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This volume, titled "**Regulatory and Compliance Insights**", focuses on the significant progress and ongoing challenges in the field of financial regulation and compliance. The articles are organized to cover key themes such as, capital markets, independence of financial supervision, digital transformation, and capacity building, reflecting the comprehensive approach needed to address the dynamic nature of financial markets.



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Academic Article

Collaboration on Capacity Building Between Regulators and Universities

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Author's Bio



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Abstract

This paper explores the symbiotic relationship between universities and financial regulators, particularly within the European financial services landscape. It highlights the critical role universities play in enhancing regulatory capacities through specialised training, cutting-edge research, and dialogue. The collaboration between entities like the University of Malta and the Malta Financial Services Authority (MFSA) serves as a case study, demonstrating how joint initiatives lead to robust regulatory frameworks, improved financial stability, and a steady pipeline of skilled professionals. The paper underscores the mutual benefits of these partnerships that not only enhance academic and regulatory goals but also contribute to the broader financial sector's integrity and sustainability.

Keywords: capacity building, financial services, research, regulation, universities

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Introduction

Universities and financial services regulators are two important elements that ensure the effective regulation of financial services globally. The European financial services landscape is no exception – a milieu that is complex, dynamic, and evolving rapidly thanks to advances in research and technology.

Universities are a source of cutting-edge research and specialised expertise that are essential for the development of skills in the financial services sector – both from a human resources and technical perspective. More importantly, universities help in the development of innovative regulatory frameworks that ensure the smooth and efficient operation of financial services at national and international levels. Such partnerships contribute to these effects in three ways.

First, partnerships between financial regulators and universities are not uncommon, both nationally and internationally. For instance, the partnership between the European Central Bank (ECB) and the European University Institute¹ seeks to enhance the competences of European banking supervisors at an international level. A key outcome of this partnership is the provision of capable supervisors equipped with the necessary knowhow that addresses emerging risks in the financial services sector related to increasingly critical themes like climate and cyber security.

¹ European Central Bank, 'ECB Launches Partnership with European University Institute to Train Banking Supervisors' (2022) <www.bankingsupervision.europa.eu/press/pr/date/2022/html/ssm.pr221206~648a78d36b.en.html> accessed 9 August 2024.

Secondly, universities offer specialised training and development that supports the continued professional development of regulators' human resources. University and regulator joint approaches leading to specialised training help ensure professional development is well aligned with *the* latest regulatory requirements and financial technologies, both current and forthcoming. Such professional development ensures that regulators retain forefront capabilities to effectively monitor and control financial services providers' regulatory compliance. One instance is the Florence School of Banking and Finance's administration of advanced training to over 6,000 supervisors across the European Union over the past years, supporting integration and consistency in European banking supervision.²

Third, and equally important, is the notion that within the European context, university and regulator collaboration promotes the development of a pan-European common regulatory philosophy. Such ubiquitous understanding is fundamental for a stable and integrated European financial system, supported by a robust and adaptive regulator environment capable of addressing the challenges posed by globalisation and technological innovation.

01

Importance of Capacity Building

Financial services are a dynamic industry that is increasingly complex, competitive and sensitive to emerging risks of potential abuse. Ensuring stability and integrity is a key role for any regulator at national and international levels. The effectiveness of such a role remains dependent on a strong regulatory framework along with proficient monitoring and enforcement. Without the latter, a regulatory framework may only be worth its weight on paper.

The value of such capacity building emerges from five key themes as discussed below.

i. Complexity and Innovation in Financial Markets

The constant introduction of innovative financial products, services and technologies is a key determinant of a financial sector that is in perpetual flux. Despite their benefits, such innovations bring about new risks that regulators need to understand, monitor, and manage effectively. Such administration requires human resources, technology, and supervisory frameworks that endow regulators with a capacity to ensure financial stability by shunning regulatory gaps that may emerge from insufficient regulatory function.³

2 European University Institute, 'EUI and ECB Unveil New Programme in Central Banking and Banking Supervision • European University Institute' (October 2023) <<https://www.eui.eu/news-hub?id=ecb-and-eui-unveil-new-programme-in-central-banking-and-banking-supervision&lang=en-GB>> accessed 12 August 2024.

