

# Harnessing the Power of Fintech for the Benefit of Long-Term Individual Investors

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## **INTRODUCTION**

Thank you, Nick, for the warm welcome. It is a pleasure to be participating in Afore's 6th Annual FinTech Conference.

Fintech is a topic that knows no boundaries and, in fact, supersedes geographic borders. It is as important to the prosperity of millions of European citizens as it is to the people of the Americas, Africa, and Asia. Policymakers from every jurisdiction must consider how fintech can benefit their economy, their society, and, most importantly, their people. Fintech could very well be the most powerful financial tool of our time.

We are still in the early days of unleashing this potential power, and the next few years will be pivotal. Now is the time when we must set the framework to enable fintech to drive greater economic growth, resiliency, and stability for our global financial markets and all who depend on them.

This conference offers a chance to do exactly that. With so many of the EU's leading regulators and policymakers in attendance, I hope to convey the scale of the opportunity that is before you. You have a chance to help guide fintech down the most broadly beneficial path.

Fintech is already transforming the way we invest and what we invest in, and it could ultimately overhaul the entire financial services ecosystem for the better. To make that happen, we need smart and sensible regulation that provides legal certainty, promotes a level-playing field, and respects operational complexity. Only then can we harness the many opportunities that fintech promises as well as mitigate the potential risks.

How to reach that future is the focus of my speech today, and I will draw on my experience as an industry stakeholder and as a former regulator who tackled similar questions to those you face today.

## **Focusing on the Interests of the Long-Term Individual Investor**

At the Investment Company Institute and ICI Global, our mission is to strengthen the foundation of the asset management industry for the ultimate benefit of the long-term individual investor. Fintech is a powerful means to that end. It can amplify the widescale positive impact that the asset management industry already makes.

That impact is clear here in Europe. Through investment vehicles like mutual funds, including UCITS, the asset management industry helps long-term investors save for big financial milestones such as a first home or retirement. By building equity, long-term investing in mutual funds can be the cornerstone of an individual's economic security.

More broadly, individual investors' capital is a vital source of economic growth. Long-term investing in mutual funds provides the funding that builds new businesses, turns small businesses into big deals, and creates the opportunities on which current and future generations depend. It provides a link between investors seeking appropriate savings vehicles and the financing needs of the real

economy.

On a macroeconomic level, the wealth created by long-term investing in mutual funds can help relieve budgetary pressure on governments to provide for the health, welfare, and retirement of their citizens. This is particularly the case in aging populations where the number of workers is declining relative to the number of retirees.

Additionally, as the world transitions to a net zero economy, mutual funds, as well as other regulated funds, will play a central role in financing a more sustainable economy.

Perhaps most importantly for European policymakers, the growth of individual investing is a critical pillar to establishing a genuine Capital Markets Union. The more people who participate in the EU financial markets, the more vibrant, resilient, and stable EU capital markets will become. Put simply, long-term investors in mutual funds are key to the success of the European Union project.

Fintech can enable all of the above to be done more effectively and efficiently. It can help facilitate long-term investing. It can help build the individual investor capital that drives economic growth. It can help strengthen European citizens' economic security. It can help relieve the pressure on cash-strapped governments, while making a bigger difference on environmental sustainability. And, by making access to private investment easier, fintech can help consolidate the EU's markets into a true Capital Markets Union.

In short, fintech can deliver incredible value. But to do so, it must be appropriately regulated.

As a former regulator, I am keenly aware of the challenges of creating regulations for an innovative financial product. During my public service at the US Securities and Exchange Commission and the Commodity Futures Trading Commission (CFTC), fintech went from a far-fetched concept to a booming global industry.

I still recall the many in-depth, robust discussions that took place amongst CFTC senior leadership and external stakeholders when we were deciding on whether to approve the first US-regulated bitcoin futures contract. Those discussions focused on finding the right regulatory balance to support innovation and value creation against real investor protection concerns and the broader stability of the financial markets.

