



NASAA

NORTH AMERICAN SECURITIES ADMINISTRATORS ASSOCIATION, INC.

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RISE OF FINTECH RAISES NEW CONCERNS FOR SECURITIES REGULATORS

Survey Shows Millennials at Greatest Risk for Fintech Fraud; Need for Increased Vigilance from Regulators, Industry and Investors

WASHINGTON, D.C. (February 15, 2018)—A new survey of securities regulators by the North American Securities Administrators Association (NASAA), underscores why regulators, the industry and investors, especially Millennials, must step up to be vigilant amid the rapid pace of development spurred by advances in financial technology (fintech).

The results come from NASAA's recent Pulse Survey on fintech and the technological innovations shaping new investment and financial products. The poll conducted from mid-November to mid-December 2017, collected responses from NASAA members – state and provincial securities regulators in the United States, Canada and Mexico – about the challenges of adapting to new financial technology products and changes in and how financial services are delivered to investors. The findings offer a unique insight into the concerns and perspectives of the investment industry's local cops on the beat.

One-third (34 percent) of securities regulators said the rapid development of financial technology is a positive development for investors, while 20 percent expressed concern with the potential negative impact of fintech on investors. Almost one-half (46 percent) said it is too soon to tell, citing benefits such as lower costs and greater accessibility to investments among groups not previously reached by traditional methods, but cautioning that sufficient investor protections must be in place so that easier access does not translate into greater exposure to risk or fraud.

Top takeaways include:

- **Millennials most at risk for fraud:** Regulators viewed Millennials as both most likely to use fintech products (84 percent) and also as most at risk of fraud from fintech products (41 percent). While Baby Boomers were viewed as least likely to use fintech, they were still viewed as the second most likely demographic group to be at risk of fintech fraud (38 percent).
- **Not all risks are created equal:** While all regulators viewed fintech at large as having a high (28 percent) or moderate (72 percent) chance of fraud, the risk varied widely by specific products with ICOs and cryptocurrencies being most commonly identified as high risk (94 percent) and robo-advising being least commonly identified as high risk (3 percent).
- **Fraudsters most knowledgeable:** More than half of regulators (56 percent) said they viewed fraudsters as the most knowledgeable about the risks of fintech, nearly all respondents felt that investors were the least knowledgeable about these risks (94 percent).
- **Fighting fintech fraud is getting harder:** Three-fourths of respondents (75 percent) felt that preventing fintech fraud is getting harder. (more)

NASAA is the oldest international organization devoted to investor protection. Its membership consists of the securities administrators in the 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Canada and Mexico.

“The survey results show that our members are focused on the potential for fraud when it comes to new technologies and products, but the results also reflect recognition that these innovations may benefit investors, which makes appropriate regulation and investor education critical,” said Joseph P. Borg, NASAA President and Alabama Securities Commission Director.

“Our members are learning about new technologies and uncovering potential threats every day, but to keep pace with innovation we can’t do it alone. The industry and its investors should carefully approach any new investment product or technologies and collaborate with regulators to identify and end new threats that may arise,” Borg said.

Borg noted that NASAA has created a Fintech Committee, chaired by NASAA President-elect and Vermont Commissioner of Financial Regulation Michael Pieciak. The committee is planning a fintech roundtable in May to bring together industry experts and regulators to discuss areas of mutual interest and concern.

“Investors benefit when regulators and industry work toward solutions that promote both innovation and investor protection,” Pieciak said.

For a short animated video developed by NASAA to help investors learn more about cryptocurrency and ICOs, visit www.nasaa.org.

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