



Fintech Credit Development and Financial Stability Implications

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Dirk Jan Grolleman
Sr. Financial Sector Expert
Monetary and Capital Markets Department

Agenda

- 1) What is Fintech credit
- 2) Fintech credit business models
- 3) Fintech credit development and characteristics
- 4) Fintech credit regulation
- 5) Financial stability implications of Fintech credit

What is Fintech Credit?

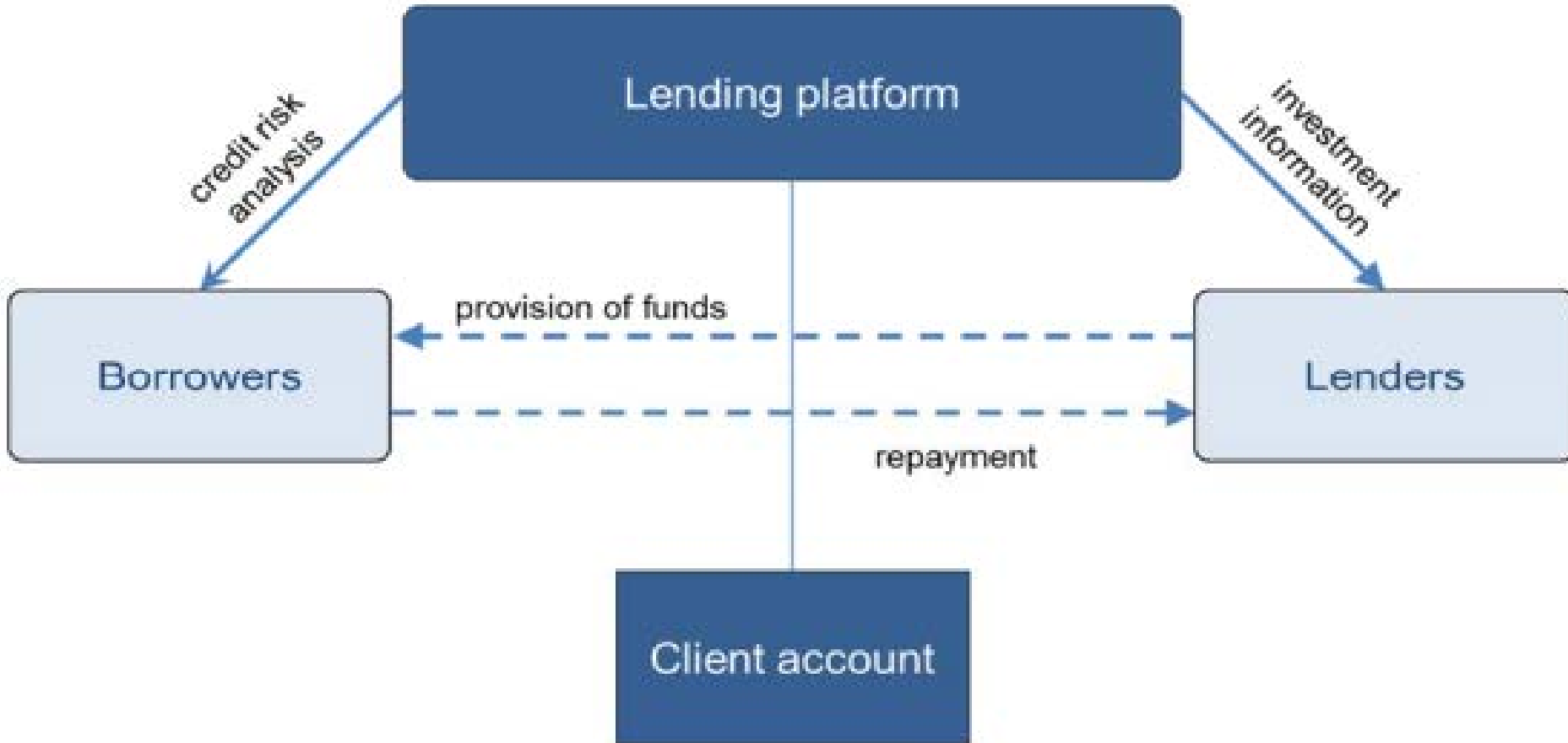
There is no internationally agreed definition of fintech credit.

