

Regulation: Threat or Opportunity



WOMEN IN
FINANCE
SUMMIT & AWARDS
SERIES

WOMEN IN FINANCE VIRTUAL SUMMIT - UK EDITION | 10TH NOVEMBER 2020

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Director Regulated FinTech & FinServ
Founder, Fintech UK



Fintech UK
www.FintechUK.com

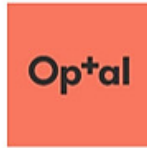
Background



Director (INED), Susquehanna International (Ireland), Fintech / Regulated MIFID options market maker
www.sig.com



Director (NED), TransferMate Global Payments, Fintech / Regulated PSD2
www.transfermate.com



Director (INED), Optal Financial (Ireland), Fintech / Emoney B2B
www.optal.com



Chairman, AWM Wealth Advisers
www.awmwealthadvisers.com



Strategic Consultant Finserv, Fintech & Regulation, Clark Hill Solicitors
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BOARD DIRECTOR | ADVISORY BOARDS | EX-CENTRAL BANKER & REGULATOR | CHIEF RISK / COMPLIANCE | FINTECH | REGTECH | PAYMENTS | EMONEY | THE FINTECH50 | LAW | FUND RAISING



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International Central Banking & Regulatory Experience



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

Director of Enforcement & AML/CFT
Supervision (Senior Management
Committee)



ASIC

Australian Securities & Investments Commission

Senior Officer, Legal Division &
Registrar, Federal Tribunal



مؤسسة النقد العربي السعودي
Saudi Arabian Monetary Authority

(Consultant) Advisor to Deputy
Governor of Banking Supervision
(Supervision/Enforcement)

*Organisations went
through transformational
change.*

*All now focussed on
innovation, fintech and
digital transformation.*



(FSA) Enforcement Lawyer

“Big, traditional banks are not developing their digital offering”

Hi Peter

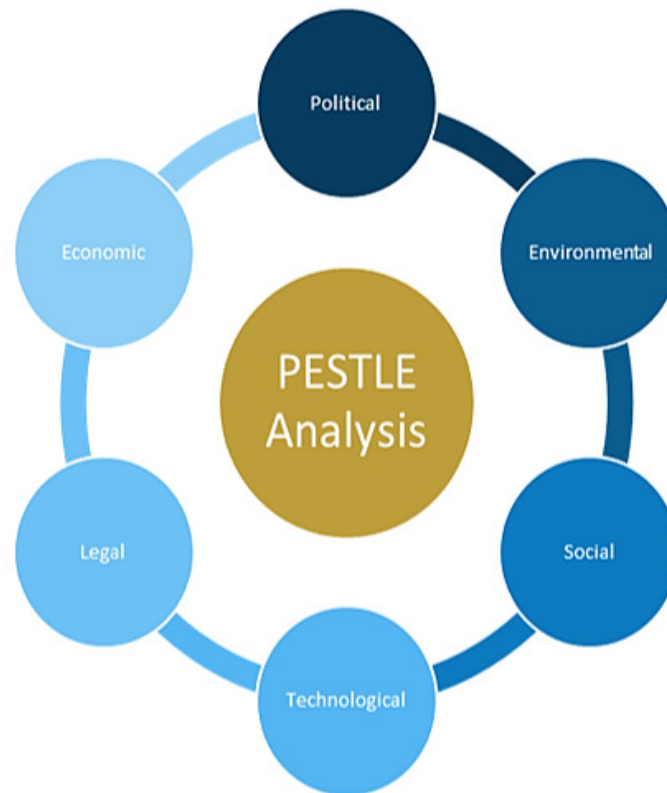
I remember the event well - thanks for connecting. Let's touch base on this. I will be leaving [BANK NAME] in a few weeks' time and am looking for a new challenge in the digital banking space. So maybe not the right moment to be on a panel or webinar - or maybe even more so once I have shed my ties to [BANK NAME]. ***Big, traditional banks are not developing their digital offering to commercial banking clients fast enough...so time to find someone who does!***

[Senior Executive, Digital Products and Innovation at UK Systemically Important Bank. 20 year banking CV, September 2020]

