Regulators around the world must keep pace with the challenges of digitalisation. Otherwise they risk becoming a mere analog supervisor of rapidly digitalising global markets.

We are in a period of transformational technological change with impacts on industries around the world, none less so than financial services. Trading markets are increasingly driven by algorithms trading with other algorithms. Automated platforms, shaped by artificial intelligence assessing new and non-traditional data sources, including information on personal consumer behaviour, are able to make lending decisions.

Technological convergence
The convergence of new technologies will hasten the next round of innovation. The cost of launching new ventures has decreased dramatically, and the speed at which innovations can be brought to market has increased owing to factors like open-source software and cloud. The pace of investment in these technologies, and in fintech and regulation technology more broadly, has significantly accelerated.

Regulators are showing willingness to explore ways to use fintech better to understand new technologies and to identify potentially useful applications. There are opportunities for innovators to demonstrate to regulators the capabilities of rapidly evolving technology of unproven value. Where only a single provider is able to explore new technologies with a pilot basis at reduced or no cost. Businesses may exist, competitive bidding is impossible – but processes for obtaining waivers can take months or longer.

While safeguards promoting transparency and preventing corruption should not be removed, greater flexibility may be needed to enable regulators to harness the benefits of emerging fintech.

Rules for regulator-innovator relations
There are several core principles to promote and protect engagement with innovative businesses that regulators ought to follow. Based on my experience launching the fintech initiative LabCFTC at the Commodity Futures Trading Commission, I have suggested the following 10 guiding principles.

First, it’s fine to start small. Most regulatory programmes have started with two or three people. Tangible successes justify greater resources. Second, since different national legislative authorities set regulators’ frameworks, the rules governing regulator-fintech interaction cannot be identical.

Third, regulators’ remit extends to the application of new technologies, but not to the technology itself. Fourth, regulators must remain technology-neutral, and should not try to pick winners and losers among innovative technologies – that is for the market to decide.

Fifth, while maintaining a healthy degree of scepticism and focusing on risks of new technologies, regulators must keep an open mind. Innovations in fintech hold the promise of greater financial inclusion, and greater access for individuals to enter markets safely.

Sixth, engagement benefits all parties. Regulators can help innovators navigate complex supervisory frameworks. Likewise, engaging in a dialogue can help regulators understand the impact of their judgements on the potential application of technologies.

The seventh principle is that support from leadership, in the business community and among regulators and legislators, is critical. Identifying and addressing challenges collaboratively will help ensure that demands on resources and any tensions created by the introduction of disruptive technologies are manageable.

Eighth, information and engagement on the part of regulators should extend well beyond a dedicated fintech team. Other specialists, perhaps without fintech experience but with deep knowledge of core activities – such as supervision and examination, data and risk analysis, developing and applying rules and policies – could contribute the deepest understanding of implications, risks and rewards of emerging technologies.

Ninth, rather than summoning them to a central body, regulators should try to meet innovators in their own environments. And 10th, regulators should make it easy for innovators to contact them. Regulators are unlikely to move at the speed of a start-up, however, and it is unrealistic for innovators to expect a ‘fail-fast’ approach on issues with far-reaching implications.

Taking advantage of innovation
Fintech innovation will make financial markets more resilient and competitive. Regulators need to keep pace with these changes. Above all, regulators must invest time, effort and money in improving their capacity to process and take advantage of these innovations.

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