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Harnessing the Benefits, Minding the Risks of Fintech Innovations

Ninth Annual Fintech Conference
Philadelphia

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The views expressed today are my own and not necessarily those of the Federal Reserve System or the Federal Open Market Committee (FOMC).

Remarks as prepared for delivery.

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Thank you, Julapa.¹ Good morning, everyone. It is my distinct pleasure to welcome you to the Federal Reserve Bank of Philadelphia and to our Ninth Annual Fintech Conference.

As we begin the conference, I'd like to share my perspectives — and some of the questions that I am grappling with as we consider the conference theme: how to harness the benefits and mind the risks of fintech innovations.

These are of course my own views, and not necessarily those of the Federal Reserve System or my Federal Open Market Committee (FOMC) colleagues.

As I look around this room, I'm struck by the extraordinary depth and diversity of expertise assembled here today. Technologists and bankers, regulators and entrepreneurs, academics and investors, consumer advocates, and policymakers — all united by a shared interest in the future of finance.

This diversity is not incidental to our purpose but essential to it. We are gathered at an important inflection point in the evolution of our financial system. The rapid convergence of cutting-edge technologies with traditional financial infrastructure creates unprecedented opportunities and equally significant challenges that no single perspective can address.

Consider the transformation we've witnessed in just the past decade. Mobile payments have evolved from novelty to necessity. Artificial intelligence and machine learning are revolutionizing everything from credit decisions to fraud detection. Open banking is redefining the relationship between financial institutions and customers. Embedded finance is blurring the very definition of what constitutes a financial service.

¹ Julapa Jagtiani, senior economic advisor and economist I, Federal Reserve Bank of Philadelphia, <https://www.philadelphiafed.org/our-people/julapa-jagtiani>.

And importantly, cryptocurrencies and digital assets have moved from the fringe to the center — including to the center of legislative and central banking discussions.

As I think about this inflection point, I find it helpful to consider the opportunities and the challenges it offers from the vantage of the past and the future. What lessons does history provide to help us navigate the present? And what grade will the future give to our navigation skills?

Starting with the past, I dusted off my undergraduate copy of Schumpeter's *Capitalism, Socialism and Democracy*.² It's a long book, but the insight that has had a lasting impact is, to put it in Schumpeter's words: "Creative destruction is the essential fact about capitalism."

From this perspective, what we are witnessing is business as usual: new ideas replace old ones. There are winners and losers, of course, but, as one [essay](#) sums it up: "Over time, societies that allow creative destruction to operate grow more productive and richer; their citizens see the benefits of new and better products . . . better jobs, and higher living standards."³

This might have surprised Schumpeter. He was actually pretty gloomy about creative destruction and the prospects for enduring capitalism. In the same book that has earned him the label of the prophet of innovation, he says: "Can capitalism survive? No. I do not think it can." Interestingly, he thinks that capitalism will falter not because it leads to economic failure but because its success will ultimately undermine it.

One source of failure that Schumpeter worries about is that successful firms will get big and bureaucratic and will lose their entrepreneurial edge. But that's actually not what we've seen.

Studying sources of innovation in the U.S. nonfarm private sector from 1983 to 2013, researchers find that about 25 percent of innovation comes from what we would call creative destruction, and the vast majority comes from improvements that existing firms make to their own products and services.

Of particular relevance for fintech innovation, the share of innovation from creative destruction was higher in the fast-growing information technology and communications space over its peak innovation period. Even here, the authors find that most innovation came from existing firms.⁴

² Schumpeter, Joseph. *Capitalism, Socialism and Democracy*. London: Routledge, 1976.

³ Alm, Richard and W. Michael Cox. "Creative Destruction," *Econlib*, <https://www.econlib.org/library/Enc/CreativeDestruction.html>.

⁴ Garcia-Macia, Daniel, Chang-Tai Hsieh, Peter J. Klenow. "How Destructive Is Innovation?" *Econometrica*, 87:5, September 2019, pp. 1507–1541, http://klenow.com/DestructiveInnovation_GHK.pdf; Laidler, John. "Does Creative Destruction Really Drive Economic Growth? Summary of Working Paper 22953," *The NBER Digest*, February 2017, <https://www.nber.org/digest/feb17/does-creative-destruction-really-drive-economic-growth>.

So, two lessons that I take away from this brief, and admittedly selective, review of history are: Number one, don't get in the way of progress; and number two, there's a lot of creativity that can happen without destruction. Traditional financial firms have an important role to play in driving financial innovation.

What about the future? At this inflection point, where the frameworks and the rules of the game for fintech are being established, how should their future success be evaluated?

Will we measure success by the volume of transactions processed through new platforms? By the market valuations of fintech unicorns? By the regulatory frameworks we establish? These are important indicators, certainly, but insufficient.

The innovations that we are witnessing hold tremendous promise. They can expand access to financial services for the historically unbanked. They can reduce costs and friction in transactions across borders. They can improve transparency and security in our markets.

Alongside these opportunities lie substantial risks that demand our attention. Issues of data privacy and security grow more complex with each technological advance. The acceleration of financial transactions creates new vectors for systemic risk.

Algorithmic decision-making raises important questions about fairness, bias, and accountability. And as financial services become more digitized, we must ensure that they don't leave behind those with limited technological access or literacy.

So, a fundamental question is: How will we know if we've succeeded in harnessing the benefits of fintech innovation while adequately addressing its risks?