S.W.O.T. and P.E.S.T.L.E

Strengths

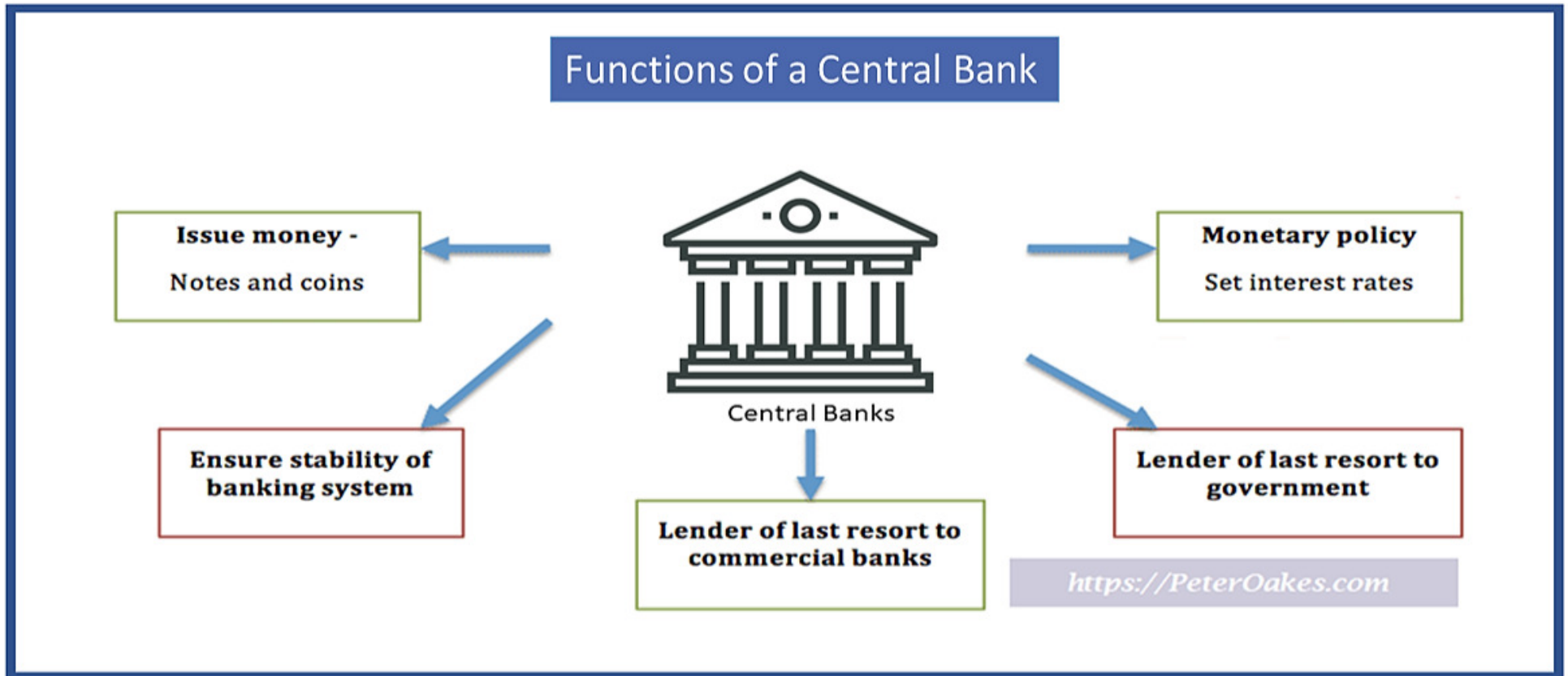
Opportunities



Weaknesses

Threats

What do Central Banks do?



What do Central Banks & Regulators care about?

1. Financial Stability (Prudential / Conduct Risk)
2. Market Integrity (Prudential / Conduct Risk)
3. Consumer Protection (Conduct Risk)
4. Financial Crime (Prudential / Conduct Risk)



