FinTech: What is it and what are we doing about it?

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Disclaimer

The views presented in this presentation are my own and should not be taken to represent the views of the Board of Governors or the Federal Reserve System.
Outline

• What is it?
• Why the hype?
• How are policymakers responding?
FinTech – A Definition

“Technologically-enabled financial innovation...with an associated material effect on financial markets and institutions and the provision of financial services” - FSB
ATMs
Digital Currencies
Distributed Ledgers
Online marketplace lending
Equity Crowdfunding
Machine Learning
FinTech – Why the hype?

FINTECH!!!
FinTech – Why the hype?

A building analogy

Foundation

Superstructure

Features
FinTech – Why the hype?

Financial innovation is like a building

• You can start with an existing superstructure and change the features

• You can start with a financial product and change the features

  – e.g. a corporate bond can be made callable, putable, extendable, etc.
Financial innovation is like a building

• To make bigger change you need to change the superstructure
  – You create new products like securitizations, credit default swaps, etc.
  – Then you can add new features to those new products
FinTech – Why the hype?

Financial innovation is like a building

• To make the biggest changes you need to change the foundation
  – You change the infrastructure on which the financial system is built
  – You build new products on the new foundation
  – Then you add features to the new products
**FinTech – Why the hype?**

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<th>Foundation</th>
<th>Superstructure</th>
<th>Features</th>
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<td>Distributed Ledger Technology</td>
<td>Digital Currencies</td>
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<td>Smart contracts</td>
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FinTech – Why the hype?

FinTech has a greater capacity to transform the financial system because many FinTech innovations are at a deeper level than ‘traditional’ financial innovation.
Policymaker Actions

- FSB asked members to categorize themselves with respect to FinTech-related regulatory changes
  - Made changes
  - Planning changes
  - Affirmatively decided against changes
  - Researching/Experimenting FinTech
Policymaker Actions

Institutions in 20+ countries have made or are planning changes
Policymaker Actions

• Actions can be characterized
  – Facilitating innovation
  – Issuing definitions and clarifications
  – New rules and restrictions

• Actions focused on
Policymaker Actions - Examples

• Facilitating Innovations
  – Innovation hubs
  – Regulatory Sandboxes
  – Accelerators
  – Facilitation offices
Policymaker Actions - Examples

• Definitions and clarifications
  – New definitions (e.g., UK and payments systems, Switzerland and banking law)
  – Regulatory authority assigned (e.g., Argentina and crowdfunding)
  – Guidance issued (e.g., Australia and P2P and roboadvice, UK FCA and cloud providers, Korea and big data)
  – Establishing regulatory framework (e.g. France and crowdfunding, Japan and VCs)
Policymaker Actions - Examples

• Rules and restrictions
  – Registration/licensing requirements (e.g., China and P2P, Hong Kong and payments systems)
  – Restrictions on activity (e.g., China and P2P)
  – Establishing rules (e.g., Italy and equity crowdfunding, Mexico and e-money)
  – Technological standards (e.g., Pakistan and mobile banking interoperability)
  – Limits (e.g. U.S. SEC and crowdfunding)
Policymaker Actions - Motivation

• Motives for change
  – Explicit mandate to foster financial innovation
  – Investor/consumer protection
  – Financial inclusion
  – Market integrity
  – ...
  – Financial stability
Policymaker Actions

- Some are experimenting
  - Project Jasper and Project Ubin
  - Sweden’s e-Krona project
  - U.S. Faster Payments Initiative
Policymaker Actions

• Not everyone is taking action

• Some have decided not to make any changes
  – One country noted that in EU law ‘traditional’ and ‘FinTech’ entities are indistinguishable
  – Several smaller countries noted that the amount of activity did not warrant action

• Others have not reached that decision
Policymaker Action – U.S.

• All authorities are working on it
  – SEC issued some crowdfunding rules
  – CFPB created Project Catalyst
  – OCC proposed a FinTech charter
  – Treasury issued a report on marketplace lending
  – Federal Reserve has a high priority initiative on FinTech