



“FINTECH: BALANCING INNOVATION & REGULATION”

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WHAT IS FINANCIAL TECHNOLOGY (FINTECH)?

Technology-enabled innovation in financial services that could result in new business models, applications, processes or products with an associated material effect on the provision of financial services, having the potential to transform the financial services industry.

Definition FinTech. See: Financial Stability Implications from FinTech: Supervisory and Regulatory Issues that Merit Authorities' Attention, June 2017, p.7, Financial Stability Board and IOSCO Research Report on Financial Technologies (FinTech), February 2017, p.4



FINTECH: TRANSFORMING THE FINANCIAL SERVICES INDUSTRY

Payments & Settlements

- Digital Wallets & Mobile Payment
- Virtual Currency
- Peer-to-Peer Lending

Trading & Investments

- Equity Crowdfunding Platforms
- Robo Advisors
- Digital Assets & Exchanges

Distributed Ledger Technology (DLT)

- Digital Identification
- Smart Contracts

Compliance

- Regulatory Technology (RegTech)

DEVELOPMENTS IN PAYMENTS & SETTLEMENTS

Digital Wallets & Mobile Payment



- Electronic applications that allow storage of personal credit card/debit card or digital coupon information to allow for easy and ongoing purchases.
- Usually operate along with mobile payment applications to allow purchases of goods/services via mobile devices and allows for contactless payments.

Virtual Currency



- Virtual currency refers to a digital representation of value, which can be digitally traded. Virtual currencies may function as a medium of exchange, unit of account or store of value, but do not carry legal tender status. Examples include Bitcoin, Litecoin and Ethereum.

P2P Lending



- Peer-to-Peer lending platforms allow investors to lend money to borrowers, oftentimes establishing their own stipulations if the platform does not have its own. Examples include Upstart and Lending Club.



PAYMENTS & SETTLEMENTS SOLUTIONS: BENEFITS & RISKS

Benefits	Risks
<ul style="list-style-type: none">• Reduced Consumer Costs	<ul style="list-style-type: none">• Non-regulated entities
<ul style="list-style-type: none">• Efficiency and convenience	<ul style="list-style-type: none">• Anonymity (in virtual currency trading)
<ul style="list-style-type: none">• Transparency (of transaction records)	<ul style="list-style-type: none">• Information Asymmetry in pricing
<ul style="list-style-type: none">• Access to loans	<ul style="list-style-type: none">• Cross Border risks
<ul style="list-style-type: none">• Lower Interest rates	<ul style="list-style-type: none">• Fraud risks (by both operators and users)
<ul style="list-style-type: none">• Financial Inclusion	<ul style="list-style-type: none">• Cyber risk

DEVELOPMENTS IN TRADING & INVESTMENT



Equity Crowdfunding

- Equity crowdfunding platforms allow individuals to invest in a new company in exchange for shares in the company. Examples include Crowdfunder and Circle Up.



Robo Advisors

- Online services that provide automated portfolios and advice based on individual preferences, including time horizon, risk tolerance and goals. Examples of Robo Advisors are Vanguard and Betterment.



Digital Assets and Exchanges

- Digital assets are digital representations of value distributed through a DLT platform where value is embedded or in which there is a contractual right of use.



TRADING & INVESTMENT SOLUTIONS: BENEFITS & RISKS

Benefits	Risks
<ul style="list-style-type: none">• Greater access to equity finance (capital raising), particularly for SMEs	<ul style="list-style-type: none">• Disclosure risks
<ul style="list-style-type: none">• Investment opportunities for small investors	<ul style="list-style-type: none">• Cross border risk
<ul style="list-style-type: none">• Access to low fee investment accounts	<ul style="list-style-type: none">• Cyber risk
<ul style="list-style-type: none">• Low cost Portfolio-theory based advice	<ul style="list-style-type: none">• Anonymity (AML/CFT Concern)
<ul style="list-style-type: none">• Increased market participation	<ul style="list-style-type: none">• High volatility
<ul style="list-style-type: none">• Opportunity for growth in the industry	<ul style="list-style-type: none">• Client suitability
<ul style="list-style-type: none">• New business models that can lead to specialisation in the financial profession	<ul style="list-style-type: none">• Unfair and Selective algorithms (complex algorithms; risk of error in algorithms)
<ul style="list-style-type: none">• Access to larger range of investment opportunities	<ul style="list-style-type: none">• Liquidity Risk (for equity investments)
	<ul style="list-style-type: none">• Unlicensed entities
	<ul style="list-style-type: none">• Use of third party services



REGULATORY TECHNOLOGY (REGTECH)

- ❖ Innovative technologies designed to facilitate market participants' ability to meet their regulatory compliance obligations.