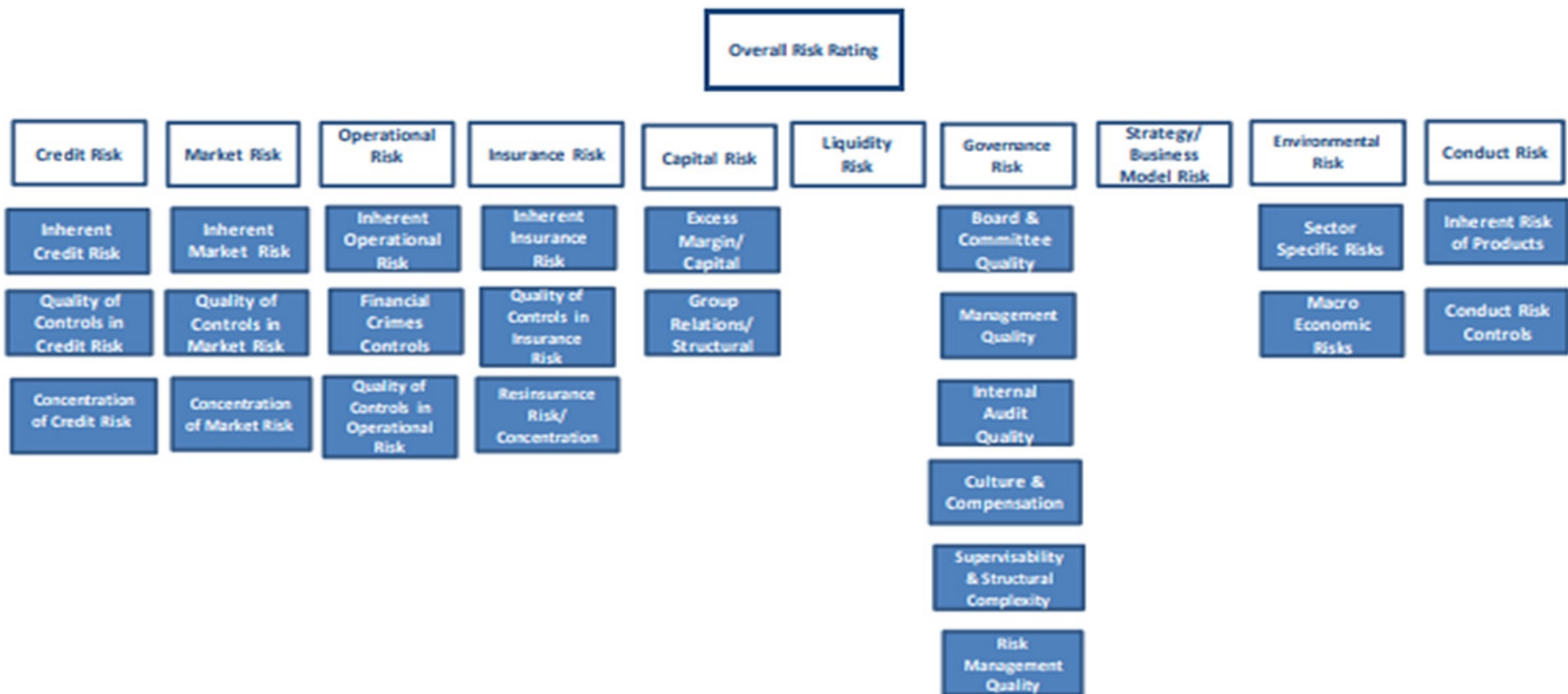
Central Bank has identified that it will act on the emerging risks, opportunities and challenges presented by **financial innovation** and the rapidly evolving technological landscape within which it, the firms and individuals that it supervises and regulates operate.



Regulators – how they think (Probability v Impact)

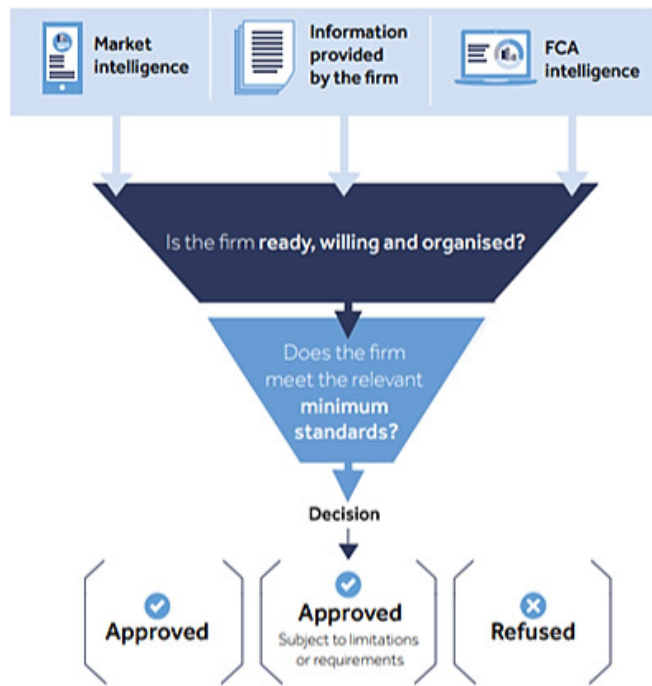
		Impact				
		Trivial	Minor	Moderate	Major	Extreme
Probability	Rare	Low	Low	Low	Medium	Medium
	Unlikely	Low	Low	Medium	Medium	Medium
	Moderate	Low	Medium	Medium	Medium	High
	Likely	Medium	Medium	Medium	High	High
	Very likely	Medium	Medium	High	High	High

