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Newsletter

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DEVELOPMENTS IN FINTECH

What is Financial Technology (Fintech)?

Financial Technology, Fintech, is one of the most exciting and rapidly evolving areas in global business today. Fintech is utilised to help companies, business owners, and consumers better manage their financial operations and processes, by using specialised software. It has disrupted the traditional financial services sector by automating, changing or improving services.

Fintech describes a variety of financial activities, such as money transfers, depositing cheques with your

smartphone, withdrawing cash from an ATM, bypassing a bank branch to apply for credit, raising money for a business startup, or managing your investments, generally without the assistance of a person. According to EY's 2019 Fintech Adoption Index, two-thirds of consumers use at least two or more Fintech services, and those consumers are increasingly aware of Fintech as a part of their daily lives.

Fintech has helped to revolutionise operations such as payment processing and wealth management, as well as the cryptocurrency industry. Fintech

provides people and businesses with access to traditional financial services in innovative ways that previously weren't available. Artificial intelligence combined with massive troves of consumer data helps Fintech businesses understand their customers and powers their marketing campaigns, product development and underwriting.

The terminology may appear new, but the concept has existed for decades. A great example is the ATM, which was once considered to be on the cutting edge of Fintech innovation. In recent years, Fintech has morphed and many

major banks are now partnering with Fintech companies or launching Fintech initiatives of their own. Goldman Sachs, for instance, used Fintech to launch an online bank called Marcus in 2016, and JP Morgan Chase invested US\$25 million in Fintech startups in 2019.

The financial services sector isn't typically synonymous with nimbleness. However, today, adaptability and quick iteration (not to mention instant gratification) are precisely what consumers and business owners expect—and, increasingly, need. Fintech helps expedite processes that once took days, weeks or even months.

Fintech's Regional Adoption

In April 2022, the Inter-American Development Bank, IDB Invest and Finnovista published the third edition of its study of Fintech in Latin America and the Caribbean, aptly named “A Consolidated Ecosystem for Recovery”. It showed that the Fintech industry experienced rapid growth and established itself as a key factor to assist with the demands and needs of financial consumers in the region.

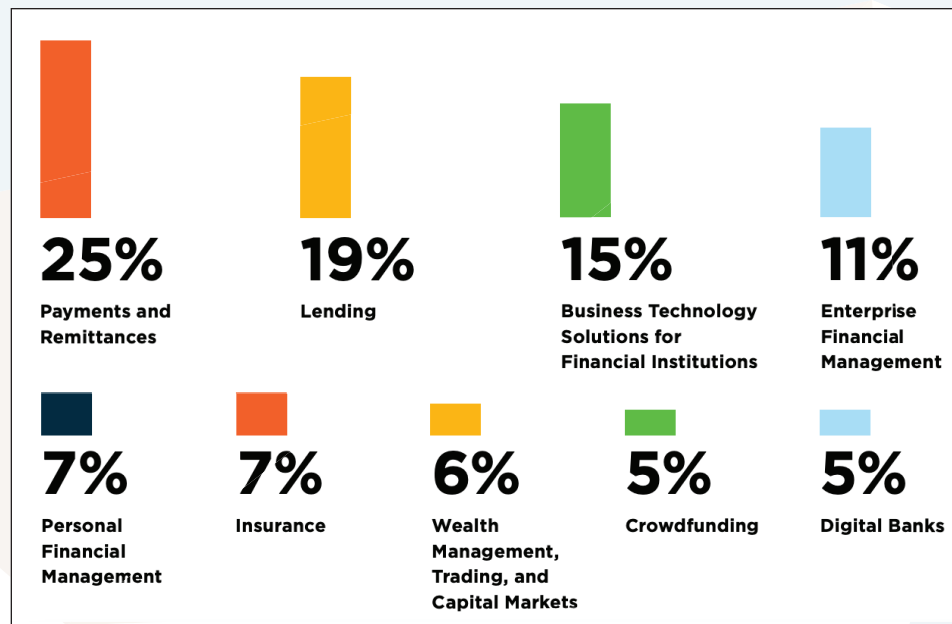
At the end of 2021 there were 2,482 Fintech platforms in the region, an increase of 112% from 1,166 in just over three years.

The growth of the industry was fueled by an increasing demand for the following:

1. Financial services not provided by the traditional financial sector.
2. Digital financial services because of the COVID-19 pandemic.
3. Regulatory changes that enhanced transparency and security for investors using these platforms.

