

ISID

Institute for Studies in Industrial Development

An institution of Indian Council of Social Science Research (Ministry of Education)

Policy Research to Foster India's Industrial Transformation

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WORKING PAPER

Fintech Innovations and Emerging Regulatory Challenges

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Fintech Innovations and Emerging Regulatory Challenges

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[Abstract: The rise of fintech companies throws considerable challenges for financial regulation. In recent years, the fintech companies have witnessed greater presence in all spheres of financial activities like payments, deposits and investment management, lending, insurance etc. Given the nature of functioning of these companies, it is likely to carry varieties of risks that will be impacting the consumers and more importantly the stability of the financial system. The risks that emanates from the fintech companies is substantially different from the risks originating from the conventional financial institutions. This is primarily because of the changing nature of intermediation on one hand, and inadequacy in regulation on the other. The technology enabled financial companies while serves directly to consumers, it is however less transparent to the regulators. The tendency of decentralisation creates immense risk to the financial system as credit risk from borrower to creditor passes through under regulated and under controlled channels. The existing regulatory structure which is focused on correcting market failures and reducing negative externalities by limiting systemic risks is inadequate in capturing the decentralised operations of the fintechs.]

Keywords: Fintech, Financial Innovation, Risk, Financial Regulation

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