Regulators – how they think (categories of risk)



FCA's Approach to International Firms

- important to understand regulator's mission & objectives



An international firm that performs or plans to perform any activity that requires authorisation needs to demonstrate:

- It is **ready, willing and organised**.
- It meets the relevant **minimum standards**.

When assessing the firm against minimum standards we consider it against our **general expectations**, for example, around:

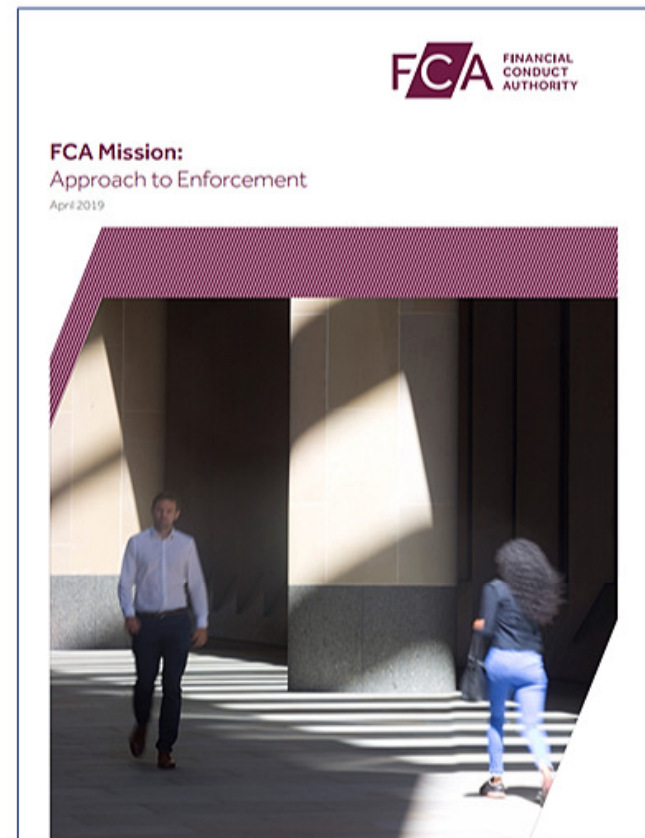
- the nature of the firm's operations
- the firm's personnel and decision-making
- the firm's systems and controls
- the factors relating to the firm's home state

We also consider the extent to which the firm presents and offers adequate mitigation against **the risks of harm** it poses, including the 3 risks described in this CP and any other relevant risks of harm relevant for the firm.

