



Deposit
Insurance
Agency

Financial Innovations: Risks and Opportunities

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FinTech is an industry composed of companies that use technology to make financial systems and the delivery of financial services more efficient

- **Over 2.5 thousand FinTech companies worldwide**
- **Over \$22.3 billion – investments in 2015** (*Accenture*)
- **Over \$17.8 billion – investments in January-September 2016** (*The Pulse of Fintech, Q3 2016, KPMG International and CB Insights*)
- **Up to 30 percent of employees in the banking industry might lose their jobs to new technologies in the next decade** (*Citi GPS : Digital Disruption, March 2016*)
- **Banks in Europe and the United Kingdom have \$35 billion, or 31 percent, of profits at risk; more severe digital disruption could further cut their profits from \$110 billion today to \$50 billion in 2020** (*A brave new world for global banking: McKinsey global banking annual review 2016*)
- **Hundreds of million customers** and potential customers

This is FinTech (2)



While FinTech covers a diverse array of companies, business models and technologies, companies generally fall into several key verticals, including:

- **Lending tech:** Lending companies include primarily peer-to-peer lending platforms as well as underwriter and lending platforms using machine learning technologies and algorithms to assess creditworthiness
- **Payments/billing tech:** Payments and billing tech companies span from solutions to facilitate payments processing to payment card developers to subscription billing software tools
- **Personal finance/wealth management:** Tech companies that help individuals manage their personal bills, accounts and/or credit as well as manage their personal assets and investments
- **Money transfer/remittance:** Money transfer companies include primarily peer-to-peer platforms to transfer money between individuals across countries
- **Blockchain/bitcoin:** Companies span key software or technology firms in the distributed ledger space, ranging from bitcoin wallets to security providers to sidechains
- **Institutional/capital markets tech:** Companies either providing tools to financial institutions such as banks, hedge funds, mutual funds or other institutional investors. These range from alternative trading systems to financial modeling and analysis software
- **Equity crowdfunding:** Platforms that allow a collection of individuals to provide monetary contributions for projects or companies provisioned in the form of equity
- **InsurTech:** Companies creating new underwriting, claims, distribution and brokerage platforms, enhanced customer experience offerings and software-as-a-service to help insurers deal with legacy IT issues

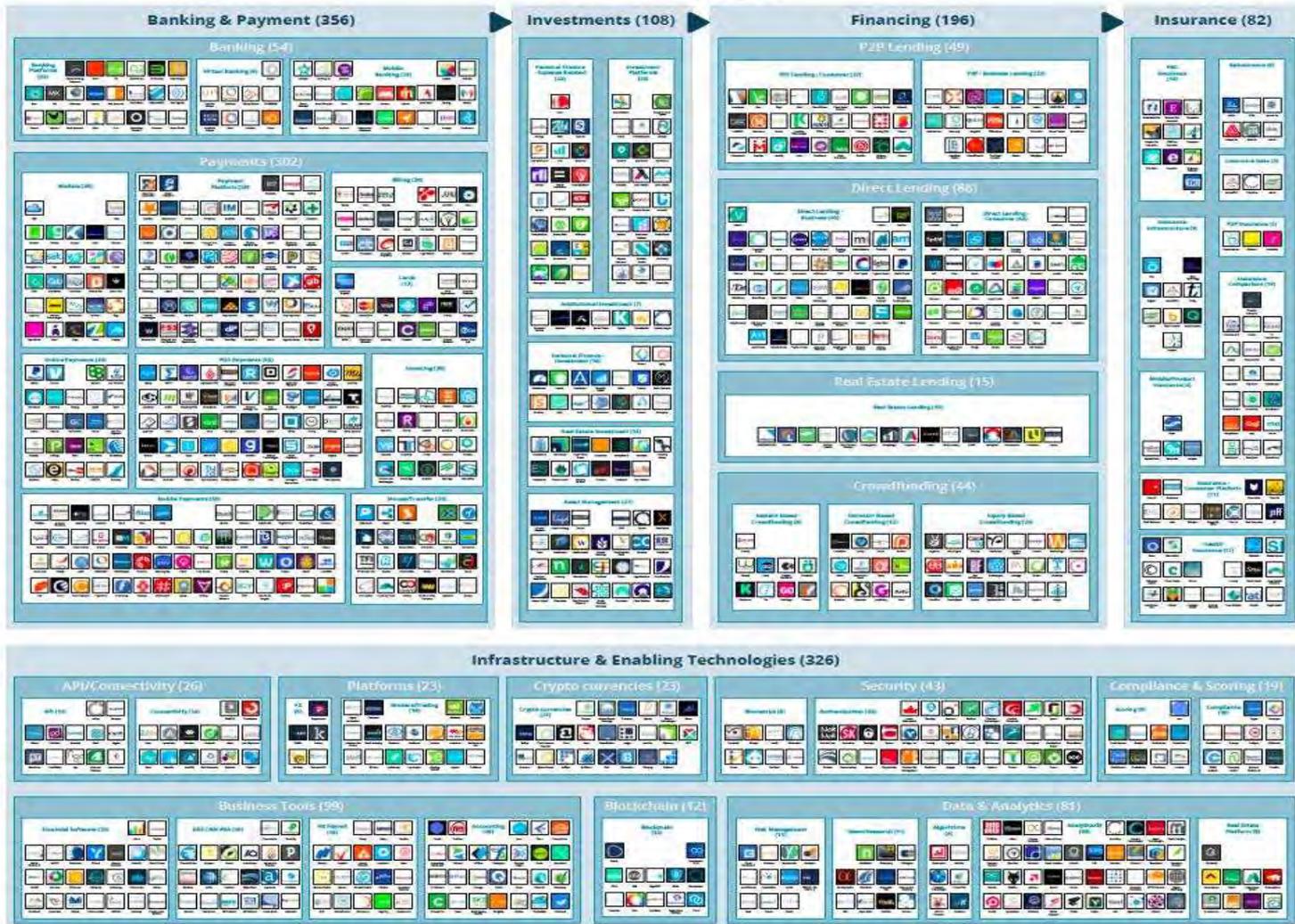
*The Pulse of Fintech, Q3 2016, KPMG International and CB Insights

