

COPENHAGEN FINTECH WEEK

RegTech: OPPORTUNITIES AND CHALLENGES

A game changer for the industry, regulators, consumers and employees

CBS



COPENHAGEN BUSINESS SCHOOL
HANDELSHØJSKOLEN

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RegTech - Introduction

Concept

Fintech/ RegTech is moving faster than the regulatory environment or research, as a matter of fact.

RegTech is an emerging area which was first described in 2014 / 2015 and first journal publication came in 2016 (Haldane / UK- FCA).

Regulation is traditionally seen as Transaction Costs by most economists and rarely placed in a business context.

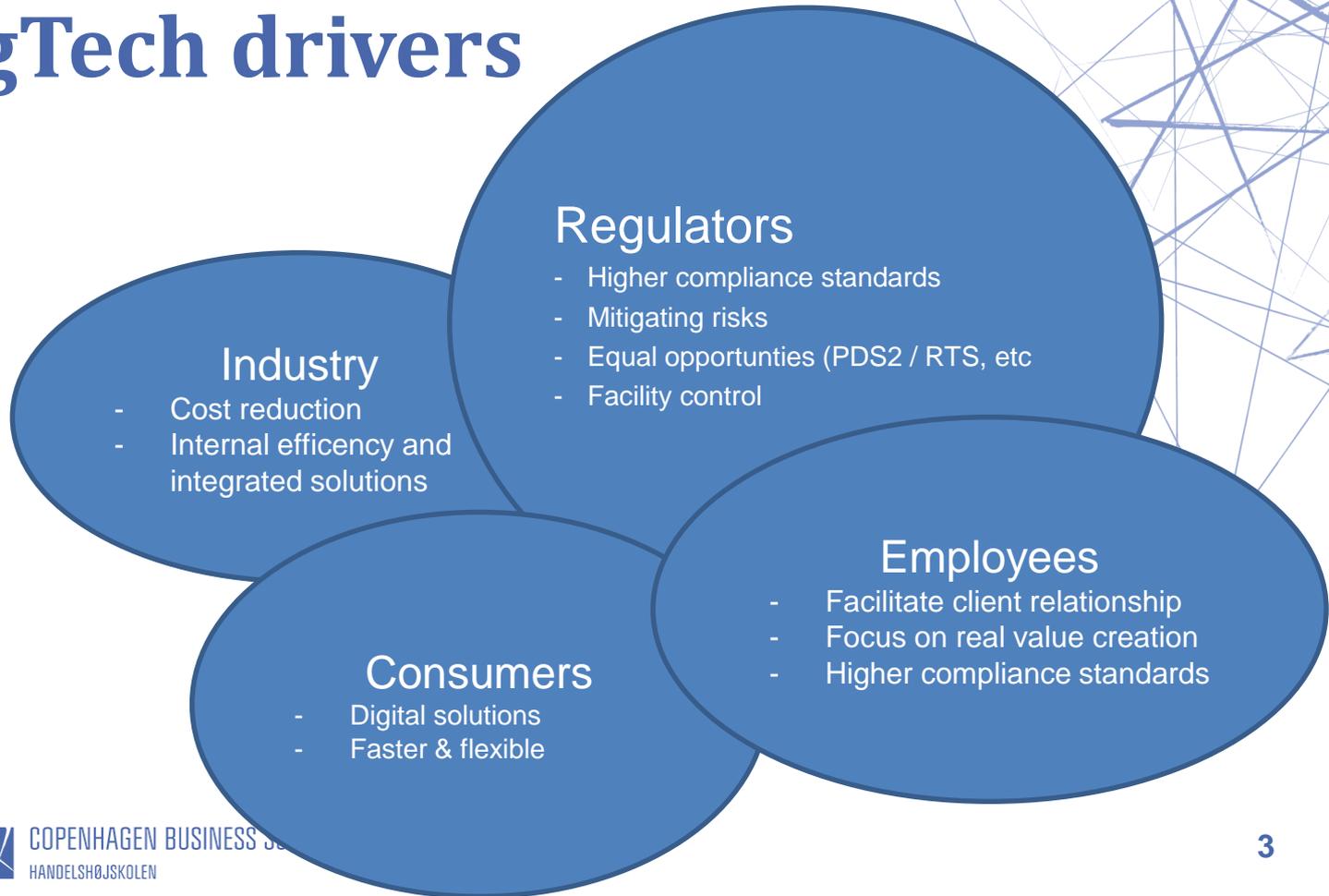
RegTech can be scaled EU wide or globally when standards are in place (= highly attractive from a Nordic perspective if first mover)

Environment:

Strong Danish / Nordic Ecosystem which drives innovation, savvy consumers and world class infrastructure. We have a Nordic corporate governance system based on trust and transparency! PDS2 regulation came in place by 1/1- 2018.

But, Regulatory Technical Standards (RTS) are still completely open also globally

RegTech drivers



Regulators

For policymakers and regulators, the challenge of regulating briskly transforming financial systems requires increasing the use of and reliance on RegTech.

Principal regulatory objectives;

- Financial stability (could we mitigate risk for a new financial crisis?)
- Prudential safety and soundness (AML, KYC etc)
- Consumer protection and market integrity
- More market competition

RegTech to date has been focused on the digitization of manual reporting and compliance processes

Reality is, it has the potential to enable a close to **real-time and proportionate regulatory regime** that identifies and addresses **real risk (away from the 99.5% punishment concept)**.

Financial and RegTech regulation

Dialogue between regulators and stakeholders does impact the language and meaning of rules.

- Financial institutions avoid wrong regulations but we must also avoid a race to the bottom. Open environment with Danish FSA sandbox incentive is essential
- Regulators aim to change their rules based on market input plus political views and increasing regulatory competition (US changes in 2018)
- Global market offers more competition for regulators. Previously, the leading financial centers would be in New York or London. Now there are many more cities competing for financial institutions locations also inside the EU (Ringe, 2016)

What do we know about Nordic regulation?

- **Competitive environment:** Regulatory competition can help discover efficient regulatory standards. The risk, however, is that countries lower their standards solely to attract businesses which may undermine financial stability. But no race to the bottom discovered in the Nordics (Ringe, 2016)
- **Board work:** Financial Regulations do not only affect the daily activities of financial institutions, they also impact Boards' agendas and the board members responsibilities. Board of Directors often need to evaluate and interpret how regulations will impact and be implemented. (Birkmose, Clausen & Ohnemus, 2017)
- **Employees:** major impact on employee satisfaction (NFU / Finansforbundet reports)

Nordic countries and Financial regulation

- The Nordic countries have been active in implementing some of the EU's financial regulations into their respective countries (= Front runners)
- Some directives are yet to be implemented so the full impact of the EU's regulations has yet to be experienced. (Alexandra Andhov (Horváthová, 2017)
- Existing and new financial regulation in the EU needs to include more general regulatory distinction between new market entrants (e.g. fintech startups) and established companies and fintech scale-ups. (Camphausen, 2017)

Companies and RegTech – Opportunities and Challenges

- Current Financial companies need a Regtech action plan, where regulations are outlined and a common strategy identified. **Not at the end of the process** where regulation is left as a residual part of the strategy. Furthermore;
- Regtech players will have the devil's choice if they want to team up with current players or be truly independent providing potentially EU/global solutions
- Innovation is vital,- but current players will have to make difficult choices in the area of technical standards, partners and priorities (first mover, laggard, adapter, etc.)

Global growth yes - but there is a risk for any Regtech Player to be outdated soon because of new AI solutions and unknown technical standards



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