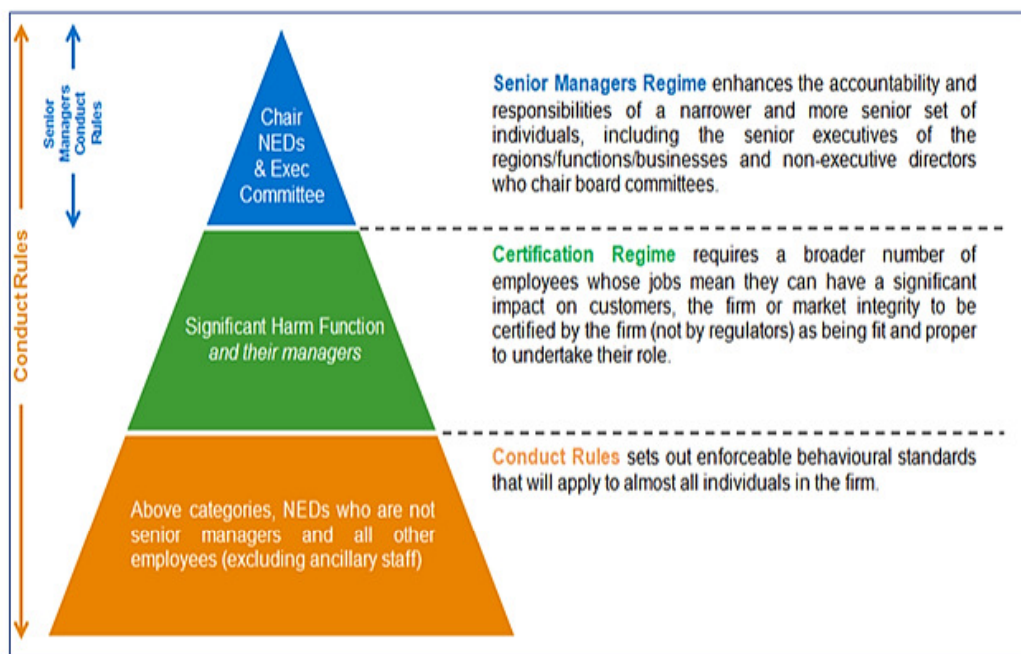


- Worth checking out:
- FCA Our Approach to International Firms CP20/20 (Sept 2020)
 - FCA Mission: Approach to Supervision April 2019
 - FCA Mission: Approach to Authorisation November 2018

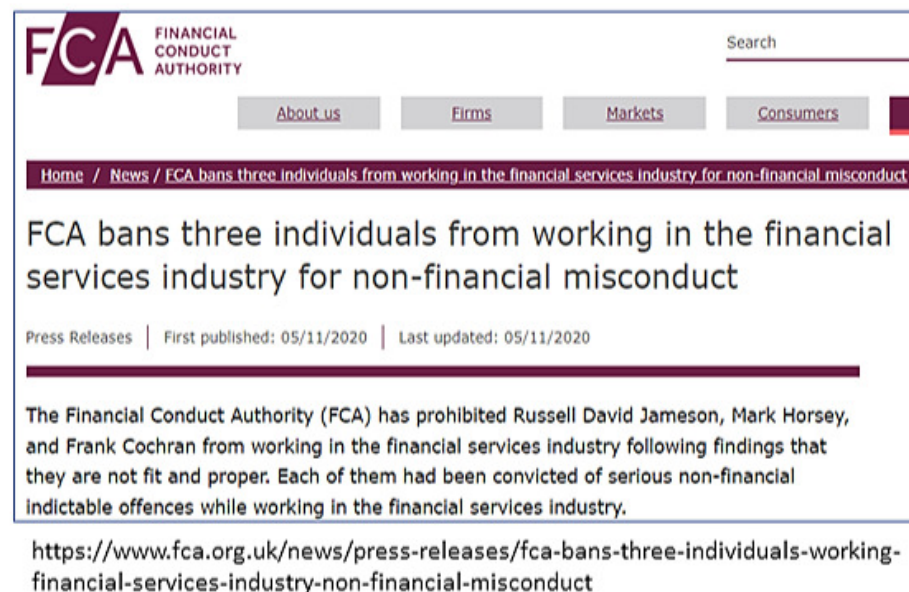
Enforcement – where you don't want to end up



Personal Accountability - not limited financial services misconduct



Source & ©: <https://www.dlapiper.com/pl/global/focus/accountability-regime/overview/>



FCA FINANCIAL CONDUCT AUTHORITY

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FCA bans three individuals from working in the financial services industry for non-financial misconduct

Press Releases | First published: 05/11/2020 | Last updated: 05/11/2020

The Financial Conduct Authority (FCA) has prohibited Russell David Jameson, Mark Horsey, and Frank Cochran from working in the financial services industry following findings that they are not fit and proper. Each of them had been convicted of serious non-financial indictable offences while working in the financial services industry.

<https://www.fca.org.uk/news/press-releases/fca-bans-three-individuals-working-financial-services-industry-non-financial-misconduct>

Increasing Regulatory and Litigation Costs - the “societal good” argument for RegTech!