This is FinTech (3)

DESIGNED BY
PIERRE DREUX

Fintech Landscape

POWERED BY
VB Profiles

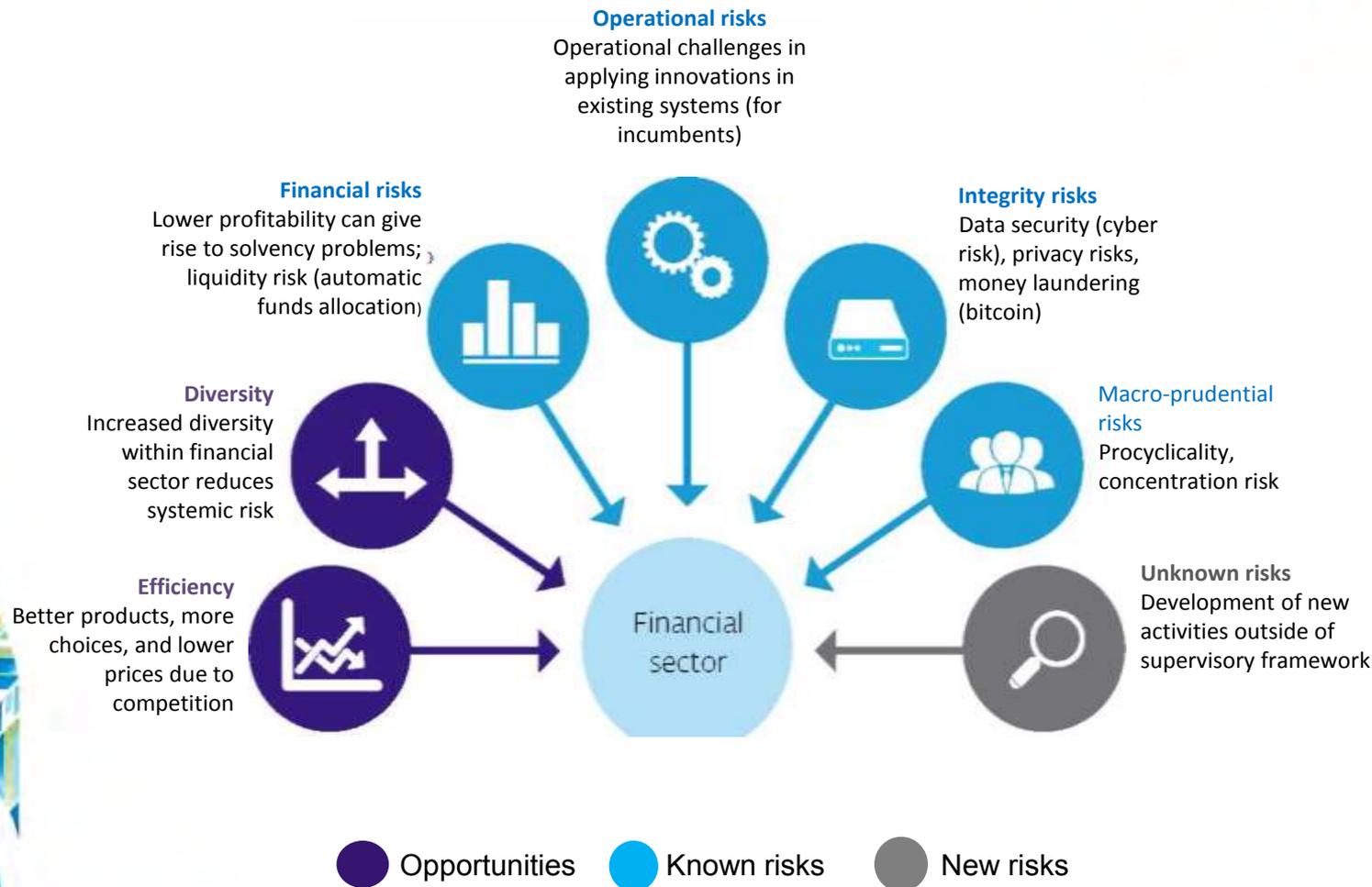


Why FinTech is a Consumers' Choice?



