



WORLD BANK GROUP

Cambridge
Centre
for Alternative
Finance



UNIVERSITY OF
CAMBRIDGE
Judge Business School

REGULATING ALTERNATIVE FINANCE: RESULTS FROM A GLOBAL REGULATOR SURVEY

Summary slides

with the support of



WORLD BANK GROUP
Global Knowledge & Research Hub
in Malaysia



Suruhanjaya Sekuriti
Securities Commission
Malaysia



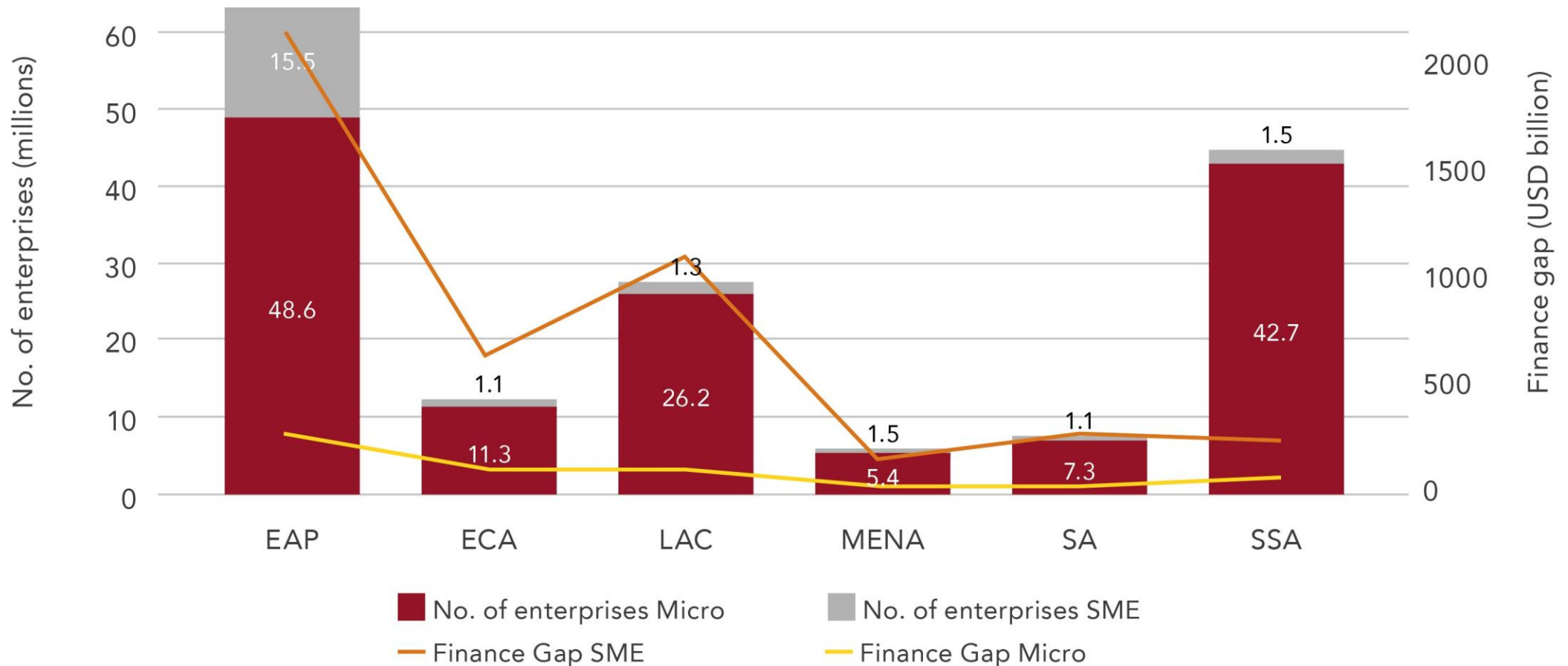
Regulators are confident of the positive impact of alternative finance - particularly where the need is greatest



But significant gaps remain in SME and consumer access to finance

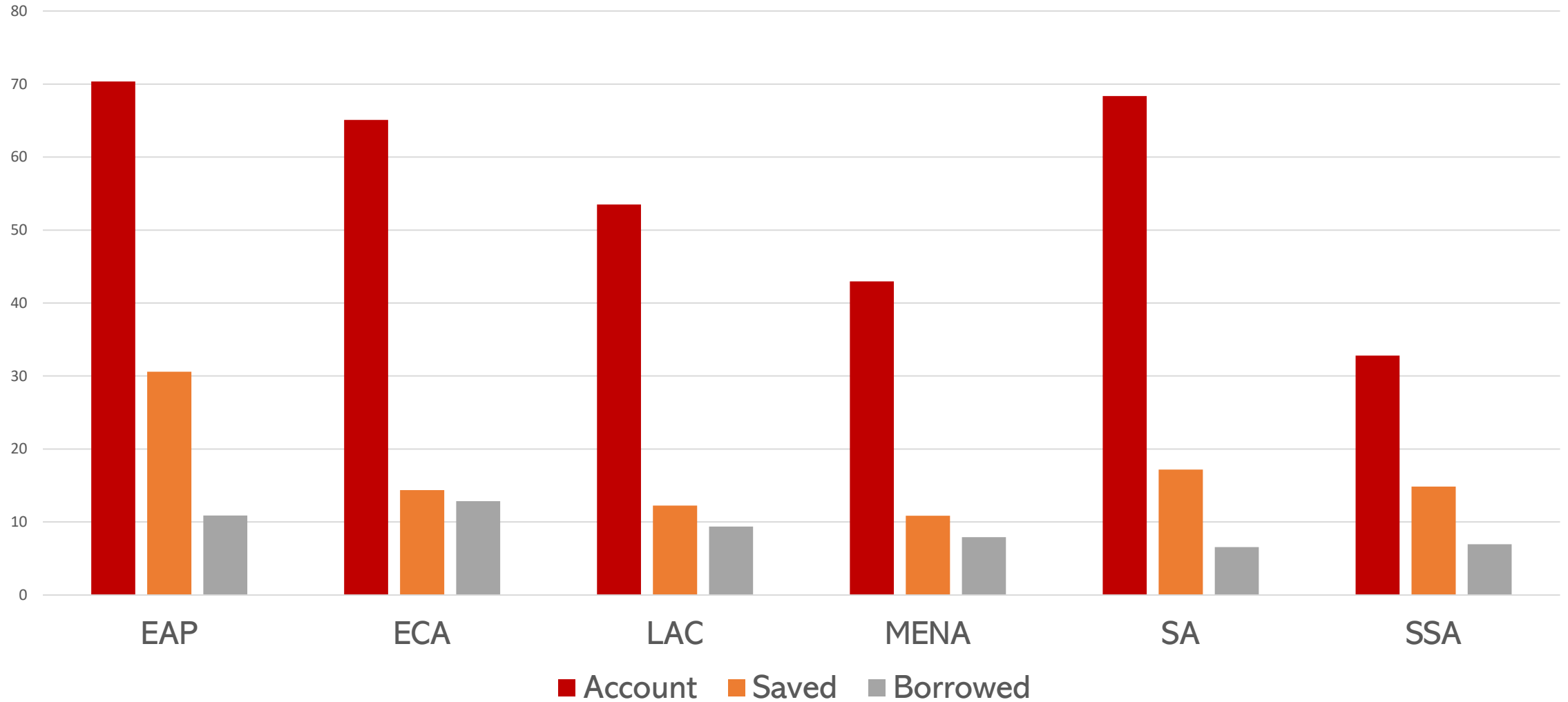
Number of Micro, Small and Medium Enterprises and Finance Gaps by Region

There are more than 160 million MSMEs in emerging economies with a finance gap of \$ 5.2 trillion USD



