

REGULATION FOR FINTECH - WHAT IS COMING DOWN THE LINE?

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FINTECH IRELAND / FINTECH UK



Regulation for Fintech – What is coming down the Line?

2.40 PM REGULATION FOR FINTECH - WHAT IS COMING DOWN THE LINE?



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Peter's work covers executive and non-executive director and advisory board roles for FinTech (Payments, Robo-Advisers & E-money), RegTech, MiFID and Funds. Peter is Panel Member of Fintech20 Ireland and founded of FinTechIreland.com and FinTechUK.com. He is a director of Susquehanna International (options market maker) and TransferMate (payments) and board advisor to Ozan (e-money wallet) and Clearsettle (payments).



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The FEXCO logo is a red oval with the word "FEXCO" in white, stylized, uppercase letters.

Presentation based on:

- Presentation based on:
 - Establishing and getting fintech firms authorised across the EU, USA and Australia
 - including a couple of banks and a robo-adviser
 - Non-executive director and board advisor roles at Irish, UK and Danish FinTech & RegTech firms,
 - FCA and Central Bank approved individual in roles of compliance, MLRO & Board Director
 - senior level regulator roles (Ireland, UK, Australia & Saudi Arabia)
 - leading over 100 serious enforcement investigations, including financial crime
- Conscious of collisions & divergence of FinTech and RegTech

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What is FinTech & RegTech

- Financial technology, also known as **FinTech**, is a line of business based on using software to provide financial services. Financial technology companies are generally startups founded *with the purpose of disrupting incumbent financial systems and corporations that rely less on software.*
- **RegTech** is a new concept derived from the **definition** of FinTech *primarily signifying the technology applied to resolve issues regarding regulation within the financial industry.* It helps companies to better manage and understand their legal risks as well to easily adhere to their regulatory obligations

Although many in the financial services industry in this room today will be asking “Haven’t we been doing this for years?”



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FinTech – FinServ Sectors in play

- FinTech
 - Banking (Neo/Digital Banks/Challenger Banks – Starling, Tandem & N26)
 - Insurance (Insurtech – Friendsurance, Guevara, Lemonade)
 - Payments (Paytech – TransferMate, Plynk, Deposify)
 - Emoney (CurrencyTech - Monese, Paysera, Ozan, Revolut)
 - Wealth Management (RoboAdvisers/Digital Advisers – Robin Hood, Nutmeg, UBS)
 - Funds (Fundstech)



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Increasing Regulatory Costs (1/2)

- The six largest US banks spent US\$70.2BN on compliance in 2013, twice the US\$34.7 billion spent in 2007.¹
- In 2015, the Financial Times estimated that some of the world's largest banks each spent an additional US\$4 billion a year on compliance since the financial crisis.²



¹ ["The Regulatory Price-Tag: Cost Implications of Post-Crisis Regulatory Reform,"](#) Federal Financial Analytics; see also:

["Nuns With Guns: The Strange Day-to-Day Struggles Between Bankers and Regulators,"](#) The Wall Street Journal

² ["Banks Face Pushback Over Surging Compliance and Regulatory Costs,"](#) Financial Times

Increasing Regulatory Costs (2/2)

- *“Global banks misconduct costs have reached **\$320 billion** ... that could otherwise have supported up to **\$5 trillion** of lending to households and business ... but there is a bigger cost ...”*
Mark Carney, Governor, Bank of England (21 March 2017) ¹



Comments at EC #FinTechEU Conference

- *"I have some uncomfortable words for incumbent financial services when it comes to fintech: You are either at the table or on the menu"*. Cora van Nieuwenhuizen, EU MEP and Rapporteur on Fintech, Keynote
- *"We have plenty of fintech start-ups in Europe, but what we need to focus on now is helping them scale"*. Claire Bury, Deputy Director-General in the Technology Directorate-General.
- Number26 referenced the Irish regulatory regime, and in particular, the Central Bank of Ireland as a good example of an EU regulator. Said in front of 700 finserv & fintech professionals at the European Commission.



