



36TH ABA

**GENERAL MEETING &
CONFERENCE 2019**



Challenges of FinTech and Role of Regulators

D Kumaratunge



FinTech is shaping FS from the outside in

Where traditional financial institutions have failed, FinTechs are succeeding

Disintermediation: FinTechs most powerful weapon

Time to Get Off the Bench: over 20% of FS businesses at risk to FinTechs

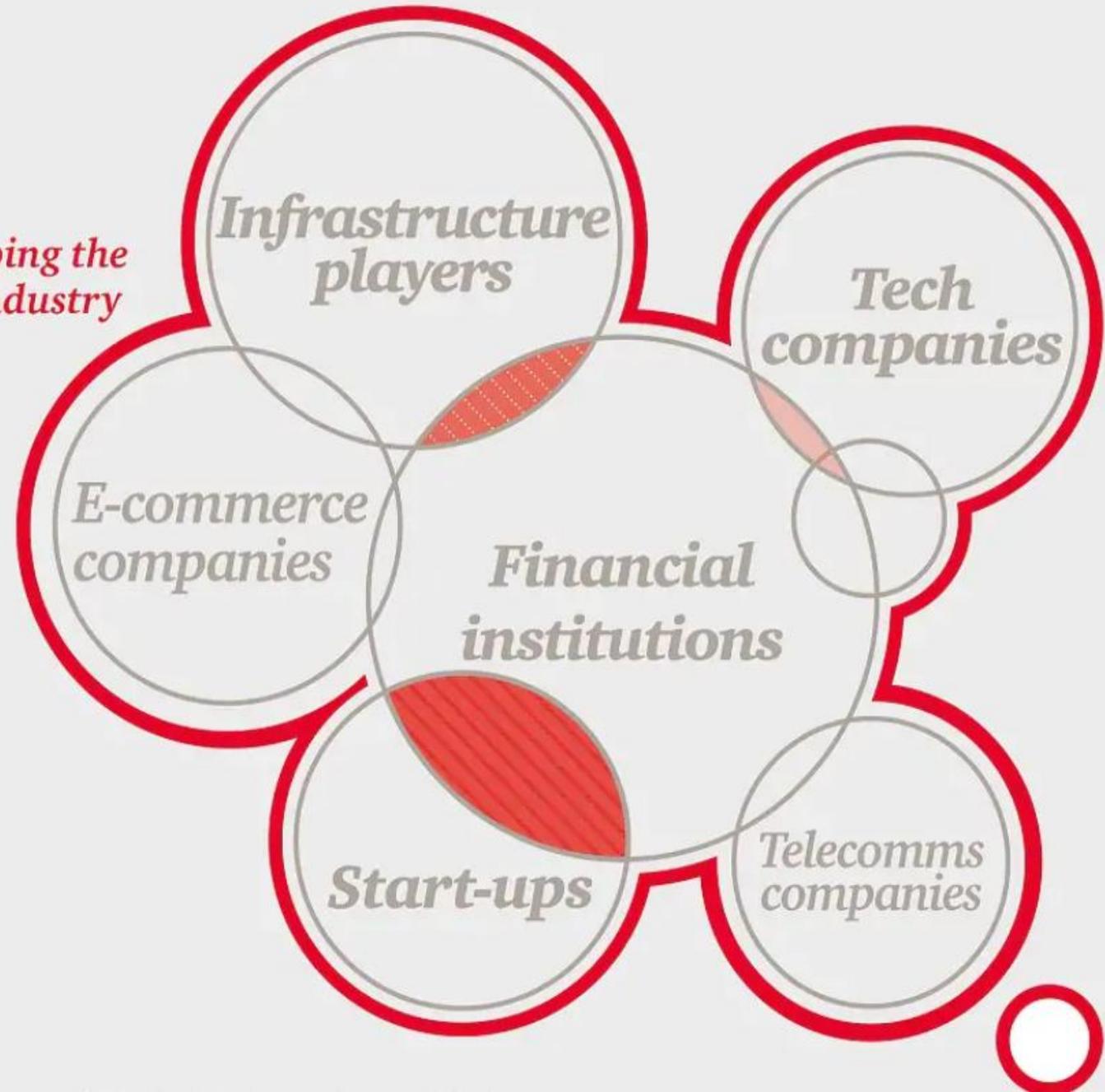
Blockchain: an untapped technology is rewriting the FS rulebook

