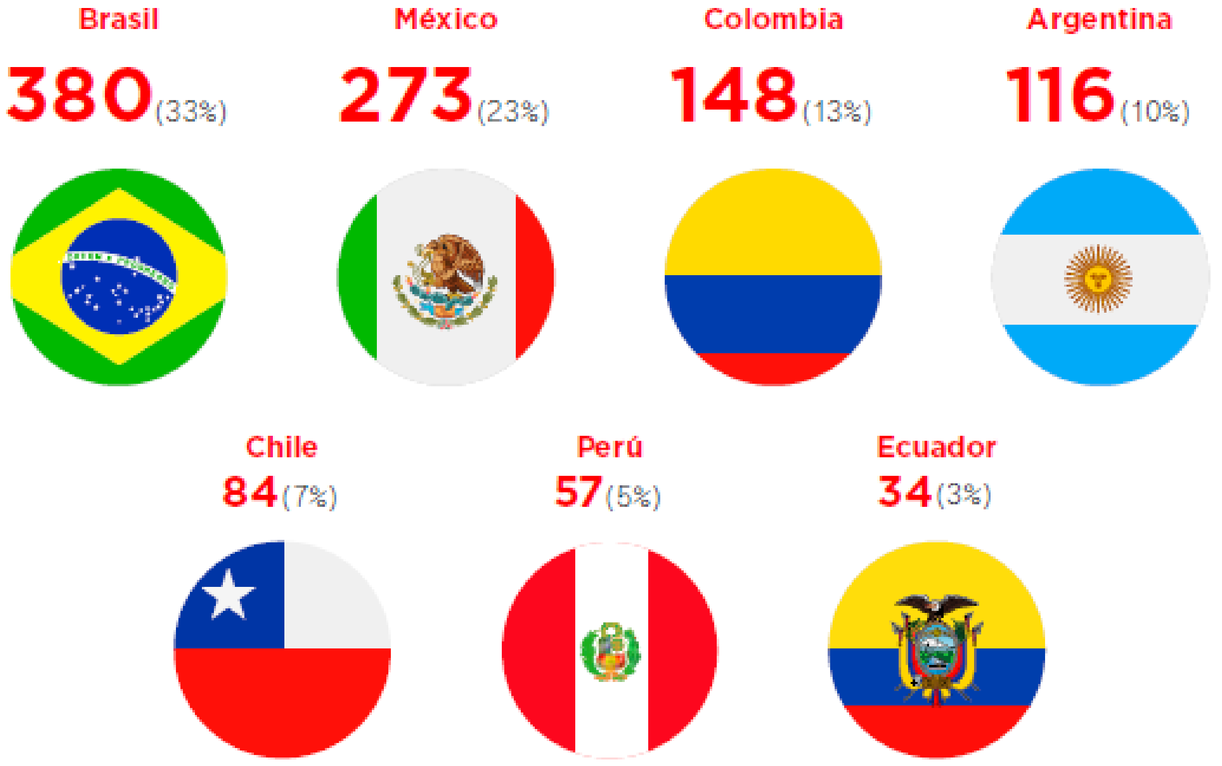
**Horizontally** structured and collaborative spaces

**80%** use AI and/or machine learning

**6 out of 8** merchants are marketplaces

**Diversified** use of industry technologies

# From about 1,200 Fintechs across Latam, five countries concentrate 86% of the total.



The three largest Fintech ecosystems in the region (Brazil, Mexico and Colombia), are focused on the segments of payments and remittances and loans.

There is a high presence of open banking initiatives in the region which shows the predisposition of traditional financial services for collaborating with the new players entering the market.

