FinTech – a new challenge for deposit insurance

Does FinTech need deposit insurance?

Dr. Jakob Schaad

13th of March 2017, Symposium EFDI/esisuisse/UFSP FinReg
Agenda

What is deposit insurance for?
Red tape: an aggravating issue
General principles of regulation
What is FinTech exactly?
The cost (benefit) of regulating FinTech lightly
Concluding remarks
What is deposit insurance for?

Why regulate?

• Protect depositors (financial safety net)

• Maintain depositor confidence in the financial system (avoid bankrun- implicit government guarantees)

• Reduce liquidity risks

• Contribute to financial stability

Lessons learnt from the financial crisis?

Source: Khalil Bendib
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Red tape: an aggravating issue

Strengths and weaknesses of Swiss regulation

- Public ownership
- State's involvement in business operation
- Complexity of regulatory procedures
- Administrative burdens on startups
- Regulatory protection of incumbents
- Explicit barriers to trade and investment
- Other barriers to trade and investment

Source: OECD
Red tape: an aggravating issue

Number of pages (in 1000) Indexed (1982=100 resp. 2009=100)

- Financial Supervisory Authority (FINMA)
- International law
- National law

Source: Linder, Hümbelin and Sutter (2011), Bundeskanzlei, Finma
Red tape: an aggravating issue

Driving forces behind increasing regulation

- Activism of administration and regulators
- Pronounced federalism
- Internationalization of regulation
- Digitalization
- Lobbying of enterprises
- Increasing demands put by the society on the state

Red tape has costly economic consequences
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General principles of regulation

**Potential market failure**
- Public goods (Security)
- Externalities (Pollutant emissions)
- Natural monopolies (Power grid)
- Asymmetric information (moral hazard & adverse selection)
- Coordination failure (land use planning)

**Potential State failure**
- Inefficient service provision (Hospitals)
- Rent-Seeking (Agro-Lobbying)
- Market-distorting regulations (Overcapacity in the electricity market)
- Administration’s self-interest (increase of regulators)
- Dynamic inefficiency (technology ban)

**State intervention**
## General principles of regulation

### Our agenda for better regulation

<table>
<thead>
<tr>
<th>Mandatory regulatory brakes</th>
<th>Chances / Risks</th>
<th>Effect</th>
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<tbody>
<tr>
<td>«Opting out» - &amp; «Sunset»-Clauses</td>
<td>Chances &amp; Risks balanced</td>
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<td>– «One-in, one-out»</td>
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<td>– Regulatory brake for the whole economy</td>
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<th>Better governance</th>
<th>Chances / Risks</th>
<th>Effect</th>
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<tr>
<td>– Quality-Check in early phases</td>
<td>Chances outweigh risks clearly</td>
<td>High</td>
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<td>– Focusing &amp; standardization of RIA</td>
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<td>– Independent regulatory policy committee</td>
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<th>Subsidiarity &amp; Sovereignty</th>
<th>Chances / Risks</th>
<th>Effect</th>
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<tr>
<td>– More subsidiarity &amp; competition</td>
<td>Chances outweigh risks</td>
<td>average</td>
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<td>– Mandatory involvement of Parliament</td>
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<td>– Equivalence yes, Swiss-Finish no</td>
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Source: Own representation
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What is FinTech exactly?

Source: WEF
What is FinTech exactly?

Digitalization of the financial industry
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FinTech Hub Ranking der Rahmenbedingungen

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<thead>
<tr>
<th>Rang</th>
<th>Region</th>
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<tbody>
<tr>
<td>1</td>
<td>Singapore</td>
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<tr>
<td>2</td>
<td>Amsterdam / Netherlands</td>
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<td>3</td>
<td>New York City / US</td>
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<td>San Francisco / US</td>
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<td>18</td>
<td>Mumbai / India</td>
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Source: IFZ FinTech Study 2016 (Dr. Thomas Ankenbrand und Denis Bieri, Lucerne University)
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Thank you for your attention

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