“Global banks’ misconduct costs have now reached over \$320 billion (AUD420) - capital that could otherwise have been used to support up to \$5 trillion of lending to households and businesses,” Mark Carney, Former Governor, Bank of England, Speech to the Institute for International Finance in Washington, April 20, 2017

- That €5 trillion figure could increase by as much as **25%**, **i.e. to €6 trillion** that could otherwise have been used to support lending to households and businesses

High fines “do make a difference but it’s taking time to achieve that change”, Mr Wheatley [former CEO FCA] told the Financial Times. “I do think we’ve been successful in driving change at board level. But, for us to drive change through the culture of the organisation, that is a work-in-progress.”



Pre-Covid v Post-Covid Observations Regulation & Commerce

- Pre-Covid

- Regulation Q3 2019 (US)
 - 41% increase in the overall level of effort required by financial institutions to keep up with regulatory change
 - Hours consumed in change efforts jumped up 46% from the Q2
 - Compared to Q3 2018 effort is up 28%, and hours consumed up a massive 85%
- 80% of UK fintechs were loss making

- Post-Covid

- 25% of firms supervised by the BoE have increased plans to invest in machine-learning
- 38% of people say that they have discovered a new payment provider (Capgemini)
- Enhanced scrutiny of all finserv
- Contactless card spending - £8bn during July 2020
 - up 22.5% on previous month
 - up 11.1% on year earlier

BREXIT – Financial Services



"it was extraordinary that EU-UK negotiators were spending so much time haggling over the fishing sector while devoting so little attention to financial services, given the latter's importance to the UK economy..."

We don't want [services] to be the neglected child of an acrimonious divorce, carrying its pyjamas between its parents,"



Catherine McGuinness, Deputy Deputy & Chair of the Policy and Resources Committee



Source: Financial Times 23/10/2020

Should the UK align its rules with Europe post-Brexit?

“It is not desirable at all to align our approaches, to tie our hands and to outsource regulation and effectively supervision of the world's leading complex financial system to another jurisdiction.”



“It's generally true that there's much less ammunition for all the major central banks than they previously had and I'm of the opinion that this situation will persist for some time,”

Source: <https://www.dailymail.co.uk/news/article-7864149/Mark-Carney-warns-against-accepting-EU-financial-rules-Brexit.html> 8 January 2020

Financial Services 3.0 - Industry

- Artificial Intelligence
- Machine-Learning
- Natural Language Processing
- Augmented / Virtual Reality
- Open Finance
- Embedded Finance
- TechFin
- E.S.G.
- Operational Resilience
- Outsourcing
- Third Party Risk Management
- Cyber Risk

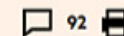
Traders set to don virtual reality headsets in their home offices

UBS looks at recreating busy trading floors with London VR experiment for homeworkers