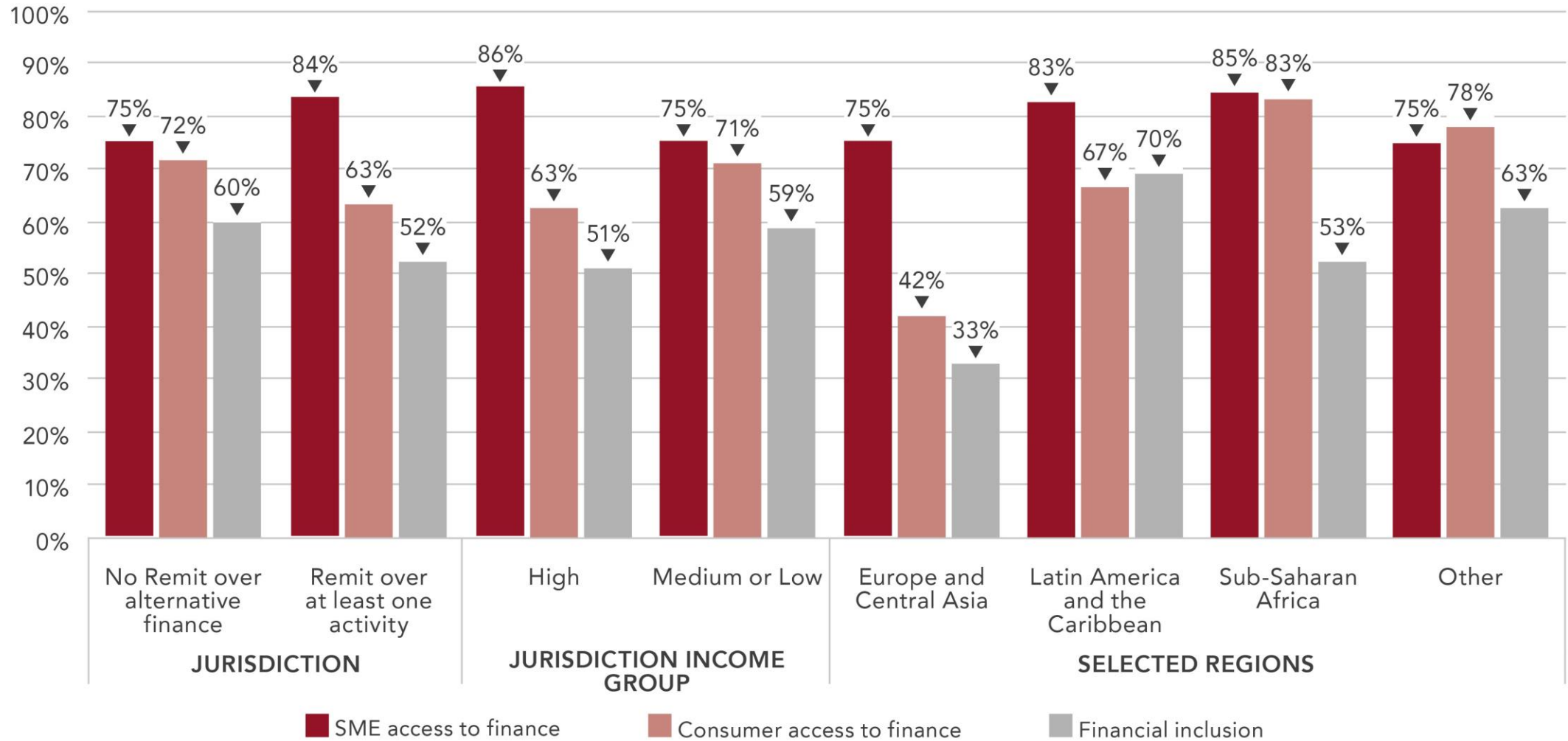
Source: Bruhn et al (2017), op. cit

Percent of adults using the formal financial system



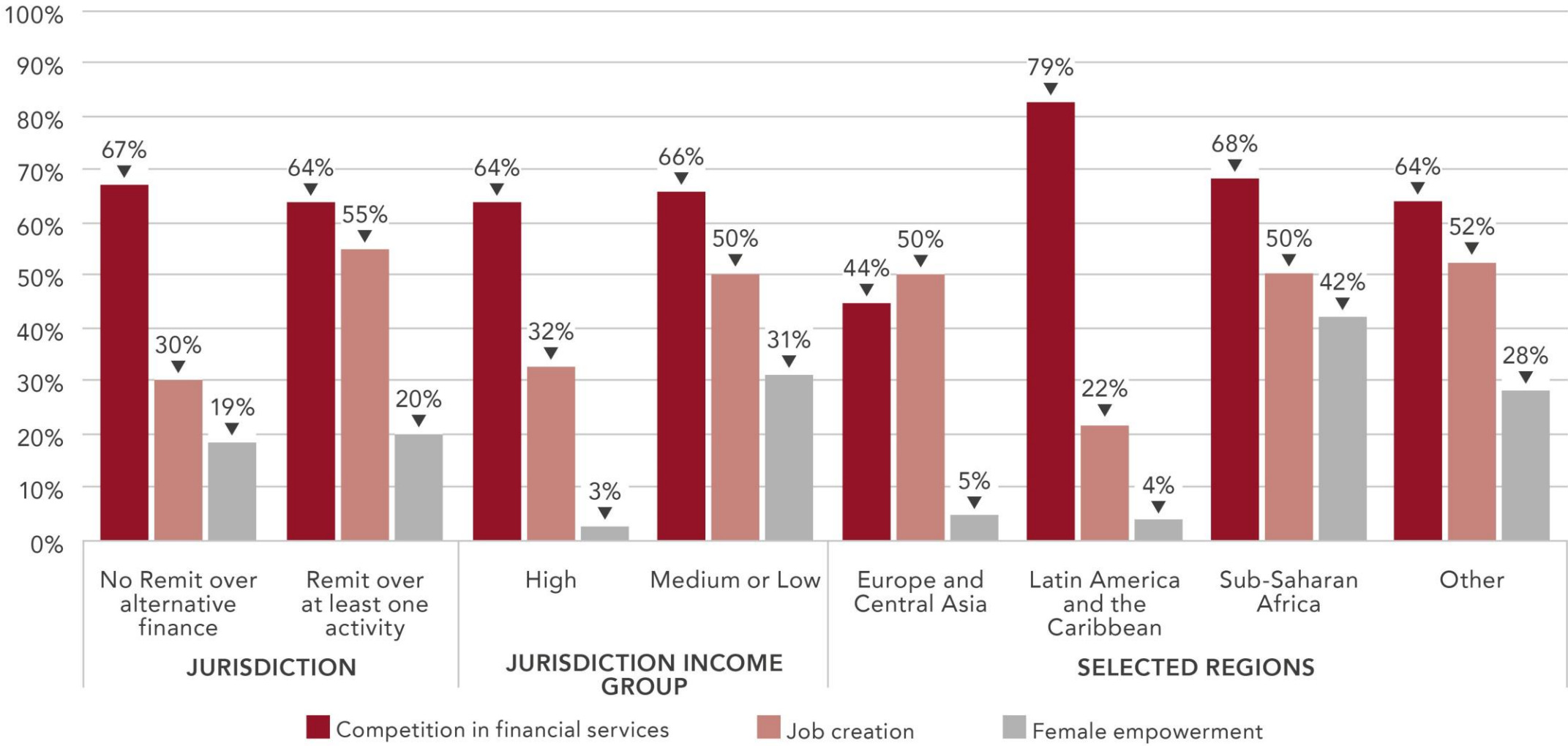
Source: World Bank Global Findex 2017

Regulators with positive views of the impact of alternative finance, by remit, jurisdiction's income level and region (access to finance).



Source: the Global Alternative Finance Regulation Survey (see Chapter 2 of this report)

Regulators with positive views of the impact of alternative finance, by remit, jurisdiction's income level and region (citizen empowerment).



Source: the Global Alternative Finance Regulation Survey (see Chapter 2 of this report)



This is a unique dataset of alternative finance regulation

It speaks to the rising importance of 'new' regulatory objectives, such as financial inclusion

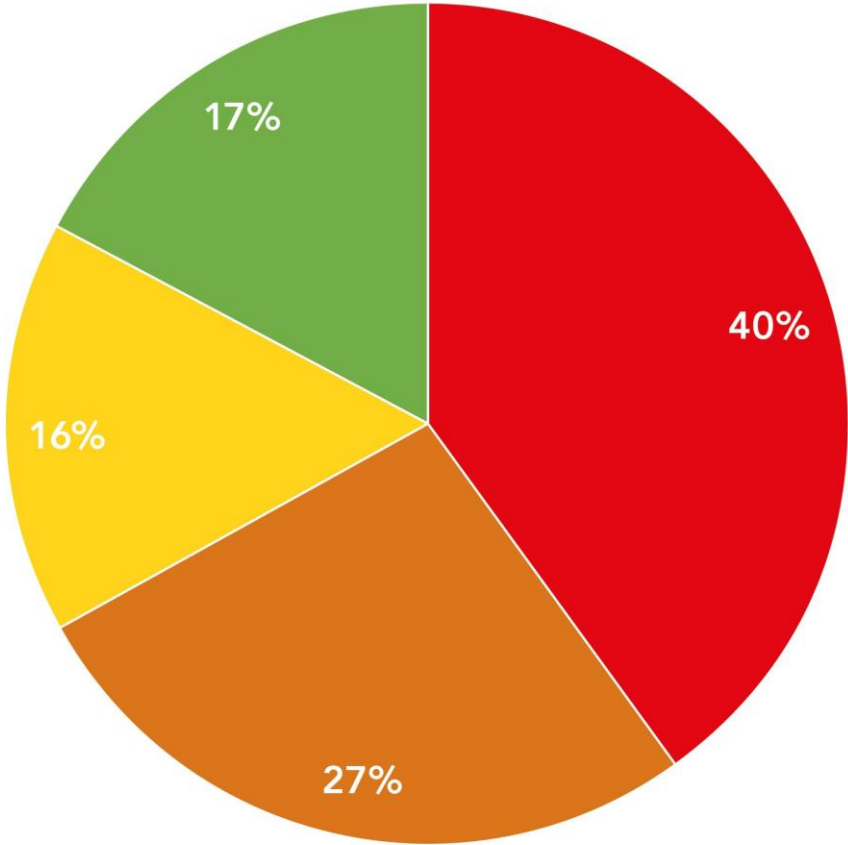
Survey Methodology

- Regulators in 111 jurisdictions responded to the survey, which was sent to 209 regulators covering 221 jurisdictions. This makes for a response rate of 50% (47% for individual invitees).
- Focus was on securities regulators, but included others in some jurisdictions.
- Surveys sent through the International Organization of Securities Commissions (IOSCO) and directly by the World Bank and Cambridge Centre for Alternative Finance.
- Surveys completed online by regulators through Qualtrics (hosted at Cambridge) between April and June, 2019.

Geographic distribution of respondents

REGIONS	NUMBER OF JURISDICTIONS BY REGION	% OF REGION'S JURISDICTIONS ACCOUNTED FOR	% OF REGION'S GDP ACCOUNTED FOR	% OF REGION'S POPULATION ACCOUNTED FOR
East Asia and Pacific	14	37	70	69
Europe and Central Asia	27	45	65	66
Latin America and the Caribbean	26	57	85	84
Middle East and North Africa	13	57	51	26
North America	2	67	100	100
South Asia	4	50	80	77
Sub-Saharan Africa	25	52	80	68

Breakdown of respondents by World Bank income groups in %



High Upper Middle
Lower Middle Low

Statutory and non-statutory objectives of respondents

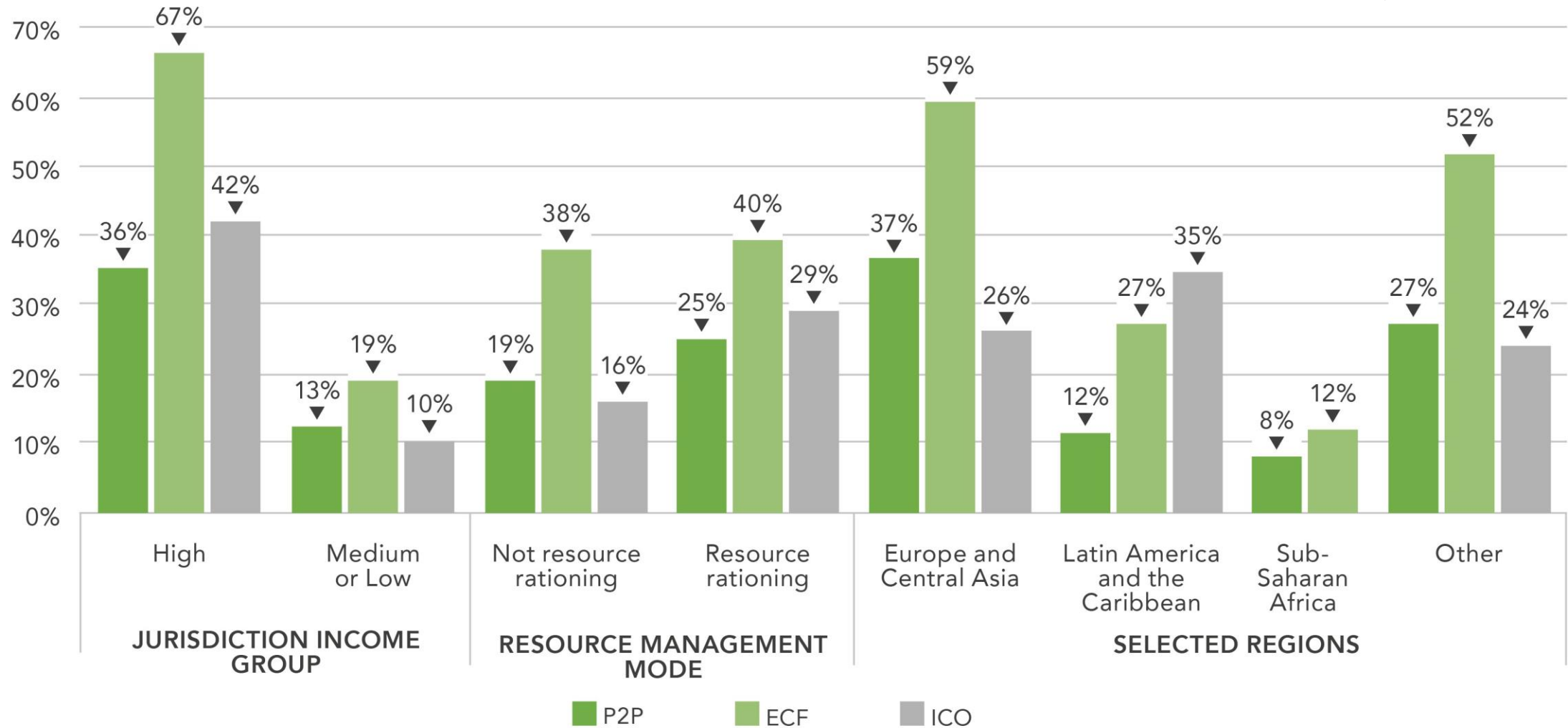
	STATUTORY OBJECTIVE	NON-STATUTORY OBJECTIVE
Consumer Protection	81%	12%
Market Integrity	81%	13%
Financial Stability	75%	16%
Growth / development of financial markets	67%	20%
Financial Inclusion	40%	51%
Supporting government initiatives (ie economic or industrial policies)	34%	40%
Promoting Competiton	25%	51%
Other	17%	0%



