

FinTech and Traditional Banks

Supervisory Perspectives on Credit Risk Assessment

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Outline

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- 2 Why traditional credit frameworks are challenged
- 3 Supervisory standpoint: same business, same risk
- 4 Supervisory focus: new technologies, data and governance
- 5 Systemic implications and regulatory evolutions
- 6 Main take aways



1.

Peculiarities of fintech vs traditional banks

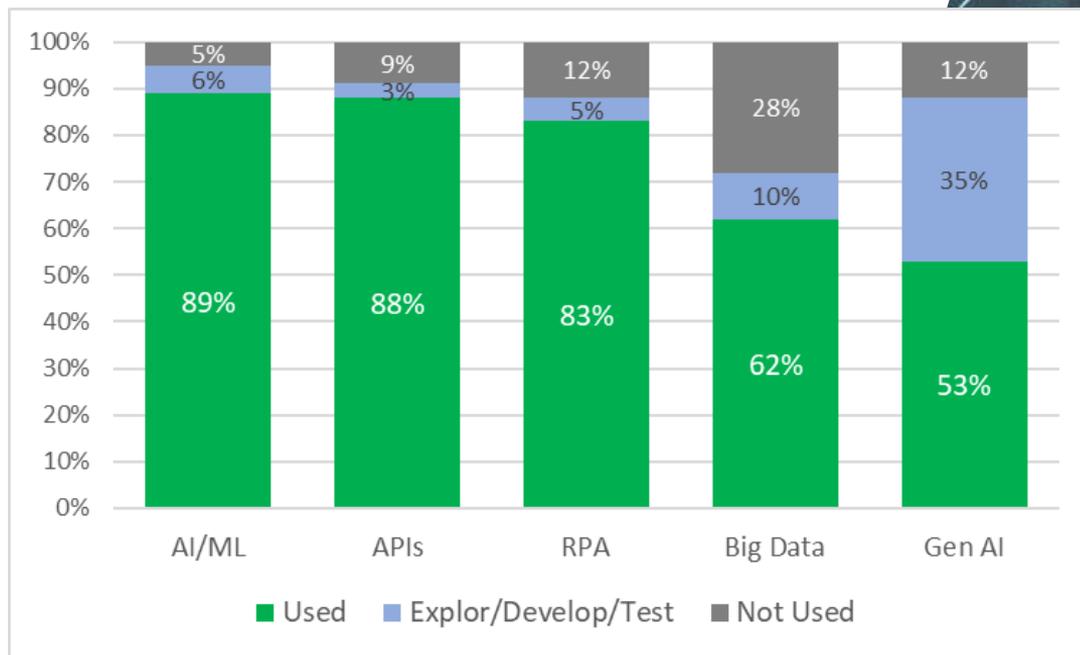
FinTech Landscape: context

Financial technology (**FinTech**) is transforming the **business models** of financial services.

- ❖ **New entities entering the market** with business models where production and delivery of banking products/services are based on technology-enabled innovation.
- ❖ These entities have leaner structures (fewer staff), low/no high street presence, greater outsourcing and technological innovation to deliver standard banking services.
- ❖ **Incumbent banks are increasing investment in technological innovation** by:
 - establishing horizontal units within their organisations;
 - partnering with third parties offering specialised services;
 - acquiring fintech start-ups.
- ❖ Incumbents may also face **challenges from non-bank Fintechs** offering innovative products/services.

FinTech Landscape: status

- ✓ Banks are adopting solutions such as application programming interfaces (APIs) and generative AI to meet customer expectations and stay competitive.
- ✓ AI adoption has surged, with 88% of significant institutions now using it in various tasks such as fraud detection and credit scoring.
- ✓ This transition is increasing banks' reliance on data, software and big tech platforms, driving innovation but also introducing new dependencies and risks.
- ✓ Fintech firms and neobanks are leveraging their agility, scalability and lack of legacy IT systems to disrupt the market with online-only services and lower operating costs.
- ✓ Within the EU's banking landscape, traditional banks and their digital subsidiaries are still dominant: there are over 50 digital banks under the ECB's supervision, most of them subsidiaries of large banking groups.



