Global Fintech Trends & Observations

Robert Wardrop, Cambridge Centre for Alternative Finance

October 3, 2018
Some global fintech trends and observations:

1. Fintech-based financial services are experiencing strong - but uneven - growth around the world.

2. Policy makers in many countries currently see fintech as more of an opportunity than a threat.

3. Unintended consequences of fintech innovation: are new forms of systemic risk emerging?

4. New approaches for understanding fintech innovation are being adopted by regulators around the world.
CCAF – World Bank Research Programme launching Q4 2018

CCAF-World Bank Global Alternative Finance Market Volume Rankings
Data collected from 180+ countries
- £10 billion+ of granular transactional-level data
- 3,000+ fintech firms

World Bank – CCAF Global FinTech Regulator Survey
1. Fintech-based financial services are experiencing strong - but uneven - growth around the world.
**Taxonomy of Online Alternative Finance Channels**

**Fintech credit** is credit activity facilitated by electronic platforms that are not operated by commercial banks.

1. Bank of International Settlement (BIS)
‘P2P Lending’ Platform ➞ **Asset Management Model**

‘Balance Sheet Lending’ Platform => Bank-like Model

Rapid growth of fintech credit

1 Europe, Middle East and Africa.  2 Data are based on two platforms for Australia and New Zealand, all platforms covered by WDZJ.com for China, 32 platforms for Europe, 30 for the United Kingdom and six for the United States.

Sources: AltFi Data; Cambridge Centre for Alternative Finance and research partners; WDZJ.com; authors’ calculations.

BIS Quarterly Review, September 2018
Fintech credit characteristics differ across countries

---

1 Includes a small amount of debt securities for some countries.

Source: Cambridge Centre for Alternative Finance and research partners.

BIS Quarterly Review, September 2018
Institutional creditor funding and fintech investment is higher in some markets

---

Institutional creditor funding in P2P lending in 2016¹

Investment activity in fintech

---

¹ Private equity, venture capital, and mergers and acquisitions. ² Venture capital only.

Sources: Cambridge Centre for Alternative Finance and research partners; KPMG; authors’ calculations.

BIS Quarterly Review, September 2018
Fintech credit performance has weakened in major markets

---

1. Data based on all platforms covered by WDZJ.com for China, four large platforms for the United Kingdom and two large platforms for the United States.
2. Share of platforms that perceive a very high or high risk for that risk category.
4. Fraud involving high-profile loans/deals.
5. Collapse of a well-known platform due to malpractice.
6. Notable increase in default rates.
7. Those that face difficulties in coping with cash withdrawals by lenders, are under investigation or have "runaway bosses".

Sources: AltFi Data; Cambridge Centre for Alternative Finance and research partners; WDZJ.com.

BIS Quarterly Review, September 2018
Fintech credit is correlated with economic development and regulatory stringency

Sources: IMF, *World Economic Outlook*; World Bank, *Bank Regulation and Supervision Survey*; Cambridge Centre for Alternative Finance and research partners; authors’ calculations.

1 Vertical axis uses a logarithmic scale.

BIS Quarterly Review, September 2018
2. Policy makers in many countries currently see fintech as more of an opportunity than a threat.
Fintech innovation embraced as a strategic opportunity

- To increase international competitiveness (e.g. Bermuda, Singapore, Malta, Lithuania, Estonia, Bermuda, Switzerland, Luxembourg)
- To increase domestic competition (eg UK, Australia)
- To increase financial inclusion, particularly in developing economies (eg Malaysia, Mexico, Kenya, Thailand)
Legal status news and bitcoin returns

The box plots show minimum, lower quartile, median, upper quartile and maximum.

1 Other than a security legal framework.

Sources: Auer and Claessens (2018); Thomson Reuters Eikon; CryptoCompare; authors’ calculations.
3. Unintended consequences of fintech innovation: are new forms of systemic risk emerging?
Has the M-Pesa platform become systemically important in Kenya?
Network effects, competition and concentration risk?
4. New approaches for understanding fintech innovation are being adopted by regulators around the world.
Global Fintech Trends & Observations

Global map of sandbox initiatives (August 2018)
Regulatory innovation collaboration around the world (2017)

Can regulatory innovation keep pace with fintech innovation?
A hypothesis for the future…

*Financial services regulation will become even more challenging as the digital transformation of the economy ‘tokenises’ economic activity.*
THANK YOU!

Cambridge Centre for Alternative Finance
Cambridge Judge Business School
University of Cambridge

www.jbs.cam.ac.uk/ccaf