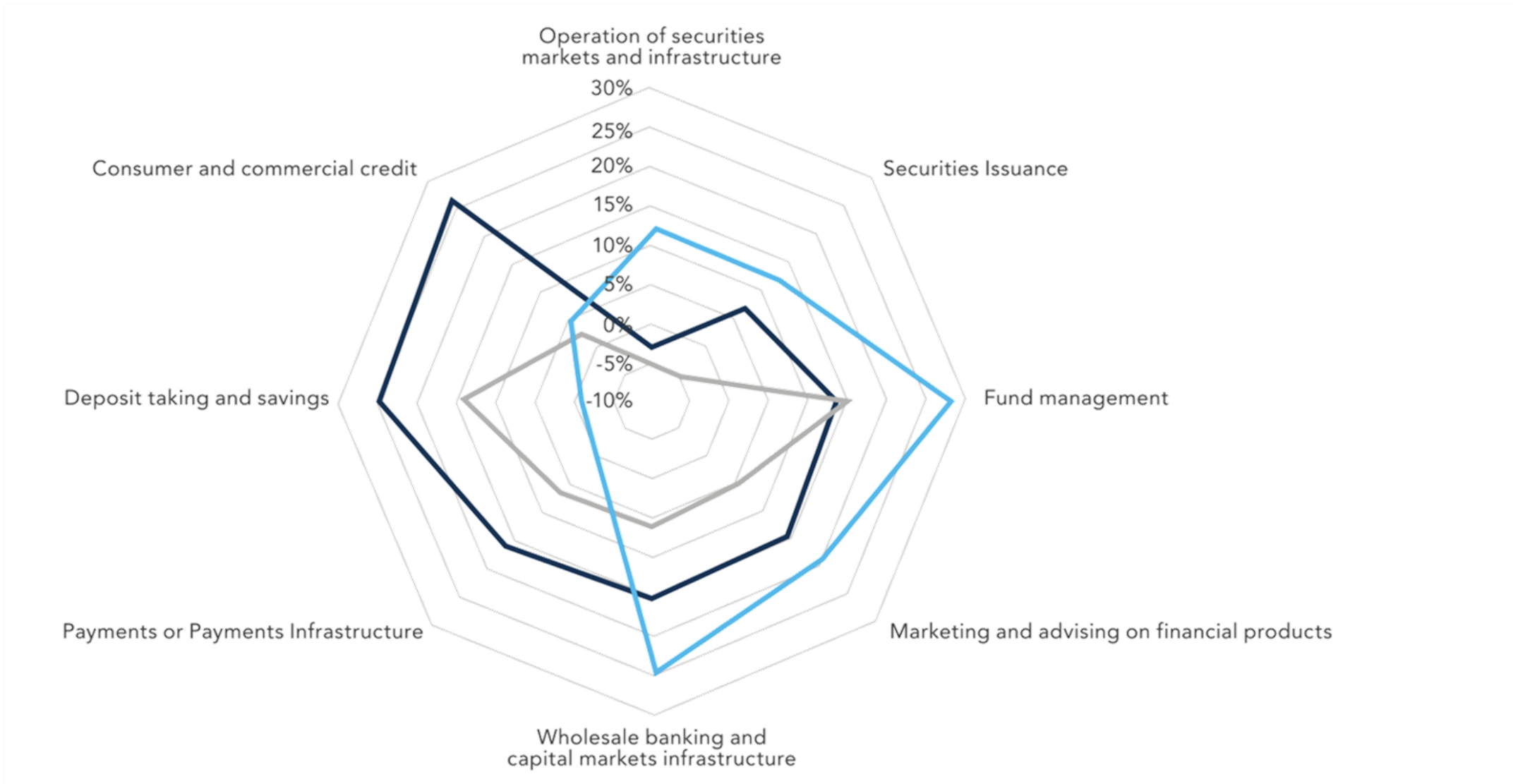
Regulators look forward to a busy few years ahead

**More and more are regulating
alternative finance sectors, particularly ECF.
And bespoke frameworks are on the rise**

Share of jurisdictions that actively regulate alternative finance activities

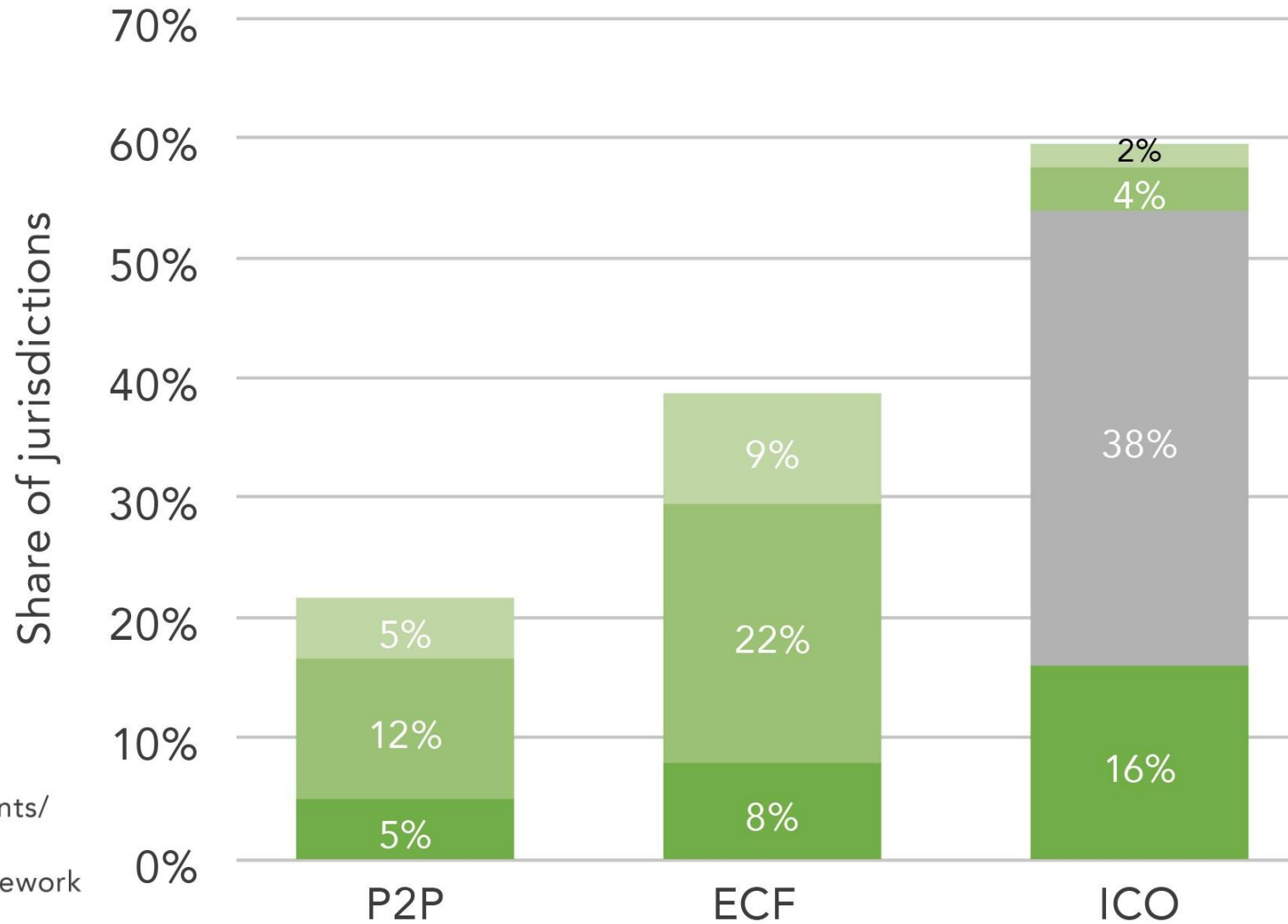


Sector bias in the remit of Alternative Finance Regulators

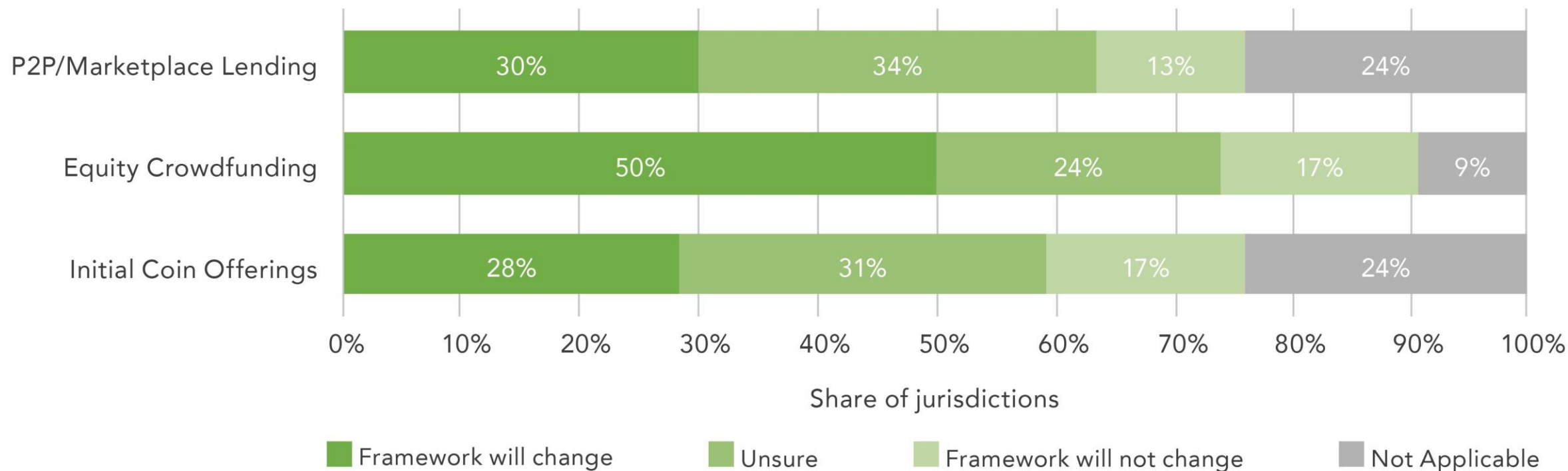


Regulated jurisdictions by type of regulation

- Regulated under pre-existing regulatory framework
- Regulated under framework created for this activity
- Regulated under pre-existing framework, with adjustments/exemptions for this specific activity
- Potentially regulated under pre-existing regulatory framework