FSB/BCBS define fintech credit broadly to include all credit activity facilitated by electronic (online) platforms that are not operated by commercial banks.

This definition of fintech credit encompasses all credit activity facilitated by platforms that match borrowers with lenders (investors). Depending on the jurisdiction, these platforms are referred to as “peer-to-peer (P2P) lenders”, “loan-based crowdfunders” or “marketplace lenders”. It also includes platforms that use their own balance sheet to intermediate borrowers and lenders. In principle, the credit activity of platforms provided by technology companies can also be included.

What is P2P or platform lending?

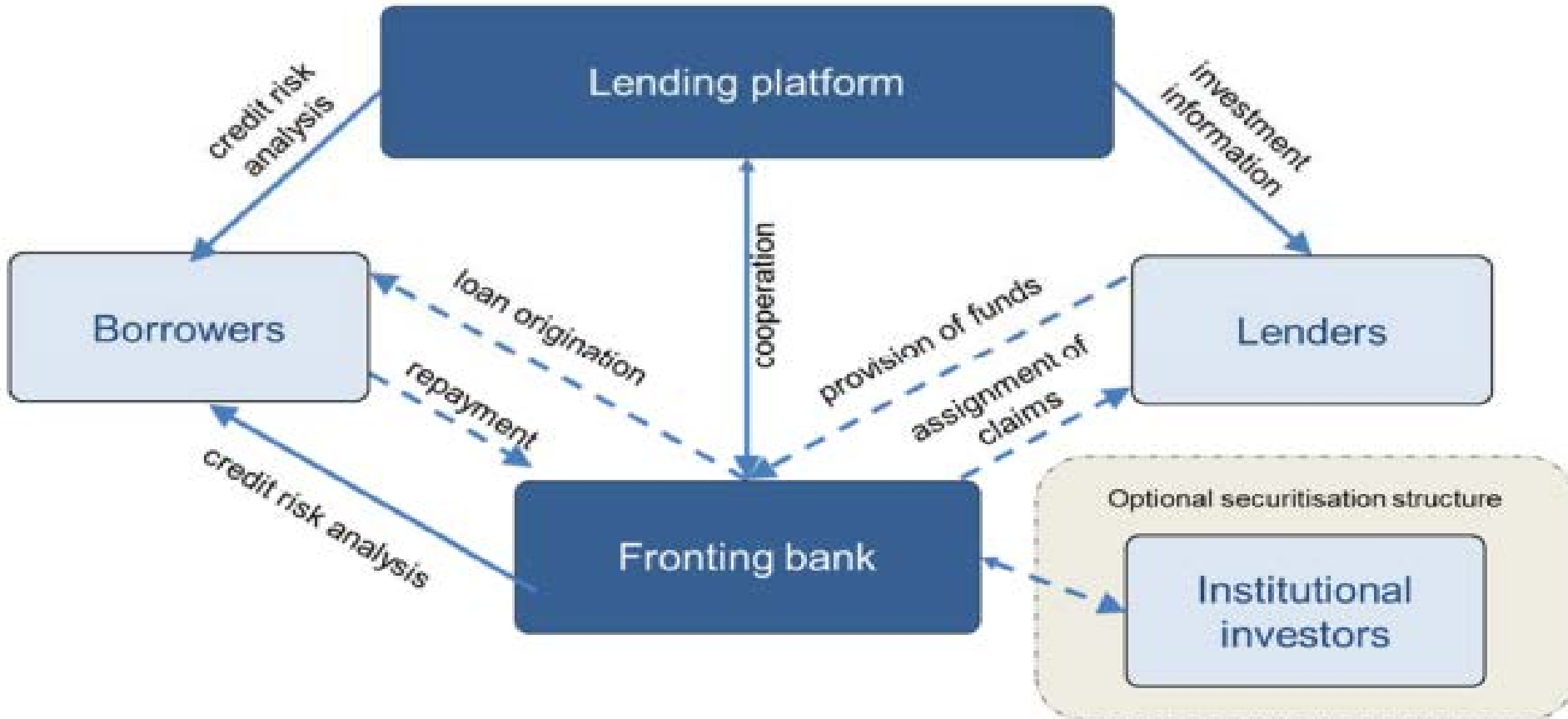
Stylized example traditional P2P lending model



Source: <https://www.fsb.org/2017/05/fintech-credit-market-structure-business-models-and-financial-stability-implications/>

What is P2P or platform lending?

