

Reducing Negative Outcomes, Retaining Benefits Highlighted in New Financial Innovation Report

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- New Financial Innovation Report, *Rethinking Financial Innovation, Reducing Negative Outcomes While Retaining the Benefits* was launched today
- Report recommends changes in several areas to anticipate and reduce various negative outcomes
- Report is jointly published by World Economic Forum and [Oliver Wyman](#)
- For full report, please click here: http://www.weforum.org/Financial_Innovation_2012

Geneva, Switzerland, 26 April 2012 -The World Economic Forum, in collaboration with Oliver Wyman, has released a joint report, *Rethinking Financial Innovation, Reducing Negative Outcomes While Retaining the Benefits*. The report explores the topic of innovation in the financial services industry and its effect on the wider economy. Given that financial services are so vital in underpinning economic growth, the report also focuses on specific ways in which financial innovation can change the nature of risk and uncertainty. It makes recommendations as to how risk management mechanisms can be modified to reduce the likelihood of negative outcomes.

"The world is currently facing a conundrum: on the one hand, financial innovation is broadly beneficial and is needed to address many of society's challenges; on the other, negative outcomes associated with financial innovation are too serious to ignore," said Giancarlo Bruno, Senior Director and Head of the Financial Services Industry, World Economic Forum.

Key findings

1. Innovation, almost by definition, introduces uncertainty
2. This uncertainty occasionally gives rise to unintentional negative outcomes
3. The relationship of the financial services sector to the rest of the economy makes it vital to reduce the likelihood of negative outcomes with widespread consequences
4. Unintended consequences or negative outcomes cannot be predicted reliably for individual innovations
5. Concerns over possible negative outcomes do not require an entirely new "innovation governance framework", but enhancements to existing governance procedures. This is best done by adapting existing risk management mechanisms and other processes to be more sensitive to the specific contribution of innovation to uncertainty and risk
6. "Positive innovation" continues to be necessary. It can provide opportunity in four key areas: financing and growing the private economy; promoting inclusiveness; increasing efficiency, access and the customer experience; and rebalancing risk across sectors of the economy

The report concludes with recommendations to change and enhance existing risk management frameworks and processes in order to minimize their exposure to uncertainty and risk.

"The report takes the position that the primary responsibility for improving the management of financial innovation lies with banks and insurers," said Stefan Lippe, Former Chief Executive Officer, SwissRe and Chair of the Steering Committee, Switzerland. "It provides a taxonomy of potential negative outcomes and recommends initiatives for companies, industry bodies and regulators. For institutions, it recommends improvements to existing enterprise risk management techniques, new product impact assessments, better design of incentives, and enhanced consumer orientation."

"Managing financial innovation is like being in a game where you think you know the odds of success, but you don't really even know the rules. Fortunately, there are some mechanisms available to deal with this challenge," said Peter Carroll, Partner at Oliver Wyman, USA.

Recommendations for banks and insurers

1. Review and adapt enterprise risk management (ERM) to address the incremental risks and uncertainties introduced by financial innovation, starting with careful, step-by-step re-evaluation of the ways in which risks are enumerated, measured and managed and with specific emphasis on assessing the ways in which innovation introduces uncertainty
2. Revisit new product development approval processes to address the idiosyncrasies of financial innovation properly
3. Redesign incentives to provide the right motivation
4. Recommit and refocus innovation efforts to be customer oriented

Recommendations for regulators

1. Acknowledge the importance of innovation and its role in a competitive, free market structure and thereby in a pro-competitive market place
2. Strengthen systemic risk oversight in light of the incremental risks and uncertainties introduced by financial innovation
3. Collaborate with the industry to monitor and oversee its efforts in managing innovation risks to drive sustainable financial innovation

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