Heading for bargain basement FS?
FinTech is slashing costs

The free lunch is over: FS must leverage on the FinTech ecosystem

FinTech is shaping FS from the outside in

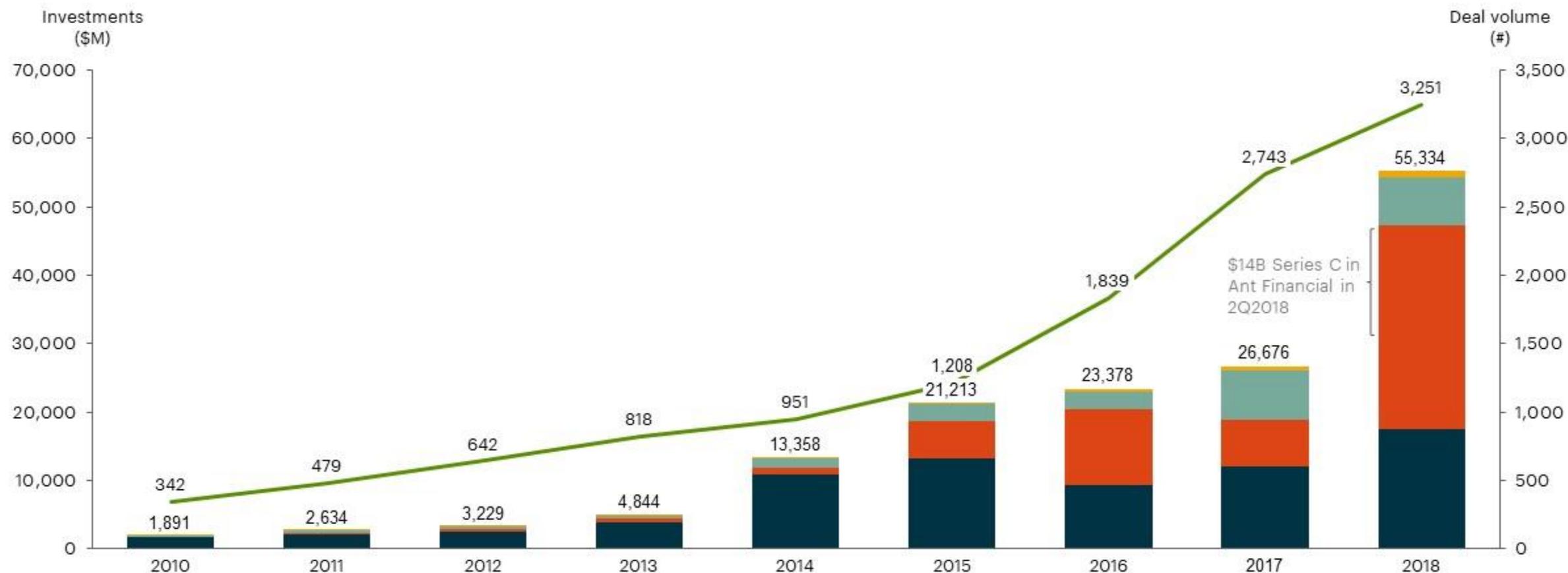
Shaping the FS Industry



GLOBAL FINTECH FINANCING

ACTIVITY BY REGION

NO. OF DEALS GREW 18.5% YOY IN 2018. TOTAL FUNDING IN THE SAME PERIOD GREW AT 107% PRIMARILY DRIVEN BY THE \$14BN ROUND IN CHINA



