

EDITORIAL: Navigating the interplay of technology, risk, and regulation in a rapidly evolving landscape

Dear readers!

The editorial team is pleased to present the fourth issue of the journal “*Risk Governance and Control: Financial Markets & Institutions*” for the year 2023.

Fintech has reshaped the financial industry in unprecedented ways over the past decades. Fueled by innovation, fintech has streamlined banking operations, reduced transaction costs, and revolutionized various sectors, including payment systems, lending, trading, consumer banking, investment banking, and customer retention. The COVID-19 crisis has accelerated the adoption of fintech solutions (Boot et al., 2021). The emergence of generative artificial intelligence has introduced new possibilities. Recognizing the transformative potential of fintech, educational institutions have swiftly responded by developing specialized courses to equip students for this dynamic field. However, adapting course materials to align with the dynamic landscape of the rapidly evolving fintech industry has presented a formidable challenge. A comprehensive understanding of the structure and critical elements is imperative for the effective design of fintech courses.

As we embrace the benefits of technological advancement in finance, it is crucial to acknowledge the accompanying cyber risks. Cybercrime diverges from conventional theft in its capacity for remote perpetration, wherein hackers possess the capability to breach geographical boundaries (Das, 2019). Despite the critical importance of cybersecurity, there has been limited research on resolutions to reduce the cyber risk (Eling & Schnell, 2016). The cyber-risk insurance can reduce the adverse impact of cyber security through risk-sharing. The rapid pace of technological change, however, has presented immense difficulties in the pricing and design of the cyber-risk insurance. In addition, the increasing connection across the world introduces the potential for cyber risk aggregation or systemic risk and makes pricing more difficult (Camillo, 2017).

Information asymmetry is one of the biggest obstacles for firms’ financing. Firms can finance from financial intermediaries or from the capital market through issuing bonds and stocks. Financing from financial intermediaries can be either relationship banking or transaction banking. Transaction banking focuses on one-time service, while in relationship banking, banks build long-term relationships with borrowers. Relationship banking can help banks to reduce the costs of information collection and the costs of monitoring the borrowers. In developing countries, information asymmetry is very high and relationship banking plays an important role in bank lending. In developed countries, relationship banking tends to be more effective during a credit contraction (Beck et al., 2018). Firms with longer lending relationships also tend to get better lending terms (Gobbi & Sette, 2014; Bolton et al., 2016). In a mature financial market, banks face competition from each other as well as from the capital market. Relationship lending tends to rise in tandem with heightened interbank competition and contract in response to increased capital market competition (Boot & Thakor, 2000).

Information is essential in risk assessment. Auditors, regulators, credit rating agencies and analysts play a critical role in ensuring the quantity and quality of

information. The mandatory adoption of uniform reporting standards can enhance financial statement comparability and lower the cost of information collection (Brochet et al., 2013; De Franco et al., 2011). Effective implementation of regulatory directives proves instrumental in diminishing information asymmetry and fostering liquidity (Zingales, 2009; Fauver et al., 2017). However, the implementation and enforcement of regulations typically involve various costs, as highlighted by Leuz and Wysocki (2016). In the event of corruption, regulation can even lead to adverse consequences (Beck et al., 2006). Navigating the nuanced challenges associated with regulatory frameworks requires careful consideration of both benefits and potential drawbacks to strike a balance between effective governance and minimizing unintended consequences.

Within the intricate interplay of finance, technology, and regulation, the articles in this issue delve into strategic approaches to navigate the evolving landscape. These scholarly contributions not only illuminate the multifaceted challenges posed by evolving technology but also offer insightful perspectives on how regulatory frameworks can adapt and evolve to ensure the resilience and adaptability of our financial systems in an ever-changing environment.

Jinjing Liu,
School of Business and Economics, Moravian University, Bethlehem, USA,
Editorial Board member,
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