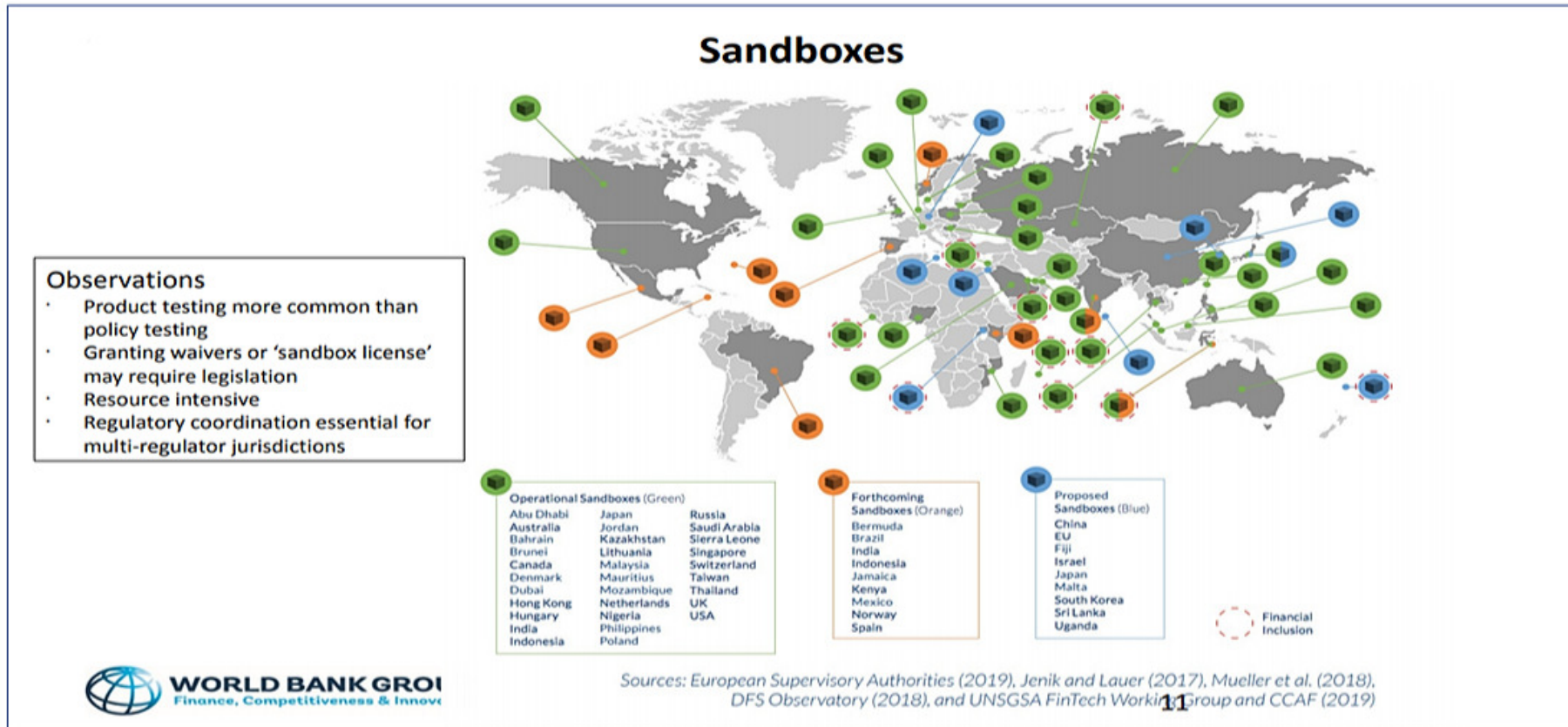


Citigroup's augmented reality workstation, combining 3D holograms and real-time financial data. The bank developed the system four years ago but never implemented it © YouTube

Owen Walker, European Banking Correspondent SEPTEMBER 18 2020



Sandboxes & Innovation Hubs – a pathway to better regulation and outcomes?



Source: https://www.bceao.int/sites/default/files/inline-files/Session%207_%20Sandboxes%20Innovation%20Offices%20and%20Accelerators.pdf

Financial Services 3.0

- Central Banks & Financial Regulators

- Rise of the Digital Central Bank and Financial Regulator
- SupTech
- CBDC
 - We can't 'go it alone': Central Banks need to partner with a broad range of stakeholders given the breadth of issues presented by CBDC
- Remote and real-time supervision



BANK OF ENGLAND

Speech

Response, and recovery: fintech during the COVID crisis and beyond.

Speech given by
Tom Mutton, Director, Fintech

2nd Bund Summit on digital currency, fintech and inclusive finance
25 October 2020

<https://www.bankofengland.co.uk/speech/2020/tom-mutton-the-second-bund-summit-digital-currency-fintech-and-inclusive-finance>

Thank you to Louise Eggett, Shiv Chowla, Nick Butt, Varun Paul, Andrew Whitworth, Rachel Greener, Kathleen Blake, Tom Smith, Victoria Cleland and Andrew Hauser for their advice and suggestions.

All speeches are available online at www.bankofengland.co.uk/news/speeches and [@BuE_PressOffice](https://twitter.com/BuE_PressOffice)



EU Cybersecurity Framework (Financial Services & Fintech)