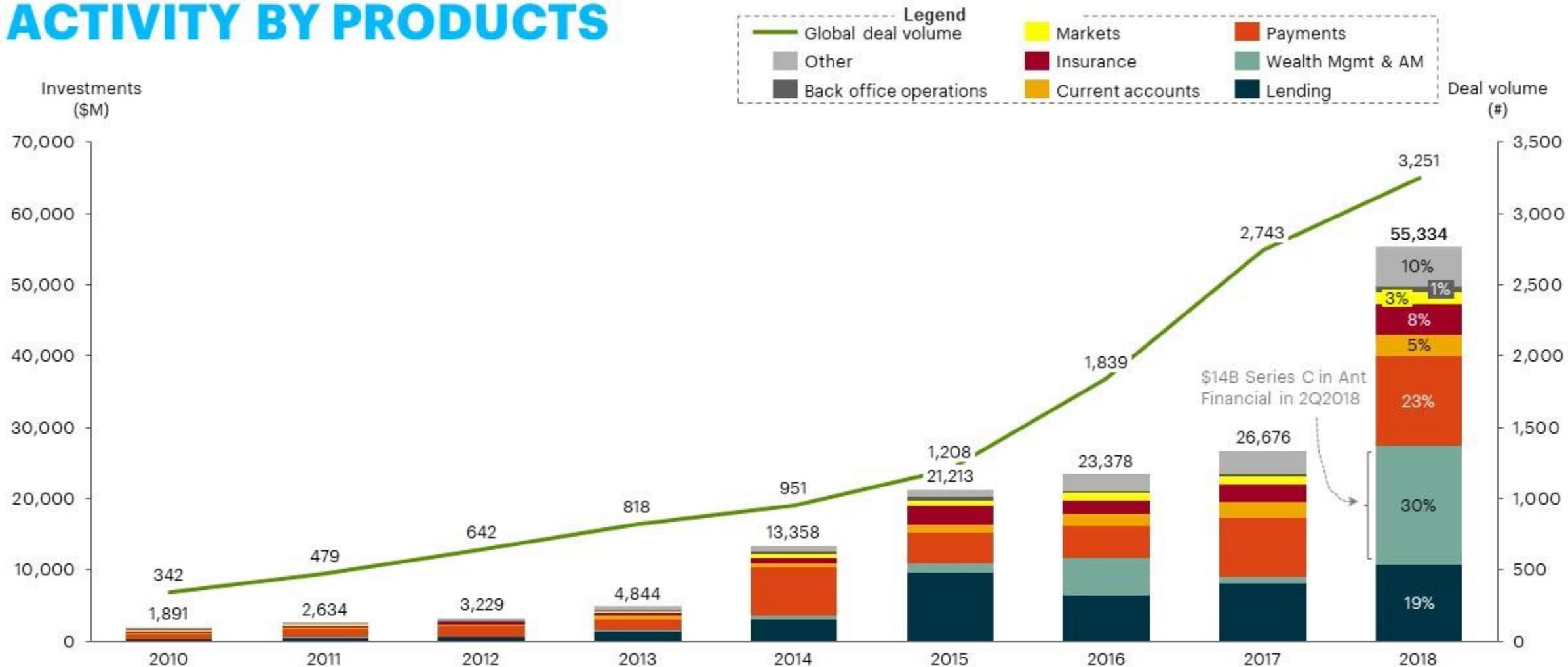
Note: : Investments value referred to only deals with amount reported by CB Insights and deals volumes referred to all deals

Source: Accenture Research analysis on CB Insights data

GLOBAL FINTECH FINANCING

ACTIVITY BY PRODUCTS

TOP 3 PRODUCT CATEGORIES BY FUNDING IN 2018 WERE WEALTH MANAGEMENT (30%; 87% OF THE AMOUNT RAISED HERE WAS FROM ANT FINANCIALS' DEAL), PAYMENTS (23%) & LENDING (19%).



