

# FINTECH ACTION PLAN

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## Introduction

The term Fintech refers to the application of technology-enabled innovation to financial services. Although the term is often used narrowly to refer to start-ups, the fact is that financial institutions and major technology companies also form an active part of the digital transformation of financial services. This evolution towards digitalization offers many opportunities for the European market and its consumers, such as efficiency gains, more competition and greater supply of financial services. But at the same time, changes in technology and in the markets might create challenges and new risks as regards consumer protection, security of systems and data and financial stability and integrity. The challenge for regulators and policy makers is, therefore, to design policies that promote innovation to the benefit of consumers while ensuring the safety and soundness of the financial system.

With this objective in mind, in March 2018 the European Commission published an Action Plan on Fintech “For a more competitive and innovative European financial sector”, which lays out the roadmap for European authorities’ work in the field up to mid 2019. Soon afterwards, the European Banking Authority (EBA) also released its Roadmap on FinTech, reflecting the mandates set out by the Commission and the continuation of many of its ongoing work lines. Both publications make evident that European authorities are following a cautious and pragmatic approach. As such, proposals for specific reforms to the regulatory framework are limited and instead, most of the work announced aims at deepening the understanding of the most recent market and technological developments before starting to regulate them. After this exploratory phase, it will be the turn for the next European Commission and European Parliament to give shape to specific measures that can really boost the potential of fintech for the EU’s financial industry. However, to achieve this objective, European authorities should consider now whether the forthcoming policy initiatives are expected to bring a decisive breakthrough or whether more ambition is needed for the EU to position itself as a global hub for fintech.

## THE ACTION PLANS

Responding to calls by both the European Parliament and the European Council, the Commission puts great importance in enabling innovative fintech solutions to be effectively rolled out across the EU and to reach scale. On the other hand, evidence gathered by the EBA regarding the status of fintech firms in the EU last year might indicate that unregulated or nationally-regulated fintech initiatives can be found across the EU. In response to this evidence, the Action Plan proposes to further analyze national regimes and approaches to licencing and assess whether there are unjustified differences and, if possible, to identify best practices.

Furthermore, both the European Commission and the EBA are reflecting on whether the introduction of initiatives such as a regulatory framework of experimentation (so called “Sandboxes”) and innovation hubs could become

an additional avenue by which regulators and supervisors might facilitate the spread of innovative models under appropriate safeguards. As such, the EBA is carrying out a comparative assessment of regulatory sandboxes, innovation hubs and other schemes in the Member States with a view to identifying best practices in their design and operation and to promoting supervisory convergence. The EBA has organised an industry roundtable to exchange views on 3 September and this feedback will feed into a report on regulatory sandboxes and innovation hubs, which will be presented by the end of this year.

Measures to enable new business models to grow, as those covered in the previous paragraph, are only a partial response to the challenge. In order to fully unlock the opportunities of digitalization, EU authorities acknowledge that it is critical for banks and other incumbent institutions to conduct fully their own transformation journeys. To that end, the European Commission has taken measures to eliminate regulatory obstacles that might hamper the uptake of innovative technologies, such as cloud computing, artificial intelligence or blockchain. Financial institutions (including banks) are the muscle of the financial system and represent a core driver of the European digital economy. The inability to transform themselves might ultimately become the largest threat to the system as a whole.

The digitalization of the financial industry advances and the volume of data that is gathered, stored and processed continues to grow, and guaranteeing the integrity of information is becoming more important than ever. As fully recognised by the EU institutions, including the European Parliament, which have placed cybersecurity at the top of agenda, cooperation in the fight against cybercrime is paramount. In this regard, the Action Plan puts forward initiatives to encourage the cooperation to improve cybersecurity of the whole financial services industry, regulators and supervisors. These initiatives range from enhancing information sharing on cyber threats, promoting convergence in supervisory practices and developing a coherent cyber resilience testing framework with the aim of achieving a more resilient financial sector.

## Looking beyond

In the digital space changes, in technologies and market dynamics happen fast, so it seems to be the right time for EU institutions to start reflecting, together with the financial industry, on the expected results from the initiatives that are already on the table, and if possible, on which other measures would best complement the latter. In assessing any piece of regulation - be it already in place or newly proposed – EU authorities may want to consider whether it works and contributes to building the EU Single Market and helps reduce unjustified asymmetries between different players. Prudential regulation and supervision are often the most cited sources of such asymmetries, but other issues could be contemplated as well.

In this regard, it might be worth considering whether the existing regulatory framework will be able to accommodate the speed of the market and effectively enable innovative business models, particularly:

- Exploring whether authorisation requirements in their current forms allow innovative business models to flourish while maintaining a healthy balance of proportionality. Or could activity-specific “fintech licences” facilitate new business models, while introducing more security in currently unregulated areas?
- The emergence of innovative business models across the EU through (European level?) innovation facilitators provides a template for providing general guidance to firms and regulators/supervisors during the authorisation process and enables such firms to gain quicker access to the market, but can it also distort competition?

Moreover, for the sake of the European digital economy, policymakers might assess, how the competitive asymmetry, created for example by the revised Payments Services Directive for the financial services industry with regards to large digital players, can be rebalanced. PSD2 requires banks to open appropriate and specified communication channels so that other companies can access data from payments accounts, but there is no reciprocal regulatory mechanism that enables banks to access other customer data held by data-rich non-banks on similar terms. The question remains over whether and how regulators could re-establish a level playing field for European companies, concerning this data asymmetry and other competition issues.

## CONCLUSION

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Defining a decisive, future-proof response to the digitalization challenge in the European Union is likely to be one of the main challenges for EU policymakers, regulators and supervisors. In light of the fast pace of not only technological change in the new digital economy, further actions might need to be taken by authorities to help the EU to fully embrace the opportunities of digitalization, enhance growth financing for the European economy and realize the aspiration of becoming a global hub for technology enabled financial services, and support the development of “European financial champions” based on technology”.

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