First of all, we know it is possible for fintech innovations to simultaneously create wins for traditional financial firms, fintech firms, and consumers. In [one Philly Fed study](#), researchers found that banks who partnered with fintechs were able to offer larger credit lines to customers with low or missing credit scores, and they actually got better at assessing credit risk. The results were especially apparent in the mortgage sector.⁵

And a [study](#) out of India showed that the introduction of broadband networks and a nationwide digital payment system that created verifiable transaction histories has significantly expanded access to credit at scale, particularly among subprime borrowers

⁵ Jagtiani, Julapa et al. "Fintech Innovations in Banking: Fintech Partnership and Default Rate on Bank Loans," Federal Reserve Bank of Philadelphia, July 1, 2025, <https://www.philadelphiafed.org/the-economy/banking-and-financial-markets/fintech-innovations-in-banking-fintech-partnership-and-default-rate-on-bank-loans>.

and those with thin credit histories. Fintech firms led the way on these initiatives, and, so far, credit growth has not come at the cost of higher default rates.⁶

In the U.S., we have a very diverse financial system — with community banks and mega banks operating side by side in a way that provides many options to consumers and businesses. And consumers have diverse needs: some are hungry for traditional financial institutions to integrate crypto trading into their platforms, and others would be happy never knowing what the word “blockchain” means.

Financial innovation isn’t always digital. Here in the Third District, one community bank has designed its drive-through lanes to accommodate the horse and buggy transportation of the Amish community. They also have mobile banking units that help to address this community’s banking needs in a way that honors their beliefs.⁷

Just as innovation can come from both new fintechs and the traditional financial sector, as well as from partnerships between them, we don’t need to start from scratch when it comes to regulatory structures.

While no regulatory approach is perfect — and they all need to evolve — we have learned a lot over the years about how, and how not, to safeguard consumers and the payments system, to prevent financial instability, and to ensure safe and sound lending. There are likely to be important aspects of our current regulatory structure that we can build on and others that will require new approaches.

So, what does this tell us about how what we do today should be evaluated in the future? Success will mean financial inclusion is broadened; that products and services expand to meet the diverse needs of households and businesses. Success will mean regulatory structures that recognize that traditional finance and fintech need to coexist in one financial system and that the boundaries between them are likely to be fluid.

Success will mean regulatory structures that do their best to avoid the mistakes of the past and build on what has worked. Success will mean financial firms continue to innovate, create value, and meet consumer needs. Ultimately, success will mean that we have harnessed the benefits of creative destruction and built a stable financial system that makes future generations better off.

So that’s a pretty high standard. And that’s precisely why gatherings like this conference are so crucial.

⁶ Alok, Shashwat et al. “Breaking Barriers to Financial Access: Cross-Platform Digital Payments and Credit Markets,” NBER, December 23, 2024, <https://www.nber.org/papers/w33259>

⁷ Barca, Alaina and Crystal Flynn. “When ‘Mobile’ Means Buses or a Horse and Buggy: Innovative Solutions to Banking Deserts,” Fed Communities, April 2, 2024, <https://fedcommunities.org/innovative-solutions-banking-deserts/>.

This standard can't be met by technologists alone, nor by financial experts, nor by regulators acting in isolation. Achieving this standard requires the kind of sustained cross-disciplinary collaboration that happens when diverse stakeholders come together with openness and common purpose.

And that is the reason for this conference. When a cybersecurity expert can engage directly with a consumer advocate; when market regulators can talk directly with bank regulators; when a seasoned veteran of market crashes can share lessons learned with a fintech CEO — that is when we begin to develop solutions that are both innovative and responsible and that can stand up to the scrutiny of future generations.

I want to thank the conference organizers — Bill,⁸ Julapa, and the team, as well as our partners from the Wharton School, the School of International and Public Affairs at Columbia University, the University of Cambridge, and the Brookings Institution — for creating such a rich and dynamic event.

I'd also like to express my appreciation for the distinguished speakers we'll hear from over the next two days, and to all of you joining us, whether you're here in person or watching online. Over the years, this event has earned a reputation for open, rigorous debate — and that's what we need – and I'm sure this year will be no different.

Now I have the honor of introducing my colleagues, Federal Reserve Board Governor Christopher Waller and the Federal Reserve System's Chief Innovation Officer Sunayna Tuteja.

Governor Waller has been a member of the Federal Reserve Board since December of 2020. I first got to know Chris when he was the research director at the St. Louis Fed. At that time, he had, in addition to many other noteworthy responsibilities, the important job of closing the special door to the FOMC meeting room after Chairman Bernanke entered. I am glad to say that Chris's talents are now being used to open doors to dialogue, collaboration, and innovation that drive efficiency, resilience, and progress.

Sunayna joined the Federal Reserve System in 2021 as its first chief innovation officer. She spent many years driving change and innovation in finance, technology, and policy, including here in Philadelphia during her time at TD. I am grateful for Sunayna's efforts to champion the use of AI at the Fed — those efforts are definitely making me and my team more productive. Sunayna aspires to help build a bridge and to serve as a connector and a translator between the worlds of tech, crypto, and the Fed.

This conference aspires to do the same. Let me now turn it over to Sunayna and Chris to get us started. Thank you so much and enjoy the conference.

⁸ William G. Spaniel, executive vice president, supervision, regulation and credit, Federal Reserve Bank of Philadelphia, <https://www.philadelphiafed.org/our-people/william-g-spaniel>.