Regulatory change trajectory in the next two years, by alternative finance activity



Triggers and elements of the regulatory change process


		P2P	ECF	ICO
Triggers of regulatory change - past two years	Reviewing another jurisdiction's approach to regulating alternative finance activities	56%	66%	65%
	Industry-driven requests for regulation or guidance	54%	67%	54%
	Alternative finance activity becoming larger	46%	49%	43%
	Government policy or strategy	41%	51%	35%
	New emerging evidence from supervisory work	22%	28%	35%
	New powers or objectives given to organization by lawmakers	22%	25%	16%
	Firm failure exposing fraud and/or leading to damages to consumers	6%	6%	32%
	Other	20%	7%	8%

Triggers and elements of the regulatory change process

		P2P	ECF	ICO
Elements of the regulatory change process	Analyzed the regulatory frameworks of other jurisdiction(s)	94%	91%	94%
	Carried out informal consultation with firms, industry bodies, consumers or other stakeholders	60%	51%	44%
	Used supervisory powers and external evidence to carry out a diagnostic or thematic review	34%	30%	15%
	Observed new business models through temporary licensing, including in a 'test-and learn' or regulatory sandbox environment	34%	26%	6%
	Published a call for evidence or consultation paper	20%	21%	15%
	Other	11%	11%	3%

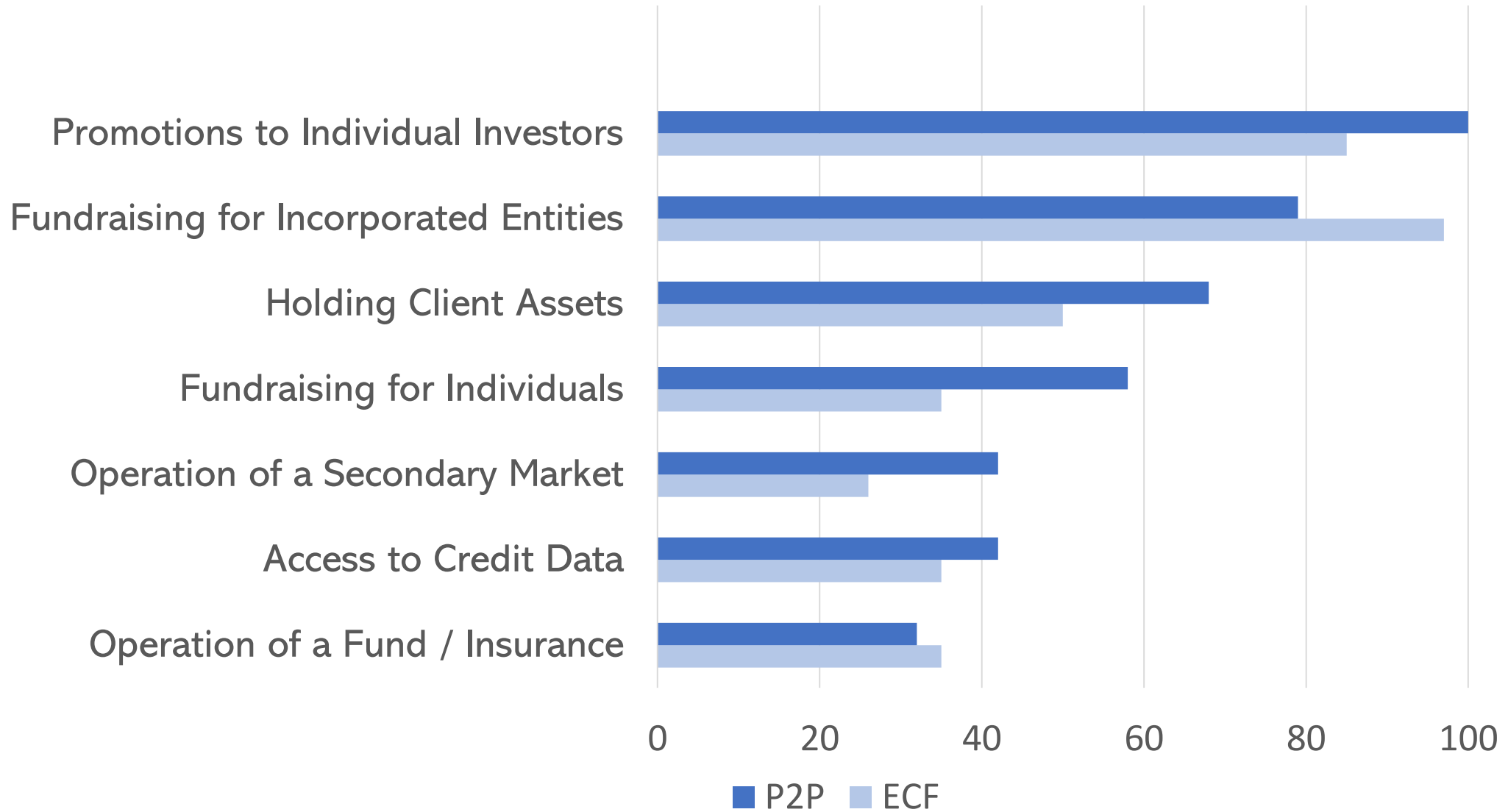
Regulatory benchmarking by region

REGION	% OF BENCHMARKING THAT IS INTRA-REGIONAL	% OF BENCHMARKING THAT IS CROSS-REGIONAL	MOST BENCHMARKED JURISDICTIONS WITHIN REGION
Europe and Central Asia	68	33	United Kingdom, Spain
East Asia and Pacific	35	65	Singapore, Malaysia
Latin America and the Caribbean	34	66	Mexico
Middle East and North Africa	26	74	UAE
North America	25	75	USA
South Asia	60	40	India
Sub-saharan Africa	24	76	Kenya



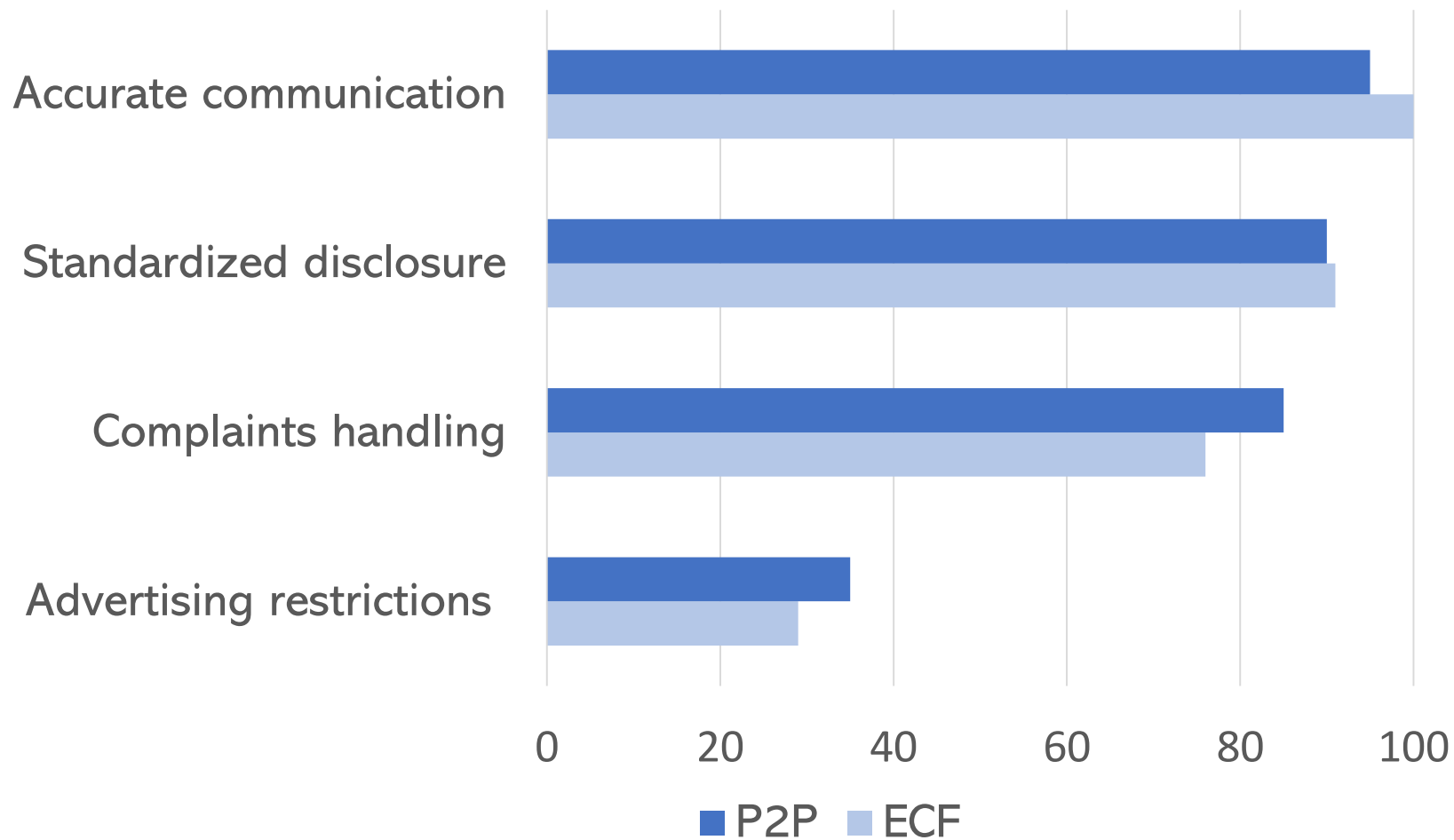
The aim of regulation:
to make these sectors fit for the ordinary investor,
and a sustainable source of SME finance

Permissible Activities for Regulated P2P / Marketplace Lending and Equity Crowdfunding Firms