Uses	Benefits	Risks
Surveillance and monitoring	Enhanced risk management	Due Diligence of third party technical vendors
Customer identification and AML compliance	Increased and Automated Compliance	Customer data confidentiality/privacy
Reporting and risk management	Efficiency in Surveillance	Cyber Risks



HARNESSING OPPORTUNITY: IMPLICATIONS FOR MARKET PARTICIPANTS

RegTech

- Efficiency in monitoring the legislative landscape for arising compliance requirements
- Improving analysis of market data
- Tracking client accounts

New Areas for Specialization

- Fulfilling capacity gaps in the market: Cyber Security Professionals, DLT providers, Digital asset service providers, Cybersecurity insurance, experts in cryptography

Efficiency in Operations

- Use of SMART contracts and Digital IDs to improve operational efficiency and improve financial inclusion efforts



REGULATORY CONCERNS AMID FINTECH DEVELOPMENTS

❖ Major regulatory concerns can be grouped into three categories:

Market Integrity

- Unlicensed and Non-regulated market participants
- Anonymity and AML Compliance Concerns
- Information Asymmetry

Consumer Protection

- Fraud Risk
- Cyber Risk (data privacy and protection)
- Insufficient Client Suitability Tests
- Liquidity Risk

Financial Stability

- High Price Volatility of Digital Assets
- Cross Border Risks



REGULATORY APPROACHES

- ❖ Adapting relevant regulatory frameworks
- ❖ Developing FinTech related legislation
- ❖ Co-operation and sharing of information among regulators
- ❖ Formation of consultation networks/working groups
- ❖ Creation of Regulatory Sandboxes
- ❖ Educating market participants on regulatory expectations
- ❖ Promote knowledge sharing/engagement between public and private sectors
- ❖ Monitor developments



IOSCO PERSPECTIVE

- ❖ Launched ICO Network
- ❖ Establishment of Fintech Network
- ❖ Published IOSCO Research Report on FinTech
- ❖ Held Board discussion on risks associated with growing use of ICOs to raise capital
- ❖ Issued a public statement warning investors of risks and challenges with ICOs
- ❖ Hosted IOSCO workshop on Crypto Assets



COMMISSION CRYPTO INITIATIVE

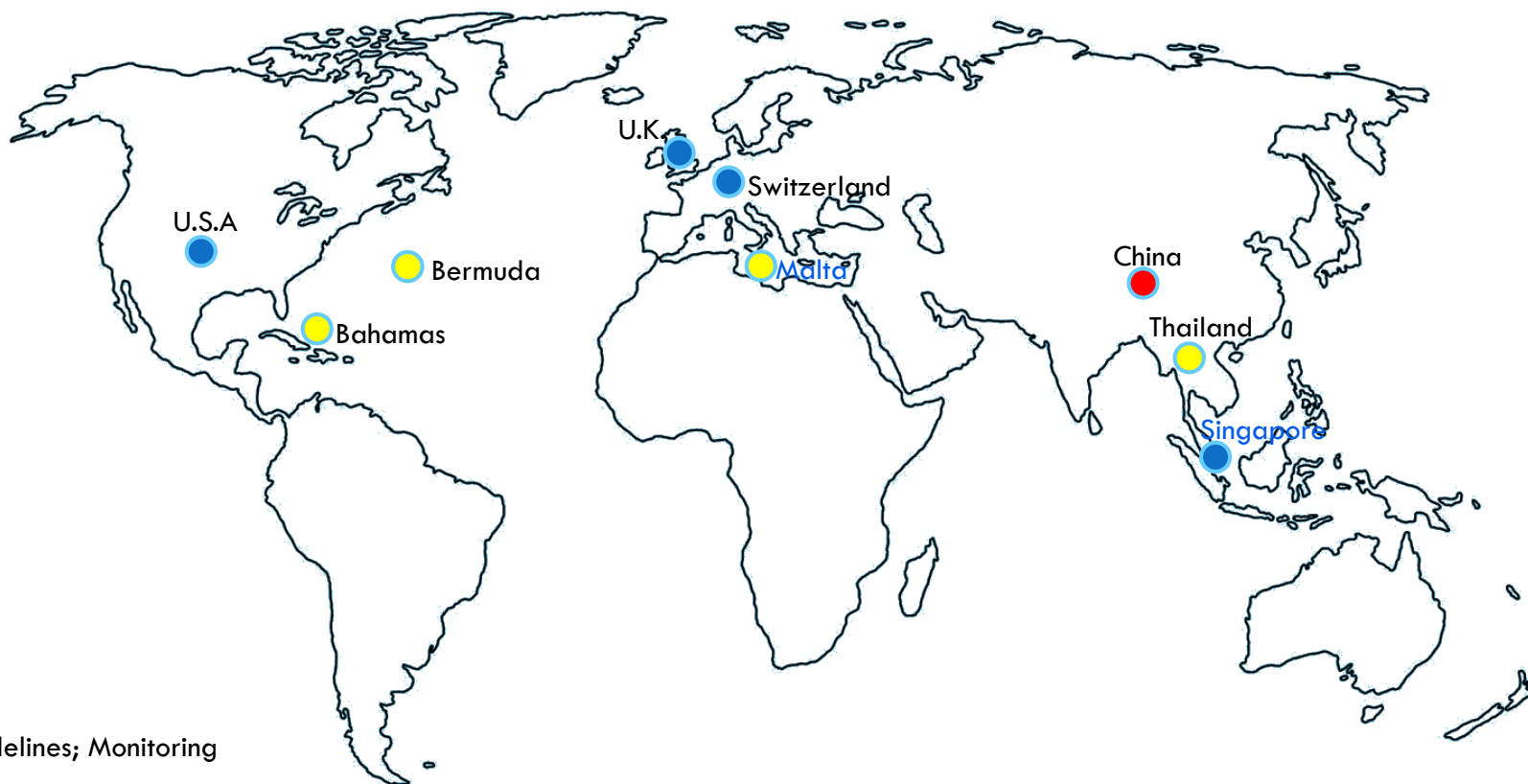
- ❖ Consultant engaged to assist with development of regulatory framework
- ❖ Provide clarity to market
- ❖ 3 Phase Project
 - Review & comparison of crypto policies across leading jurisdictions
 - Draft crypto policy highlights to point out key areas to be discussed with stakeholders
 - Drafting of detailed crypto policy to be issued to the market



