The Bali Fintech Agenda

Rapid advances in financial technology (fintech)[1] are transforming the economic and financial landscape, offering wide-ranging opportunities while raising potential risks. Fintech can support potential growth and poverty reduction by strengthening financial development, inclusion, and efficiency—but it may pose risks to financial stability and integrity, as well as to consumer and investor protection. To foster the benefits and to mitigate its possible risks, it is important that financial systems are resilient to technological change without impeding the process of structural transformation, innovation, and competition that it engenders.

Many international and regional bodies are examining the various aspects of fintech, in line with their respective mandates. The IMF and World Bank, in response to calls from member countries for greater international cooperation and guidance about how to address the emerging issues, have developed the "Bali Fintech Agenda." It brings together key considerations for policymakers and the international community into the 12 elements presented below. These considerations apply to both conventional and Islamic financial instruments and products. The Agenda does not represent the work programs of the IMF or the World Bank, nor does it aim to provide specific guidance or policy advice. It is intended as a framework to support awareness, further learning, and ongoing work. As international standards and best practices take shape, they will be incorporated into the work of the IMF and World Bank.

I. Embrace the Promise of Fintech with its far-reaching social and economic impact, particularly in low-income countries, small states, and for the underserved, and prepare to capture its possible wide-ranging benefits, including: increasing access to financial services and financial inclusion; deepening financial markets; and improving cross-border payments and remittance transfer systems. Reaping these benefits requires preparation, strengthening of institutional capacity, expanding outreach to stakeholders, and adopting a cross-agency approach involving relevant ministries and agencies.

II. Enable New Technologies to Enhance Financial Service Provision by facilitating foundational infrastructures, fostering their open and affordable access, and ensuring a conducive policy environment. Foundational infrastructures include telecommunications, along with digital and financial infrastructures (such as broadband internet, mobile data services, data repositories, and payment and settlement services). The infrastructures should enable efficient data collection, processing, and transmission, which are central in fintech advances.

[1] Different definitions of fintech have been used by international bodies and national authorities. Drawing on these, this paper adopts a broad interpretation of fintech to describe the advances in technology that have the potential to transform the provision of financial services spurring the development of new business models, applications, processes, and products. A broad definition is adopted to support the high-level considerations of the Agenda, while recognizing that there are differences in the opportunities and risks raised by different technological advances.

III. Reinforce Competition and Commitment to Open, Free, and Contestable Markets to ensure a level playing field and to promote innovation, consumer choice, and access to high-quality financial services. The successful and large-scale adoption of technology would be facilitated by an enabling policy framework regardless of the market participant, underlying technology, or method by which the service is provided. Policymakers should address the risks of market concentration, and should foster standardization, interoperability, and fair-and-transparent access to key infrastructures.

IV. Foster Fintech to Promote Financial Inclusion and Develop Financial Markets by overcoming challenges related to reach, customer information, and commercial viability, and by improving infrastructure. The evolving digital economy together with effective supervision are essential in overcoming long-standing barriers to financial inclusion across a broad range of financial services and in enabling developing countries to leverage promising new pathways for economic and financial development to support growth and alleviate poverty. Examples include expanding access to finance while reducing costs, providing new ways to raise funding, enabling new information services to assess risks, and spurring new businesses. To achieve these goals, fintech issues should be part of a national inclusion and financial and digital literacy strategies, while fostering knowledge-sharing between public- and private-sector players, civil society, and other stakeholders.

V. Monitor Developments Closely to Deepen Understanding of Evolving Financial Systems to support the formulation of policies that foster the benefits of fintech and mitigate potential risks. The rapid pace of fintech will necessitate improvements and possible extensions in the reach of monitoring frameworks to support public-policy goals and to avoid disruptions to the financial system. Information-sharing and exchange would support improved monitoring. Achieving these objectives brings out the importance of continuous monitoring—including by maintaining an ongoing dialogue with the industry, both innovators and incumbents—to identify emerging opportunities and risks, and to facilitate the timely formation of policy responses.

VI. Adapt Regulatory Framework and Supervisory Practices for Orderly Development and Stability of the Financial System and facilitate the safe entry of new products, activities, and intermediaries; sustain trust and confidence; and respond to risks. Many fintech risks might be addressed by existing regulatory frameworks. However, new issues may arise from new firms, products, and activities that lie outside the current regulatory perimeter. This may require the modification and adaptation of regulatory frameworks to contain risks of arbitrage, while recognizing that regulation should remain proportionate to the risks. Holistic policy responses may be needed at the national level, building on guidance provided by standard-setting bodies.

VII. Safeguard the Integrity of Financial Systems by identifying, understanding, assessing, and mitigating the risks of criminal misuse of fintech, and by using technologies that strengthen compliance with anti-money laundering and combating the financing of terrorism (AML/CFT) measures. While fintech innovation generally supports legitimate goals, some innovations may enable users to evade current controls for criminal ends, thus posing a threat to financial integrity. Country responses have varied considerably; but, in all cases, it is important to strengthen AML/CFT compliance and monitoring, including by using technology (Regtech and Suptech solutions) to support regulatory compliance and supervision.

VIII. Modernize Legal Frameworks to Provide an Enabling Legal Landscape with greater legal clarity and certainty regarding key aspects of fintech activities. Sound legal frameworks support trust and reliability in financial products and services. This is undermined, however, where legal frameworks fail to keep pace with fintech innovation and evolving global financial markets. An enabling legal framework can be fashioned by having clear and predictable legal rules that accommodate technological change, tailored to national circumstances, particularly in areas such as contracts, data ownership, insolvency, resolution, and payments.

IX. Ensure the Stability of Domestic Monetary and Financial Systems by considering the implications of fintech innovations to central banking services and market structure, while: safeguarding financial stability; expanding, if needed, safety nets; and ensuring effective monetary policy transmission. Fintech could transform the financial markets through which monetary policy actions are transmitted and could challenge the conduct of monetary policy as well as redefine central banks' role as lenders of last resort. On the other hand, fintech could help central banks improve their services, including potentially issuing digital currency, and expanding access to and improving the resilience of payments services.

X. Develop Robust Financial and Data Infrastructure to Sustain Fintech Benefits that are resilient to disruptions—including from cyber-attacks––and that support trust and confidence in the financial system by protecting the integrity of data and financial services. Developing such robust infrastructure raises a broad spectrum of issues that are relevant not only to the financial sector but also to the digital economy at large, including data ownership, protection, and privacy, cybersecurity, operational and concentration risks, and consumer protection.

XI. Encourage International Cooperation and Information-Sharing across the global regulatory community to share knowledge, experience, and best practices to support an effective regulatory framework. As new technologies increasingly operate across borders, international cooperation is essential to ensure effective policy responses to foster opportunities and to limit risks that could arise from divergence in regulatory frameworks. Sharing experiences and best practices with the private sector and with the public at large would help catalyze discussion on the most effective regulatory response, considering country circumstances, and to build a global consensus. The IMF and World Bank can help in facilitating the global dialogue and information-sharing.

XII. Enhance Collective Surveillance of the International Monetary and Financial System and the adaptation and development of policies to support inclusive global growth, poverty alleviation, and international financial stability in an environment of rapid change. Fintech is blurring financial boundaries—both institutionally and geographically—potentially amplifying interconnectedness, spillovers, and capital flow volatility. These developments could lead to increased multipolarity and interconnectedness of the global financial system, potentially affecting the balance of risks for global financial stability. The IMF and World Bank could help in improving collective surveillance and assist member countries via capacity building, in collaboration with other international bodies.