Fintech and the Securities Market – Part 1

As Financial Technology ("Fintech") alters the attributes of financial services and market structures, financial regulation is also adapting. Among other things, Fintech products and service providers are streamlining business processes, which allow customers the opportunity to fulfil their financial service requirements through non-traditional online channels which are generally considered to be more user-friendly. This includes a wide range of business activities from accessing investment advice to securing a loan. Over the next five (5) weeks the Trinidad and Tobago Securities and Exchange Commission ("TTSEC") will be discussing topics related to Fintech and the Securities Market.

As the regulator of the securities industry, the TTSEC has the responsibility to monitor the industry, understand its potential for growth and encourage innovation to foster the development of the local capital market while ensuring the protection of investors. Internationally, innovative products, referred to as Fintech, are becoming more prominent. These technological developments, from robo-advisers to crowd funding platforms, are altering the financial landscape and are creating both opportunities and challenges for entrepreneurs, consumers and regulators. Fintech refers to technology enabled financial solutions and is often considered to be the new marriage of financial services and information technology (Douglas W. Arner, Janos Barberis & Ross P. Buckley. 2017 *Fintech, Regtech, and the Reconceptulization of Financial Regulation.)*

Importance of Fintech

In the International Monetary Fund & World Bank Group Policy Paper "The Bali Fintech Agenda" states that Fintech developments can encourage financial inclusion which means that both individuals and businesses have access to useful and affordable financial products and services that meet their needs (transactions, payments, savings, credit, and insurance), and are delivered in a responsible and sustainable way.

Fintech can improve the securities industry of Trinidad and Tobago by providing alternative methods to match investors, lenders and borrowers. Fintech products/services can provide a more level playing field and reduce information asymmetry in the securities industry, which can result in greater participation of retail investors within the industry.

With the utilisation of these innovative solutions, financial and investment advice will be more accessible and available to the wider community and not exclusive to sophisticated investors.

Developing countries can benefit from the use of Fintech through the creation of alternative sources of capital which can assist in developing businesses and the economy. Fintech providers can create tailored products/services related to an organisation's size which can allow for diversified funding options especially for Small and Medium-sized enterprises (SMEs). This can potentially result in better cash flows, improved working capital management and more stable or secure funding for SMEs. Fintech solutions can also possibly provide cost effective ways to assist businesses in managing payments, customer relations, invoicing and inventory management. Organisations in developed countries have started utilising Fintech products/services to obtain or retain competitive advantages by improving efficiency and enhancing customers' experiences.

Just as the internet empowered people around the globe by providing access to information, Fintech is reducing information asymmetry in the marketplace by increasing transparency and improving customer convenience. Overall, Fintech can enhance the financial environment and in time contribute towards economic development.

Risks of Fintech

The emergence of innovative technologies has led to the development of new risks to the financial sector. Regulators must be aware of these risks and ensure registrants/licensees have appropriate policies and procedures in place to mitigate them. Some of the risks identified by the (International Organization of Securities Commissions 2017) are as follows:

- **Operational risk** - this risk is strongly correlated with other risks and results from inadequate or failed internal processes, people, and systems, or from external events. The following can occur due to insufficient policies, procedures and risk mitigation strategies at a Fintech provider:

  - **Technology Failure** – this includes transaction delays due to poor (or a lack of) technological infrastructure , or due to an Agents' device and internet connection not functioning at optimum. This may result in wrong data entry, error in systems' maintenance, execution failures, delivery failures, and process management failures.

- **Human Error** – this includes issues such as incorrect data entry and incorrect selections by clients on digital interfaces. Most errors made by clients may be due to poor processes, nonuser-friendly designs/systems as well as a lack of knowledge among those who may be less technically inclined.

- **Market risk** – some Fintech products such as cryptocurrencies are subject to high amounts of speculation therefore, rates of exchange may fluctuate quite significantly over a short period. This has been seen in the variation of Bitcoin prices, where price/market value has decrease by more than 50%.
- **Legal risk** – regulators may choose to restrict or enhance the regulation of certain Fintech products/services. This will mean that Fintech providers must now ensure compliance with all regulatory requirements or face penalties.
- **Cybersecurity risk** - due to the architecture of technological devices and their susceptibility to malware, unencrypted confidential and personal information or data can be compromised and leaked. Fintech products/services render financial holdings vulnerable to theft through the use of hacking and cyber-crimes.
- **Money Laundering ("ML") risk** – Fintech providers will have to review their business processes, operations, transactions types and customer activities to ensure that appropriate controls are in place to mitigate ML risks.

In next week's article the TTSEC will discuss the Bali Fintech Agenda which identifies key considerations for policymakers regarding the implementation of Fintech policies.

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For more information on the securities market, please visit our corporate website, **www.ttsec.org.tt**, or our Investor Education website at **www.investucatett.com** or connect with us via any of our social media handles:

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