Traditional banks vs FinTech credit institutions

Dimension	Traditional	Fintech
Business model	Broad-based intermediation	Digital, platform-driven
Customer interface	Physical + digital	Fully digital
Credit decisioning	Model-supported + judgement	Highly automated
Data used	Financial & credit history	Alternative sources of data
IT dependency	Important but diversified	Core and mission-critical
Outsourcing	Selective	Extensive, often cloud-based
Governance	Established	Often evolving (IT/tech knowledge)
Geographical footprint	Diversified	More internationally oriented

A black and white architectural line drawing of a modern building. The building features a prominent central tower with a grid-like facade, and a main body with horizontal bands of windows. The drawing is a perspective view, showing the building's structure and its relationship to the surrounding space.

2.

Why traditional credit
frameworks are
challenged

Credit risk in Fintech has some peculiarities

Automated credit decisions at scale

- ▶ The increasing speed of origination could eventually event outpace the speed of risk control.

Potential amplification of credit cycles

- ▶ Algorithms reacting to the same signals simultaneously can create herding effects.

Limited historical depth in models

- ▶ New entrants often lack 'through-the-cycle' data, thus testing models only in benign economic conditions.

Financial stability implications

- ▶ insufficient understanding of technology and interpretation of credit algorithms, particularly through outsourcing, might exacerbate potential vulnerabilities.

Traditional vs FinTech credit risk: some differences

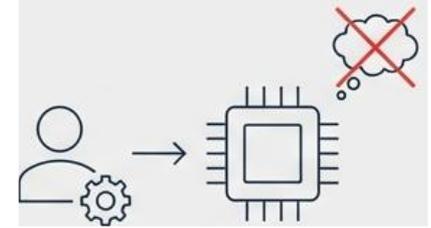
Data sources and signal stability

FinTechs often rely on 'alternative data' (social media, utility payments) which may behave unpredictably in stress scenarios compared to traditional balance sheet data.



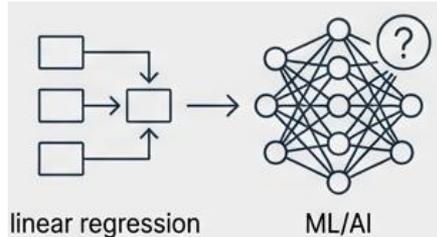
Degree of automation

Moving from 'human supported' to 'fully autonomous' decisioning reduces the 'common sense' check.



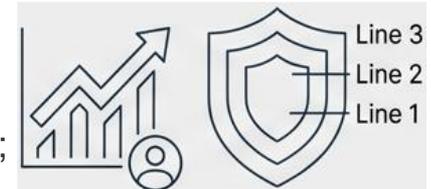
Model complexity

Shift from linear regression (explainable) to machine learning/AI (often opaque).



Governance embedding

FinTech governance could prioritize user growth over risk controls; 'Three Lines of Defence' are anyway crucial.



Credit Risk Assessment: Traditional vs FinTech

Dimension	Traditional Banks	FinTech Lenders
Data sources	Financial statements, income verification, credit bureau data	Transactional data, platform data, behavioural and alternative data
Underwriting process	Expert judgement is material	Highly automated, model-driven
Decision speed	Days / weeks	Minutes / real time
Model typology	Logistic regression, scorecards	ML / AI (tree-based, ensemble, NN)
Explainability	Higher / mostly intrinsic	Often limited / post-hoc
Human oversight	Embedded in credit committees	Often limited to escalation cases
Portfolio monitoring	Periodic, batch-based	Continuous, event-driven



3.