NUMBER26



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Fintech Ireland Map (1/2)



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Fintech Ireland Map (2/2)

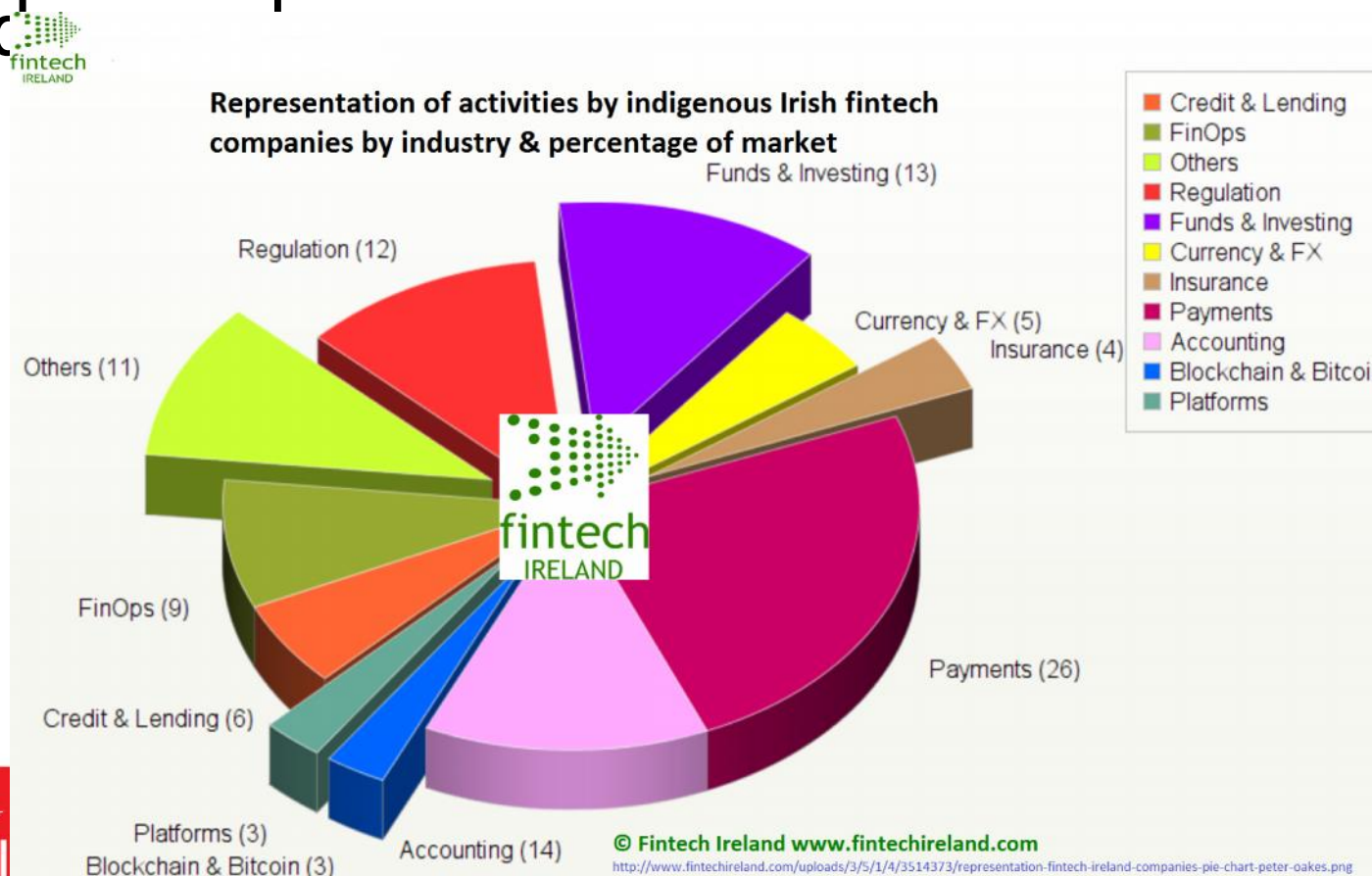
GingerTechie.com/map Ireland's Fintech Companies Version 0.7 December 2016

Payments				Bitcoin	Accounting			Others
actusmobile	COMM merchant solutions	GLOBAL RISK TECHNOLOGIES	realnex payments	Bitcove	ACCOUNTS IQ	billfaster	MyMoneyPlatform	bisees
AlphaPayments:Cloud	Embedded Payments	LoyLap	SAFECHARGE CARD SERVICES	BitEx.ie	bankhawk analytics	CASHANALYTICS	PennyOwl	bQnkers.ie
AV/SO	Elavon	NUAPAY	savvy	coinprism	calcfox	ezora	ThesaurusSoftware	brite:bill
Bitnet	ESCHER GROUP	One4all	touchtech PAYMENTS	Insurance	bullet	TREASURY HQ	Yendo	COINDRUM
CLOUDpayments	FEXCO	OXYGEN 8	VESTA	exave	big	juggle	CR2	MoneyMate Group
CUSOP	fire	payment+	Volteneo	FINEOS	antuar	Regulation	sysnet	moQom
ding*	MS2 VOL	payzone	Way Pay	RELAY software	DOCOSoft	AQMETRICS	silverfinch	Ostia
Easy Payments Plus		PERFECT CARD	worldnet	WeSavvy	invoicefair	CalRisk	risksystem	piggypot
				fintech IRELAND	GLOBAL SHARES	fenergo	taxamo	taxback.com
					ROCKBORD CREDIT ASSESSMENT	GECKO GOVERNANCE	VIZOR	UBANQUITY
					rockall tech	KnowYourCustomer	Zarion software	Platforms
					xcelerit	MCO MyComplianceOffice		Assured Web Services
								leveris
								Sentential