Note: : Investments value referred to only deals with amount reported by CB Insights and deals volumes referred to all deals
 Source: Accenture Research analysis on CB Insights data

Technology

Indonesia Has Shut Down 826 Fintech Startups This Year Alone

By [Arys Aditya](#)

August 2, 2019, 11:09 AM GMT+5:30

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Indonesian fintech startups public for h

The Financ

179 Of The Biggest, Costliest Startup Failures Of All Time

323 Startup Failure Post-Mortems

October 16, 2019



[Trends](#)

WHERE IS THIS DATA COMING FROM?

It's hard to say goodbye. A compilation of startup failure post-mortems by founders and investors.

Do FinTechs Need Regulation?

- The post-Global Financial Crisis regulatory reform has been far reaching for traditional banking-sector participants
- Many regulators have been concerned with re-establishing **stability in the financial system**
- In response, financial markets and services were **flooded with technology-driven innovation**
- With many instances that new fintech companies bring alternative sources of **external finance to consumers and SMEs**, some innovations had been disruptive
- Therefore, regulations and regulators are being forced by a wave of **disruptive innovation** and **financial innovation** to try to keep up with the rapid pace of change

Financial regulation

Due to the breadth of the FinTech sector, it is hard to talk about “FinTech Regulation” *per se*. Better to break down high-level approaches (*e.g. risk- or product-based*) and complement them with a sub-set of specific regulations (*eg payments, AML*).

Broadly speaking, financial regulators have 4 main mandates:

Financial
Stability

Prudential
Regulation

Conduct & Fairness

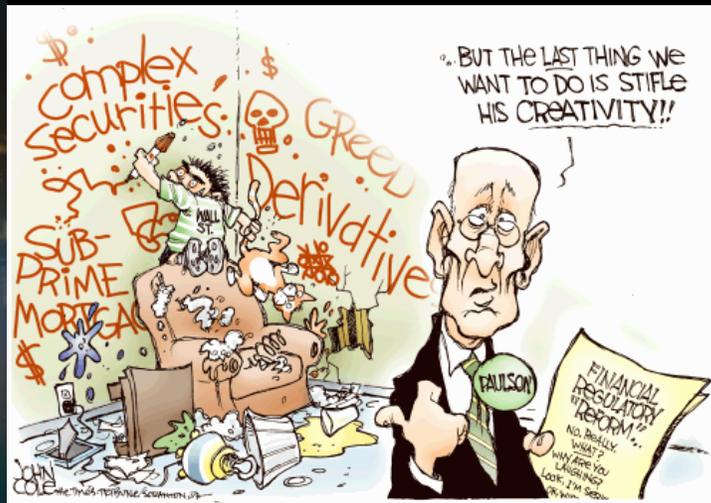
Competition &
Development

Role of Regulators in Financial Innovation

Fintech innovations promise a range of opportunities, from greater efficiency in financial transactions through to the transformation of the business.



FINANCIAL INNOVATION
A Risky Business?



Role of Regulators in Financial Innovation

Bali Fintech Agenda (BFA) suggests a framework of high-level issues that countries should consider in their own domestic fintech policy

Regulators

Innovation

Risk management



Popular Areas of FinTech Regulation

In order to keep up with fast moving FinTechs, regulators have worked on the following **four areas**

1. **Dedicated FinTech teams**

to ensure **regulatory consistency** between different Institutions/departments and, where necessary, regulators in the same market

2. **FinTech industry enablers/utilities**

led by regulators to develop **common platforms** that can improve system efficiency as a whole and manage the regulatory complexity

Popular Areas of FinTech Regulation

3. FinTech Regulations/Standards —

- to provide **regulatory clarity** on FinTech business models

4. FinTech Regulatory Sandbox —

- to allow businesses **to test new products, services, business models** and delivery mechanisms within a controlled environment agreed between the participant and the regulator

Can Regulators Keep Up with Fintech?

