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Carney on fintech: quid pro quo

Blog post by Adviser Leo Ringer, 26 January 2017

Yesterday in Wiesbaden, Bank of England Governor and Financial Stability Board (FSB) Chair Mark Carney gave the clearest articulation yet of how financial regulators are weighing the future of fintech. While at pains to predict a "shining future" for financial disruption, he put both innovators and incumbents on notice. The speech gave us three clues about what he and the FSB might conclude when they report to the G20 on fintech in July.

First, Carney is worried primarily about financial stability risks, and to a much lesser degree what the institutions that create them look like. The fact that fintech is characterised by new forms of institution – platforms, apps, "hubs" - matters little to him if the risks they create are ones we are familiar with. And he is minded to believe that "there is nothing new under the sun" when it comes to finance and its risks.

Many fintechs will be relieved. The prospect of being treated more sceptically by regulators, where the activities they carry out and the attendant risks are the same as incumbent institutions, is a perennial concern. Carney is carefully and deliberately saying "I get you".

But others will be concerned. The flipside of Carney's coin is that where fintech activities, for example, "constitute traditional banking activities by another name", they should be regulated as such. Just as there should be no regulatory downside to looking different but doing the same thing, there should be no upside either.

Second, Carney has his eye on the whole financial services industry, not just on fintechs themselves. He argues that where fintech interfaces with the systems of existing regulated firms, supervisors may need to change requirements for "*those firms*" – the incumbents. For those still reeling from the post-crisis wave of regulatory change, the prospect of another wave, this time driven by fintech, will not be welcome.

But Carney isn't just interested in where incumbents are exposed to the risks of including fintech within their systems and products, but also to where they are at risk of total market disruption. To illustrate, he describes a transformed future in which fintech could "signal the end of universal banking as we know it", meaning less stable funding, weaker client relationships, deposit volatility and greater liquidity risk. The necessary response would be to tighten prudential standards and resolution regimes – as clear as it gets in terms of prudential forward guidance.

Third, Carney thinks that fintech can make the financial system more "efficient, effective and resilient". In other words, as a financial stability regulator he has something to gain as fintech develops, as well as something, potentially, to lose. He cites as examples more accurate credit scoring, seamless real-time payments, and greater security and efficiency in clearing and settling.

The fact that fintech contains a financial stability offer for central bankers and regulators is important. Finance and economic ministries have been keen to encourage the rapid growth of fintech, seeing it as a new industry capable of providing jobs and growth. But jobs and growth are

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things that financial regulators rarely worry about – often, as in the UK, because these objectives are not part of their statutory frameworks. This often leads to the accusation that regulators inevitably prefer “the stability of the graveyard” to anything dynamic but containing risk.

In arguing that fintech contains deep value for global financial stability, as well as growth, Carney is arguing that regulators, as well as economics and finance ministers, should be motivated to nurture and develop it – playing “essential, supporting roles”. The industry will hope that if the FSB’s conclusions to the G20 in July contain this argument as explicitly as Carney made it yesterday, that it will trickle down quickly to regional and national policymakers. Those in the EU will be hoping that the members of the Commission’s new Task Force on Fintech are listening.

Benchmarked ranking of fintech ecosystems
(1=highest, 9=lowest)

Region	Talent	Capital	Policy	Demand	Total points
UK	2	3	1	3	9
California	1	1	6	2	10
New York	3	2	7	1	13
Singapore	4	7	2	6	19
Australia	5	5	3	7	20
Germany	6	4	5	5	20
Hong Kong	7	6	4	4	21

Source: EY

Rankings:
Talent *- Availability / Talent pipeline*
Capital *- Seed / Growth / Listed*
Policy *- Regulatory regimes / Government programmes / Taxation policy*
Demand *- Consumers / Corporates / FIs*

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