Financial Technology. Do the risks outweigh the opportunities?
New School of Public Policy report

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Calgary- Fintech (short for financial technology) can lower the costs of financial services and products, enhance transaction speed and scope, increase credit access, and facilitate more efficient financial intermediation. However, it also poses unique new risks, not otherwise present in the financial system.

Today, The School of Public Policy and author Ryan Clements released a report that compares the fintech industries in Canada and the United States. The report shows the challenges for regulators in both jurisdictions for enacting policy guidelines, procedures and rules to mitigate fintech's unique new risks while ensuring stable and economically productive markets, and a healthy ecosystem for ongoing innovation.

According to Clements "The market environment and regulatory approaches in Canada and the U.S. are similar but not uniform. Each jurisdiction faces different challenges and opportunities. The speed and complexity that this new wave of fintech has expanded throughout North America and the world, in just a few years, has created regulatory challenges for authorities in the U.S. and Canada. Fintech has many potential risks. If this revolution is not managed well, the results could be serious, including the risk of destabilizing the financial system."

Fintech creates new types of risks. When banks internally adopt fintech innovations into their existing processes and services there is cyber-risk and customer data vulnerability through new interface technologies, and risk to the stability of the financial system if more riskier borrowers are quickly approved for credit using algorithmic processes. Banks partnering with technology companies must also monitor and manage third parties. This requires heightened due diligence and ongoing monitoring costs.

Fintech innovations promoted outside the big banks by new, consumer-facing firms also present challenges. Among these are increased moral hazard in peer-to-peer lending, the move toward higher-speed transactions (such as faster loan approvals) increasing systemic risk, and the possibility of algorithmic investing advice causing investor herds, and increasing the fall-out from a potential crash in certain sectors or asset classes.

In both jurisdictions, policy makers must be mindful of fintech's unique risk propositions and its benefits; both when it's adopted internally by existing financial institutions under regulatory oversight, and when fintech originates from new, consumer-facing market entrants. They must also ensure that regulatory efforts are coordinated with international best-practices and be mindful of any potential unintended effects of regulatory action given an increasingly complex and interconnected financial market.

The paper can be downloaded at https://www.policyschool.ca/publications/

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