

FROM WHERE WE STAND: SHAPING A SAFER FUTURE

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The Impact of Fintech on Financial Stability

How should risk managers approach the fintech revolution?

Michael Leibrock: Given that we are still very early in the fintech evolution and there's many different aspects of Fintech including cloud technology, A.I., machine learning, and blockchain technology to name a few. It's important not to paint a broad brush and come up with risks today that we think applies to all of these technologies. We think as risk managers, we should let these technologies emerge and assess them on a case-by-case basis.

What role can fintech play in helping to mitigate interconnectedness risks?

ML: Well fintech and some of its technologies actually start to mitigate interconnectedness by expanding the network and decentralizing certain services for example around payment and selling systems. The more you diversify your network, you're making it more resilient generally speaking.

What has been the early response of regulators globally to these new technologies?

ML: As a risk manager I'm encouraged to see that not only is the industry focused on the potential risk of Fintech, but policy makers and regulators globally seems to be very focused as well. In fact, just in recent months, both the International Monetary Fund as well as the Financial Stability Board have come out with separate papers focusing on both the risks and potential benefits of Fintech.

What are the key considerations when determining fintech's potential impact on systemic risk?

ML: Some specific concerns might be the rapid pace of trading that might happen in the future and that could cause increased market volatility and could limit the ability of risk managers to respond to problems in the trading environment if it happens too quickly. Also potential heightened operational risks, and specifically cyber risks, especially when you have a number of small new entrants coming in to the industry in a very short period of time.

How is DTCC advancing the use of fintech and supporting industry-wide collaboration?

ML: DTCC has been at the forefront of the fintech evolution in the last couple of years. We've made an investment in a company called Digital Asset Holdings, which is doing a lot of work around post-trade processing. We're also in the process of replatforming our Trade Information Warehouse for CDS and trying to implement some blockchain technology around that. We've also been one of the founding firms involved in the hyper ledger project.