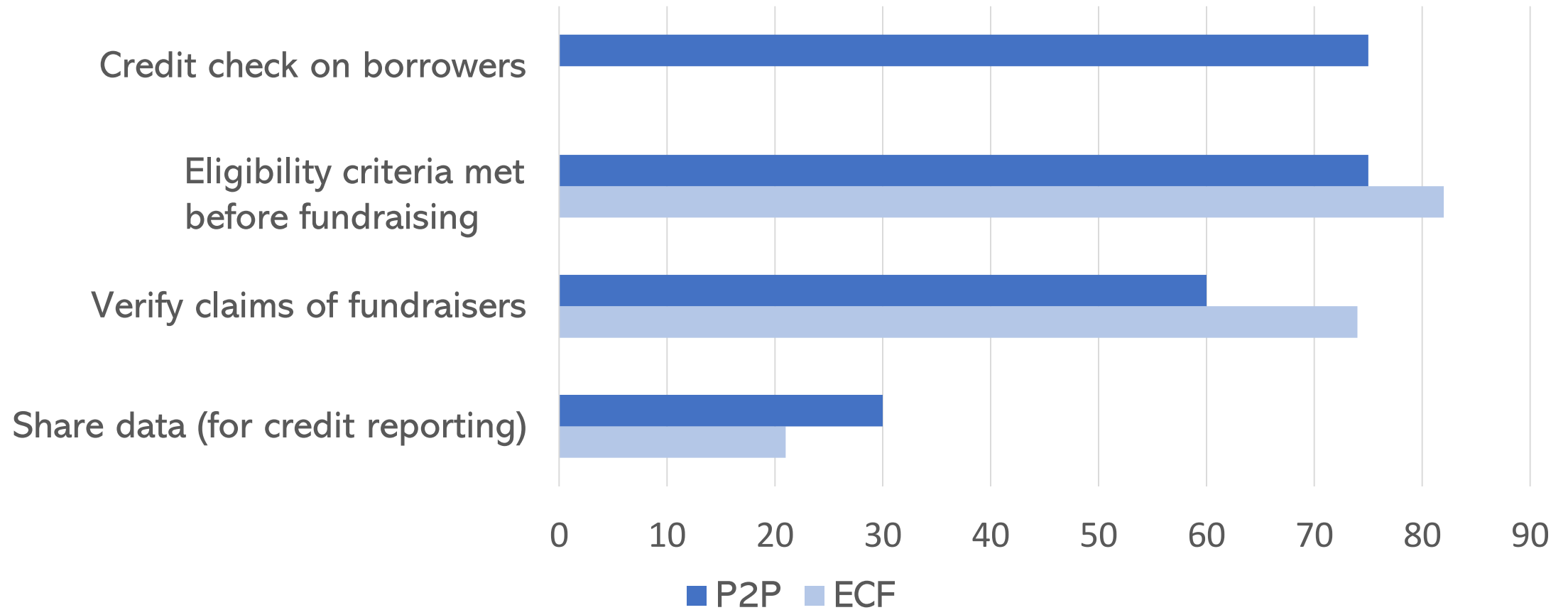
Selected regulatory obligations for regulated P2P and equity crowdfunding firms:

Consumer protection / disclosure



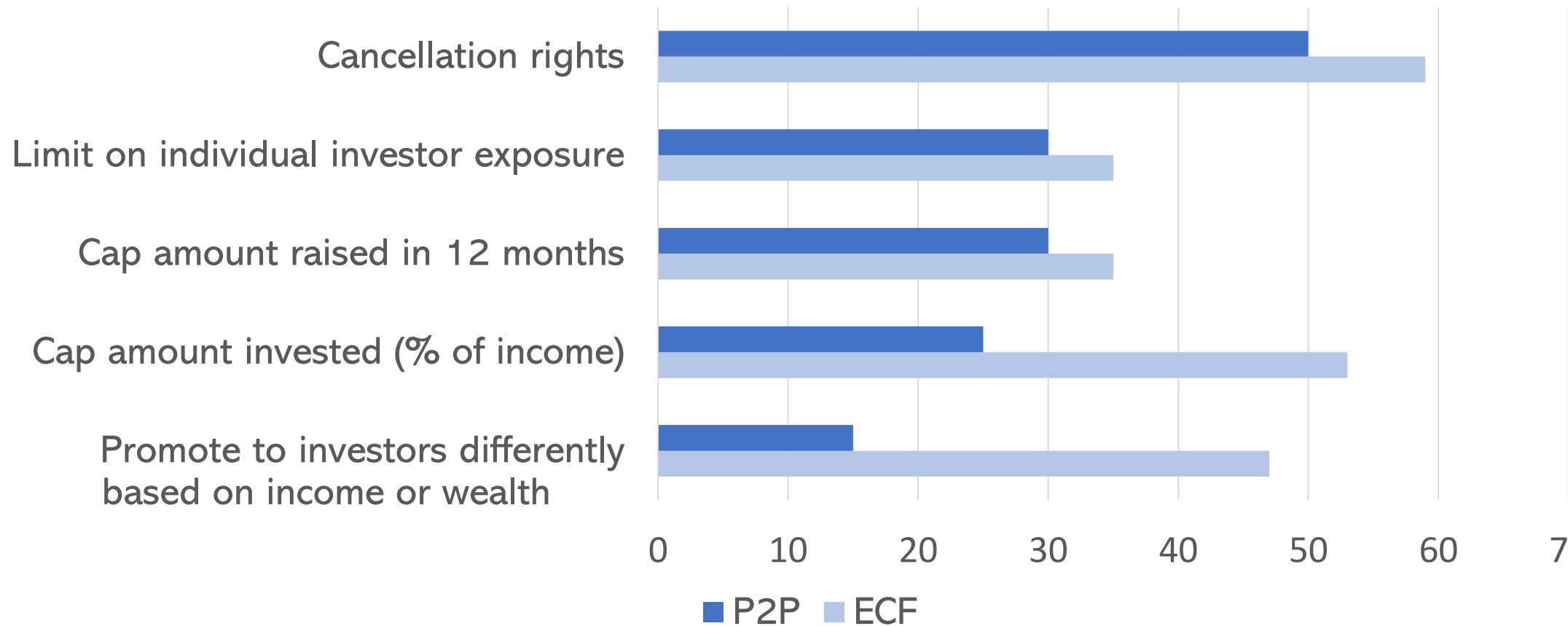
Selected regulatory obligations for regulated P2P and equity crowdfunding firms:

Due diligence and information sharing



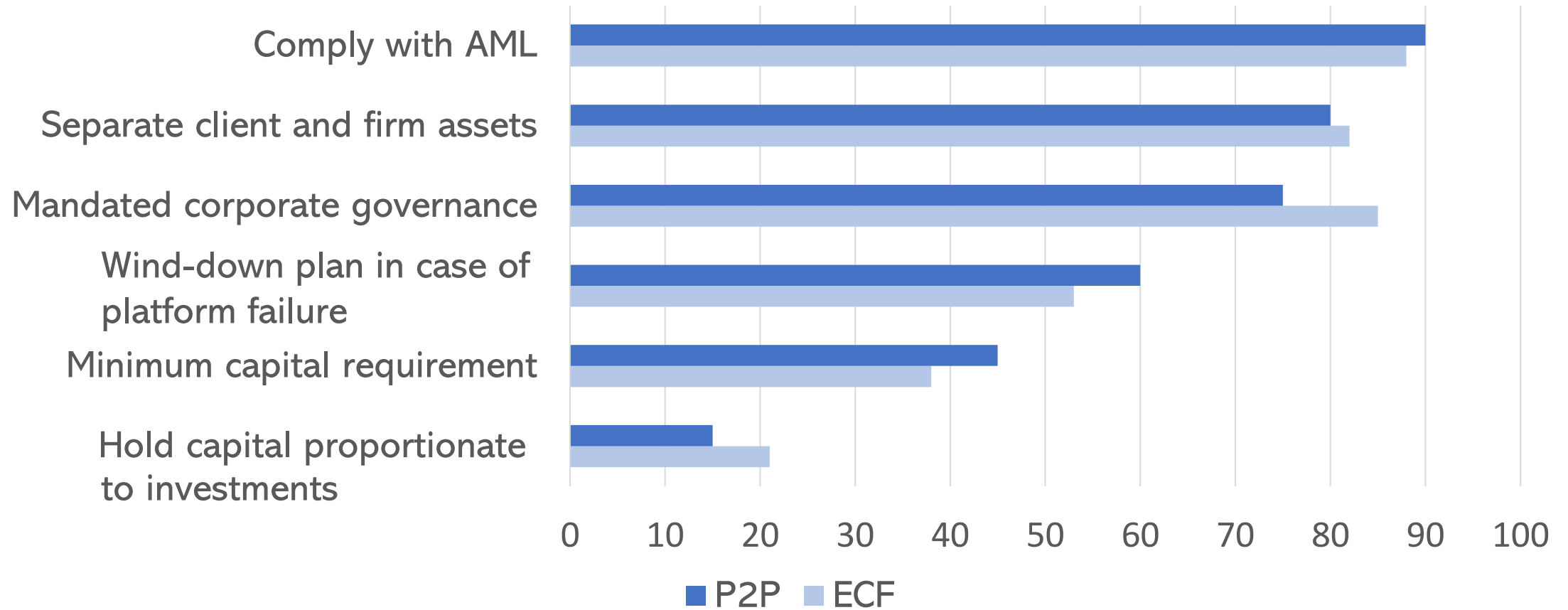
Selected regulatory obligations for regulated P2P and equity crowdfunding firms:

Investor protections

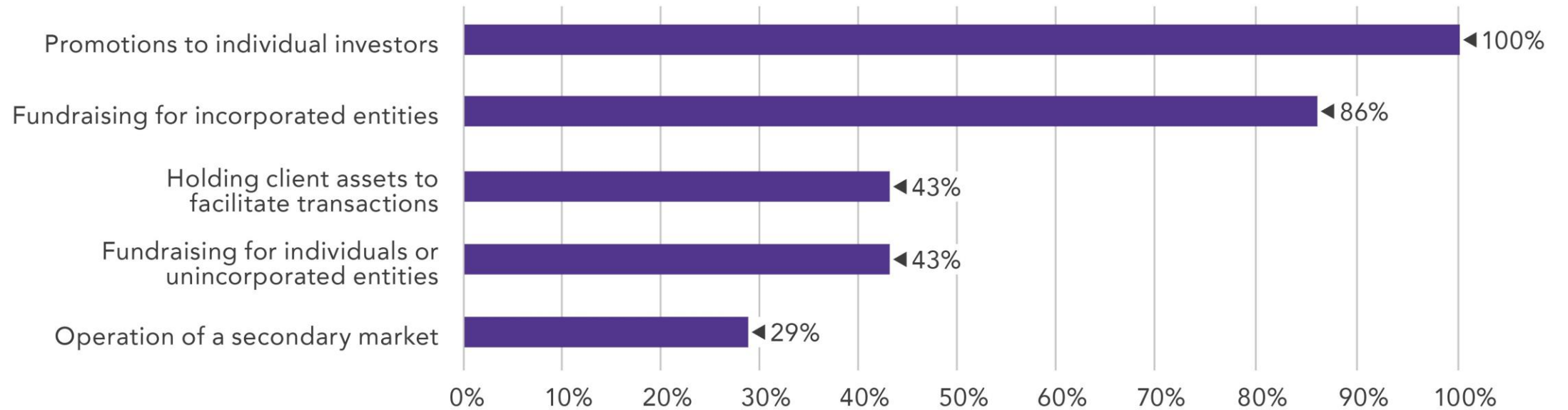


Selected regulatory obligations for regulated P2P and equity crowdfunding firms:

AML and platform governance



Permissible activities for regulated ICOs



Selected regulatory obligations for regulated ICOs

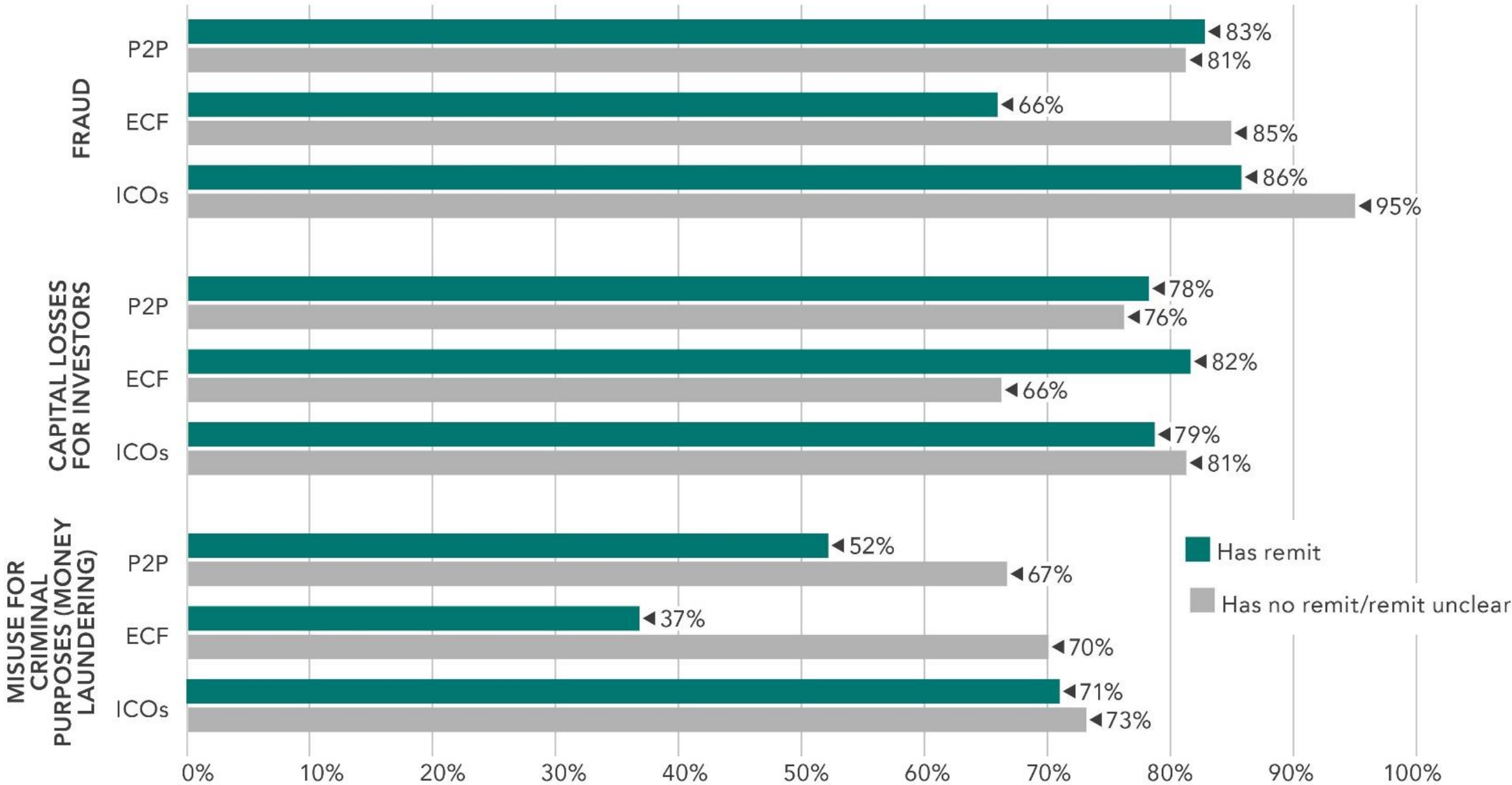




Supervision of alternative finance is taking up a growing amount of resource

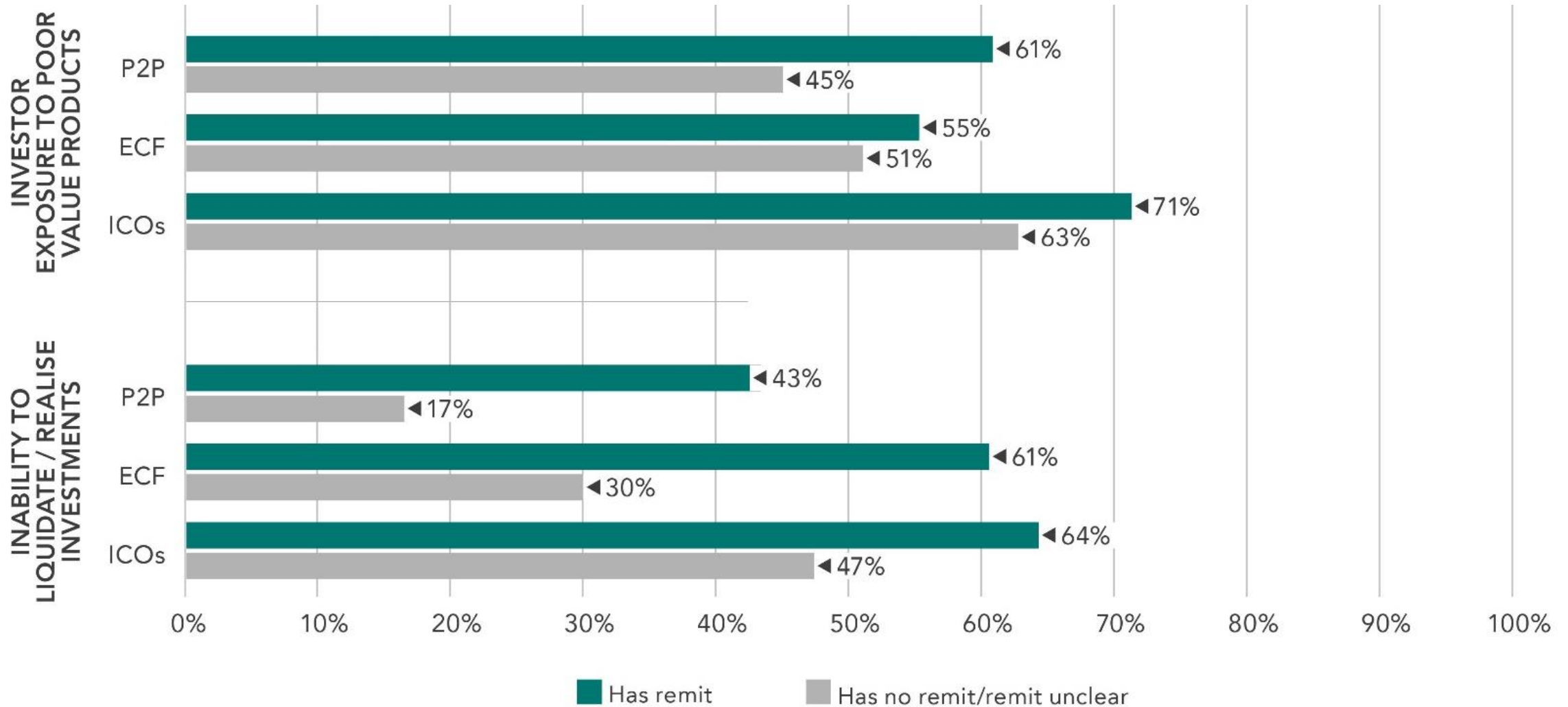
But many regulators' capacity is stretched and technical expertise is limited

Regulators' ranking of alternative finance risks



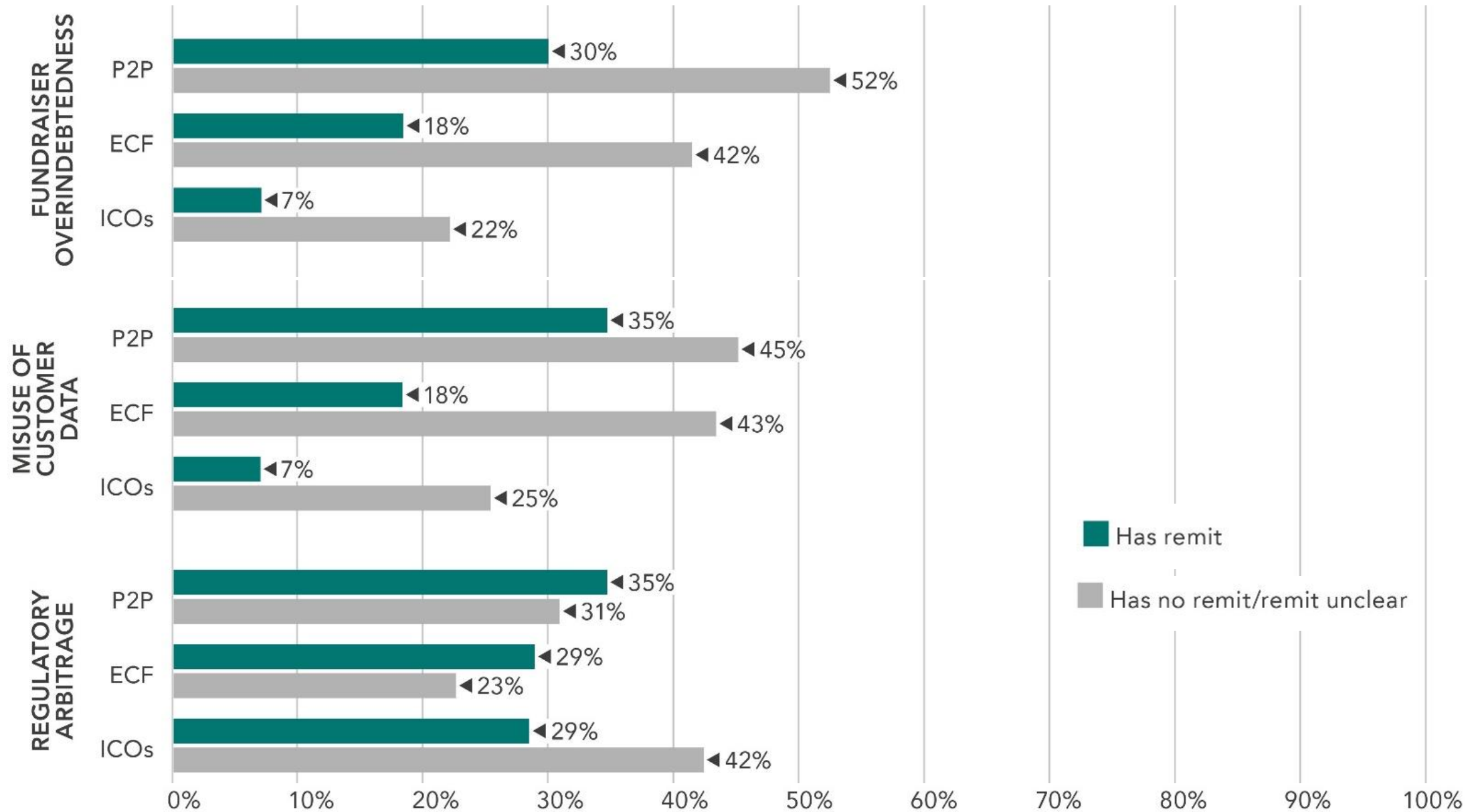
Regulators' ranking of alternative finance risks