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Representation of activities – Indigenous Irish FinTech

- **Bo**




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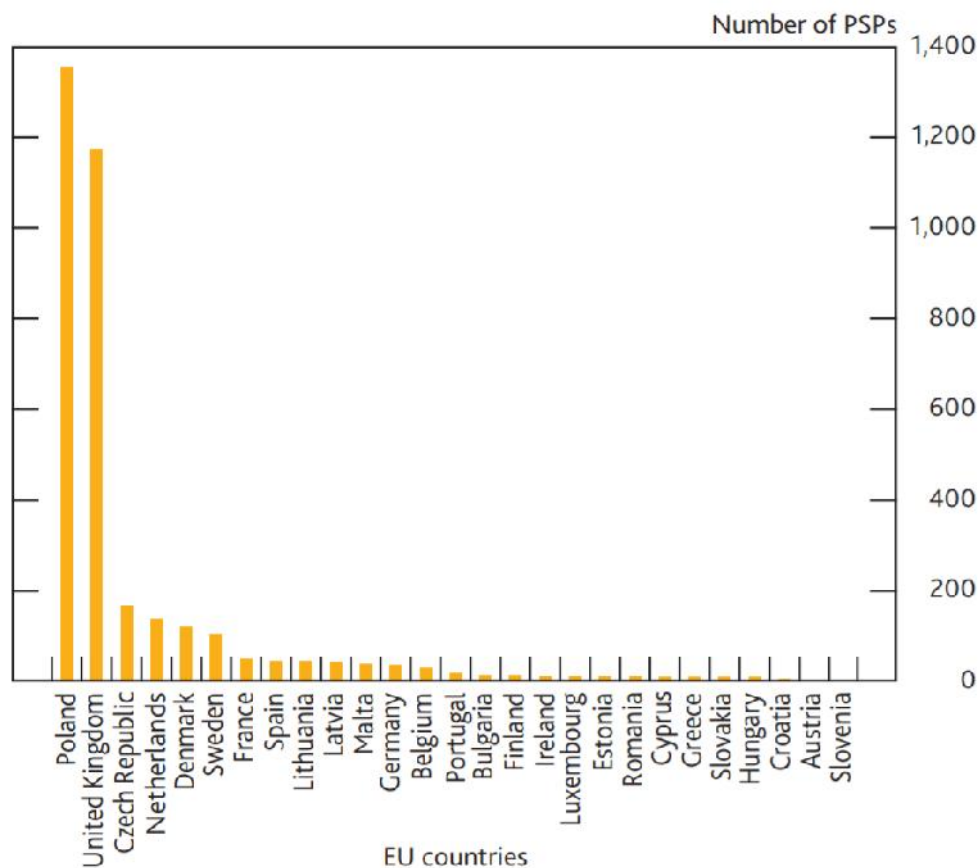
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Growth of regulated FinTech - Payments

Chart 1 Number of PSPs based in EU countries, 2016



- More to fintech than just payments
 - Banking (& Credit Unions/S&L)
 - Insurance / Reinsurance
 - MiFID
 - Emoney
 - Brokerage
 - Credit Providers
 - Credit Union

Source: National bodies responsible for maintaining registers of PSPs. Data for Italy not published. Data for Finland from 2015.

InsurTech

Insurance and the big data technology revolution

Filling in endless forms to buy a new policy may become a thing of the past



© Tiago Gallo

“Not far into the future, the power of the data will mean that people who look the same [to an insurer] now will no longer look the same,” Andrew Brem, chief digital officer at Aviva

<https://www.ft.com/content/bb9f1ce8-f84b-11e6-bd4e-68d53499ed71>

Imagine that mobile phone signals or other sensors detect that a person is about to walk down a road where several people have recently fallen on ice, he says. The insurer will react by either sending a message warning the person to walk more carefully or else automatically increase the premium and cover while the policyholder is walking down that road.



