

The Role of FinTechs in Fostering Stable and Inclusive Financial Systems

Prof. Dr. Lars Hornuf

University of Trier

MPI for Innovation and Competition

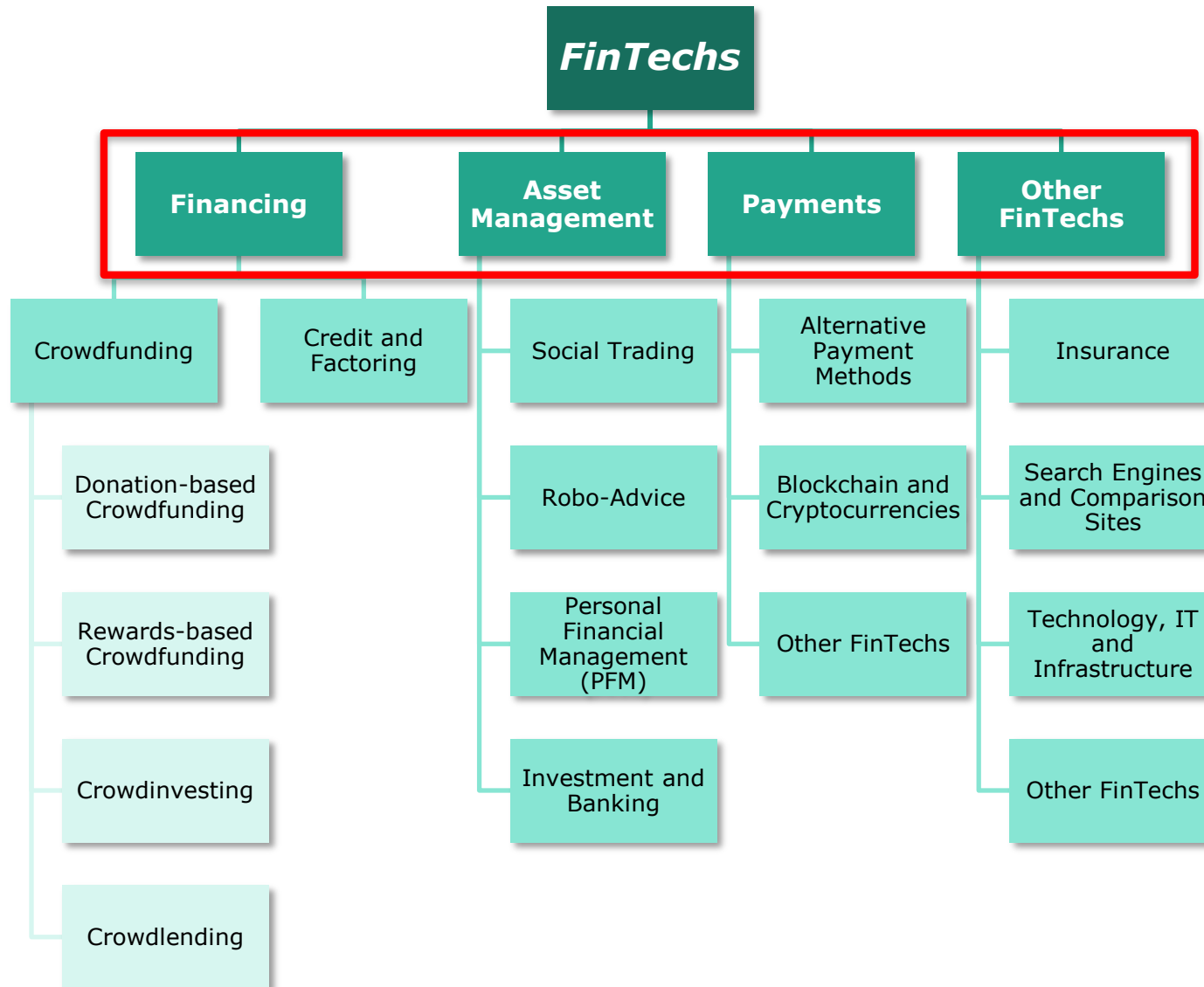
CESifo

A large, vibrant firework exploding in a dark night sky, with the word 'FinTech' overlaid in white text. The firework consists of numerous bright, golden-yellow streaks radiating outwards from a central point, creating a starburst effect. The background is a deep black, making the firework stand out prominently. The text 'FinTech' is centered horizontally and vertically over the firework.