Figure 1 shows the wide range of segments within the financial services industry where companies with innovative and technology-based business models have emerged in Latin America and the Caribbean.

Figure 1: Distribution of Fintech Companies in Latin America, by Segment



Source: Finnovista (2021)

The largest segment, showing 25%, is payments and remittances, followed by lending (19%) and business technology solutions for financial institutions (15%). However, it is worth noting that the global Fintech trend, which started as a disruptive movement for the payments segment, has been shifting towards lending and, in the coming years, it is likely that Latin America and the Caribbean will follow suit.

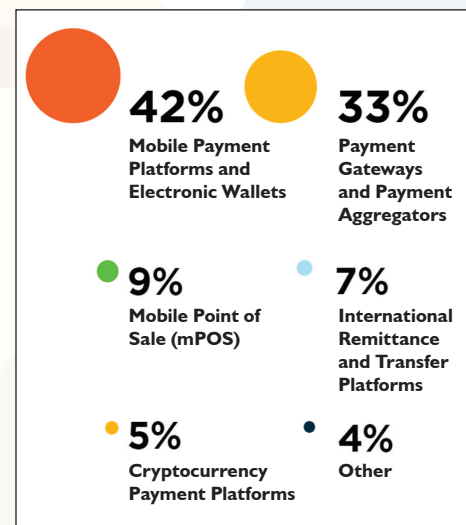
Digital Payment Solutions – A Need During the Pandemic

Public policy measures were instituted in response to the COVID-19 pandemic, which caused an increased adoption of digital payment methods. Many of those Fintech companies would have experienced accelerated growth since the pandemic. Furthermore, the new normal creates a favourable context for sustained growth in demand for digital payment solutions across all subsegments.

Figure 2 shows the distribution of the different digital payment solutions recorded in 2021 in Latin America and the Caribbean. In 2021, with a 42% share of the segment, mobile payment

platforms and electronic wallets positioned themselves as the leading type of digital payment solution in the region. This signifies a growing adoption of mobile payments in the region. In the 2nd spot were payment gateways and aggregators with a 33% share of the segment. Payment aggregators provide merchants with accounts to help them accept payments online and payment gateways act as a medium through which the transaction occurs.

Figure 2: Types of Digital Payment Solutions in Latin America and the Caribbean



Source: Finnovista and IDB (2021)

Mastercard also recently announced a new partnership with US-based Fintech service provider, Inswitch, to offer payment solutions and issue programs to businesses across Latin America and the Caribbean. They currently support businesses across several industries—including banking, retail, and telecommunications—and are present in 30 countries across Latin America, the Caribbean, and Africa. Inswitch's technology will allow businesses to create and manage digital wallets, accept local and global digital payments, issue cards, offer customer financing, and implement compliance solutions.

Fintech Policies and Government Regulations

Even though Fintech provides many advantages which companies should embrace, policies also need to be implemented to encourage safe financial innovation and adoption. The World Bank Group published a report, titled "Fintech and the Future of Finance", which explores the implications of Fintech and the digital transformation of financial services for market outcomes, as well as the regulation and supervision. The report stated that policymakers globally have embraced Fintech development to promote innovation and growth of the digital economy.

Fintech in Trinidad and Tobago

Trinidad and Tobago is no exception as the following three regulatory bodies have been identified for Fintech entities:

- The Central Bank of Trinidad and Tobago (CBTT)
- The Trinidad and Tobago Securities and Exchange Commission (TTSEC)
- The Financial Intelligence Unit of Trinidad and Tobago (FIUTT)

These entities have all developed policies aimed at:

- I. Promoting an environment to accommodate ongoing financial innovations while mitigating risks.



2. Opportunities for development and improving the efficiency and security of financial transactions, as well as financial inclusion.
3. Risks that need to be mitigated with the implementation of Fintech international best practices.
4. Maintaining a safe and stable financial, social and economic environment.

