

# The regulatory risks inherent in fintech innovation and how to manage them

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Facebook's WhatsApp recent move into digital payments in India reinforces the view of many, that the biggest competition to existing legacy banks could well come from the so-called GAFA (Google, Amazon, Facebook and Apple).



It is undeniable that the pace of disruption to legacy banking and financial services models will continue to accelerate. In addition, the pressure from challenger banks and fintech disrupters will drive the speed and the timeline of existing financial services' business model evolution. This is unlikely to be a comfortable time for the incumbent players. Adding to the pressure and complexity for the executive team of any bank or financial services business, is the rigid regulatory environment and the difficulty of adopting disruptive innovation whilst mitigating compliance risk.

It is therefore ironic that the latest technology is creating disruption while at the same time serving as a tool to mitigate and reduce regulatory risk. We have, as part of our fintech cluster at **The Cape Innovation & Technology Initiative (CiTi)** been seeking out a way to support and assist executives to better understand the regulatory risks inherent in fintech innovation and how to manage them (and also how to use regtech to their advantage).

We are very pleased to announce that we have procured one of the foremost experts in Europe, on this subject, Patrick Butler, who will be in South Africa on **24 and 25 April in Johannesburg**.

Patrick is the Senior Regulatory Risk Expert at Fintech Circle. He is a hands-on transformation expert and thought leader in regulatory risk management. Amongst Patrick's many achievements he transformed and rebuilt corporate and business banking compliance for Barclays. He was also Head of Investment and Corporate Banking Compliance at Bank of America Merrill Lynch for Europe, Middle East and Africa. Patrick also redesigned and relaunched Global Compliance Career Academy at Barclays Bank to rebalance technical training, contextual knowledge and behavioural skills in partnership with Cambridge Judge Business School.

Behavioural components of risk management are well understood. Patrick conducts culture coaching for senior management, risk professionals and trading staff at global banks and outsource providers.

As an attendee, you have the opportunity to get help and advice from Patrick and to hear about fintech compliance,

particularly:

- The role of regulation in fintech
- Risk frameworks
- Risk functions
- What this means for fintech

As well as conduct, risk, behavioural economics, customer bias and regtech:

- Conduct and its connection to risk
- Behavioural economics and customer bias
- Incentive vs bias
- Use cases and practical tools (regtech)

Patrick will be on hand to answer your questions and also to give you guidance and advice in a small masterclass. If you would like to attend please book here

- [The FinTech Academy Africa](#).



This is an extract from a paper which Patrick recently delivered where he dealt with the loss of public trust in banking. In response, regulators have changed their focus from control design to outcomes. They focus on behaviour and culture, conduct, and individual accountability, while expanding enforcement.

*"What has become clear is that individual behaviour (or conduct) underpinned headline events that have driven these new rules, such as LIBOR-fixing, PPI mis-selling and foreign exchange price manipulation. These enforcement actions resulted in immense damage to the reputation of the industry that ensures the facilitation of global trade and supports local, national and global economies and forced banks to spend billions in legal costs, customer remediation, strengthening their risk control frameworks and restructuring - not to mention the record-breaking fines that continue to be levied.*

*"In an industry under enormous pressure to provide returns, the billions in costs damaged key performance and liquidity measures such as Return on Capital and Tier 1 ratios. This in turn exacerbated the drive to deliver shareholder returns that are the basis for much of the decision making that will have contributed to the misconduct. In a low-interest rate environment, fees have become even more critical, while the client base has greater ability to move due to technology and with less loyalty due to the loss of trust. Competition has become harsh in this self-perpetuating circle that squeezes the industry.*

**"So where does FinTech fit?**

*"Where rewards continue to be huge, these large and sophisticated institutions have been adept at finding alternatives. Millions are spent on systems to monitor or control the sale, settlement and implementation and reporting of retail and wholesale products.*

*"In this environment, all firms - whether Wealth, Asset Management, Investment, Corporate or Retail banking and to a greater or lesser degree - have turned to technological and product innovation to create a competitive offering, by making their product better, faster or easier, to reduce costs to provide confidence in controls to manage the Regulatory burden.*

*"However, these innovators, challengers and incumbents must address the additional risk that this disruptive innovation creates.*

*"Meanwhile, the FinTech firms have the advantage of fresh platforms, no highly public reputation (yet) to worry about and the opportunity to experiment and develop advanced brilliant new ideas to take advantage of the hyper leaps in technology."*



Come and join us at a FinTech Masterclass in Johannesburg on 24 and 25 April to better equip yourself for fintech decision-making and engage with our team of international experts who can advise you on international best practice and provide you with practical advice regarding your fintech stress points. Book your spot here - [The FinTech Academy Africa](#).

The Academy is aimed at C-Level executives who have limited time but who need a deep dive into global best practice in fintech. The two-day curriculum has therefore been designed to provide a comprehensive understanding of key areas of fintech which would normally take between nine months and a year to attain in normal working circumstances.

For more details and to see the full curriculum please visit [The FinTech Academy Africa](#).

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