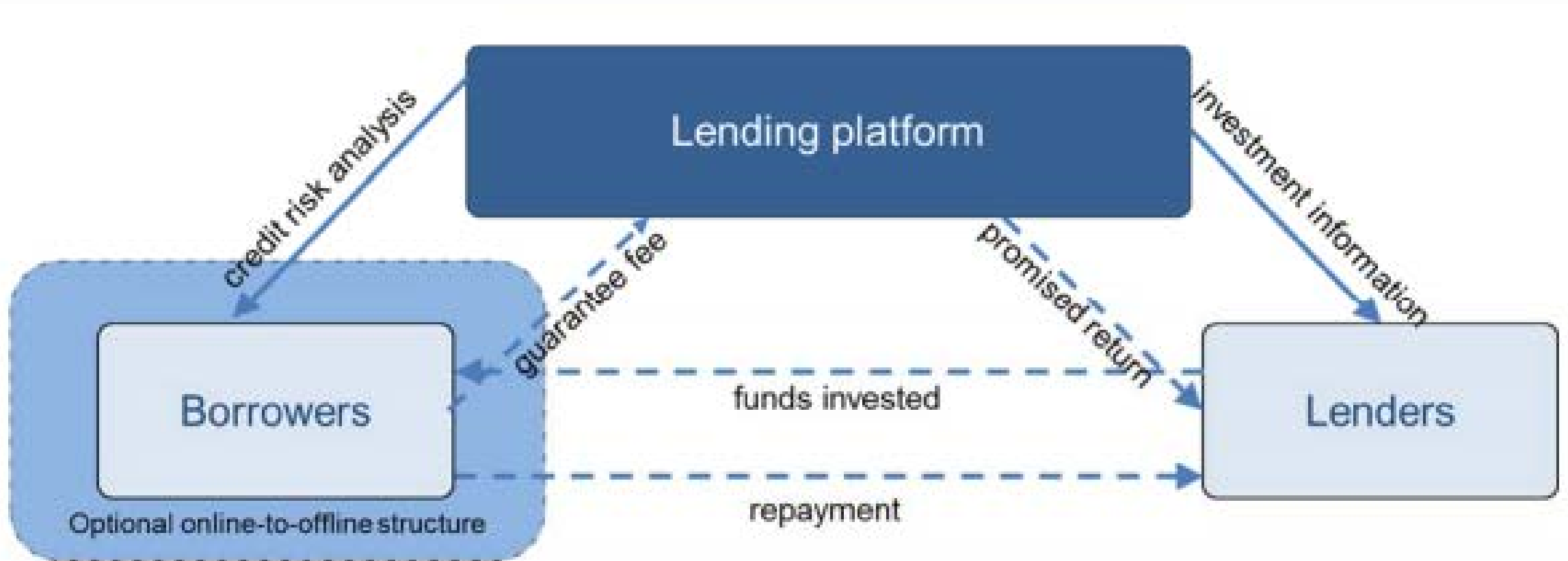
Stylized example the notary lending model



Source: <https://www.fsb.org/2017/05/fintech-credit-market-structure-business-models-and-financial-stability-implications/>

What is P2P or platform lending?