3 OECD, 'Shaping the Future of Regulators: The Impact of Emerging Technologies on Economic Regulators' (2020) <https://www.oecd.org/content/dam/oecd/en/publications/reports/2020/11/shaping-the-future-of-regulators_3c55d5ca/db481aa3-en.pdf> accessed 9 August 2024.

ii. Emerging Risks

Emerging and pervasive risks like cybersecurity threats, digital currencies and climate change place additional demands on regulators, that in turn depend on expert knowledge and skills. The ECB has consistently stressed the need for regulatory competence that enables regulators to be resilient in the face of complexity which results from the digital transformation of the banking sector and its conduct in the face of climate-related financial risks.⁴ Such competence is required to ensure that regulators can anticipate and mitigate risks before materialising and becoming systemic concerns.

iii. Supervisory Effectiveness

To maintain consumer and business market confidence in the financial system, regulators need to be effective supervisors. Such an objective necessitates regulators to invest in capacity in terms of resources such as advanced analytic tools and associated skilled human resources to support effective and thorough supervision. Stress testing, systemic risk monitoring and enforcing compliance with regulatory standards among financial institutions are key endeavours that constitute effective supervision.⁵ It is the specialised nature of these efforts that call for consistent and constant updates of any regulator's skills and capacity.

iv. Global Regulatory Consistency

Enduring globalisation means that financial markets are increasingly interconnected globally. This proliferation necessitates regulators to collaborate across borders to effectively manage risks. The effectiveness of this collaboration relies on continued investment in capacity building, allowing regulators to engage in international regulatory forums that contribute towards the development of global standards while concurrently ensuring that domestic regulations are consistent with international best practices.⁶

v. Public Trust and Market Confidence

A strong regulatory competence is a key factor that leads to public trust in any financial system. Publics see capable and effective regulators as an assurance that sustains trust in financial systems, resulting in enhanced market confidence that in turn, spurs the smooth functioning of financial markets. Public trust is especially critical in times of financial crisis or otherwise challenging times.⁷

These five themes emphasise the consistent evolution of financial markets and their need of resilient regulators that can monitor, detect, and limit the effect of emerging risks. An overarching requirement for such regulators is to be reliably outfitted with skilled professionals that are bestowed with the latest knowledge and analytical skills.

The question, then, is: how can universities contribute positively to such a context?

4 European Central Bank (n 1).

5 Basel Committee on Banking Supervision, 'Core Principles for Effective Banking Supervision' (2012) <www.bis.org/publ/bcbs230.pdf> accessed 9 August 2024.

6 Financial Stability Board, 'FSB Framework for Strengthening Adherence to International Standards' (2010) <https://www.fsb.org/wp-content/uploads/r_100109a.pdf> accessed 9 August 2024.

7 Steven Radelet, 'The IMF and Capacity Development—Monitoring, Evaluation, and Effectiveness' (2022), Michael Kell and others, 'The IMF and Capacity Development' (2022) <<https://ieo.imf.org/en/our-work/Evaluations/Completed/2022-1004-the-imf-and-capacity-development>> accessed 9 August 2024.

02

Role of Universities

Universities and higher education institutions have a vital role in the building and maintaining of competences of financial services corporates and regulators. Universities provide education, administer cutting edge research and offer collaborative opportunities for financial services actors that lead to the enhancement of knowledge and skills of finance professionals.

Yet, the very provision of education, research and collaboration with financial services actors is fundamental for universities' own survival in an increasingly demanding and competitive higher education context. Whereas funding for trailblazing research is increasingly dependent on larger budgets financed by international corporates or governmental institutions, the teaching of state-of-the-art knowledge and skills remains largely dependent on diminishing direct government funding and increased reliance on student fees. Collaboration between universities and regulators is thus a symbiotic arrangement that nourishes the livelihood and competence of both sectors.