By 2020, **28%** of traditional banking and payments business will go to fintech and **81%** of banking CEOs are concerned about the speed of technological change, more than any other industry sector

– *PwC Global FinTech Report*

- **It's Not Easy!!!**

Challenges: Banks vs. FinTech

Banks

- Banks are **investing heavily in innovation**, but haven't fully diffused their innovation strategies throughout their organizations
- Banks will have to find a way to develop new platforms compatible with infrastructure
- **Digital disruption** has the potential to shrink the role
- Educate Employees
- Educate Customers

FinTech

- startups are trying to navigate the regulatory landscape. This takes time and might end up making the **product obsolete** by the time approval is granted
- startups will have to find a way to maintain profitability while facing **increased regulations, higher costs, and larger infrastructures** that will be more difficult to change and manage

Challenges for the Regulators

The scope of FinTechs are so vast that sometimes it is unclear that the work being done by a particular FinTech **falls under the purview of which regulator**

Since certain products by FinTechs could fall under the purview of multiple regulators, a **good coordination between regulators is essential** for proper regulation of FinTechs

Regulators sometimes do not have the required authority to regulate activities of FinTechs due to **outdated laws and regulations**

Challenges for the Regulators

Activities of FinTechs cannot be looked at from a traditional banking point of view and therefore, Regulators need to have **trained officials with updated knowledge** to oversee activities of FinTechs

Due to the vast number of FinTechs which are already existing in the market and the FinTech startups which are coming in to the market every day, **the workload for the regulator to regulate FinTechs is growing exponentially**

The competition between Banks and FinTechs will result in **unconventional products being developed** by both parties which might have **undesirable outcomes for the customers**

Challenges for the Regulators

Competitiveness between FinTechs will make them engage in more riskier operations that will have repercussions, being a threat to the entire financial system stability

Controlling accessibility and portability of Customers' data which will have broad implications for **consumer protection and to provide a level playing** field for all the FinTechs

While mitigating the risk, The **Regulator should be a catalyst for innovation** and therefore, needs to strike a balance between innovation and risk mitigation

Challenges Faced by FinTechs – Regulatory Perspective

- banks and financial institutions have **a fair understanding of regulators and regulations**
- Proposals by Fintechs reach regulators through Payment Service Providers(PSP) (i.e. Banks/Financial Institutes) who are competitors and they might **not have the same level of interest as FinTechs** to get approval for these products
- Banks **do not have sufficient resources** to allocate time and guide small FinTech companies that might have great ideas
- Due to fear that their reputation could be tarnished by associating with certain Fintech Companies, Financial Institutes choose to **work with only a selected number of reputed FinTechs**
- Therefore, some FinTechs will **not have the opportunity or a platform to launch** their product

Advantages Banks have over FinTechs

Reasons why nonbank fintech firms still face big challenges in competing with banks

- **Banks have history and trust with their customers**
 - Banks are far too **ingrained with their customers** to be removed within any foreseeable time frame
 - Business partners and customers have been **using the services of banks since well before the technology boom**. There is a history and trust that exists between banks and their customers that fintech is still years away from rivaling
- **Banks have deeper pockets**
 - The market **capitalization of FinTech companies is significantly lower than traditional banks**. Banks also usually have better name recognition. Having such a large market cap is a signal of security to customers.
 - smaller cap companies are **more susceptible to turbulence and market volatility** — business customers would rather avoid

How to overcome these challenges

- Establish liaison between Regulators for efficient communication
- Provide training for relevant officers to make them knowledgeable regarding latest innovations by FinTechs around the World
- Update existing laws and regulations and issue new regulations to empower the Regulator with necessary authority to regulate activities of FinTechs
- Regulate FinTechs' entrance in to the Financial system so that the Regulator will not be overwhelmed by the number of FinTechs to regulate

How to overcome these challenges

- **Introduce laws** to protect customer data and provide fair accessibility to data
- **Closely monitor market developments** to curb unlawful competition
- **Mitigate risk** while being a catalyst for financial innovations

Encouraging Financial Innovation

Balancing Financial Innovation and Risks – A Closer Look

- Embrace the opportunities of Fintech
- Enable new technologies to enhance financial service provision
- Reinforce competition and commitment to open, free, and contestable markets
- Foster Fintech to promote financial inclusion and develop financial markets
- Develop robust financial and data infrastructure to sustain fintech benefits
- Policies with regard to data ownership, privacy and transparency
- Monitor developments closely to deepen understanding of evolving financial systems
- Engage with Innovators – Regulatory Sandbox



Balancing Financial
Innovation
and Risks
– A Closer Look

Risk Management...