Regulators with remit perceive greater risks

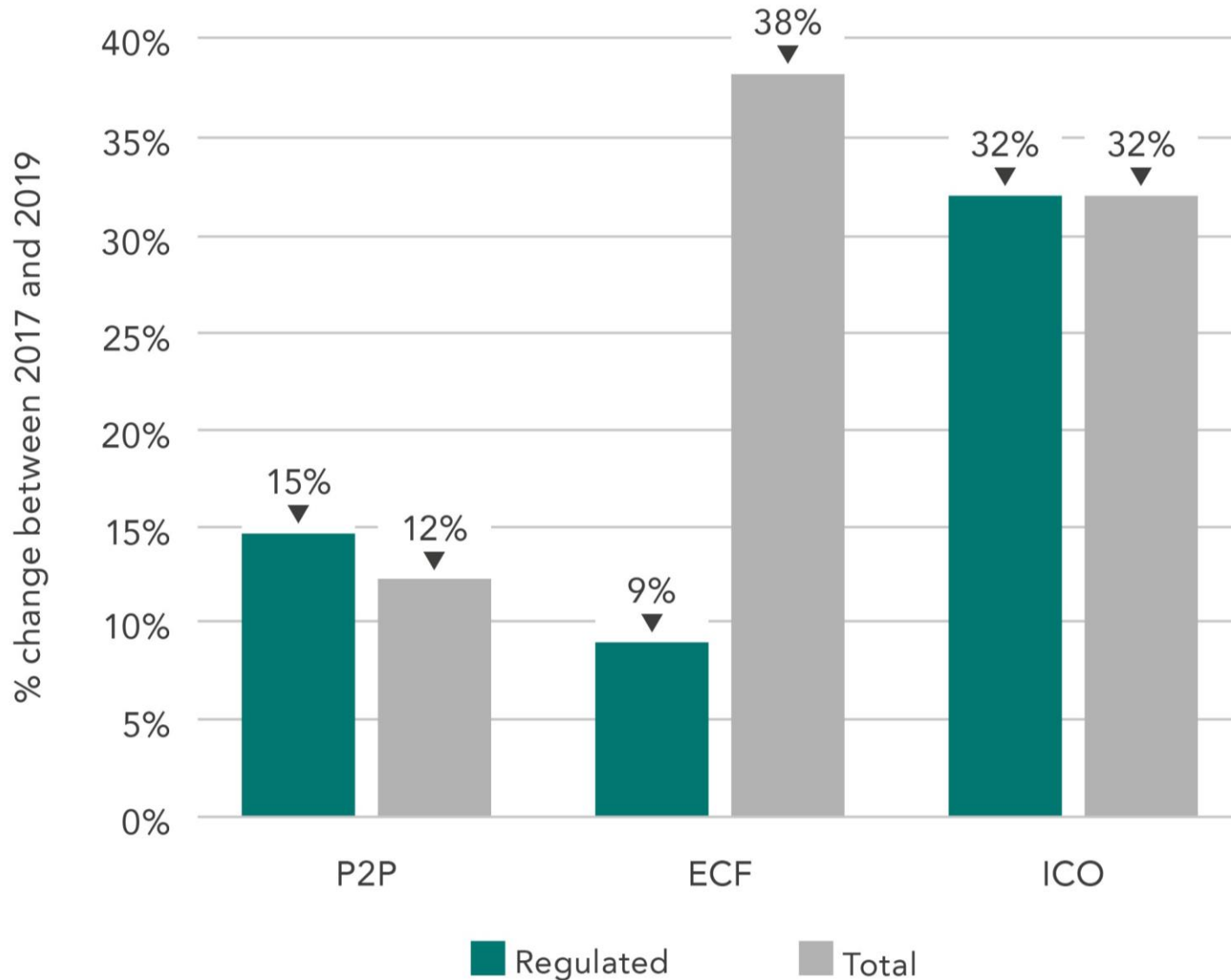


Regulators' ranking of alternative finance risks

Regulators without remit perceive greater risks



Trends in supervisory staff dedicated to each activity type (in those jurisdictions that provided data)



IMPEDIMENTS TO EFFECTIVE SUPERVISION

Limited technical expertise within the regulator(s)	65%
Need to co-ordinate the activities of multiple regulators	38%
Limited funding / resources for the regulator(s)	48%
Small size of firms/industry; can't justify intense supervision	29%
Regulators' jurisdiction over this activity is unclear or limited	41%
Not applicable – we are not actively supervising	25%
Lack of usable / reliable data on firm activities	34%
Other, please specify	7%



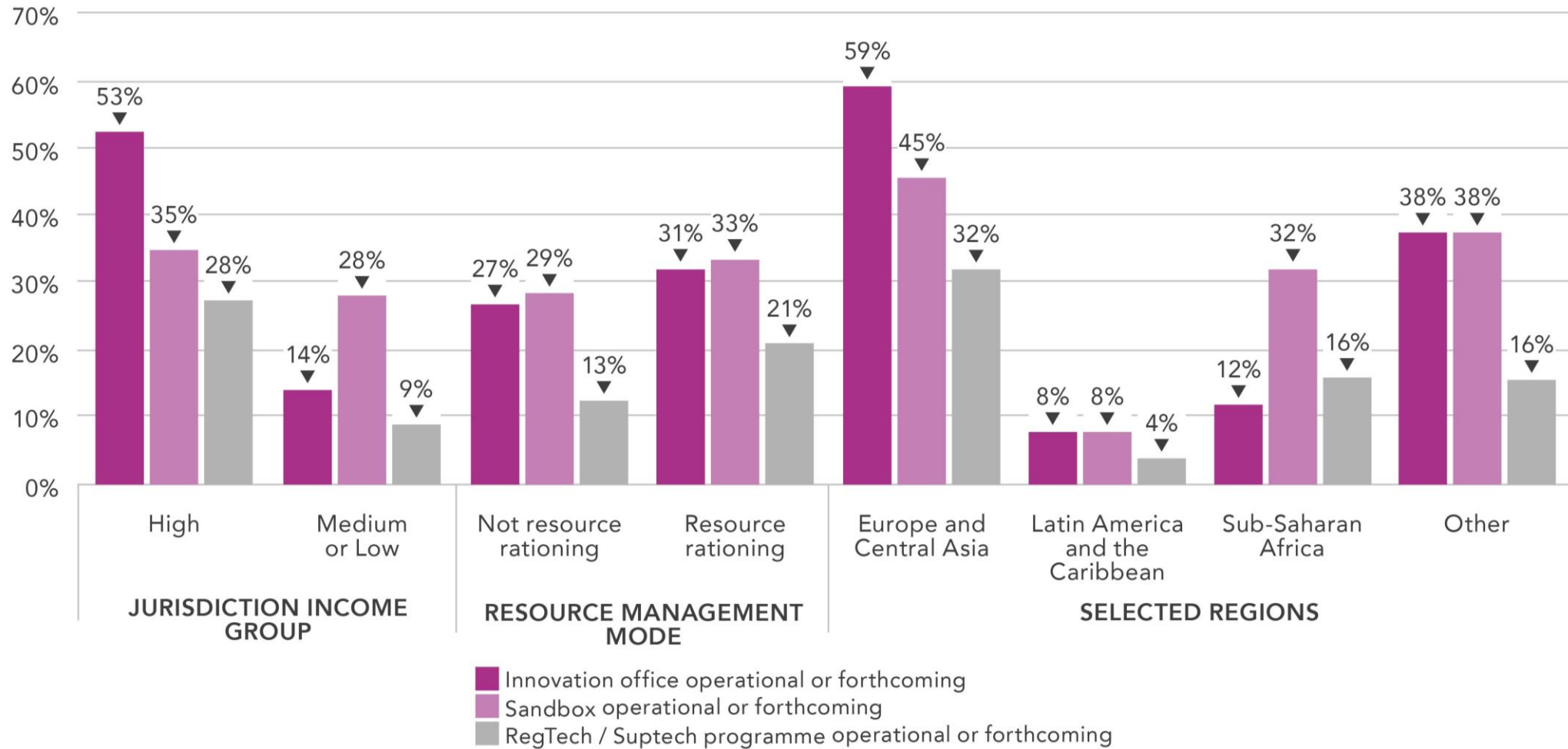
Regulatory Innovation is still uncommon and growing slowly

But in regional pockets of innovation, African and Latin American regulators have launched new initiatives

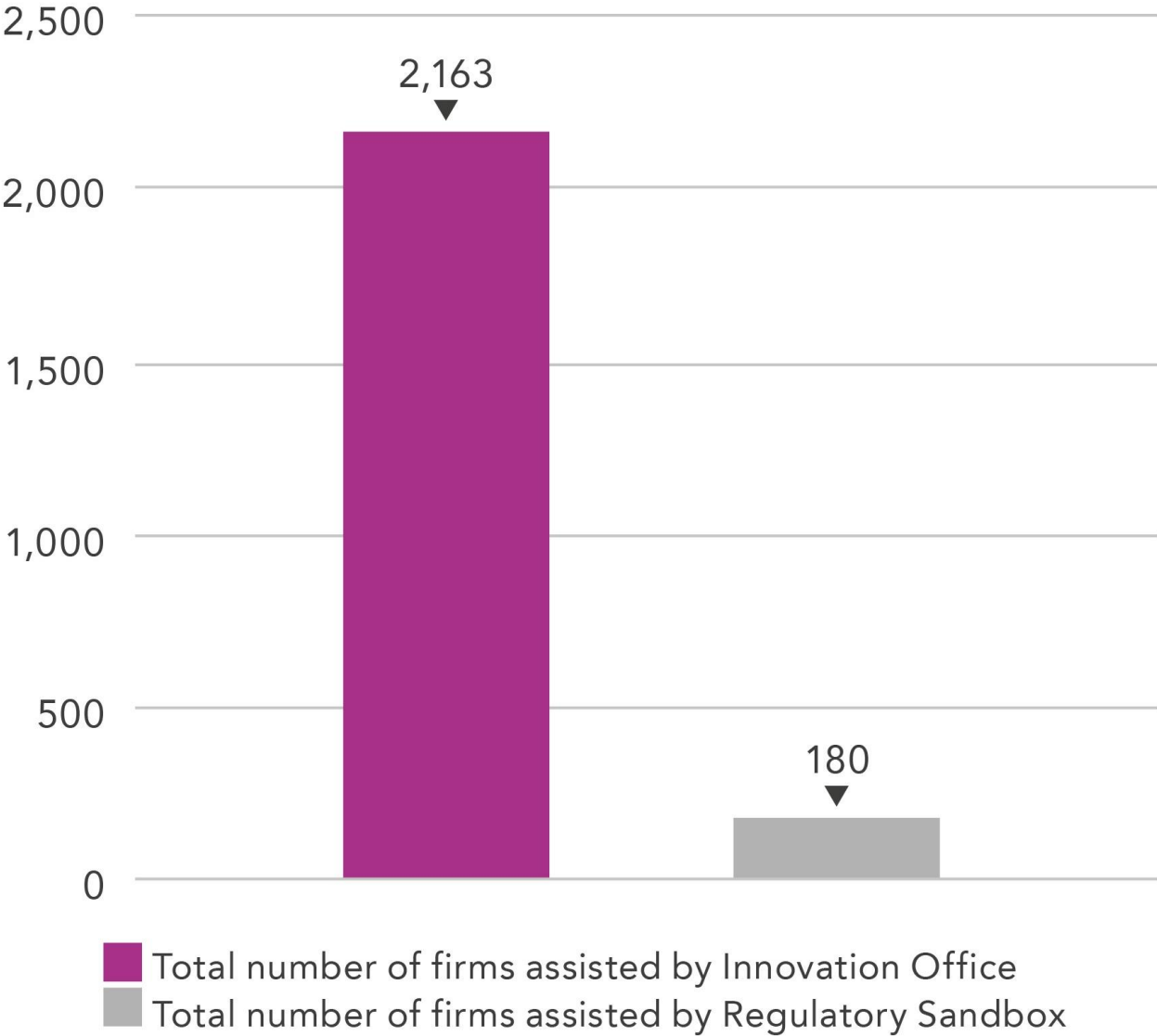
Prevalence of regulatory innovation initiatives among respondents

	INNOVATION OFFICE	REGULATORY SANDBOX	REGTECH/SUPTECH
Yes - Currently Operational	26%	22%	14%
Yes - Forthcoming (within the next 12 months)	3%	9%	2%
Currently Under Consideration	13%	14%	27%
Not in Place	48%	46%	42%
Not applicable	11%	9%	14%

Incidence of regulatory innovation by jurisdiction's income level, resource management mode and region.