Supervisory
standpoint: same
business, same risk

From innovation to supervision

The Innovation



Innovation reshapes how credit risk is assessed in banks: New channels, faster speeds, alternative data.

The Supervision



Supervision focuses on risk outcomes, not technology: thus, it remains technology-neutral.

Comparable borrowers → Comparable outcomes

A loan granted via app must carry the same safeguards as one granted in a physical branch.

Objective: Credit quality and trust must be preserved regardless of the delivery mechanism. Banks' management is ultimately responsible for the data used to feed credit scoring models.

The supervisory anchor

Technology-neutral supervision

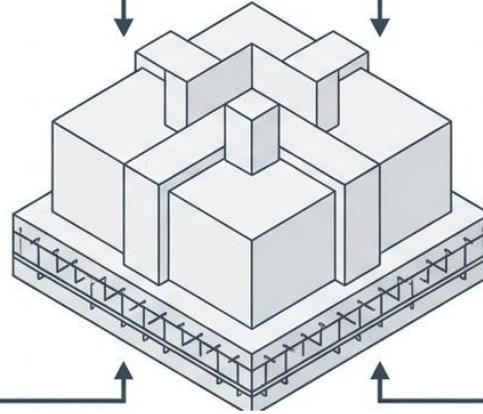
- Supervisors do not deal with algorithms, but with the banking activity.

Supervisory focus on risks, not on tools

- Whether using Spreadsheets or Neural Networks, the capital requirements remain focused on the underlying risk.

Accountability remains within the bank

- Responsibility cannot be outsourced to a vendor or an algorithm.



Same business

→ Same risk

→ Same supervision



4.

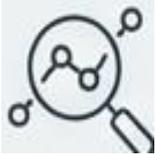
Supervisory focus:
new technologies,
data and governance

Credit Risk Assessment: FinTech implications

Risk area		Potential Supervisory Focus
<p>Governance & Risk Management</p>		<ul style="list-style-type: none"> ➤ Management’s technical skills, knowledge and experience ➤ KPIs to capture innovative aspects of credit scoring ➤ Know-how and processes to identify and manage potential incremental risks, related to data privacy and use ➤ Internal consideration whether AI/ML could lead to proxy discrimination, given the potential opacity of their algorithms
<p>Operational Risk</p>		<ul style="list-style-type: none"> ➤ Safeguards to check data integrity ➤ Verification and validation techniques to detect and mitigate security and operational risks ➤ Safeguards to manage incremental needs for cyber risk management, cyber hygiene and cyber resilience ➤ Metrics flagging data quality issues in a timely manner

Alternative data: opportunities and concerns

Opportunities



- **Better risk differentiation:**
Granular insights into borrower behavior.

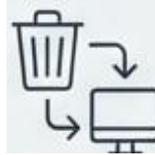


- **Faster decisions:**
Instantaneous underwriting.



- **Inclusion potential:**
Scoring 'thin-file' clients who lack traditional credit history.

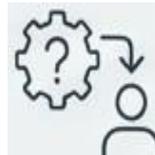
Concerns



- **Data lineage and quality:**
'Garbage in, garbage out' is amplified when data comes from unstructured external sources.



- **Bias and fairness:**
Algorithmic discrimination based on proxies (e.g. location data).



- **Explainability:** Can the bank explain to a rejected customer exactly why they were denied?

Fairness & Outcomes in AI-Driven Decisions

Outcome-based perspective

- Key focus on *credit outcomes*, not on model sophistication.
- Automation must not lead to unjustified exclusion or discriminatory effects.

Bias and proxy discrimination

- Use of alternative data may unintentionally replicate or amplify social biases.
- Variables correlated with protected characteristics require heightened scrutiny.

Explainability towards customers

- Institutions must be able to explain adverse credit decisions in a meaningful way.
- Transparency is essential to preserve trust and consumer protection.

Consistency with technology-neutral approach

- Automated decisions must deliver outcomes equivalent to traditional processes.
- Same borrower → same protection → same expectations.

