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# IMF's report says banks and fintechs need to compete on a level playing field

Article

**The news:** In a blog post on the latest chapter of its Global Financial Stability Report, the **International Monetary Fund (IMF) urged more regulation of fintechs, saying that they're**

**introducing systemic risks** because they're not playing by the same rules as traditional financial institutions (FIs).

**What's the issue?** The report focuses on fintechs that compete directly with banks by offering core banking services, like deposit-taking and credit intermediation.

- It singles out neobanks and fintechs in the US mortgage origination market.
- It also looks at fintech platforms—particularly at DeFi.

**The IMF's argument at a glance:** IMF analysts acknowledge that **fintechs have improved financial services and widened consumers' access** by disrupting core services and pushing banks to innovate to remain relevant.

But **there's a lack of parity between banks and fintechs:** Though fintechs offer bank-like services, they operate under less stringent regulations—which has increased risk in other parts of the financial system.

- Their existential imperative to scale up fast takes fintechs into risky business segments.
- Their consumer-lending focus, which is more uncollateralized, exposes them to more risk, and the borrowers they target tend to have riskier credit profiles.
- They have a higher liquidity risk and their securities portfolios are also higher-risk.
- They potentially threaten the viability of smaller banks and technological laggards.
- Since they're now intermediaries in all kinds of financial transactions, they're exacerbating risks for the entire system.
- The report concludes that their risk management and resilience "remains untested in an economic downturn."
- DeFi in particular was criticized for lacking deposit insurance, relying on buildup of leverage, and being highly exposed to cyber risk.

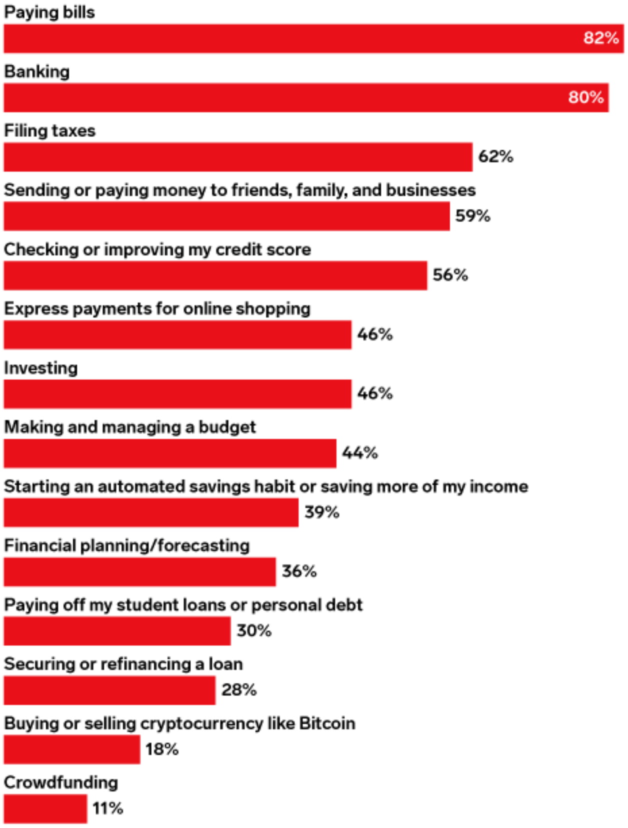
**What's the solution?** The report ends with **policy recommendations,** pushing for national regulatory frameworks and common global standards. That includes:

- Policies that target fintechs and traditional banks proportionately, restoring some parity.
- For neobanks, stronger capital, liquidity, and risk-management requirements that truly reflect their risk exposure.

- For less technologically advanced incumbent banks, more monitoring over concerns about their long-term sustainability.
- For DeFi, globally consistent regulatory frameworks as well as encouragement of self-policing and governance through industry codes and self-regulatory organizations, as in the traditional securities market.
- In particular, regarding DeFi, the report praises the **Basel Committee on Banking Supervision (BCBS)** proposals on banks' crypto asset exposures as a big advance toward global standards to help address some cross-border issues.

**Why it matters:** The timing is right for the IMF's report. Inflation has spiked and talk of a coming recession is increasing, putting financial constraints back into the center of global policy concerns. There's already been much hand-wringing about the need to regulate crypto. The IMF has taken a broader, more comprehensive view of the risks that technological innovation has introduced. Its report is a much-needed reminder that regulators still haven't even satisfactorily addressed alt lenders and neobanks and the complications they've introduced into the global financial system.

**Usage of Digital Financial Services Apps According to Internet Users in North America, June 2021**
*% of respondents*




*Source: Mastercard, "The Rise of Open Banking," Dec 14, 2021*

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