HARVARD
Office of the Vice Provost for Advances in Learning

MODULE 6 UNIT 1
Video 2 Transcript

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What effect is regulation having on FinTech innovation?

RON SUBER: I've been working very proactively with the regulatory bodies here in North America about what is happening in FinTech and what's not happening in FinTech. I've recently been to London, to Tokyo, and was in China for many visits over the last five years, explaining to the PBOC and other regulatory groups the benefits to the economy, to unemployment, to businesses – and people where FinTechs are often lubricating states, and countries, and continents, and businesses, helping borrowers and lenders get together – so people have jobs, can borrow, can spend, responsibly, where banks in the traditional companies and specialty financial lenders aren't.

So I'm very encouraged by the regulators. They are as up to speed as they've ever been, and very proactive in coming to us in the FinTech world to continue to explain what's happening so they can regulate. And so, we've seen some excellent sandboxes built in Atlanta, San Francisco, New York, and Boston, where we're able to work with banks, and other incumbents, and the FinTech world, to create new ways to solve the problems that people and companies are having, to lubricate the financial world.

MILIND MEHERE: Yeah, regulation is key to unlocking innovation. The JOBS Act and Regulation D has made some innovation possible in the last four to five years, and it's moving in the right direction. However, there are improvements to be made. Accredited investor definition and verification is complicated and a cumbersome process. It was built during the Wall Street days, where there was no transparency, and investments were very opaque and complex. If platform offer transparency just like YieldStreet, then a case can be made to right-size the process, to promote financial inclusion, and access to broader investor base that does not exist.

There also has to be better and easier way to unlock your retirement plans through 401K, as well as self-directed IRA, which is a large market and currently – it's not open to a lot of the alternative investments that exist out there.

What impact has government regulation had on FinTech in China?

GREG GIBB: If we look at the last two years, there's been a lot of new regulation out in China. It's been quite far-reaching – it hasn't just been applied to FinTech, it's also been applied to the entire financial industry. So whether it be in payments, lending, wealth management, asset management – you've seen China undertake a lot of tightening in its regulation in a lot of spaces that weren't regulated at all before – in payments, in lending, in peer-to-peer—really you've seen at the end of 2017, and mid-2018, kind of the full slew of regulation coming out.

The impact really is to raise the bar for the entire industry. And so, there was a low bar to entry, and anyone can play. With the new regulations out, it really squeezes the number of participants that can play. It's really those that have the capabilities, and the capital, and the talent to play.

Of course it has also changed a bit—who you cooperate with. There's a lot more cooperation now needed between FinTech companies and banks to process transactions, which does mean that in some areas costs have gone up – for processing. But in general at the same time, I think we've seen a forming of a much surer footing as to what the rules are to play, and it really puts the foundations in place for more sustainable long-term development. So it's a painful process to go from not being regulated to being regulated, but from an industry perspective it raises the bar and makes it much more sustainable for those who can win.

How will increasing government regulation affect FinTech in the future?

CRAIG ZENG: So in the FinTech, regulation will have a big impact for the for the, for the whole market. But, if you want me to comment on one sentence, I will see [say] – facing a change. This is a totally new business model, new area, this new technology – and that will change in this very traditional financial market. So the only thing you will see there is keep changing.

GREG GIBB: Regulation's forever changing – it never ends. But I think in the current round of efforts to regulate FinTech we've probably seen 70 to 80% of what's going to happen in the next two years or so already happen, but you always have to have an A plan, a B plan, and a C plan. And today, while the A plan may be going very well – you met all the current requirements – you always have to be looking down the road to sort of say, "Well what if, if I was the regulator, what if I change that this way? Or what if I decided to ask for this requirement, and what if I asked for this type of disclosure?"

You always have to be planning, and be in a position where if something new comes out, you have a reasonably good chance of being able to meet those new requirements in three months. Because in FinTech, you always have to be at the front of the market, so you have to anticipate what could change and be ready to change faster than others. Every time there's a change in regulation, whoever responds best and first can actually be – it's an opportunity to grab more share in the market.

JEFF BUSSGANG: Currently regulators are rushing to catch up with innovation in the blockchain space. The SEC has recently been leading the way, trying to catch up with secure token offerings and defining what are the regulations required to issue initial coin offerings and other registered securities.

Those are promising signs, because once regulators get their head around cryptocurrencies and blockchain, it'll create transparency and clear rules of the game for investors to participate.

CHRISTINA QI: As a part of the regulations, they try to define algorithmic trading – which I thought was interesting – and that was a big deal for everybody because, you know, beforehand we had never had a regulator who, you know, tried to attempt to define what does algorithmic trading mean, you know, what does high-frequency trading mean. I mean, the definition was kind of all over the place, which was kind of annoying actually and I'm glad that now with the new regulations coming out, we can just refer to, you know – here's what it officially means. But yeah, so there are some things that'll continue to change though, you know – there will be regulations coming out regarding cryptocurrencies, for instance and you know, we don't know what's going to happen, and how that's going to play out with all the funds, and how they're going to react to it – but I'm sure – you know, we talk to regulators –

their job is kind of work with funds and not to shut everybody down or anything like that. So, trying to work with everybody to figure out how to, you know, maximize value and, you know, for society as a whole, and not to do anything illegal, basically.