Looking back, I am pleased with where we landed, and I believe approving that contract was a significant milestone in the mainstreaming of crypto assets in the United States. Combined with my industry experience, it has shaped my views about the potentially transformative nature of fintech and how important it is that regulation does not stifle or undermine the benefits that we, as a society, can reap.

### **How Fintech Will Affect Asset Management**

Fintech's power springs from its diverse nature. The phrase "fintech" encompasses a bewildering and constantly multiplying number of companies and ventures, affecting almost every aspect of the financial sector. This inherent diversity is a major strength, and it explains why fintech is already benefiting investors in many ways. Yet there is even greater progress on the horizon, especially on four key fronts.

First, fintech can lower the cost of investing for both asset management firms and investors.

That matters because a lower bar for entry to invest means a higher rate of individual involvement in the financial markets. As fintech advances, it can ensure that people have more money to invest and that more people overall can invest.

Blockchain is a prime example. While this relatively new technology mainly receives attention for underpinning cryptocurrency, it has much wider applications. Most notably, blockchain enables faster data exchange, including for transactions, account changes, and investor research. As asset managers adopt blockchain, its simplicity and speed will generate significant cost savings for individual investors.

The story is similar with cloud services. Where once financial companies had to build massive and costly server farms, the cloud lets them farm out these functions to a much more affordable centralized database. It also gives asset managers greater flexibility when rolling out new products and services, and even allows for new and more efficient business models, as the pandemic proved with the rise of virtual work. Once again, the result is cost savings that can be passed onto investors.

Quantum computing is even more promising. It's not yet commercially viable, but that day is coming, and we can already foresee some of its applications. Quantum computing will lead to much faster data analysis and market reactions, saving countless hours that are currently spent crunching numbers. In this context, time means money, and by cutting that time down to not much longer than the blink of an eye, quantum computing will cut costs for asset managers and the investors they serve. We aren't there yet, but we will be soon.

Second, fintech can increase access to investing.

The 5G revolution is a case in point. Thanks to smart policymaking, almost every European country has 5G providers, giving citizens access to mobile internet speeds up to 100 times faster than 4G networks. Faster speeds allow for quicker communication between investors, asset managers, and financial companies. As history shows, when such communication gets easier, it happens more often.

Even more important, 5G networks carry far more data, which enables far more advanced investing platforms. The door is now open to smartphone apps that let consumers buy products like mutual funds—something that seemed unlikely, if not impossible, just a few years ago. In fact, we're not far from the day when consumers can purchase any investment product on their phone, with nothing more than the tap of a finger. Such real-time transactions, accessible to hundreds of millions of people simultaneously, will be a game-changer.

These innovations are perfectly suited for Europe. Europeans tend to be more mobile-focused than, say, my fellow Americans. And since 5G services can be rolled out wirelessly to rural areas that currently lack broadband internet, there's also a chance to give every European access to mobile investing tools. That would be unprecedented, and so would the resulting benefits.

Third, fintech can create a new era of customization.

Currently, most investment products are broadly available and based on generic risk profiles. If a first-time investor wants a medium-risk portfolio, they choose from a suite of medium-risk options. Anything more investor-specific typically takes far more time and resources and is simply not available.

That's where quantum computing and artificial intelligence come in. As these technologies advance, asset managers and financial companies could affordably deliver products and portfolios tailored to individual investors. Forget generalized risk profiles—we could have personalized risk profiles.

Better yet, we could have them at the snap of a finger. Consumers could lay out what they want in a text message, email, social media post, or message through an app. Within minutes, or even seconds, they could receive tailored advice and investment solutions. Individual investors have never had such choice, speed, and customization, but they will soon.

The fourth and final way that fintech can better serve investors is by creating entirely new asset classes.

This process is already underway. Blockchain allowed for the rise of cryptocurrency, which has rapidly become popular for many investors, including many first-time investors. More recently, blockchain has led to the creation of "non-fungible tokens" [NFTs]. They allow individuals to monetize, buy, and sell assets that were previously unavailable—everything from art to real estate to intellectual property.