AI Models: Trustworthy credit decisions

Explainability

Model logic, drivers, sensitivity

Institutions must understand and evidence how model outputs are generated.
Explanations must be sufficiently stable, meaningful and decision-relevant.

Human Oversight

Review, escalation, override

Material model changes require review and re-approval.
Human intervention is expected for higher-risk, higher-impact decisions.

Auditability

Data lineage, logs, traceability

End-to-end documentation of data, assumptions, logic and limitations.
Traceable model decisions enable supervisory challenge and accountability.

Safeguards

Testing, monitoring, circuit breakers

Institutions must recognise limits of explanations and manage residual risks.
Governance safeguards are required where explainability is imperfect.

Data Governance & Accountability



Robust data governance frameworks required

- ▶ Sound data standards and lineage ensure reliability and auditability of AI outputs.



Boards remain accountable for FinTech/AI decisions

- ▶ Governance responsibility cannot be delegated to algorithms or vendors.



Regular audits and bias checks

- ▶ Continuous testing detects data drift, bias, and unintended effects.

Data integrity as foundation of trust



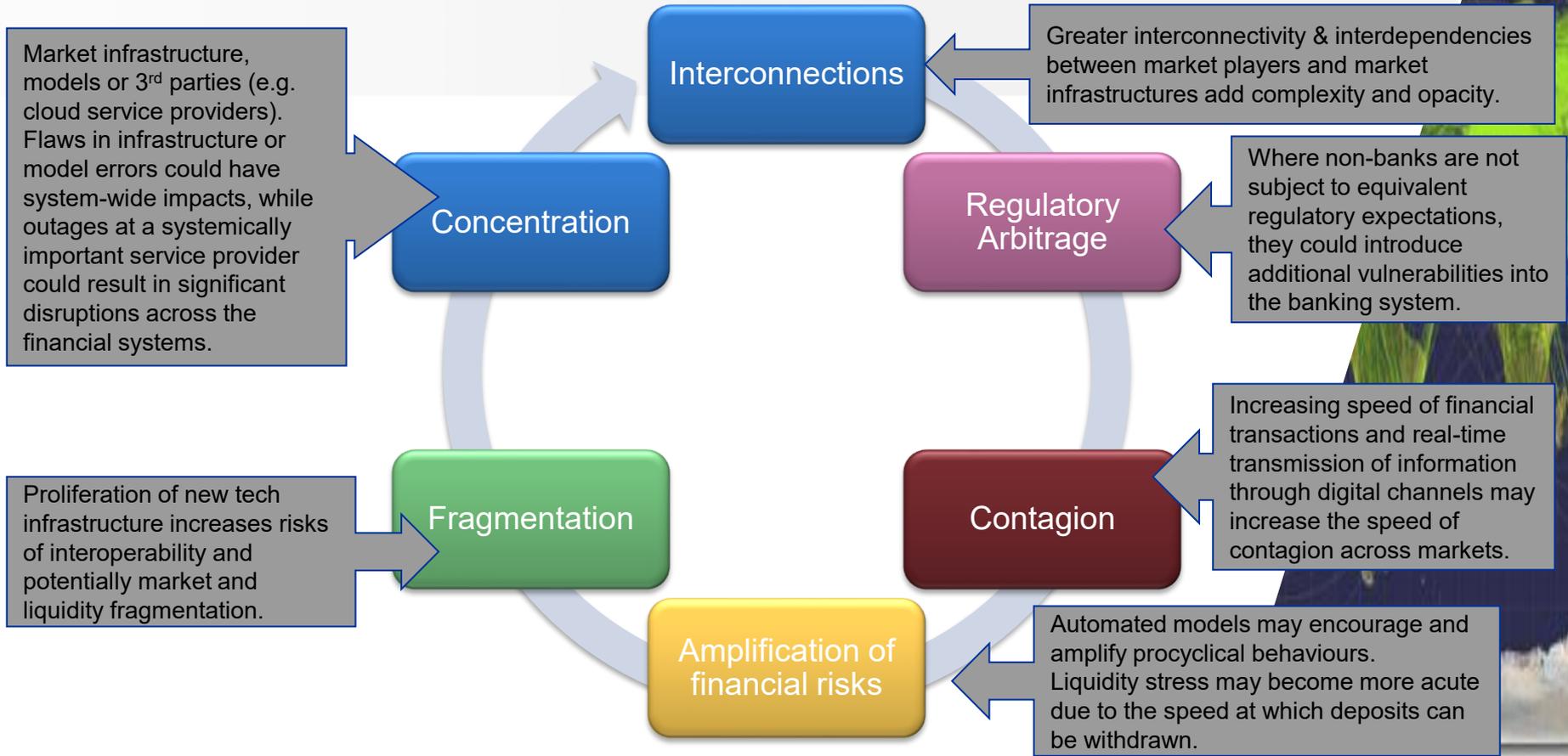
Strong data governance is the foundation of trustworthy Tech/AI in banking