Number of firms supported by innovation offices and regulatory sandboxes



Technologies employed by regulators with an operational RegTech/SupTech program

TECHNOLOGY	% OF JURISDICTIONS EMPLOYING (CONDITIONAL UPON HAVING OPERATIONAL REGTECH/SUPTECH PROGRAM)	% OF ALL JURISDICTIONS
Machine Learning (Supervised & Unsupervised)	60%	18%
Blockchain/Distributed Ledger Technology	47%	14%
Natural Language Processing	40%	8%
Data transfer protocols (e.g. APIs)	40%	18%
Direct data pull or push systems	33%	15%
Machine-readable or executable regulation	33%	12%
Cloud Computing	33%	12%
Robotic Process Automation	20%	8%
Bio-metrics (e.g. Digital ID)	13%	10%
Other	13%	15%

Perceived impact of regulatory innovation initiatives

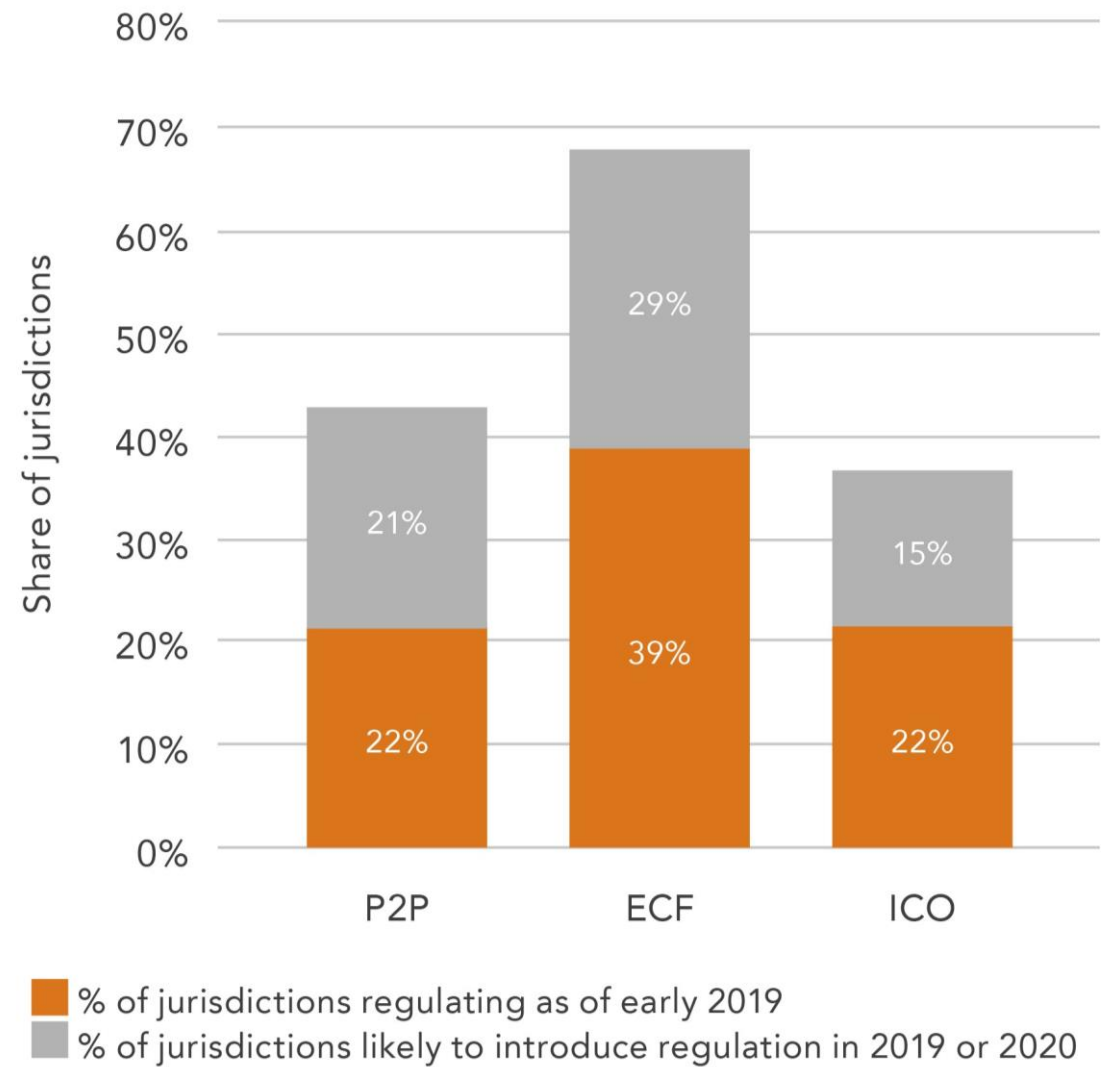
	REGULATORY INNOVATION STATUS		
	HAS OPERATIONAL INNOVATION OFFICE	HAS OPERATIONAL SANDBOX	HAS OPERATIONAL REGTECH/ SUPTECH INITIATIVE
Improved our understanding of key technologies.	92%	76%	93%
Built stronger relationships / a stronger network with this sector.	77%	62%	71%
Issued industry guidance to clarify our expectations	77%	57%	64%
Improved regulatory requirements or framework	54%	57%	57%
Developed an improved risk diagnostic framework	27%	24%	29%
Too Early to tell	23%	38%	21%
Improved reporting framework	19%	24%	21%
Limited impact to date	8%	5%	0%
Other, please specify	4%	5%	7%
None	0%	0%	0%



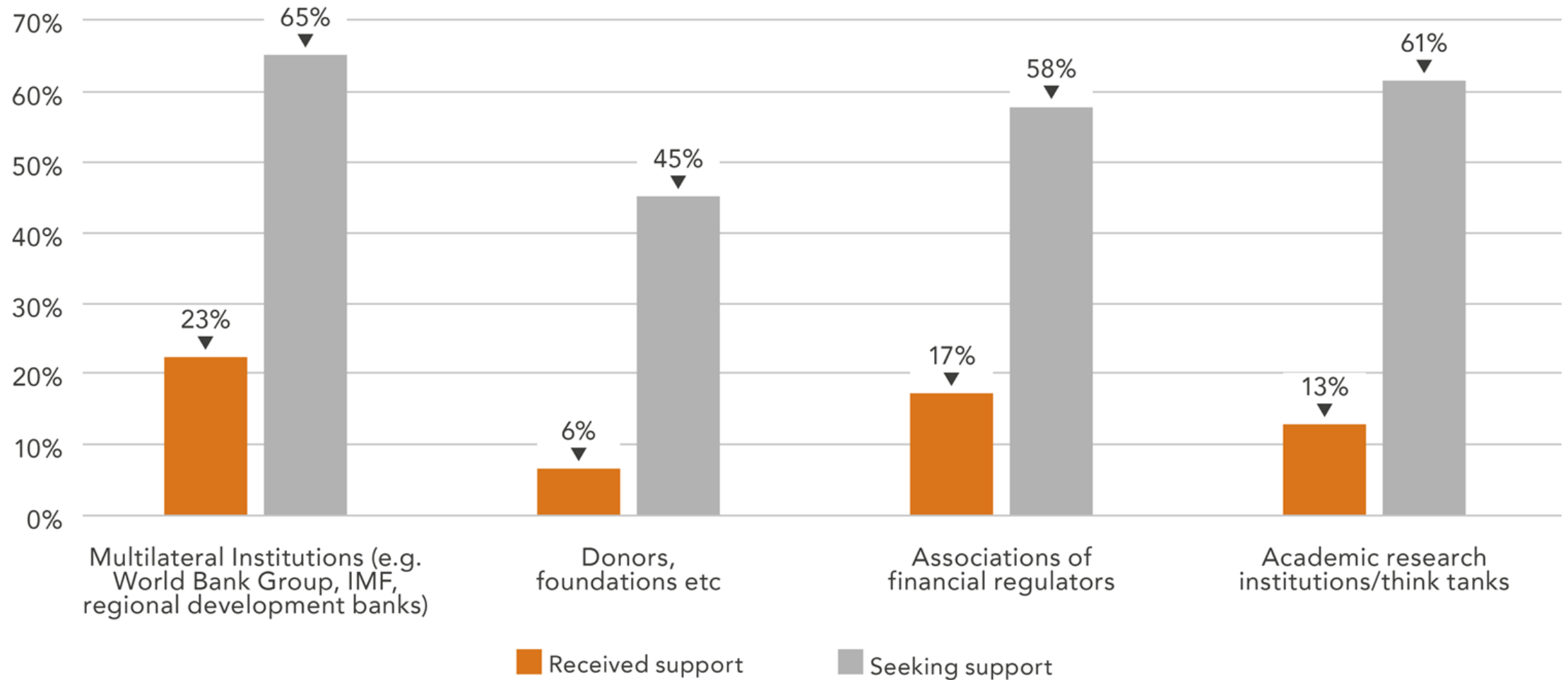
Most jurisdictions will soon be regulating ECF - and more than a third will be regulating P2P and ICOs

To do this, they will need practitioner and academic support - much more than is currently available

Regulation of alternative finance - current and future state



Regulators' demand for and use of support on regulatory innovation





WORLD BANK GROUP

Cambridge
Centre
for Alternative
Finance



REGULATING ALTERNATIVE FINANCE: RESULTS FROM A GLOBAL REGULATOR SURVEY

The report can be obtained online through the [World Bank's Open Knowledge Repository](#) and on the [Cambridge Centre for Alternative Finance website](#).



with the support of

