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NEWS RELEASE

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**RISE OF FINTECH RAISES NEW CONCERNS FOR SECURITIES
REGULATORS**

Survey Shows Millennials at Greatest Risk for Fintech Fraud

A new survey of securities regulators by the North American Securities Administrators Association (NASAA), of which the Idaho Department of Finance is a member, underscores why regulators, the industry and investors – especially Millennials – must 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 was conducted from mid-November to mid-December 2017 and collected responses from NASAA members – state and provincial securities regulators in the United States, Canada and Mexico. It focused on the challenges of adapting to new financial technology products and changes in how financial services are delivered to investors. The findings offer insight into the concerns and perspectives of the investment industry's local cops on the beat.

More than 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 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 most likely at risk of fraud from fintech products (41 percent). While Baby Boomers were viewed as least likely to use fintech, they also 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 as having a high (28 percent) or moderate (72 percent) chance of fraud, the risk varied widely by specific products with ICOs (Initial Coin Offerings) and cryptocurrencies being most commonly identified as high risk (94 percent), and robo-advising being least commonly identified as high risk (3 percent).

NEWS RELEASE

February 15, 2018

Page 2 of 2

- **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.

“While recognizing the value of new technologies and how they may benefit investors, the Department of Finance is also focused on the potential for fraud when it comes to these developing technologies and products, which makes appropriate regulation and investor education critical,” Idaho Department of Finance Director Gavin Gee said.

“State financial industry regulators are learning about new technologies and uncovering potential threats every day, but to keep pace with innovation we can’t do it alone,” Gee said. “The industry and its investors should carefully approach any new investment product or technology and collaborate with regulators to identify and end new threats that may arise. Investors benefit when regulators and industry work toward solutions that promote both innovation and investor protection.”

NASAA has developed a short animated video to help investors learn more about two aspects of fintech – Initial Coin Offerings (ICOs) and cryptocurrency. The video, “Get in the Know About ICOs,” is available on NASAA’s website at www.nasaa.org.

Department of Finance press releases and education and enforcement information can be found on the Internet at finance.idaho.gov or may be obtained by contacting the department at (208) 332-8000 or Idaho toll-free at 1-888-346-3378.