1. Fintech evolution in the Pacific Alliance
2. Fintech regulation overview in the Pacific Alliance
3. Guiding principles for Fintech regulation in the Pacific Alliance

Fogafín
Fondo de Garantías de Instituciones Financieras

# Fintech regulation in the Pacific Alliance – general landscape

| | E-money | Bank´s Investment in start-ups | Sandbox | Robo-Advisory | Crowdfunding | Activity oriented | DLT | Fintech law |
|---|---|---|---|---|---|---|---|---|
| **Colombia** | X | X | Superv | X | X | Only in capital markets | Monitoring | |
| **Chile** | | Only if related | | | | | Monitoring | |
| **México** | | X | X | | X | | Virtual assets | X |
| **Perú** | X | | | | | | | |

Fogafín
Fondo de Garantías de Instituciones Financieras

1. Fintech evolution in the Pacific Alliance

2. Fintech regulation landscape in the Pacific Alliance

3. Guiding principles for Fintech regulation in the Pacific Alliance

# Why the principles?

- The Council of Finance Ministers of the Pacific Alliance understood that the rapid advance of innovation in financial services can bring both benefits and challenges for the countries.

- Many of the actors that are innovating in the provision of financial services and that are structuring disruptive business models are present in several jurisdictions of the Alliance.

- For this reasons, the Council highlighted the usefulness of working in a coordinated manner in the regulatory analysis in this area, in order for governments to accompany and facilitate the innovation process based on common principles that guide the regulatory policies of each country.

- This approach can help to minimize possible regulatory arbitrations among countries.

# Objectives

The importance of Fintech regulation must respond to clear public policy objectives.
Each Country have their own but they agreed on the following:

| Promotion of innovation in the provision of financial services | Preservation of integrity and stability and consumer protection | Promotion of competition | Greater inclusion and financial deepening |
|---|---|---|---|
| Innovation can facilitate and expand the provision of FFSS, but must have a public policy focus (for regulators). | Monitoring innovation allows the analysis of risk mitigators. Consumer protection might be viewed in a different way. | Competition allows reductions in costs and increases the available supply. This facilitates access by traditionally excluded sectors. | New technologies + new players, can facilitate inclusion and financial deepening of excluded or underserved population. |

# Guiding principles for Fintech regulation in the Pacific Alliance

Fogafín
Fondo de Garantías de Instituciones Financieras

**1 Flexibility**

The dynamism of innovation requires regulation to adapt quickly to that changing environment. An approach based on general guidelines and principles should be considered. Third level regulation with the most specific details can help.

**2 Activities**

Focusing on the nature of the activity instead of the type of entity that supplies the services is vital. Same activity – same regulation, regardless of the entity.

**3 Neutrality**

Regulation must be neutral in terms of the type of technology used, allowing the use of disruptive technologies (with security standards and proper risk management).

**4 Proportionality**

Proportionality and materiality should be considered. The requirements for an activity should be determined based on the risks associated with it.

# Guiding principles for Fintech regulation in the Pacific Alliance

Fogafín
Fondo de Garantías de Instituciones Financieras

**5 Consumer Protection**

Innovation may lead to the emergence of new risks or the worsening of some others. A large part of the offer is addressed to retail clients. Protection mechanisms that address this changing environment must be analyzed and seek.

**6 Financial stability**

Innovation could lead to the emergence of micro and macro-financial risks with the potential to negatively affect the functioning of the financial sector. Risks should be monitored and assessed. Besides, prudential rules must be in place to manage the risks of the activity.

**7 Anti MLTF**

The potential anonymity or possibility of fraud (impersonation) of some Fintech activities, can turn them into a vehicle to channel money laundering and terrorist financing operations. Regulation should take into account the application of prevention measures.

**8 Cooperation – Coordinat.**

With the industry, with local authorities and with regional actors.

# References


- The state of innovation in Latin America: Lessons from innovative companies across the region. Visa by Americas Market Intelligence, 2019

- Informe Fintech en América Latina 2018: crecimiento y consolidación Bid-Finovista, 2018

- Finovista Fintech Radar 2018 (Colombia, Chile, México y Perú)

- Regulación Fintech en America Latina. Lloreda Camacho, 2018