There are four key elements that define any university's role in this arrangement. First is the universities' provision of professional training and education in the form of specialised degree programmes (at bachelor's, master's and doctoral levels), alongside executive education and professional certification. This training helps individuals build and garner the necessary skills and knowledge to work in a dynamic environment that financial services and regulation present. Programmes like the Postgraduate Diploma in Financial Regulation and Compliance (administered by the University of Malta in collaboration with the Malta Financial Services Authority - MFSA) provide an in-depth understanding of financial markets, instruments and regulatory frameworks that are crucial for financial regulation capacity building. The partnership between the University of Malta and MFSA helps in tailoring programmes that address specific areas of risk and regulation pertinent to Malta as a financial services hub in a European and global context. At a European level, the collaboration between the European University Institute and the ECB addresses the same objective – that of providing comprehensive and specialised training for European banking supervisors, helping augment those supervisory capabilities of European financial regulators, especially in areas like digital transformation and cyber security.⁸

Second is universities' undertaking of research that informs policymaking and the development of new regulatory frameworks. Such research helps financial regulators understand the emerging trends and threats in financial markets, especially because of fintech innovation or climate-change associated risks. It is thanks to such research that Europe implemented critical reforms over the past two decades, helping regulators adapt their operations to emerging realities like cyber currencies, digitalisation of markets and regulatory harmonisation.⁹ It is the collaboration between universities and central banks, along with other financial institutions that renders specialised research on systemic risk and financial stability feasible. This research helps regulators develop more effective regulatory policies at national and international levels.¹⁰

8 European University Institute (n 2); European Central Bank (n 1).

9 Thomas Philippon, 'The FinTech Opportunity' (2016).

10 Stijn Claessens and Laura Kodres, 'The Regulatory Responses to the Global Financial Crisis: Some Uncomfortable Questions (IMF Working Paper, 2014) <<https://www.bookstore.imf.org/books/the-regulatory-responses-to-the-global-financial-crisis-some-uncomfortable-questions>> accessed 12 August 2024.

Third is the extensive policy dialogue and advisory roles that universities often assume, typically with a neutral outlook. Dialogue brings together regulators, academics and industry professionals who discuss current and emerging issues and challenges impacting on financial regulation. The interchange of evidence-based knowledge and ideas fosters a better understanding of regulatory needs, helping regulators develop more effective regulatory policies. Universities thus have a critical role in providing guidance and intelligence to governments and regulators, exploiting their academic expertise to support policy design and implementation.¹¹

Finally, universities supply talent in the form of graduates to the financial services sector. Graduates enter the financial services industry and regulatory bodies and bring with them progressive knowledge and innovative thinking – qualities that effectively address contemporary challenges that financial services face. Such consistent influx of skilled professionals is crucial to the sector, helping it maintain and enhance its capacity.¹²

Considering these features of universities' roles in financial services markets and regulation, one then needs to consider what justifies partnerships. If universities thrive with or without the involvement of regulators, why are partnerships key to the prosperity of an efficient and trustworthy financial market?

03

University-Regulator Partnerships

By working together, universities and financial services regulators harness their respective strengths to improve the regulation, stability, and integrity of any financial system. This collaboration leads to more informed policies, innovative solutions, and a more resilient financial sector. Reaching such objectives leaves both collaborating partners with mutual benefits in the form of five premises.

First, a coordinated and transparent dialogue between the universities and regulators encourages the associated stakeholders, like financial services corporates, consumer associations, and governments among others, to engage in frank information and opinion sharing. Such honest exchanges help financial markets function more transparently and can address emerging consumer and business customer needs effectively. Concurrently, regulators can address such evolving trends before demand, supply and sustainability features become real complications, thanks to regulators' collaboration with universities.

11 Paul Tucker, *Unelected Power: The Quest for Legitimacy in Central Banking and the Regulatory State* (Princeton University Press, 2019) <https://www.jstor.org/stable/j.ctvc7789h?turn_away=true> accessed 12 August 2024.