DIGITAL ASSETS AND REGISTERED EXCHANGES BILL, 2019 (DARE, 2019)

- ❖ A Bill for an Act to regulate the issuance, sale and trade of digital assets in or from within The Bahamas
- ❖ Regulates issuers of initial token offers
- ❖ Calls for registered sponsors to facilitate initial token offers
- ❖ Regulates digital asset businesses, including digital asset exchanges
- ❖ Bill and White Paper to be released for public consultation shortly
- ❖ Policy Paper to follow

GLOBAL REGULATORY APPROACHES TO DIGITAL ASSET REGULATION



- ICO Guidelines; Monitoring
- Digital Asset Legislation
- Banned





MARKET STATISTICS

- ❖ Number of ICOs for 2018: 1,257
- ❖ Total raised in 2018 ICOs: USD \$7,852,477,043
- ❖ There are over 100 crypto exchanges. Trading volume and market data of selected exchanges are presented (as at 25 February 2019):

Exchange	Trade Volume (30 d) in USD
BitMex	26,749,981,657
Binance	17,575,288,369
Bithumb	27,853,222,050

Data derived from <https://coinmarketcap.com/rankings/exchanges/reported/> and <https://www.icodata.io/stats/2018>





CONCLUSION AND IMPLICATIONS FOR MARKET PARTICIPANTS

IMF & World Bank's Bali Fintech Agenda

- | | |
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| <ul style="list-style-type: none">• Embrace the Promise of FinTech | <ul style="list-style-type: none">• Safeguard Integrity of the Financial Systems |
| <ul style="list-style-type: none">• Enable New Technologies to Enhance Financial Service Provision | <ul style="list-style-type: none">• Modernize Legal Frameworks to Provide an Enabling Legal Landscape |
| <ul style="list-style-type: none">• Reinforce Competition and Commitment to Open, Free and Contestable Markets | <ul style="list-style-type: none">• Ensure the Stability of Domestic Monetary and Financial Systems |
| <ul style="list-style-type: none">• Foster Fintech to Promote Financial Inclusion & Develop Financial Markets | <ul style="list-style-type: none">• Develop Robust Financial and Data Infrastructure to Sustain FinTech Benefits |
| <ul style="list-style-type: none">• Monitor Developments Closely to Deepen Understanding of Evolving Financial Systems | <ul style="list-style-type: none">• Encourage International Cooperation and Information Sharing |
| <ul style="list-style-type: none">• Adapt Regulatory Framework and Supervisory Practices for Orderly Development and Stability of the Financial System | <ul style="list-style-type: none">• Enhance Collective Surveillance of the International Monetary and Financial System |



THANK YOU!





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