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InsurTech

- Precision:
 - insurance will be broken down into easier to digest chunks
 - days of the annual policy may be numbered.
 - Trov offers coverage for specific items for limited periods of time, e.g. consumer can buy insurance covering a camera for a day
 - car insurance
 - common complaint: annual policies force people to pay for insurance for cars that spend most of their lives sitting in car parks or driveways.
 - being able to switch policies on and off, will make them much more attractive to occasional users.



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Blockchain – extracts from EUP Draft FinTech Report



Is concerned by the increased use of unpermissioned blockchain applications, in particular Bitcoin, for criminal activities, tax evasion, tax avoidance and money laundering; invites the Commission to organise an annual multi-stakeholder conference on this subject;

Some new technologies pose specific questions about the use of data. DLT is an example of this. It leads to fundamental questions regarding the decentralized storage of data, which is inherent to it.

Liability issues form another area where clarification is necessary. Developments like robo-advice are possible because of the application of algorithms to big data. Errors or bias in these algorithms can cause systemic risk and harm to consumers. It should be clear who is liable in cases like these.



Regulation and FinTech

- Three things Central Banks & regulator care (deeply) about:
 - Financial Stability
 - Market Integrity
 - Consumer Protection
- Mess one of these up, expect attention
- Let's think about this in terms of regulated fintech



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The new eurozone super-regulator

“Let weak banks die”



EU financial regulation

Let weak banks die, says eurozone super-regulator

<https://www.ft.com/content/c27d19b4-917b-11e3-8fb3-00144feab7de>

“One of the biggest lessons of the current crisis (<http://www.ft.com/intl/indepth/euro-in-crisis>) is that there is no risk-free asset, so sovereigns are not risk-free assets. That has been demonstrated, so now we have to react,” Ms Nouy said. “What I would admit is that maybe it’s not the best moment in the middle of the crisis to change the rules – that’s possible. This being said, there is the possibility to do more and some countries are applying stricter rules.”

Global rules set before the financial crisis allowed lenders to hold no capital against their government bond portfolios, at the discretion of national regulators. But, despite the region’s crisis exposing the depth of the interconnections between the sovereigns and their banking systems, [Europe’s lenders have been buying government bonds in increasing amounts \(http://next.ft.com/content/8290470c-6b17-11e3-8e33-00144feabdco\)](http://next.ft.com/content/8290470c-6b17-11e3-8e33-00144feabdco).



Regulation & Fintech – Impact (1/2)

Sector	Financial Stability	Markets Integrity	Consumer Protection
Banking	€	€	€
Insurance	€	€	€
Payment Systems	€	€	€
MiFID	?	€	€
Funds	€	€	€
Intermediaries	-	?	€
Payment Services	-	?	€
E-Money	-	?	€

Regulation & Fintech – Impact (2/2)

THE TRADE | News | The TRADE Asia | The TRADE Derivatives | Events | Blog | Multimedia

Home > News > Technology > FCA chairman says FinTech has exacerbated challenges for regulators

TECHNOLOGY

FCA chairman says FinTech has exacerbated challenges for regulators

Technology has created grey areas regulators are now forced to navigate.

By Hayley McDowell hayley.mcdowell@stratagics.com February 14, 2017 1:50 PM GMT

The rise of technology in capital markets has exacerbated challenges for regulators, according to the chairman of the UK's Financial Conduct Authority (FCA), John Griffith Jones.

In a speech to students at the Cambridge Judge Business School, Jones explained the "remorseless march of technology" has made it harder for regulators to define parameters, firms, products and services covered by regulation.

"The distinction between advice and guidance, once reasonably clear, has become much greyer with the advent of platforms and the potential of robo-advice," he said.

European Union: European Parliament To Vote On Call For EU Fintech Framework Supervisory Experiments

Last Updated: 27 February 2017
Article by **Willem Röell** and **Björn Schep**
De Brauw Blackstone Westbroek N.V.

Most Read Contributor in Netherlands, February 2017

On 27 January 2017, the European Parliament Fintech rapporteur presented a motion for a resolution calling on the European Commission to define an EU framework for Fintech. This framework would include a Fintech Action Plan. The proposed resolution points out certain topics that require special Commission attention, such as consistent and technology-neutral data legislation, education on cybersecurity and operational standards on financial institutions' ICT risks.

According to the motion, boosting innovation and competitiveness while ensuring consumer protection and financial system stability requires a structured European approach to Fintech, including a different supervisory methodology. This new approach to the supervision of Fintech may enable our clients to accelerate their development processes in collaboration with supervisory authorities.

