FedFin Daily Briefing

Thursday, August 31, 2023

BIS Report: Big Tech in Insurance Poses Financial Stability Risks

The BIS Financial Stability Institute (FSI) released a report today highlighting the financial stability risks associated with big tech's entry into insurance, noting that a big tech specific regulatory approach may be warranted. The report finds big tech has a significant footprint in the insurance industry as a service provider but its activities as risk carriers or intermediaries are limited. Thus, financial stability concerns stem from the concentration of technology services and linkages between financial institutions and commercial activities. FSI also calls for national authorities to continually monitor these risks and the regulatory perimeter and to cooperate with their international counterparts due to the global nature of big tech firms.

Fed Study: Fintech Partnerships Arbitrage National-Bank Preemption Power

A new study by Federal Reserve staff finds that strategic bank-fintech partnerships heavily and profitably target near- and low-prime consumers in states with restrictive interest rate ceilings. Thus, fintech partnerships – termed "rent-a-bank" arrangements by critics – in fact arbitrage national-bank preemption powers in states with strict usury ceilings. This is said to be due in large part to mainstream-bank and non-fintech aversion to higher-risk customers at lower interest rates. Although the paper does not provide policy recommendations, it notes that courts limited these partnerships; it does not mention relevant OCC standards (see FSM Report **PREEMPT35**) that do the same on a nationwide basis. The study uses monthly campaign-level mail volume sent by different types of lenders between 2010 and 2019 to categorize loan solicitations by lender type and compare loan offers across several credit risk classes and state usury ceilings.

Recent Files Available for Downloading

The following reports and analyses have been sent to retainer clients recently. Copies are also available to retainer clients on the Archives section of Federal Financial Analytics' website: www.fedfin.com or clients may obtain the reports/analyses by e-mailing info@fedfin.com giving the requested item name, firm, and e-mail address. To learn more about *GSE Activity Reports*, click here.

- **GSE-083123:** As we noted yesterday, the global banking, securities, and insurance regulators who comprise the Financial Stability Board (FSB) are heading back to look again at securitization to see if the post-08 framework it crafted still works.

- **GSIB22:** As anticipated in the wake of recent bank failures, the FRB has proposed a significant revision to the current rules calculating systemic-risk scores that lead to GSIB designation.

- **CAPITAL234:** With this report, we conclude our assessment of the regulatory-capital proposal with analysis of what the sum total of the credit (see FSM Report **CAPITAL231**), operational (see FSM Report **OPSRISK22**), and market (see FSM Report **CAPITAL233**) rules could do in the real world of banks, nonbanks, foreign banks, and complex market interconnections.

- **CAPITAL233:** In this analysis, we turn to one of the costliest aspects of the proposed rewrite of U.S. regulatory-capital standards: the market-risk framework.

- **GSE-081423:** As Karen Petrou's memo today suggests, there are many reasons the new operational-risk framework proposed in the capital rewrite will not only be costly for covered banks, but also counterproductive for financial resilience.

- **CRYPTO45:** In conjunction with issuing a new supervisory policy for "novel" activities, the FRB has instituted a new process requiring non-objection letters before state member banks proceed with stablecoin or dollar-tokenization activities.

- **GSE-081023:** FHFA today released the results of the ninth stress test it's run on Fannie and Freddie since Dodd-Frank demanded this in 2010.

- **OPSRISK22:** Noting that operational risk is present at all banks due to most activities, the U.S. regulatory-capital rewrite would end the current approach to operational risk-based capital (ORBC).

- **FINTECH32:** FRB Vice Chairman Barr's assessment of SVB's failure included a commitment to pay additional supervisory attention to "novel" activities.

- **GSE-080823:** Our most recent analysis of the inter-agency capital proposal focuses on significant changes to the rules for securitization and credit-risk transfer positions.

- **CAPITAL232:** Based on our analysis of the inter-agency capital proposal's framework and its credit-risk provisions, FedFin turns now to the proposed approach to equities as well as to that for securitization exposures (i.e., those that are tranched rather than simple secondary-market issuances of packages of loans or other assets backed as needed by a single credit enhancement).

- **CAPITAL231:** In this report, we proceed from our assessment of the proposed regulatory capital framework to an analysis of the rules governing credit risk.

- **GSE-080323:** As we plow on with our in-depth analysis of the new capital proposal, we will continue to advise of key provisions in the massive rewrite with important implications for residential-mortgage finance.

- **CAPITAL230:** In this in-depth report, we begin our analysis of the 1089-page capital proposal released by the U.S. banking agencies not only to make U.S. standards more consistent with Basel's 2017 "end-game" rules, but also to correct failings in the current capital framework the agencies believed were laid bare by recent bank failures.

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