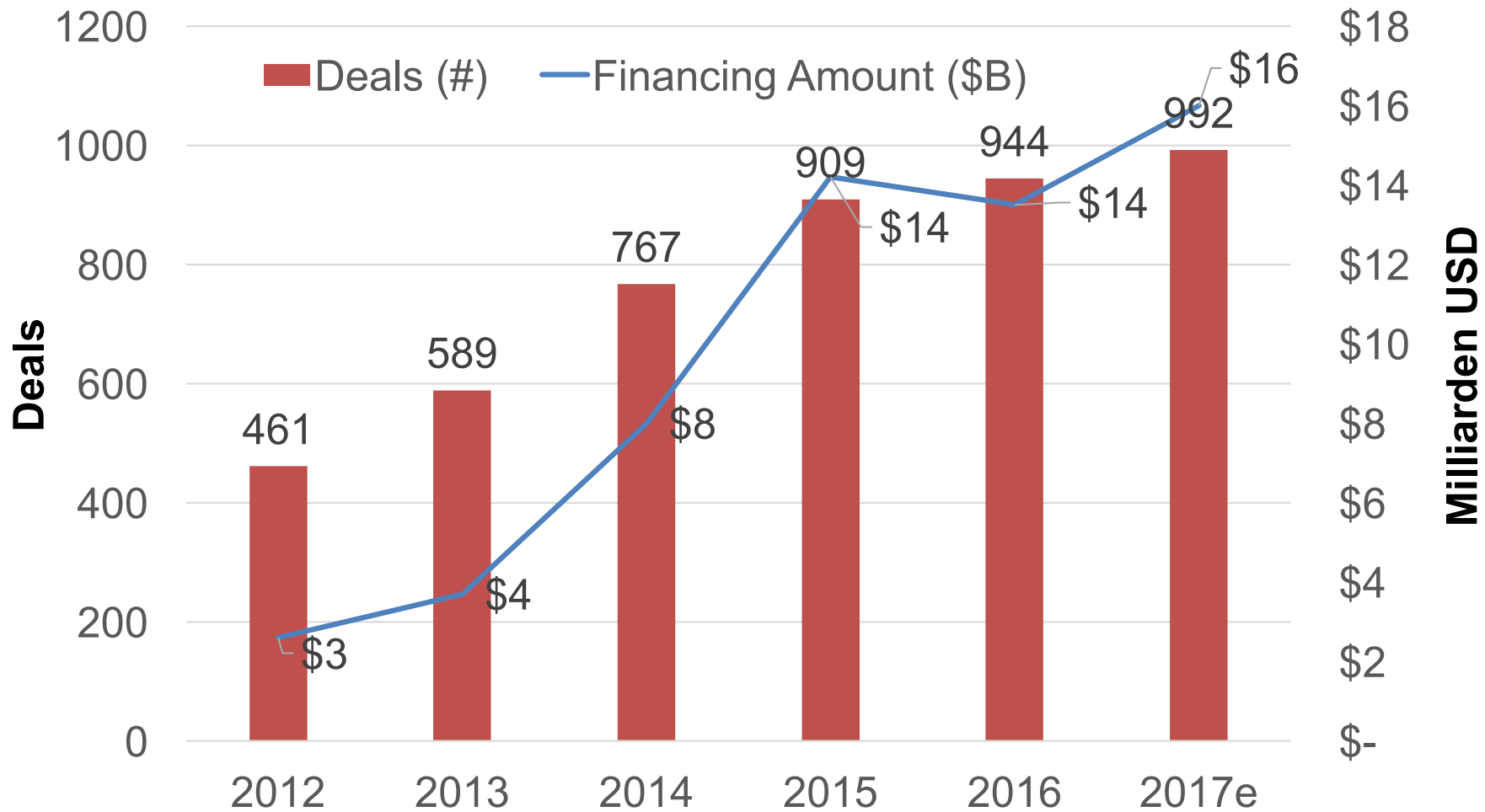
FinTech

Picture source: meyertobi / pixelio.de

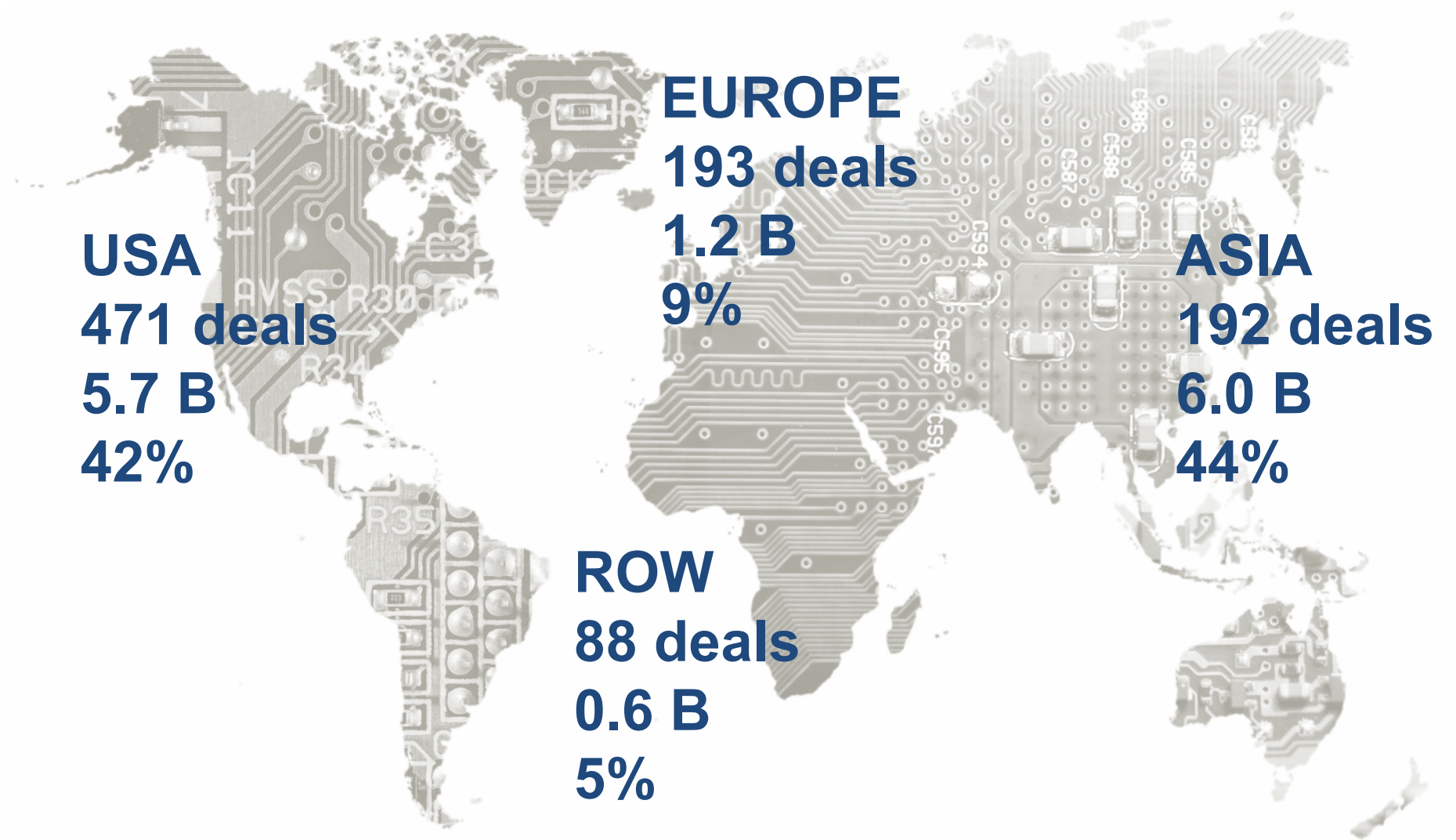
What is FinTech?



Global VC Investments in FinTech



Geographic Distribution of VC Investments in FinTech in 2016



General Potential of FinTech

- Individuals and SMEs obtain **access to capital**.
- A **new and scalable industry** might emerge in developing and emerging countries
 - Employment – Grameen Bank: 16,142 employees; Safaricom M-Pesa: 2,700 employees
 - Cooperations – M-Pesa: IBM, Safaricom and Vodacom
- **Decentralization** of financial activities might **reduce systemic risk** (e.g. peer-to-peer lending)

How FinTech Can Help Inclusion

- Mobile devices allow for **faster access** and **remote access** to **financial** and **insurance services**.
- Digitalization and banking as a service (BaaS) allows FinTechs to **break off atomic parts of the banking** value chain and become more cost efficient.
- **Digitalization and big data** allow for scalable customer oriented services and more sophisticated financial modelling.

Challenges Arising From FinTech

- The **financial literacy** of many consumers might be very **low**.
- **Interest rates** can therefore be **extremely high** and markets might simply break down.
- FinTech companies have a **profit orientation**. Operating certain services might **not be profitable enough** at the lower end of costumers.
- FinTechs often require more **sophisticated devices** (smartphones), that are **not available** to everyone.

Policy Recommendations

- Trade-off between **financial innovation** and **consumer protection**.
- **Interest rate caps** might not do the trick to protect consumers.
- Offer **free and mandatory financial literacy tools**, where investor can test and improve their expertise.
- Provide **access to FinTech** and **supervise / regulate the platforms**, not the customer.



**Thank you very much
for your attention**

Prof. Dr. Lars Hornuf
www.hornuf.com