Currently, ownership of these assets is defined by individual possession, but through blockchain-supported tokenization, many investors can own a piece of the asset without actually physically possessing it. This digital ownership offers the potential to democratize indivisible assets so many investors can reap the rewards, instead of only a single investor receiving all the value. Forthcoming innovations will unlock even more new asset classes, and as they arrive, they will give a greater number of investors more ways to build wealth.

That's what all of us want. And that's what fintech can help us deliver.

### **Challenge for Regulators and Policymakers**

No doubt, this deluge of innovation poses interesting questions for regulators. On the one hand, it's exciting. Fintech's potential is simply massive, and unleashing it will support vital economic, political, and regulatory goals. On the other hand, fintech looks complicated to regulate and poses investor protection and financial stability risks.

Getting this right is no simple task. Yet there's no question in my mind that it can be achieved. I encourage policymakers to consider three regulatory principles as you go about this task. These principles can foster smart, sensible rules that properly balance innovation and risk.

First, fintech requires legal certainty. That's true for both its development and introduction into financial markets.

Innovators and entrepreneurs need a stable regulatory framework within which they have the freedom to do what they do best. By contrast, a lack of certainty will inhibit the creation of untold new products and services. Risk-aversion is always tempting, but it can't be allowed to rule the day. We need to be permissive enough to new fintech applications to encourage new thinking and to allow

progress. And we need legislators and political leaders to support regulators in this task. The bottom line is that fintech should be given broad lanes with strong guardrails, the better to ensure it moves quickly and safely in the right direction.

The second principle is an even playing field among financial services providers.

More often than not, discussions about fintech devolve into a false choice. We're told we have to choose between existing players and innovative disruptors, but that's not accurate. Many disruptors are simply old wine in new bottles, while many old players are the most eager for new developments. It's critical that we refrain from building a regulatory framework that's biased one way or the other. The better approach enables the adoption of technology across the board.

The final principle is regulatory pragmatism, which includes a note of caution.

As I have noted, fintech's potential is great, and its impact will be seen in how financial firms incorporate such technology in their operations and processes. This is no simple or swift undertaking, so it behooves regulators and policymakers to understand the complexity involved.

A good example involves securities settlement times. In the United States, we are currently debating a move from a two-day securities settlement cycle (i.e., T+2) to T+1.

Accelerating the settlement to T+1 is good for investors and the overall well-being of the financial sector because it creates efficiencies and decreases risks. The shorter time it takes to settle a trade, the lower the risk the party on the other side of the trade might default or that the market might move against the trade leading to increased margin requirements and potentially increased liquidity pressures. These risks are exacerbated during periods of high market volatility or stress.

Now there are some who suggest that, if we can shorten settlement to T+1, then we can shorten settlement to T+0 or same day and that technology is the key to making this happen.

That sounds appealing, but moving to T+0 would leave very little recovery time if systems interruptions took place or high market volatility occurs, raising real financial stability and investor protection concerns. Jumping to T+0 also would require a complete reengineering of areas such as global settlements, foreign exchange, and margin requirements. The operational challenges would very likely lead to increased costs to end-users. While fintech could ameliorate these concerns, the devil is in the details.

Hence the need for regulatory pragmatism. Yes, technology opens the door to new efficiencies, but the appropriate application of such technology must be accompanied with sufficient understanding of the operational challenges it may create.

At the end of the day, we all have a large learning curve. For policymakers, creating a regulatory landscape that promotes the best in innovation yet maintains stability and protects investors is a steep challenge. No one is perfect. But incorporating regulatory pragmatism into rulemaking considerations will help regulators achieve that balance and deliver the biggest benefits to all involved.

## **CONCLUSION**

I am confident, and even excited, at what lies ahead.

We all want a stronger economy. A more secure society. A more sustainable world. Most of all, we want individual investors to reap the rewards that come from long-term investing as this underpins all of the above.

Europe is an exciting place because it has a vibrant and engaged policymaking community, which is serious in looking at the benefits of fintech, a sophisticated fintech industry, and an investor community that still has yet to reap the benefits of the single market. For this reason, I look to Europe as the place where we will see innovative regulation that will bring to fruition the benefits of fintech to long-term individual investors.

Europe can and should lead in this effort.

Thank you.