- ▶ Clear ownership, transparent lineage, and continuous validation ensure that accountability stays with humans, even as intelligence becomes increasingly automated.



5. Systemic implications and regulatory evolutions

Fintech and Financial Stability Risks



EU AI Act (2024/1689)

Risk Level	Examples in finance	Regulatory expectation*
Prohibited	Social scoring, manipulative or discriminatory AI	Not allowed in EU
High-Risk	Credit scoring, underwriting, AML/CFT monitoring	Strict compliance, governance, oversight
Limited-Risk	Chatbots, robo-advisors	Transparency obligations
Minimal-Risk	Portfolio analytics, automation scripts	Voluntary codes of conduct

Risk-based classification of AI systems

▶ The Act categorises AI applications from “unacceptable risk” to “minimal risk.”

High-risk uses include finance and insurance

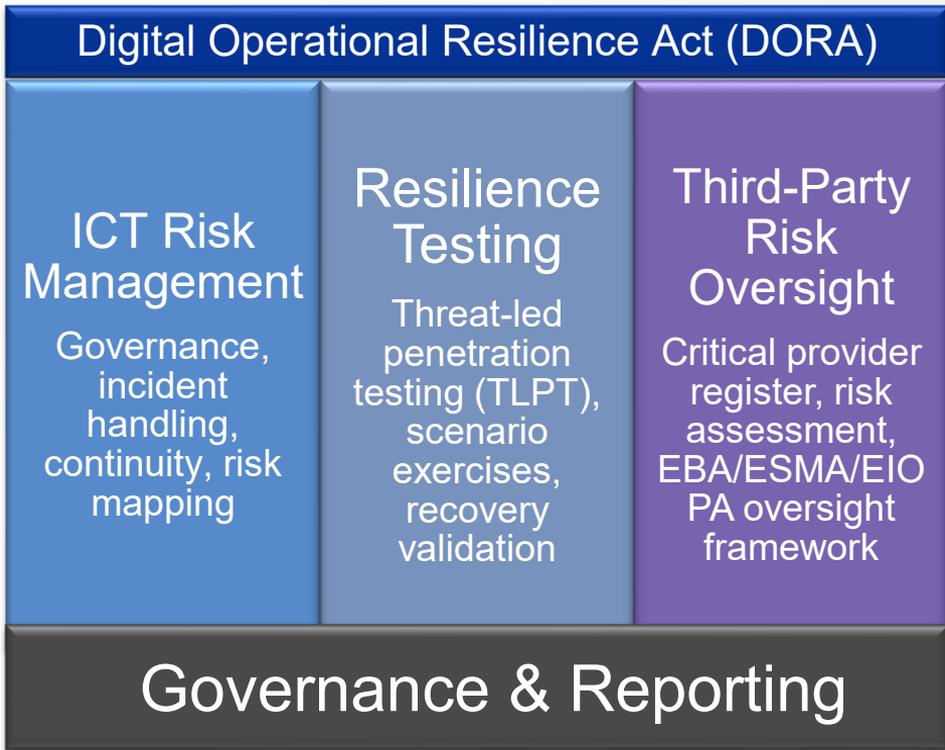
▶ Credit scoring and risk pricing for individuals fall under strict requirements.