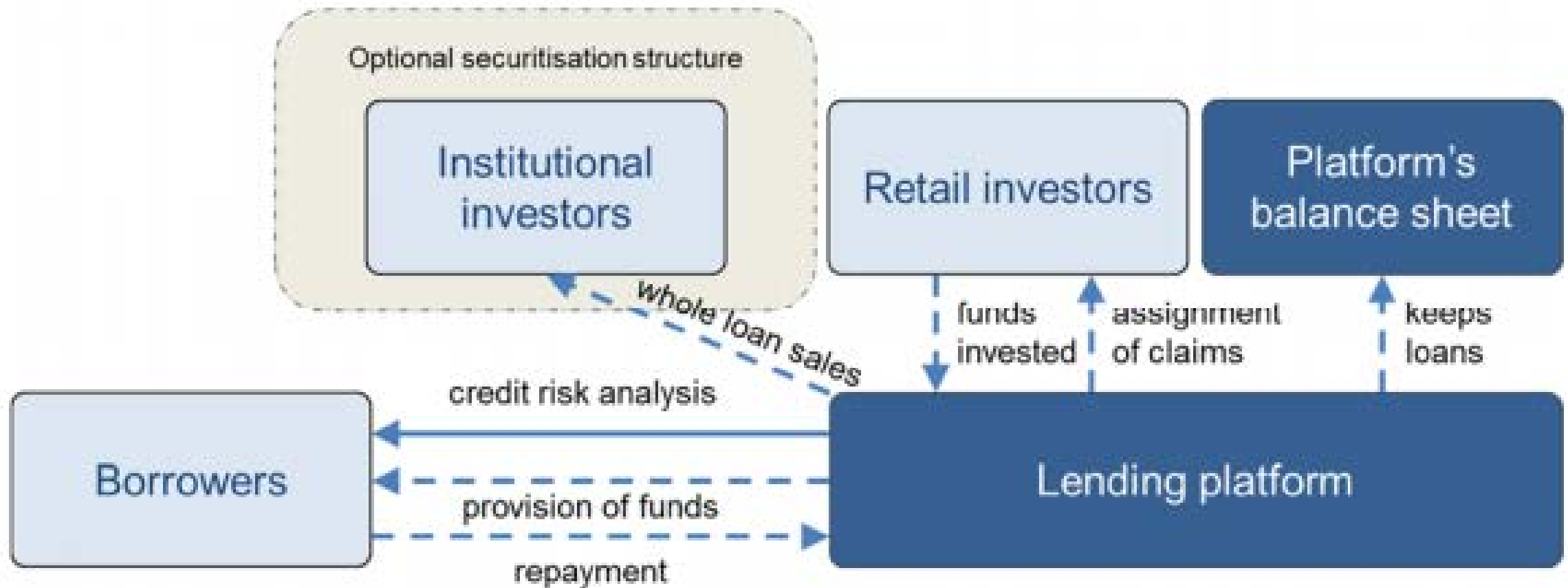
Stylized example guaranteed return model



Source: <https://www.fsb.org/2017/05/fintech-credit-market-structure-business-models-and-financial-stability-implications/>

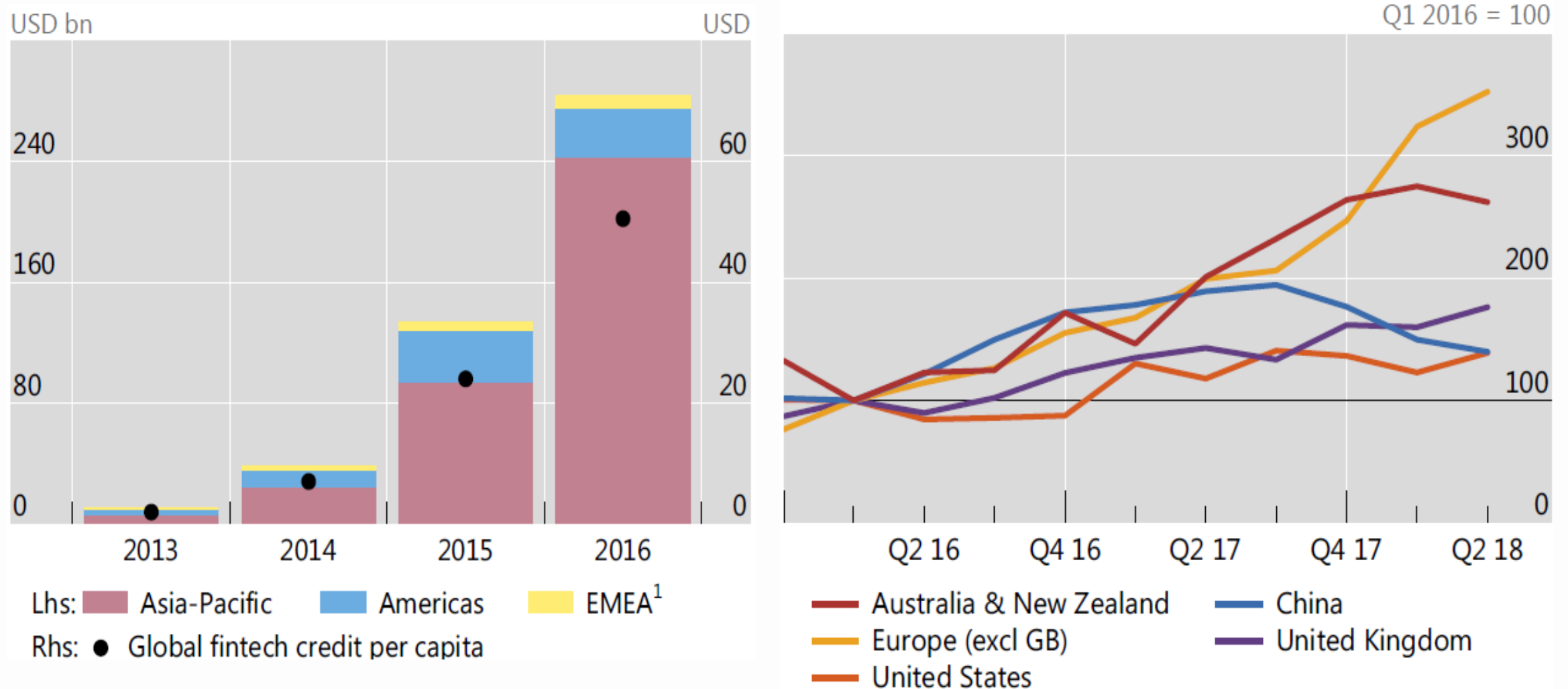
What is P2P or platform lending?

