CONTEXT

1. **Technological change.** Rapid advances in digital technology are transforming the economic and financial landscape, creating opportunities and challenges for consumers, financial and nonfinancial firms, service providers, and regulators. These developments are largely led by the private sector and are driven by the forces of global digitization and technological progress that are reshaping many aspects of the world’s economies and societies.

2. **The membership.** Experiences and advances in fintech vary across the membership of the IMF and the World Bank. Emerging and developing economy members have needs and policy concerns related to fintech that may contrast with those in advanced economy members, while not always being represented in the standard-setting bodies (SSBs) in which discussions on these topics are being held. IMF and World Bank member countries have been seeking information, assistance, and advice about the appropriate institutional framework that could allow them to best foster the possibilities provided by fintech. This would help them to improve the efficiency and safety of the financial system and to strengthen financial development and inclusion.

OPPORTUNITIES AND RISKS

3. **Opportunities.** Fintech offers wide-ranging opportunities, which national authorities are keen to foster. It holds the promise of reducing costs and frictions, increasing efficiency and competition, narrowing information asymmetry, and broadening access to financial services—especially in low-income countries and for underserved populations—although the benefits of technological change may take time to fully materialize. Ongoing innovations and technological advances support broader economic development and inclusive growth, facilitate international payments and remittances, and simplify and strengthen regulatory compliance and supervisory processes.

4. **Risks.** At the same time, national authorities are concerned about potential risks posed to the financial system and to its customers. As the financial system adapts, concerns arise regarding a range of issues, including: consumer and investor protection; the clarity and consistency of regulatory and legal frameworks, and the potential for regulatory arbitrage and contagion; the adequacy of existing financial safety nets, including lender-of-last-resort functions of central banks; and potential threats to financial integrity. Moreover, the adoption process may also pose transition challenges, and policy vigilance will be needed to make economies resilient and inclusive, so as to capture the full benefits.

5. **The challenge.** In response, policymaking will need to be nimble, innovative, and cooperative and—importantly—will need to strike the right balance between enabling financial innovation on the one hand and addressing challenges to market and financial integrity, consumer protection, and financial stability on the other. This balance is critical to deliver the welfare benefits