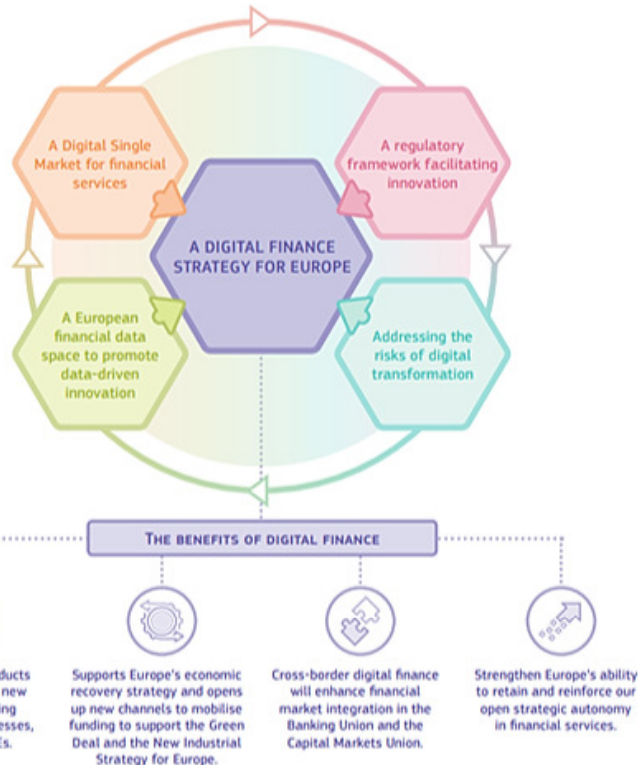
Aide memoir of EU Cybersecurity Framework focused on Financial Services and Fintech

Produced by CompliReg.com



What else is coming down the line?

EU's Digital Finance Strategy



Source: https://ec.europa.eu/commission/presscorner/detail/en/IP_20_1684

Enabling EU-wide interoperable digital identities in finance

- At the beginning of the coronavirus pandemic, the use of financial applications in Europe increased by 72% in a week.*
- Strict rules to identify customers and prevent money laundering
 - Pave the way for harmonised customer identification rules in EU Member States.
 - Single digital identification across Europe to allow for fast and easy customer identification. Businesses would have a single solution. Customers would only need to identify themselves once.

Open finance: Promoting business-to-business data sharing in the EU financial sector and beyond

- Ensure that consumers have better access and control over their personal data.
- Allow access to more customer and business data which would enable financial services providers to offer more personalised services, address customer needs in a tailor-made manner.
- Enable people and businesses to compare products and find more cost-effective options.

Clear and comprehensive EU rules for crypto-assets

- Crypto has potential to reduce payments and securities costs up to 50%.*
- A European passport for crypto-assets with strong safeguards to ensure consumer protection and financial stability.
 - Unleash the full potential of crypto-assets in order to lead to innovative payment solutions for consumers and new financing opportunities for businesses.
 - Reap the benefits of crypto-assets while regulating their risks, such as thefts (from digital wallets, fraud, use for money laundering).

Mitigating risks of digital transformation by strict and common rules on digital operational resilience

- During the pandemic, cyberattacks on financial institutions have risen by 30%.*
- All financial entities will be subject to operational resilience requirements to ensure a safe financial system across sectors and avoid a domino reaction.
 - Critical ICT third-party providers (e.g. cloud computing services) will be subject to oversight to ensure they do not pose undue operational risks for finance.

Ensuring "same activity, same risks, same rules"

- From traditional market actors (banks, insurance and investment companies) to Fintechs and Bigtechs that provide payments, savings, insurance, everyone is subject to supervision.
- Supervisors will be better equipped to avoid risks in the financial system and therefore to better protect financial stability.

UK, EBA & Ireland - Diversity Matters - Boards & Senior Management

thought, background, experience and intrinsic and extrinsic characteristics

- “the PRA expects boards to have the diversity of experience and capacity to provide effective challenge across the full range of the firm’s business.” Bank of England / PRA (March 2020)
- “Based on data as of September 2018, still many institutions, 41.61% out of 834, have not adopted a diversity policy”. EBA (February 2020)
- FCA CEO informs Treasury Select Committee that it may block appointments to improve City diversity. FCA CEO Nikhil Rathi (July 2020)

- “overall improvement in the number of female applications to 24% (compared with 22% the previous year). We found the biggest improvement came in the banking sector where 31% of applications were for women... [yet] there remains a pronounced gender imbalance at board level and in revenue generating roles”. [sample size circa 5,000] Central Bank of Ireland (February 2020)
- “Lack of diversity at senior management and board level is a leading indicator of heightened behaviour and culture risks” (October 2018)

Does your front end mask your real back-end? - Technology, Culture, Risk, Compliance



Source: https://www.bceao.int/sites/default/files/inline-files/Session%207_%20Sandboxes%20Innovation%20Offices%20and%20Accelerators.pdf

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