Governance, documentation and human oversight

▶ Providers must maintain records, ensure traceability and human review of outputs.

*Most provisions take effect in August 2026 for new AI systems or significant changes to existing ones.

DORA & Operational Resilience



DORA (2022/2554) integrates ICT and AI resilience

- ▶ Creates a single framework for digital-operations risk across the EU.

Harmonised incident reporting and testing

- ▶ Common taxonomy and stress-testing for cyber and third-party events.

Complements the AI Act on cyber risk

- ▶ Operationalises “trustworthy AI” through resilience requirements.

A detailed architectural line drawing of a modern building. The building features a prominent central tower with a grid-like facade, and a main body with horizontal bands of windows. The drawing is rendered in black lines on a white background, showing the structural elements and window placements.

6.

Main take aways

Supervisory priorities for credit risk

Ensure prudent risk-taking and sound credit standards

Geopolitical driver

Possible deteriorating macroeconomic conditions, banks should apply sound underwriting standards.

CR management

Some banks still face shortcomings in their credit risk management frameworks.

Prudence

Prioritise prudent risk-taking and sound credit underwriting standards in banks to prevent NPLs.

Both for Traditional and Fintech Institutions

Implications for risk management

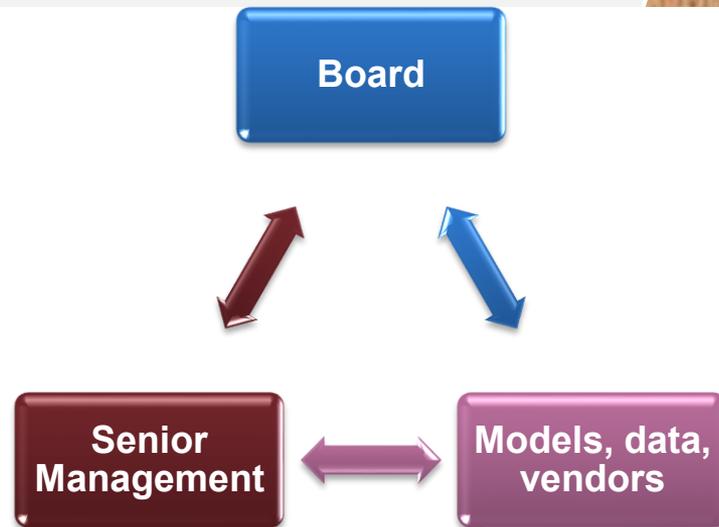
Banks should have effective governance structures and risk management processes that appropriately identify, manage and monitor risks arising from the use of fintech:

- Robust strategic and business planning processes that allow banks to adapt their strategies to consider the potential impact of new technologies on their business
- Staff development to ensure that personnel have the appropriate awareness and capability to manage fintech risks
- Sound new product approval and change management processes to appropriately address changes not only in technology, but also in business.
- Processes for monitoring and reviewing new products, services or delivery channels for compliance with applicable regulatory requirements.

Key recap: Credit quality in a digital age



Banks should have effective governance structures and risk management processes to identify, manage and monitor risks arising from the use of new technologies. **Accountability** remains **inside** the **bank**.



Regardless of whether banks use innovative or traditional methods, banks are subject to appropriate supervision, proportionate to their individual risk profile, in line with the principle of **'same business, same risks, same supervision'**. Supervisory activities will continue to focus on ensuring prudent risk-taking and sound credit underwriting standards.

Thank you for your attention

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