Stylized example balance sheet Fintech lending model



Source: <https://www.fsb.org/2017/05/fintech-credit-market-structure-business-models-and-financial-stability-implications/>

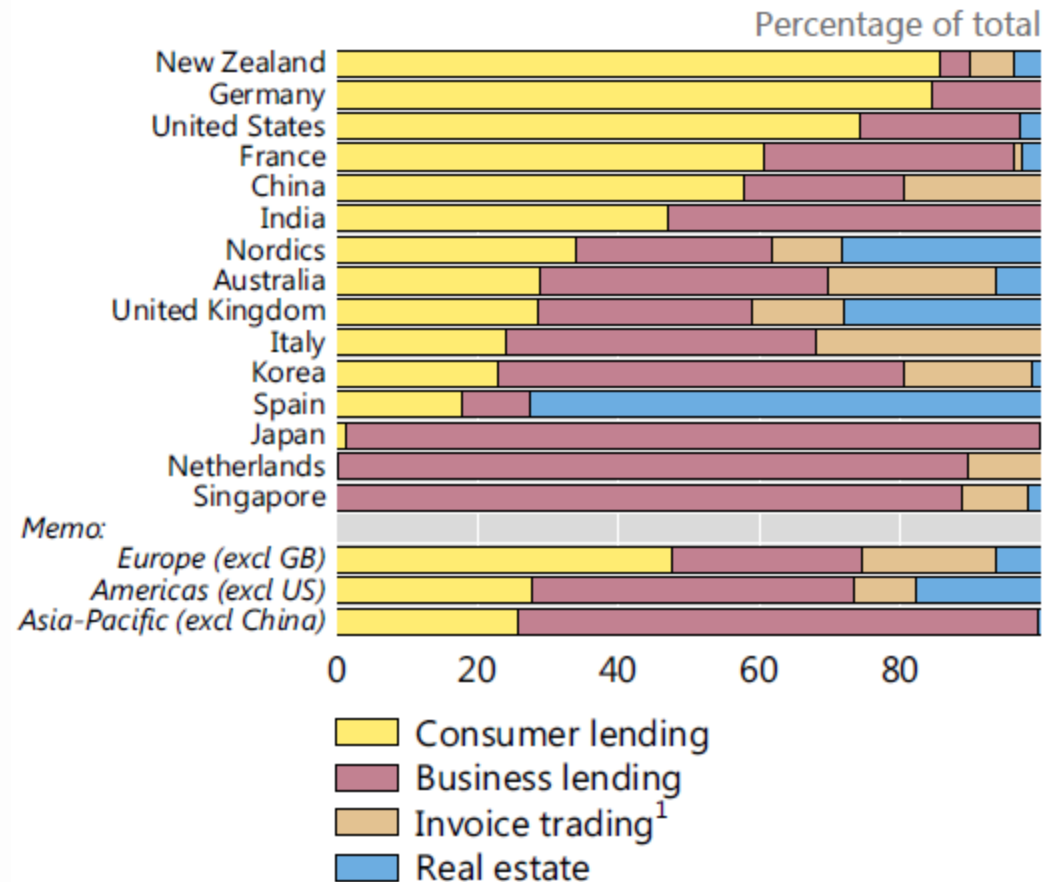
Global Volume of New FinTech Credit



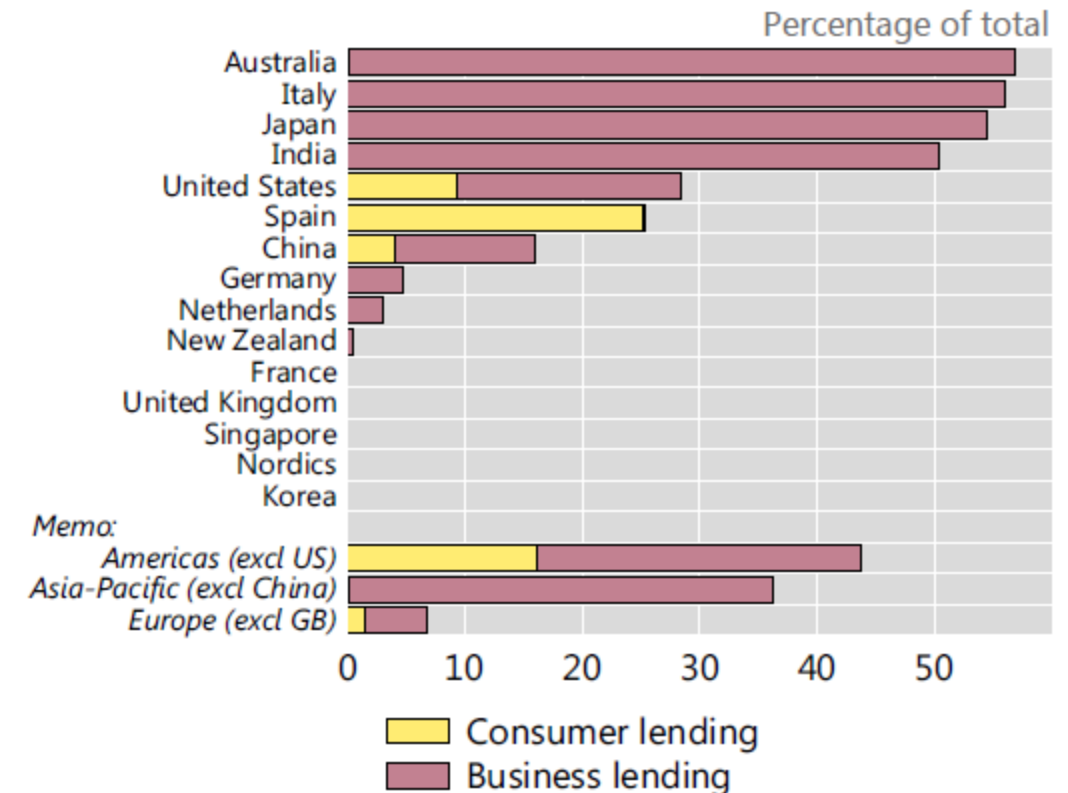
Source: "Fintech credit markets around the world: size, drivers and policy issues," *BIS Quarterly Review*, September 2018.