Source: Banking Tech

FinTech: Major Opportunities and Risks*



*Technological Innovation and the Dutch Financial Sector, De Nederlandsche Bank

Why Financial Safety-Net Should Care?

- **FinTech companies (disrupters) use technology to compete with incumbents (existing providers of financial services: banks, insurers, etc.):**
 - **They sell similar products and/or services but have much lower overheads and compliance costs;**
 - **They operate at the same markets and can seize some market share;**
 - **Blockchain and distributed ledgers are innovations that can potentially disrupt many areas of the financial industry.**
- **Fintech and incumbents are connecting in multiple ways:**
 - **Incumbents invest in fintech companies;**
 - **Incumbents establish start-up programs to incubate fintech companies;**
 - **Incumbents partner with fintech companies;**
 - **Incumbents acquire fintech companies;**
 - **Incumbents launch own fintech solutions.**



Financial Safety-Net New Mandate?

“We need to monitor and act on risks as they emerge but we need to balance this against the need to allow the development of technologies that can provide real benefits for society” (Svein Andersen, Secretary General, Financial Stability Board)



Traditional Mandate:
Financial stability
Consumer protection



New Mandate:
Promote innovation
and competition

- **Financial Stability Board:**
 - ***Financial Innovation Network*** (founded in 2012 with exclusive focus on financial innovation – 41 members from 21 countries and 8 international organizations
 - G20 High Level Principles for Digital Financial Inclusion
 - ***FSB's Fintech Work Plan***: Actively monitor fintech to assess developments and to help policymakers articulate a consistent and well thought out posture towards fintech:
 - ***Stocktaking*** (Member activities, Innovation facilitators, Experiments with DLT);
 - ***Broad analysis*** (Key elements of fintech, Key regulatory issues arising from Fintech);
 - ***In-depth analysis*** (P2P lending, Machine learning);
 - ***Industry outreach*** (Continuous activity)
- **CPMI-IOSCO Working group on digital innovations** set up in 2015
- **World Economic Forum** (Davos)
- ...
- **IADI – Subcommittee on Financial Inclusion and Innovation**

- **United Kingdom**
 - **FCA's Project Innovate** (Innovation Hub, regulatory sandbox, Regtech...)
- **US**
 - **FRS's Fintech High-Priority Initiative** (working group)
 - **OCC** (considers limited-purpose national bank charter and regulatory sandbox)
 - **CFPB** (Project Catalyst – stakeholder engagement, coordinating with government agencies, fostering consumer-friendly innovations, pilots...)
- **Australia**
 - **ASIC – Fintech Exemption Instruments** (sandbox) (December 2016)
- **Singapore**
 - **MAS's Fintech Regulatory Sandbox Guidelines** (November 2016)
- **Japan**
 - **BOJ's FinTech Center** (facilitator) (April 2016)
- **Malaysia**
 - **BNM's Fintech Regulatory Sandbox Framework** (October 2016)
- **Indonesia**
 - **Bank Indonesia's Fintech Office** (November 2016), **Fintech Regulation #18** (special business license)
- **Thailand**
 - **BOT Regulatory Sandbox** (investment advisors, P2P lending, access to credit bureaus, promotion of investments in fintech)
- **Netherlands**
 - **DNB and AFM – Regulatory sandbox, partial authorization** (January 2017)

FinTech Landscape in Russia

КАРТА FINTECH РЫНКА



BANKIR.RU

FinTech accelerators, FinTech Association (December 2016)...

Задача данной карты — представить существующие на российском рынке молодые проекты, развивающие финансовые технологии, а также существующую инфраструктуру поддержки: венчурные фонды, институты развития, акселерационные программы, вузы и др.

How we can protect depositors and other financial services customers:

- If they know only an app on their smartphone but do not know which bank holds their money?
- If they do not have any physical documents that confirm their relationship with a failed bank?
- If all their transactions are electronic and they are not in the failed bank's books?
- If the failed bank's IT and records are missing/destroyed?
- If it is an account for crowdfunding?
- If they use digital (not real) money?
- If they use deposit-like financial product not yet protected by the deposit insurance system?

And many many other questions...



DIA Russia's Approaches to Innovations

DIA Corporate Plan
2016-2020

DIA Innovation Strategy
2017-2020

DIA Committee on Changes
(since Dec. 2016)

- Fail-safe IT infrastructure
- Management of all databases of liquidated FIs
- Integration trunk line to databases and software of liquidated FIs
- Automation of systematization, search and analysis of data
- Digitalization of interaction with all types of counterparties
- Modernization of asset management system
- Adoption of knowledge management portal
- Reengineering of business processes