12 David T Llewellyn, 'The Northern Rock Crisis: A Multi-Dimensional Problem Waiting to Happen' (2008) 16 *Journal of Financial Regulation and Compliance*, 35 <<https://ejournals.um.edu.mt/login?url=https://www.proquest.com/scholarly-journals/northern-rock-crisis-multi-dimensional-problem/docview/235042504/se-2?accountid=27934>>; David T Llewellyn, 'The Northern Rock Crisis: A Multidimensional Problem Waiting to Happen' in Robert R Bliss and George G Kaufman (eds), *Financial Institutions and Markets* (Palgrave Macmillan US, 2009).

Second, a formal and long-lasting collaborative arrangement between universities and regulators leads to the establishment of mutual trust.¹³ Such trust leads to further and enhanced interorganisational commitment, information sharing and relationship-specific investment, with consequent mutual improvement in non-economic performance.¹⁴

Third, because of augmented trust, researchers can better access consumer, industry and regulatory data, helping academics and practitioners better understand emerging trends. Such understanding contributes to early identification of potential issues and can help regulators proact nationally and internationally. Equally, such scientific understanding helps universities contribute to academia in the form of scientific publications as well as adopt such knowledge in cutting edge higher education.

Fourth, a cooperative and complementary partnership with regulators helps universities afford better resources in the form of research tools and specialised human resources, who in turn can engage in trailblazing research and practice-oriented teaching. It is thanks to these elements that universities earn a reputation for outstanding contribution to economies and societies, attracting better scholars and students.

Finally, demonstrated transparency in any university-regulator cooperation attracts the trust and respect from associated stakeholders including (but not limited to) consumer groups, industry players and governments among others.

It is precisely these benefits that the University of Malta and the MFSA seek to attain as a result of their collaborative arrangement that has been in place for the past decades.

04

University of Malta and MFSA

Over the past years, the University of Malta and the MFSA sought to collaborate through several initiatives, alongside other current similar initiatives in collaboration with financial services organisations like insurers, bankers, and organisations that represent these sectors at national and international levels.

Indeed, thanks to the participation of academics and professionals employed at the University of Malta and the MFSA, the financial services sector has benefited from specialised conferences and seminars where latest cutting-edge research was presented. These initiatives are too numerous to list, but examples include recent research work published jointly by University academics and MFSA executives, like Buttigieg and colleagues in 2023 and 2024. This research was often possible thanks to the resources made available by MFSA, data collected from national and international sources or data subjects, and the supervision of specialised academics in financial markets, regulation, and competition. Projects are often focussed on regulatory frameworks, financial technology, crypto

13 Reinhard Bachmann and Andrew C Inkpen, 'Understanding Institutional-Based Trust Building Processes in Inter-Organizational Relationships' (2011) 32 *Organization Studies* 281 <<https://doi.org/10.1177/0170840610397477>>.

14 Bahar Ashnai and others, 'Inter-Personal and Inter-Organizational Trust in Business Relationships: An Attitude-Behavior-Outcome Model' (2016) 52 *Industrial Marketing Management* 128 <<https://www.sciencedirect.com/science/article/pii/S0019850115001893>>.

assets as well as market trends. These initiatives also meant bringing together industry professionals (both local and international), academics, and students to discuss current and emerging challenges and opportunities. Furthermore, the Authority also supports the University's teaching by offering and administering internship opportunities to the University's students to work in financial regulation and compliance. Such experiences help students earn precious insight and skills that are quickly applicable to their future careers. The collaboration between the University of Malta and the MFSA has contributed not only to enhance the learning experience of university students, but also to the continued development of a robust and well-regulated financial services sector in Malta thanks to a consistent talent pipeline, placing the country among the best financial services centres in the world.

Moreover, academics from the University and experts from the Authority have often joined forces to co-author research papers and reports on several topics, contributing to the growing body of knowledge on financial regulation and compliance.

Finally, the MFSA also supported several academic programmes and initiatives administered by the University of Malta as part of the University's academic programmes at undergraduate and postgraduate levels. Efforts ranged from guest lectures to workshops and seminars, kindly sponsored by the Authority, targeting students who in turn would become human resources engaged in the financial sector, if not the Authority itself. The latest joint effort is the design, development, and administration of the Postgraduate Diploma in Financial Regulation and Compliance – a programme that was launched earlier this year and bound to welcome the first cohort of students in October 2024.