Fintech Credit Characteristics Differ Across Countries

Volumes in 2016 by borrowing sector, ranked by consumer lending



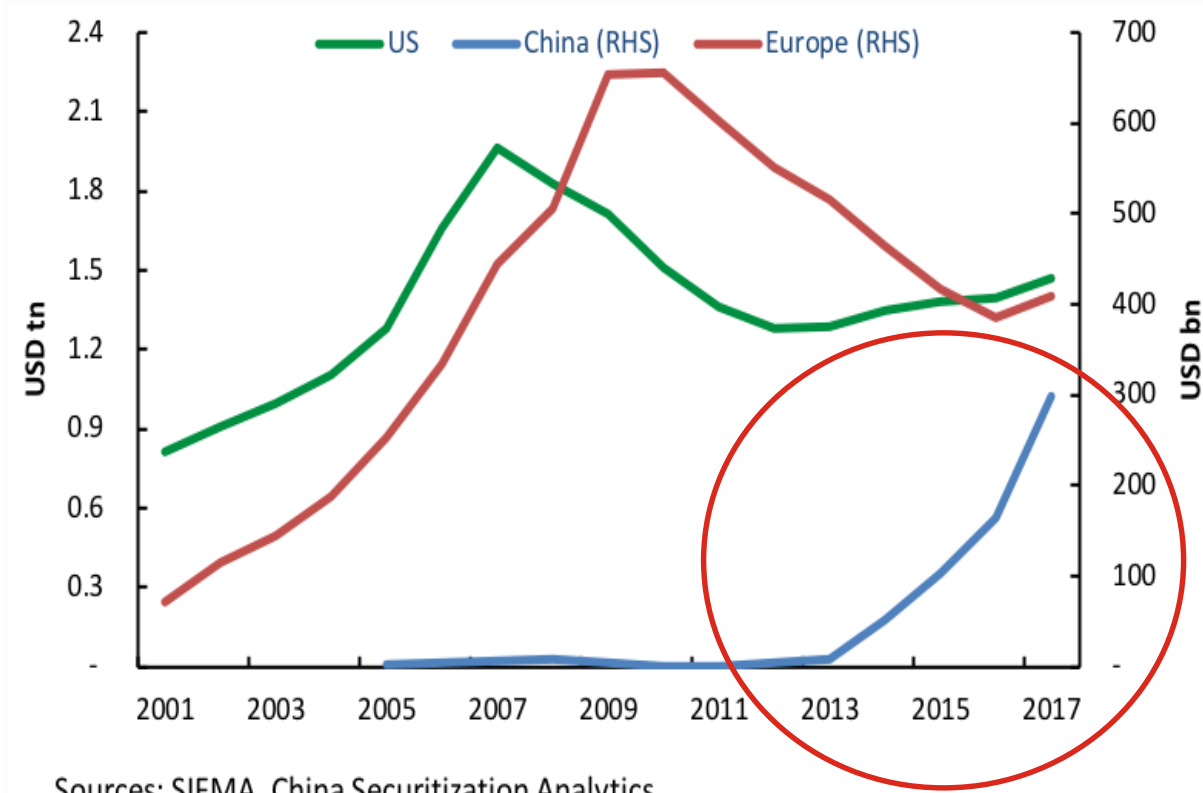
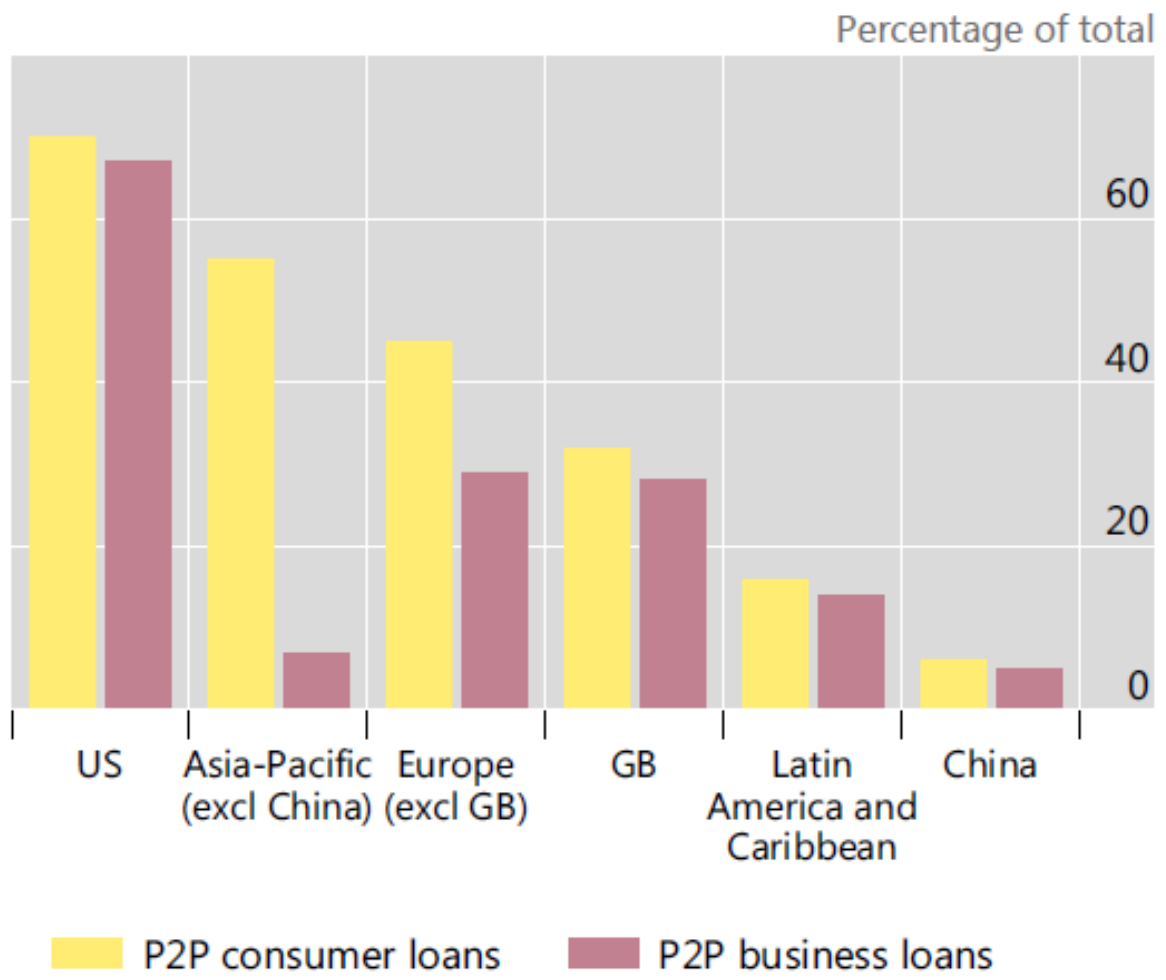
On-balance lending platform volumes in 2016, ranked by highest share