- **Adapt regulatory framework** and supervisory practices for orderly development and stability of the financial system
- **Effective communication** and **coordination** between regulators (e.g. Central Banks and Telecommunications Regulatory Commission) to streamline the financial regulatory system
- **Modernize legal frameworks** to provide an enabling legal landscape
- **Develop broad principles** instead of restrictive rules
- Ensure the **stability** of **monetary** and **financial systems**

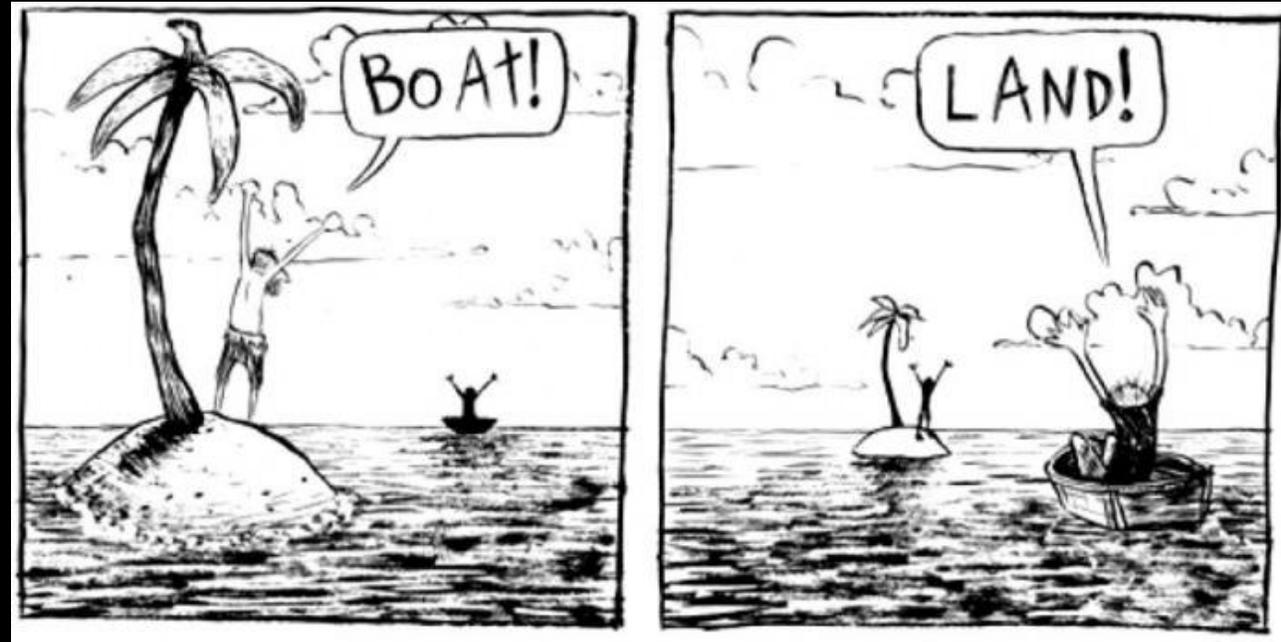


Balancing Financial
Innovation
and Risks
– A Closer Look

Risk Management ...

- Encourage **international coordination** and cooperation, and information sharing
- Develop joint counter measures to **fight cybersecurity** concerns and fraud
- Enhance **collective surveillance** and assessment of the financial sector
- Safeguard the **integrity** of **financial systems**

Do Not Copy
and Paste!



- Different countries see FinTech regulation from different perspectives
- **Think twice** before adapting Regulatory Sandboxes from other countries

Challenges of FinTech and Role of Regulators



“FinTechs are like fast moving trains. Many customers are served efficiently and effectively”

Thank you



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