ECB MAY ASK FINTECH BANKS TO HOLD BIGGER BUFFERS

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FRANKFURT (Reuters) - High-tech banks looking to enter the fintech zone may be asked to hold bigger liquidity and capital buffers due to the unique nature of their risks, the European Central Bank said in draft licensing guidelines on Thursday.

Fintech banks may require greater liquidity levels given their volatile, price-sensitive client base, and may need more capital as they enter mature markets with a niche but untested product, requiring an aggressive pricing strategy, the ECB said.

The fintech sector, though still relatively small, has been stealing market share from traditional lenders in a variety of sectors from payments to lending, and the ECB has already granted six fintech banking licenses with two applications still pending.

Financial technology, or fintech, firms range from those that offer mobile payment apps to digital currencies like bitcoin, and many governments regard the sector as a key source of economic growth.

Online depositors can exhibit price sensitive behaviors, being more likely to withdraw their deposits and switch to a competitor paying higher interest rates, the ECB said. There is a risk that online deposits accepted by fintech banks are more likely to be volatile and less sticky than traditional bank deposits.

Most fintech firms will not need an ECB license, however, the central bank said, as their activities are limited and their business does not rely on lending out cash collected through deposits.

While fintech banks will have broadly similar licensing rules as traditional banks, they will be mostly innovative start ups, so the ECB may ask shareholders to demonstrate their commitment to fund the company for at least three years.

Given the possibility of failure of innovative business ideas, the ECB could also ask fintech banks to draw up plans to wind down the bank in an orderly and solvent manner if need be, the ECB added.

The ECB will also ask fintech banks to demonstrate IT competence and possibly appoint an executive in charge of IT, it said.

The ECB will collect feedback on the new proposed guidelines until Nov 2.

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