Your LinkedIn Connections at Firm

distributed ledger technology

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RegTech



- Deployment of technology aimed at:
 - extracting cost efficiencies in the regulatory operations & processes of regulated businesses
 - improving accuracy of complying with regulations and mitigating risk
 - including more precise methodology for calculating regulatory capital, which leading to freeing up capital for improved RoI and RoE



Regulatory Sandboxes & Innovation Offices

- United Kingdom
- Australia
- Malaysia
- Singapore
- Hong Kong
- USA – A House Bill published in late 2016 to compel financial service regulators to establish ‘Innovation Offices’



Keep an eye on the phrases ‘regulatory arbitrage’ and ‘race to the bottom’

IoT & Financial Services – *who is going to regulate the fridge?*



IoT bringing us closer together?



<https://coldstreams.com/?p=9461>

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FinTech Directive



- “Fintech is a big new part of our financial services industry in Ireland. We need to be prepared for what comes out of the EU in terms of regulation. Dublin has a huge amount of expertise in the Fintech sector and has adapted well to the rise of Fintech as a global trend.
- *“The potential for further development of the sector in Ireland is enormous. Globally, Fintech investment more than tripled to about 12 billion US dollars in 2014 and this has almost doubled in 2015”.*



Brian Hayes MEP confirmed to lead negotiations for the European People’s Party in the European Parliament on a report on Fintech

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EC #FinTechEU Conference



Commission and its priorities **Policy, information and services**

English EN

European Commission

Conference: #FinTechEU

23 March 2017
Brussels, Belgium

This event has ended.

Is EU regulation fit for new financial technologies?

Technology is transforming the financial sector. As the world's largest user of IT products and services, finance stands to benefit from new generations of processing, storage, mobile and authentication technologies as well as social networks, artificial intelligence or distributed systems. New business models are emerging that could help turn our single financial services market into a practical reality one where the relationship between customers and suppliers is no longer restricted by physical distance or even linguistic differences. This raises important policy and regulatory questions for EU financial services policy. In organising this conference, the Commission hopes to feed into the debate on whether the EU is ready for this digital transformation and identify which specific measures and overall approach will contribute to creating a vibrant EU technology enabled finance sector.

- Programme (49/ KB - PDF)
- Speakers' biographies (3.6 MB - PDF)
- [Watch the conference online](#)
- Presentations / Speeches
 - Vice President Valdis Dombrovskis



EUROPEAN COMMISSION
Directorate General Financial Stability, Financial Services and Capital Markets Union
INVESTMENT AND COMPANY REPORTING
Economic Analysis and Evaluation

CONSULTATION DOCUMENT

FINTECH: A MORE COMPETITIVE AND INNOVATIVE EUROPEAN FINANCIAL SECTOR

Disclaimer

This document is a working document of the Commission Services for consultation and does not prejudice the final decision that the Commission may take.

The views reflected in this consultation document provide an indication on the approach the Commission Services may take, but do not constitute a final policy position or a formal proposal by the Commission.

Extracts from EUP Draft Report on #FinTech EU

Cyber security and ICT risks

13. Emphasises the need for end-to-end security across the whole financial services value chain; points to the large and diverse risks posed by cyber-attacks, targeting our financial markets infrastructure, currencies and data; calls on the Commission to make cyber security the number one priority in the FinTech Action Plan;

The current rise of FinTech comes after the origination of a number of different technological developments within a short timespan, namely Artificial Intelligence, cloud computing and Distributed Ledger Technology (DLT). These provide new opportunities for disruptions like mobile payments, open banking, crowdfunding, virtual currencies and robo-advice.

Data

10. Stresses the need for consistent, technology-neutral application of existing data legislation, including the General Data Protection Regulation (GDPR), the Revised Payment Service Directive (PSD2), the eIDAS Regulation, the 4th Anti-Money Laundering Directive (AMLD4) and the Network and Information Systems (NIS) Directive; stresses that, in order to scale up innovative finance in Europe, a free flow of data within the Union is needed;

Why Fintech Ireland?

- Objective is to advance Ireland's unique ability, and leverage its capacity, to become and remain a global centre for Fintech. Fintech Ireland is an independent movement in Ireland representing Fintech and Regtech in Ireland, and for Ireland abroad
- By the numbers (2016):
 - 80,000 = annual website visitors
 - 3,300+ = followers on twitter (plus another 2K via other Fintech Handles)
 - 1,000+ = mailing list subscribers
 - 700+ = **vetted** LinkedIn Fintech Ireland Group followers
 - 30+ = events, engagements and speaking slots
 - €0 = cost charged to attend events



Thank You

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