



The Correlation Between FinTech and RegTech

The Emergence of FinTech

Financial markets worldwide were profoundly affected by the internet revolution in the early 1990s. Technological advances driven by the internet revolution changed the face of the financial services industry and led to the development of electronic finance (e-finance). E-finance allows individuals or businesses to access accounts, transact business, and obtain information on financial products and services without being in physical contact with financial institutions. The financial services industry today has embraced technology and as a result, continues to evolve.

Financial Technology (FinTech) is recognized as one of the most important innovations in the financial industry today. The term FinTech describes the method by which technology is now being used to transform how financial services products are designed and delivered to improve operational and customer engagement capabilities. The technological developments in mobile technology, cloud computing, and the use of big data analytics have fed into the FinTech revolution. FinTech has reshaped the way we do business through commerce, payments, investments, insurance and even money itself with the creation of crypto currencies such as Bitcoin.



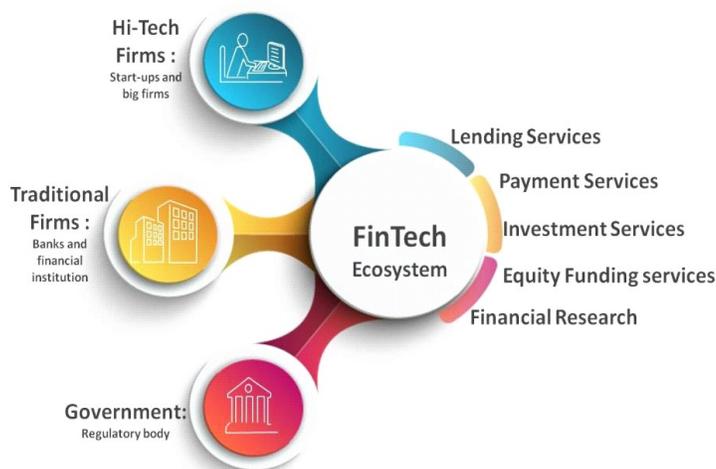
Definitions

- **E-finance** refers to all forms of financial services such as banking, insurance, and stock trading performed through electronic means, including the internet and World Wide Web.
- **Big data** is any voluminous amount of structured, semi-structured or unstructured data that is analyzed to provide insights.
- **Big data analytics** is the process of examining big data to uncover information including hidden patterns, unknown correlations, market trends and customer preferences to help organizations make informed business decisions.

Topics Discussed:

- ⇒ **The Emergence of FinTech**
- ⇒ **Definitions**
- ⇒ **The FinTech Eco-system**
- ⇒ **Is FinTech a Door For Criminal Enterprises?**
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The FinTech Eco-system



As depicted by the image, governments, financial institutions and Hi-Tech startups, together, form the FinTech ecosystem.

- Governments— Regulators must develop and implement laws and regulations to supervise the ecosystem. Additionally, in some countries, governments contribute to FinTech by providing tax incentives and government funding to FinTech startups.
- Financial Institutions contribute market expertise to the ecosystem. The institutions are establishing partnerships with FinTech companies to stimulate their own innovation as to improve the accessibility to products, services and customer relations.
- FinTech startups contribute innovative technology solutions to the FinTech ecosystem. FinTech startups are venturing into almost every type of financial activity from banking to payments to wealth management and more, some of which have garnered blockbuster investments.

Is FinTech a Door for Criminal Enterprises?

There are several types of FinTech companies, many of which are involved in money transmission and currency exchange industries. These industries are appealing to companies for three (3) main reasons:

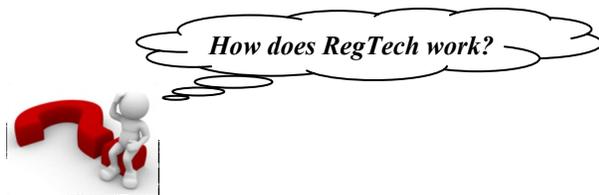
1. The barriers to entry are extremely low;
2. Existing perceptions that customers are being 'ripped-off' by traditional financial institutions due to expensive transaction fees, which makes for a compelling narrative; and
3. These FinTech applications are usually made easily accessible to the global population. For example, mobile applications like *CashApp*, allows individuals to send money instantly to someone in another country.

If the sector is easily accessible, it is easier for criminal enterprises to exploit it!



The Link Between FinTech and RegTech

The disruptions in the financial services industry by FinTech called for the implementation of robust compliance systems to manage the associated risks posed to financial institutions. Additionally, since the 2008 global financial crisis, regulators worldwide have been focused on drafting and implementing regulations to avoid its reoccurrence. This increase of regulatory and compliance costs facilitated the emergence of new FinTech start-ups. Regulatory technology (RegTech) was developed to address regulatory challenges in financial services through innovative technology. RegTech is often considered a sub-set of FinTech. It focuses on the use of technologies to facilitate the delivery of regulatory requirements more efficiently and effectively than existing capabilities.



RegTech companies work in collaboration with financial institutions and regulatory bodies. A financial institution that receives huge amounts of data may find it too complex, expensive, and time consuming to comb through. Using tools such as big data analytics, a RegTech software or company can combine the complex information that the institution has to predict potential risk areas that the institution should focus on. By creating the analytic tools needed for these institutions to successfully comply with the regulatory body, the RegTech firm has saved the bank time and money.

Benefits of Regtech

1. RegTech reduces AML/CFT and fraud risk—RegTech tools seek to monitor transactions that take place online in real time in order to identify issues or irregularities. Any outlier observed is relayed to the financial institution to analyze and determine if fraudulent activity is taking place. Institutions that identify potential threats to financial security early are able to minimize the risks and costs such as lost funds and data breaches which are associated with financial crime.
2. RegTech solutions save institutions time and money.
3. RegTech influences updates to existing and new regulations to ensure a country's overall compliance with international standards.
4. RegTech helps the institutions to assess business and customer risks.

Data Security & Resilience

FinTech, with all the benefits of great technology, time-saving, and convenience, has its dangers as well. The rise in digital products has increased incidences of data breach, cyber hacks, money laundering and other fraudulent activities. For example, with cryptocurrencies, criminals take advantage of persons who may not understand the technology quite as well and do not properly secure their information.

Some of the core security-related issues of FinTech include: data breaches; data loss; hijacking of accounts; malware injection; insufficient due diligence; abuse of cloud services; and shared vulnerabilities.



Tips

1. When opting to invest in FinTech and RegTech applications for business use, ensure that these applications have built in measures to address cybersecurity, data security, and privacy protection.
2. Develop information technology policies and procedures and ensure that these are made available to staff. Additionally, there should be on-going training on these policies and procedures as a refresher or to apprise staff of any new developments.
3. Test your data protection and cybersecurity systems on a regular basis to identify and correct any weaknesses.
4. Financial institutions should be extremely proactive in anticipating various aspects that could go wrong and develop a contingency plan to greatly mitigate having serious problems.

Reference:

- *Fintech and Emerging Trends in Financial Crime, Ms. Lisa Goldzung, AML Audit Services*
- <https://risk.thomsonreuters.com/content/dam/openweb/documents/pdf/risk/report/fintech-regtech-and-the-role-of-compliance.pdf>