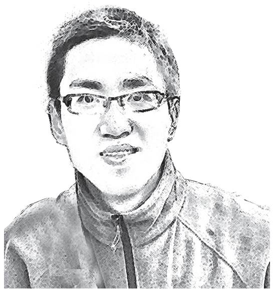

The entry of a growing number of tech companies into financial services is increasingly changing the face of the industry, a process that is accompanied by heightened regulatory risks.

Ni Tao
nitao@shanghaidaily.com

Fintech opens up a new era for business as finance undergoes high-tech revolution

Shanghai FORUM 上海论坛
MAY 25-27, 2019

Ni Tao

HSBC Holdings revealed recently that it planned to employ 1,000 more people at its tech development centers in Chinese cities including Shanghai, Shenzhen and Xi'an, in a move to tap the local talent pool and develop banking products for its global network of clients.

In addition to boosting the headcount at its China tech centers by roughly 14 percent, the London-based banking giant also vowed to spend US$3 billion to US$3.5 billion a year on bolstering its investment in technology.

HSBC is the latest in a series of global financial conglomerates to announce an increased focus on fintech.

The entry of a growing number of tech companies into financial services is increasingly changing the face of the industry, a process that is accompanied by heightened regulatory risks.

The risks and challenges posed by fintech were a trending topic at a panel discussion during the recent Shanghai Forum, an annual academic event consisting of seminars hosted by Fudan University and the Korea Foundation for Advanced Studies.

Daniela Bobeva, former deputy prime minister of Bulgaria and now an associate professor in economics and finance at the Bulgarian Academy of Sciences, said regulators are generally more ambivalent toward new technology compared with innovative fintech firms, but their attitude is poised to change as many feel compelled to avoid falling far behind.

And technology appears to be easing their workload. Following the global financial crisis in 2008, companies have rolled out internal controls that considerably complicate their operations, leaving understaffed regulatory bodies often at greater risk of overlooking some issues in performing their duties.

But technology has made up for the lack of manpower, said Bobeva.

Despite the Dodd-Frank Act in the United States meant to improve transparency and accountability in the financial system and similar regulations passed in an attempt to instill probity in decision-making of financial firms, she believed that innovation by its very nature will lead regulatory efforts.

This is not only because the market is teeming with new entrants from a non-financial background, but also because regulators largely didn't anticipate the pace of fintech's development.

Indeed, fintech is now widely visible in applications ranging from mobile payment to verification of bank deals.

Ant Financial, a unit of e-commerce giant Alibaba, and a few other Chinese tech giants are capable of providing the same kind of services as banks — and in an even better, more efficient way — giving the latter a run for their money.

Stakes are high for regulators as they continue to face scathing criticism for a lack of fairness in their approach.

Banks and pension funds were subject to stricter supervision in the aftermath of the 2008 global financial crisis.

But on the other hand, smaller startups operating without a permit sometimes slip under the radar, sparking controversy about regulatory "cherry-picking."

Still, Bobeva explained that the pros outweigh the cons in issuing more licenses to fintech companies looking to legalize their offerings.

This will inject a healthy dose of competition into the market, since traditional financial institutions which used to take their market domination for granted will likely be jolted out of complacency.

Humans or machines?

Meanwhile, developments in big data, artificial intelligence and machine learning have prompted talk of human regulators being replaced by machines, but Bobeva dismissed this possibility, saying a good regulator needs to have at least five to seven years of experience working in the market, apart from a keen eye for risks and foul play.

Zhang Chenghui, former director of the Finance Institute at the Development Research Center of China's State Council, told the forum that regulators worldwide need to adopt a proactive rather than passive stance regarding fintech.

Otherwise, they can barely play catch-up to the pace of change.

Zhang is a big advocate of developing the so-called regulatory technology, as the benefits are myriad: enhanced responsiveness of regulatory authorities, swift identification of hidden problems, real-time monitoring of dubious transactions and the ability to track illegal related-party transactions and abnormal bank transfers, among others.

With the digital economy expanding at an exponential rate, tech titans such as Alibaba have reached their tentacles across a spectrum of business areas, spanning sectors previously thought to be reserved for established players.

As boundaries between industries are being steadily blurred, the size of the risks has grown in tandem. Each day companies like Alibaba see huge sums of money flowing into and out of their trading platforms. This has been another source of discomfort for regulators, as they are caught off guard by this sudden emergence of numerous quasi-financial institutions.

Daniela Bobeva
Former deputy prime minister of Bulgaria

Zhang Chenghui
Former director of the Finance Institute at the Development Research Center of China's State Council

Hu Bin
Deputy head of the Finance Institute at the Chinese Academy of Social Sciences

"They are in need of technology to overcome, rather than be overwhelmed by, problems resulting from weak oversight," said Zhang.

In response to Bobeva's observation about the qualifications of regulators today, she noted that the ideal regulator is one with a mix of financial knowledge and tech proficiency.

Besides, technology should be applied not just to regulatory supervision; its results must be incorporated into the follow-up analysis and policymaking as well, she said.

As part of the official efforts to contain risks while promoting innovation, "sandbox" quarantining has been introduced in many countries and regions to set up the parameters to limit financial experiments.

More sandboxes

Instead of letting risks spiral out of control and wreak havoc on the broader economy, sandboxing encourages innovation within a controlled and safe environment. Its merit has played out as pilot schemes are first tested and gauged on safety, compliance and viability before being implemented on a larger scale.

"Sandbox policies should be treated more as a national strategy than merely as a project," said Hu Bin, deputy head of the Finance Institute at the Chinese Academy of Social Sciences.

"This has been the case in Britain, where the government uses sandbox to lure fintech companies as it looks to put the country on track to becoming a fintech power," Hu said. This is the context for understanding the significance for China to start weighing and formulating its own sandbox framework.

"We cannot afford to lose our relatively leading position in fintech to outdated modes of oversight," said Hu.

He says China's huge consumer market has laid the foundation for a boom of fintech applications.

The technology is already here.

Billions of yuan have poured into this highly coveted sector. And consumers are pinning high hopes on new technologies to lower the bar for access to credit and other banking services.

Nonetheless, regulators will probably still take a wait-and-see attitude unless key problems are solved, such as the arrangement under which they are to engage with market players and investors in a sandbox, said Hu.