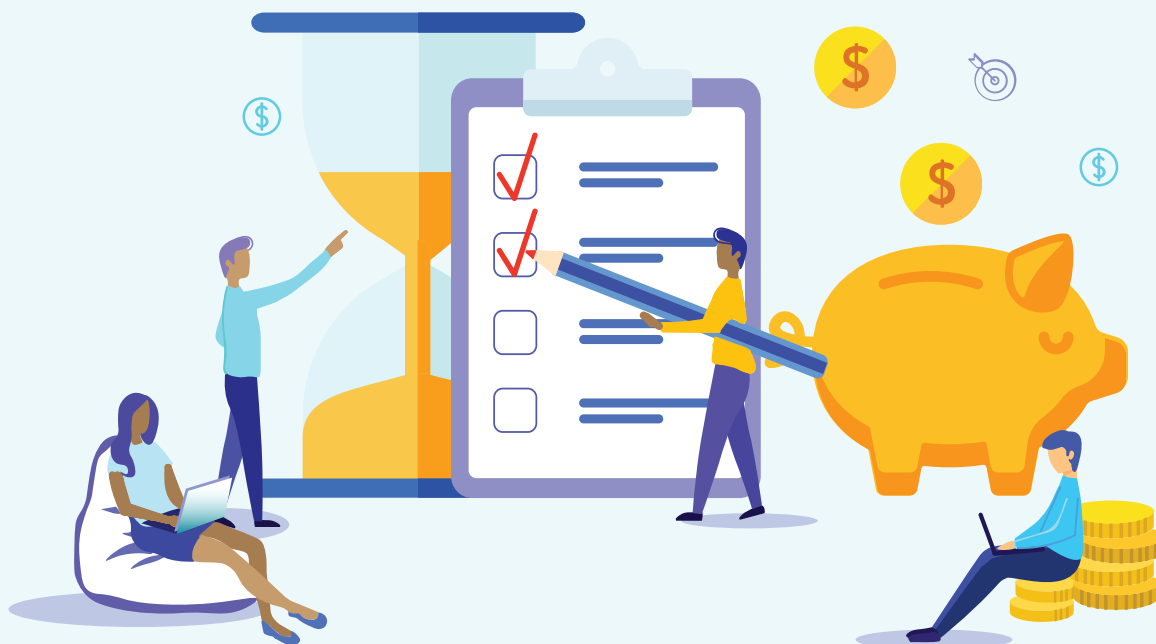
There is also the Fintech Association of Trinidad and Tobago which was launched in 2020. It is a registered not-for-profit organisation with an independent structure, bringing together Fintech stakeholders and creating a collective voice for the said industry. Their aim is to be a driving force in the sustained development of Fintech solutions, providing financial services within the reach of the unbanked and underbanked.

Depending on the services utilised, Fintech can impact people on different scales which has, overall, made banking and payment methods more convenient, some of which you use on a regular basis, e.g. mobile banking. The technological advances, coupled with the ever-changing demands of financial markets, means that change is inevitable and Fintech will keep evolving.

Fintech Threats

Despite all the advantages, the Fintech industry is uniquely vulnerable to security breaches and the threat of reputational loss, due to sensitive data being leaked and having the potential to cause significant damage to businesses and their customers. As a result, robust cybersecurity, and the protection of internet-connected systems and software from cyberthreats, is extremely integral in companies today.

Investment Checklist



Fintech has also impacted Investment Advisory Services, as evidenced by the growth of automated wealth advisers or robo-advisors. A robo-advisor is a type of online investment software based on Artificial Intelligence (AI) and Machine Learning (ML) technologies, as well as algorithms, which picks and manages your investments.

The main advantages of robo-investors are:

1. Simple to set up.
2. Low-cost alternatives to traditional advisors, as they usually require small minimum balances to get started.
3. Investors are normally required to answer between 10 and 15 basic

financial questions when opening an account. The answers are then inserted into an algorithm that determines the optimal portfolio and asset allocation based on your age, risk tolerance and investment timeline.

4. They typically follow passive investments.
5. Changes to your portfolio are completed automatically, based on historical and relative market movements.

However, there are some doubts about its viability, such as:

1. It adopts a one-size-fits-all solution to wealth management discussions due to the lack of a human financial advisor, especially as an informed

conversation is considered to be worth its weight in gold.

2. If an investor's circumstance changes, even slightly, their investment strategy should be tweaked and portfolio rebalanced accordingly, but it may not be adequately addressed via the 15 questions.
3. They are also ill-equipped to deal with unexpected crises or extraordinary situations, such as job loss.

As with any other investment decision, consider the pros and cons listed above and do the necessary research to determine if a robo-advisor would be a suitable option to add to your portfolio.

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About the Advisory Services Department

The Advisory Services Department of the Trinidad and Tobago Unit Trust Corporation was established to serve our valued clients seeking financial and investment advice and solutions from a trusted service provider. We will assist you in enhancing your personal wealth and financial well-being by providing you with financial counselling, investment advice and solutions.



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