



Fintech and the Securities Market

As the regulator of the securities industry, the Trinidad and Tobago Securities and Exchange Commission (TTSEC) has the responsibility to monitor the industry, understand its potential for development and encourage innovation to foster that development. This week's article will highlight some prominent fintech products typically used in the securities market.

Internationally, innovative products, referred to as Financial technology or "Fintech" are becoming more prominent. From robo-advisers to crowd funding platforms, technological developments are altering the financial services industry. These changes are creating both opportunities and challenges for entrepreneurs, consumers and regulators. The term, "financial technology", is used to describe new technology that seeks to improve and automate the delivery and use of financial services. It is often seen today, as the new marriage of financial services and information technology. The advent of Fintech requires the TTSEC to understand how best to apply current rules, principles and practices to innovative financial technologies and non-traditional business models.

This Fintech evolution is taking place in the context of various global trends including:

- 1) **Growth of computing power** - The growth of computing power can be seen in the following:
 - a. the decline in the cost of storing, processing, and collecting data;
 - b. the exponential increase in accessible data and data sources;
 - c. the emergence of infrastructure and platforms where data can be shared; and
 - d. the number of applications being developed that contribute to the emergence and growth of the various categories of Fintech.
- 2) **Broader accessibility** - The internet has facilitated global connectivity and more broad-based access to products and services.
- 3) **Increasing disintermediation and re-intermediation** - Innovative Fintech business models are disintermediating and re-intermediating certain regulated activities. For instance, some international fintech platforms provide intermediary services for share placements and this leads to the disintermediation of stock exchanges and underwriters.

Innovative Fintech companies are already offering competing products and services in many of the key business lines of traditional brick-and-mortar intermediaries, including payments, wealth management, investment banking, retail banking, lending and treasury functions. In addition, there are potentially even more novel business models ahead, such as artificial intelligence-driven research, investment and trading (that utilises online platforms)

and decentralised, border-less ledgers combined with self-executing contracts. The following are some fintech products/services typically seen in the securities market.

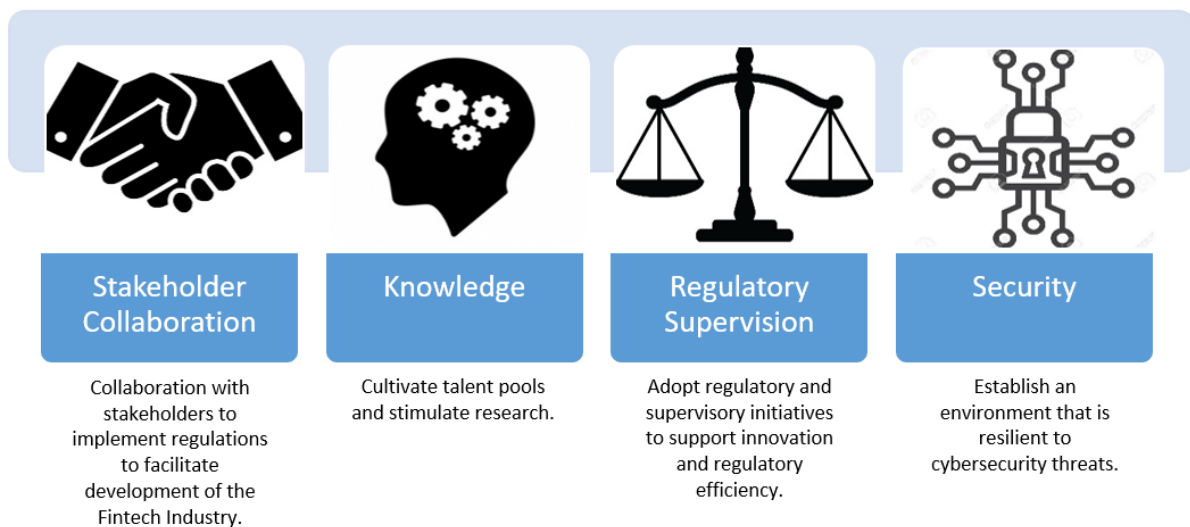
- 1) **Financing Platforms** – This includes peer-to-peer (P2P) lending and equity crowdfunding (ECF). These alternative financing platforms bring together firms and individuals looking for capital with others that have money to lend, invest or donate. *P2P lending* is a business model that in many cases allows investors, alone or with others, to provide financing to borrowers. Lenders/investors can earn monthly interest income in addition to capital repayments. ECF is a business model that allows individuals to invest in a company, typically a start-up or early stage business, in exchange for shares of that company.
- 2) **Retail Trading and Investment Platforms** – A review of technology enabled retail trading and investment shows a growing variety not only of online trading and investment platforms, but also of technologies that support retail investor decision-making on such platforms. This includes comparison websites, financial aggregator platforms and robo-advisers. Comparison websites empower investors to compare the price and features of banking, insurance and investment products before purchasing or investing. Financial aggregator platforms give investors an overview and therefore better control over their spending. Robo-advisers aim to change the economics and scalability of providing advice, including to traditionally underserved segments. From a business perspective, financial institutions incur lower costs when delivering advice through automated tools because these tools require the employment of fewer people. Additionally, financial institutions offering robo-advice are able to access a wider range of clients that might opt for the use of online channels as opposed to face-to-face interaction.
- 3) **Distributed Ledger Technologies (DLT)** – This includes the application of the blockchain technology and shared ledgers to the securities markets. A distributed ledger is a consensus of replicated, shared, and synchronised digital data geographically spread across multiple sites, countries, and/or institutions. Distributed Ledger Technologies (DLT) are technologies used to implement distributed ledgers.

The pervasive nature of Fintech and other digital innovations in the financial sector have the potential to transform the securities industry in Trinidad and Tobago, and enhance our global attractiveness for investment potential. This transformation may improve the efficiency of the market whilst reducing transaction costs and encouraging growth in the local securities industry. Although such opportunities exist, innovation without proper institutional safeguards can pose serious risks to investors and negatively impact the stability of the financial markets.

TTSEC's Approach

The TTSEC intends to create a holistic long-term approach to stimulate innovation and growth of the securities industry of Trinidad and Tobago, while ensuring robust investor protection, market integrity and financial soundness. Accordingly, the TTSEC has developed an internal policy position on Fintech that is premised on four fundamental pillars - Shareholder Collaboration, Knowledge, Regulatory Supervision and Security, as illustrated in diagram 1.

Diagram 1



Accessible on the TTSEC's investor education (IE) website, www.investucatett.com, is a 'fintech pledge' platform, where investors and individuals can learn more about financial technologies and understand how they work : <https://investucatett.com/caribbean-fintech-pledge-initiative/>.

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