Control Risks

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Compliance and Fintech

Understanding the way challenges and likely solutions

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2500 people work from
38 offices with experience in
178 countries across
18 sectors worldwide

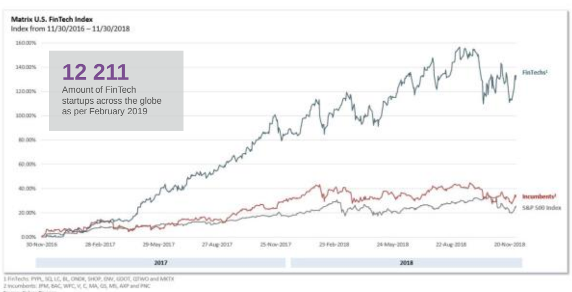
Our global reach

Financial Technology

FinTech is the term used to describe new technology that seeks to improve and automate the delivery and use of financial services. At its core, fintech is used to help companies, business owners and consumers better manage their financial operations, processes, and lives by using specialized software and algorithms on computers and mobile phones.

Investopedia

Existing financial services companies	Adoption by traditional financial services organisations gave rise to internet banking, banking apps and similar applications
Startups and new market entrants	Fintech spawned a host of start-up challengers who looked to disrupt traditional banking processes and products through the use of technology



Where are startups targeting?

Payments
Companies in this category let people send money to each other without needing to turn to banks.

International Money Transfers
Traditionally, international money transfers have been very expensive. For large money transfers, these fees add up quickly.

Personal Finance
In the past, people needed to talk to financial advisors at banks to get personal finance advice and budgeting required the need to use spreadsheets or an envelope system.

Consumer Banking
Traditional banks charge high fees, so companies in this category present an alternative for

Equity Financing
Companies in this category of the FinTech market are making it easy for businesses to raise money. Some companies work to connect accredited investors with vetted startups.

Insurance
Financial technology companies have recently branched out into the insurance market, too. They're using new technologies like apps to reach customers that are under served by insurance.

Lending
Financial technology companies are changing the lending process. People don't need to turn to banks or credit unions to borrow money anymore.

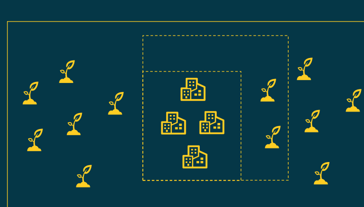
Top 5 Risks arising from Fintech

1. Cyber security is likely to become a key crime typology as the amount of money transacting on FinTech startup platforms grows larger.
2. Consumer risk arising from so many immature startups is a key concern. It is unlikely that all will succeed and failures could cause financial instability and impact end clients.
3. Anti money laundering requirements are difficult to adhere to and a wave of startups would not have the access to specialist skills to adequately monitor transactions
4. Pricing discrimination through the use of rational data models and algorithms. Accurate data could give rise to targeting only profitable sections of the population
5. Cryptoasset volatility should be a key concern for regulators and traditional players in the financial services market.

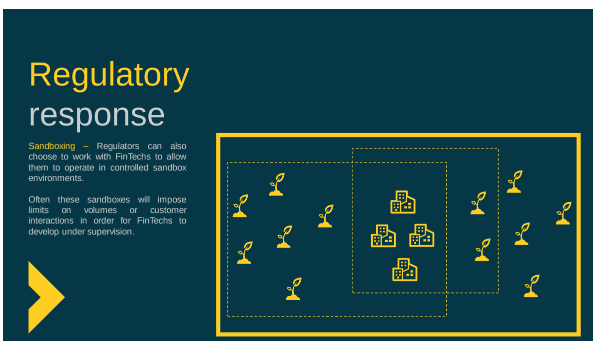
Regulatory response

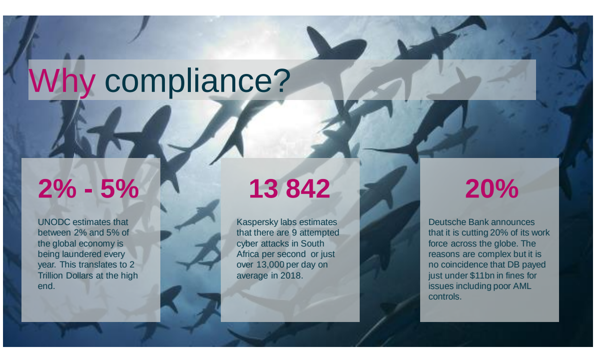
Widening the net – Regulators can choose to bring more organisations under regulation by broadening definitions or requiring previously unregulated companies to comply with the same level of legislation that existing players are working towards.

This creates competition for resources and skills for existing, compliant organisations.




Regulatory
response
Introduce new legislation – Regulators can further choose to create new or specialist legislation targeting specific sectors.
However traditional financial services players are likely to also be using these technologies so can expect a bigger compliance burden.


Regulatory
response
Sandboxing – Regulators can also choose to work with FinTechs to allow them to operate in controlled sandbox environments.
Often these sandboxes will impose limits on volumes or customer interactions in order for FinTechs to develop under supervision.


Why compliance?
2% - 5%
UNODC estimates that between 2% and 5% of the global economy is being laundered every year. This translates to 2 Trillion Dollars at the high end.
13 842
Kaspersky labs estimates that there are 9 attempted cyber attacks in South Africa per second or just over 13,000 per day on average in 2018.
20%
Deutsche Bank announces that it is cutting 20% of its work force across the globe. The reasons are complex but it is no coincidence that DB payed just under $11bn in fines for issues including poor AML controls.

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