



## **Fintech and the Securities Market – Part 5 of 5**

As we conclude our five (5) part series on ‘Fintech and the Securities Market’, we highlight some of the many types of Fintechs in the securities industry.

### **Fintech Technologies**

Most Fintech product/service providers interact with their clients through platforms that are accessible via internet browsers and mobile applications. These platforms are designed and operated based on emerging innovations/technologies. The leading technologies supporting the provision of Fintech services are distributed ledger technologies (“DLTs”); big data analytics; cloud-computing; machine learning and application programme interfaces (“APIs”). While these technologies are widely used, they remain relatively unknown to the general public.

- **Distributed Ledger Technology (“DLT”)** is a database that exists across several locations or among multiple participants. Such data is shared, replicated, validated and synchronised across each computer on the network. Unlike traditional databases, which are centralised and reside in a fixed location, DLTs are decentralised and do not require a central party or intermediary to process, validate or authenticate transactions. Blockchain is a popular DLT in the financial system and is generally utilised by cryptocurrencies; most notably Bitcoin.
- **Big data analytics** include data analysis activities that collate information on actions such as purchasing histories, interactions within social networks and web page visits. The data being analysed is either structured or unstructured and this analysis is typically done on large networks or cloud computing services. Big data analytics can be used by financial institutions to analyse purchasing habits, or by regulators to analyse thousands of transactions when monitoring for Money Laundering (ML) activities.
- **Cloud computing** is an information technology model that consists of the provision and use of on-demand computing configurable resources (e.g., servers, storage, applications, and more.) via an internet network, as opposed to a physical connection

to a server. Cloud computing services enable users to store information, process commands and access data on servers via any device with an internet connection.

- **Machine learning** is a branch of artificial intelligence based on the idea that systems can “learn” from data algorithms; utilising statistics to identify patterns and making decisions with minimal human intervention. In the securities industry, Fintech providers use machine learning methods to create robo-advisors<sup>1</sup> that provide investment advice to clients.
- **APIs** are a set of routines, protocols, and computing resources that allow applications to access data and interact with external software components, operating systems, or microservices. APIs generally present an easy-use graphical interface for clients, thus increasing convenience.

### **Fintech Products/Services in the Securities Market**

The aforementioned technologies have been used to create a number of products and services within the securities industry. The following are some Fintech products/services that may become more prominent:

- a) **Alternative Financing Platforms** – these are aimed at bringing together firms and individuals, looking for capital, with others that have money to lend, invest or donate. This includes Peer to Peer (“P2P”) lending, which is a business model that allows investors, alone or with others, to provide financing to borrowers. The novelty of this business model is that financing may be obtained from many different lenders/ investors ranging from individuals to institutional investors.
- b) **Retail Trading and Investment Platforms** - online investment and trading platforms have evolved significantly, pressuring traditional brokerage houses and asset management firms to provide customers with access to products and services across multiple distribution channels. This has also led to an increasingly cost-competitive environment, prompting the use of technology to automate processes and increase product scope.
- c) **Automated Advice Tools** – sometimes called Digital Advisers, incorporate computer-based technology into their portfolio management processes – primarily through the

---

<sup>1</sup> Robo-advisers provide largely automated portfolio management advice, strategies and services for investors (International Organization of Securities Commissions 2017, pg. 25).

use of algorithms designed to optimize various elements of wealth management from asset allocation, to product selection and trade execution.

Using attitude to risk, capacity for loss and other investment projection parameters, automated advice tools deduce the most suitable investment solutions for clients. These automated advice tools may take the form of websites that incorporate a "cost-per-click" model, which may amount to giving investment advice on a fee basis. It can also be a financial aggregator platform which will allow individuals to link accounts across multiple financial institutions and may also extract the associated data and utilise it to provide investment advice. There are also social trading and investing, and social media sentiment platforms, which typically offers a social approach to trading and investing based on the advice of a leader who may or may not be a licensed financial professional.

### **Regulation of Fintech Products/Services**

The TTSEC aims to adopt regulatory and supervisory initiatives to support innovation of financial products/services and improve regulatory efficiency. These initiatives will be supported by various regulatory tools or infrastructures which include an innovation hub and a regulatory sandbox.

#### **REGULATORY INNOVATION HUB**

This provides a dedicated point of contact for firms to raise enquiries with competent authorities on Fintech-related issues and to seek non-binding guidance on the conformity of innovative financial products, financial services or business models with licensing or registration requirements and regulatory and supervisory expectations

*(ESMA, FinTech: Regulatory sandboxes and innovation hubs, 2018)*

#### **REGULATORY SANDBOX**

This provides a scheme to enable firms to test, pursuant to a specific testing plan agreed and monitored by a dedicated function of the competent authority, innovative financial products, financial services or business models.

*(ESMA, FinTech: Regulatory sandboxes and innovation hubs, 2018)*

This article concludes the TTSEC's five (5) part Fintech series. You can commit to helping protect yourself and the integrity of our markets by taking our Caribbean Fintech Pledge at:

<https://investucatett.com/caribbean-fintech-pledge-initiative/> .

**END**

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



**Published Article: Business Express  
September 9, 2020**