

Statement to the European Parliament Committee on Economic and Monetary Affairs
Public Hearing on Fintech

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Good afternoon and thank you for extending me the honour of being asked to address this committee.

Since January of 2014 the World Economic forum has been investigating how technology is transforming the structure, distribution and consumption of financial services. As part of this work, we have conducted over 300 expert interviews and numerous multi-stakeholder workshops around the world to better understand the implications for the financial ecosystem.

As the lead for this initiative, it is my strong belief that fintech innovations have the potential to enable improved customer outcomes, more efficient financial institutions and even a more stable financial system. However, as with any innovation, new opportunities go hand in hand with new challenges and a balanced approach in addressing those challenges by policy-makers such as yourselves will be critical to unlocking the potential of fintech.

In the time allotted I would like I would like to outline three distinct areas of innovation in financial services that we have observed and suggest a principle of good governance related to each.

Customer Experience:

The first area of innovation is the transformation of the customer experience. This has been driven primarily by agile new firms, often called “fintechs”. These firms have deployed highly focused business models targeting the intersection of customer frictions and incumbent profit pools. Examples of these new products and services range from streamlined cross border payment providers, to online lenders that decrease small businesses’ lead time to access working capital.

These new firms can serve the interests of consumers but like all financial institutions must be monitored to ensure their offerings are suitable and fair. Good governance should occur under a principle of active engagement. Outreach by regulators through “office hours” for regulatory advice that new firms might otherwise find it difficult to access can support regulator’s visibility into the landscape of emerging innovations and foster the development of positive relationships. This technique has been pioneered with great success by the CFPB in the United States and has been adopted by many regulators around the world.

Operational Efficiency and New Capabilities:

The second area of innovation is within the operations of existing financial institutions. Developing operational agility and reducing costs is a key priority for incumbents, but is made difficult by the presence of legacy information technology systems and organizational structures rightfully focused on controlling risk. In response, an array of business facing fintech firms have emerged, offering to help incumbents streamline processes and add capabilities in everything from customer analytics to regulatory compliance.

Good governance of this transformation will require policy-makers to enable exploratory partnership between incumbent organizations and fintechs. An excellent example of this can be seen in the new regulatory sandbox of the UK's Financial Conduct Authority which creates a safe space for institutions of any size – as well as partnerships between large and small institutions – to test innovative products and services in a live environment.

New financial infrastructure:

Finally, there is a growing awareness that distributed ledger technologies like blockchain could enable the re-invention of the infrastructure connecting financial institutions. This transformation has the potential to re-draw the map of financial services; upending assumptions foundational to many financial business models, and enabling new capabilities like discretionary settlement times.

I believe that good governance of new financial infrastructure build-outs will require active participation by financial regulators and supervisors. These developments represent a once in a generation opportunity to introduce mechanisms that will foster a more transparent, fair and systemically stable financial system. Regulators, supervisors, and policymakers should embrace this opportunity – keeping an open mind to the architecture of new infrastructure – while also bringing to the table their own requests for capabilities that will enable them to more effectively monitor and respond to the emergence of risks in the financial system.

Thank you for your time and attention – I would welcome any questions.