The postgraduate diploma programme seeks to help learners explore the multifaceted landscape of financial regulation at national and international levels. Regulatory frameworks, risk management practices and associated ethical considerations are presented to learners from academic and professional stand points and are intended to educate students on how financial institutions can maintain integrity in a safe and trustworthy industry. The programme involves the use of case studies as well as simulations that place students in decision-making roles to learn through application. Key outcomes of the programme include the assessment of compliance risks, the implementation of effective control mechanisms, as well as a fluent understanding of the complex regulatory landscape. These outcomes allow students to be well prepared for professional roles in regulatory bodies and financial services providers.

With a total of 60 ECTS¹⁵ credits (equating to around 1,700 hours of study), the postgraduate diploma engages students in a diversity of areas ranging from general approaches like business ethics and risk management, to more specific areas like sustainable finance regulations, governance and audit management, prevention of money laundering, digital finance regulation and compliance management. All themes in the programme are presented by a team of experts and academics who have accrued years of experience in the respective fields as well as associated reputation in industry and academia, nationally and overseas.

15 The European Credit Transfer and Accumulation System (ECTS) is a standardized framework adopted by European higher education institutions to facilitate the recognition and comparison of academic achievement across institutions. It quantifies student workload and learning outcomes, thereby promoting mobility and academic transparency across the European Union. One academic year of full-time study corresponds to 60 ECTS credits, equivalent to approximately 1,500 to 1,800 hours of total study and learning.

05

Benefits of the Collaboration

The University – Authority collaboration is bound to lead to several benefits at individual, institutional and sectorial levels. At an individual level, this cooperation helps equip students with knowledge and skills that underpin the effective role of professionals engaged in regulatory or service provider functions. As programmes like the postgraduate diploma target both new entrants as well as seasoned professionals in financial services provision and regulation, the cooperation between the University and the MFSA impacts on the financial sector's sustainability through a constant upgrade of the skills of the sector's professionals, translating into augmented career opportunities for the sector's human resources.

At an institutional level, this collaboration leads to a constant availability of hard-to-find qualified professionals for employment by financial services providers as well as the regulator. From an academic perspective, the partnership with the MFSA helps the University access data, tools and policy resources that support the University's provision of education as well as engagement in world-class scientific and policy research that in turn is shared with local financial services actors. It is also thanks to this collaboration that educational curricula (as in the case of the University's postgraduate diploma discussed above) can be well aligned with both industry practices and regulatory requirements.

At a sectorial level, the MFSA-University partnership ensures the entire financial services sector benefits from an efficient regulatory framework that not only protects institutions and consumers from risks like cybercrime, credit defaulting, market price fluctuations, liquidity deficiencies and business interruption, but also assures a sturdy reputation for the entire Maltese financial services sector.

06

Conclusion

This paper has presented how the collaboration between financial regulators and universities translates in benefits for the entire network of actors involved in financial services industries. Such collaboration strengthens regulators' capacity building approaches through continued regulatory development, investment in assets that support effective industry monitoring as well as the development of professionals. It is thanks to the cooperation between universities and regulators that the financial services industry (at national and international levels) can be effectively supervised, preventing the emergence of risks that harm the reputation and sustainability of a healthy financial sector.

These cooperative partnerships support an important dialogue between relevant stakeholders, leading to the sharing of emergent knowledge that informs policy making and business development. A resultant mutual trust between regulators and universities reinforces interorganisational commitment, information sharing and investment in cutting-edge research as well as sector-specific state-of-the-art education. Overall, these benefits translate into a constant flow of skilled professionals into the financial services industry as well as maintenance of up-to-date talent employed by financial institutions, financial regulators and universities alike. The collaborative partnership between the MFSA and the University of Malta is no exception to the above narrative, and benefits (although unmeasurable) are evident.

The long-term benefits of regulator–university collaboration are undeniable. It is these benefits that justify further steps that not only strengthen the current collaborative partnership between the MFSA and the University of Malta, but also help to develop new partnerships with other actors in the financial services industry as well as in other sectors of the Maltese and European economies.