Source: "Fintech credit markets around the world: size, drivers and policy issues," *BIS Quarterly Review*, September 2018.

Investment Activity in FinTech Credit Platforms

Institutional creditor funding in P2P lending in 2016¹



Source: "Fintech credit markets around the world: size, drivers and policy issues," *BIS Quarterly Review*, September 2018.

Regulation of Fintech Credit Platforms

Regulation of Fintech credit has similarities with regulation of securities intermediaries

Adequately covered by existing regulation or new regulation needed?

Key issues to cover in regulation:

- Consumer protection (addressing overindebtedness concerns)
- Investor protection (e.g. disclosures, segregation of assets)
- Market integrity (similar to insider trading)
- AML/CFT (difference in requirements between borrowers and investors)
- Wind-down of operations (what happens when the platform fails?)

Regulation of FinTech Credit Platforms

Jurisdiction	Tax incentives	Regulations ¹	Licensing / authorisation ¹	Investor protections ¹	Risk management requirements ¹
Australia	—	—	—	—	—
Brazil	—	✓	✓	✓	—
Canada	—	—	—	—	—
Chile	—	—	—	—	—
China	✓	✓	✓	✓	✓
Estonia	—	—	—	✓	—
Finland	—	✓	✓	—	—
France	✓	✓	✓	✓	✓
Germany	—	—	—	—	—
Japan	✓	—	—	—	—
Korea	—	—	—	—	—
Mexico	—	✓	✓	—	✓
Netherlands	—	—	—	✓	—
New Zealand	—	✓	✓	—	✓
Singapore	—	—	—	—	—
Spain	—	✓	✓	—	✓
Switzerland ²	—	✓	✓	✓	✓
United Kingdom	✓	✓	✓	✓	✓
United States	—	—	—	—	—

¹ Specific rules for fintech credit that are separate from pre-existing rules for other financial intermediaries. ² New rules effective from 2019.

Sources: CGFS-FSB (2017); national authorities

Source: “Fintech credit markets around the world: size, drivers and policy issues,” *BIS Quarterly Review*, September 2018.

Financial Stability Implications

Still too early to properly evaluate the impact on financial stability

Potential issues relate to:

- Increased indebtedness borrowers with increased default probabilities
- Fintech credit provision could be more procyclical than traditional credit provision
- Credit provision outside the regulatory perimeter could limit the effectiveness of macroprudential policy (e.g. in times of rapid credit expansion)
- If disruption occurs too quickly it could affect incumbents and in particular the other critical services these provide (needs monitoring)

