
Second Annual Conference – Summary report

Brussels, 27th February 2018

Afore Consulting organised the second annual conference on FinTech and Digital Innovation: Regulation at the European Level and Beyond on 27 February 2018,. The event brought together more than 450 participants from the European regulatory and supervisory community, industry, academia and civil society. We would like to take this opportunity to thank once more the speakers, sponsors and participants who helped Afore Consulting make this conference such a success.

FinTech is one of the fastest growing industries and the conference was timed to take place just one week before the European Commission presented its Action Plan on FinTech. We had speakers from the EU as well as Japan, Singapore and Switzerland, who explored key aspects of the policy debate, such as supervisory convergence and best practices, the role of artificial intelligence in financial services, the place for standard setting in FinTech, and how new technologies such as RegTech can contribute to the effective compliance and enforcement of financial services regulation.

The overall conclusion of the debate was that there have been significant developments in the area of FinTech and the sector is evolving fast. FinTech crosses national borders and any policy actions, if at all, should ideally be taken at the European level or globally. Participants welcomed both the work of the European Commission’s Task Force and the work of the global standard setting bodies.

Valdis Dombrovskis, Vice President of the European Commission, opened the conference. He introduced the Commission’s FinTech Action Plan, explaining that its three goals are to support innovative business models to scale up across the Single Market, to encourage the uptake of new technologies in the financial sector, and to increase cybersecurity and the integrity of the financial system. He also emphasised that Europe has what it takes to become globally competitive in the area of FinTech.

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Merel van Vroonhoven, Chair, Netherlands Authority for the Financial Markets, warned of the risks to retail investors FinTech presents, in particular cryptocurrencies and access to investments without sufficient advice. She believes that supervisors issuing warnings is one necessary step but would like to see other supervisory actions. Speaking more generally about blockchain technology, she acknowledged that it is a promising technology but said it will take longer to develop for commercial use than many expect.

Yves Mersch, Member of the Executive Board of the European Central Bank (ECB), emphasised the need for common standards to ensure a safe, efficient and pan-European market. He sees cybersecurity as an increased risk which will become ever more important with the rise of digitalisation.

Paul Stoddart, CEO, Vocalink, emphasised that in order for the ecosystem to evolve and develop, access to the infrastructure is the most critical issue. Taking the introduction of faster payments in the UK as an example he has seen ecosystems thrive more quickly where governments become early adopters of new technologies. He made a compelling case that instant payments will be the future of payments.

The four panels in turn explored the possibilities of supervisory convergence, challenges and opportunities of AI and robo advice, the politics of standard settings, as well as the optimal use of RegTech and how this is challenged by EU rules on private data.

The conference also featured a fire-side chat on the **international perspective** of the work around FinTech with representatives from the USA, Switzerland, Japan, Singapore, Hong Kong and Belgium. This session explored how the international supervisory community was dealing with new technologies and new products.

The debates led to a number of interesting observations for the European regulators and supervisors:

- There is a need to **find the right balance between regulation and policy intervention on the one hand and not to stifle innovation on the other**. In this context, flexibility is key on the side of regulators and policy-makers. Speakers repeatedly reiterated that investor and consumer protection must be balanced with financial innovation.
- **FinTech is a global industry and any possible policy concerns should ideally be addressed at the global level.**
- **Possibly the best policy option at this stage is supervisory cooperation and best practice exchange. At European level** the ESAs will have an important role to play in this regard.

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- **Cybersecurity** emerged as a prominent topic of discussion. The financial services sector is better protected than other sectors but it is also the most frequent target of cyber-attacks. Consumers need to have basic skills and knowledge of cybersecurity, but it is also a question of trust for financial institutions. Information sharing between parties can help reduce the risks for cyber-attacks.
- Another focus of discussion was consumer protection. This was raised in particular in the context of recent market developments **around cryptocurrencies. One solution might be better investor education.**
- Financial services is increasingly a data-driven industry. As a result prudential and conduct regulators need to work together with data privacy and cyber security regulators. Access to data is also becoming increasingly important for competition authorities.
- Supervisors should avoid making it harder for financial services companies to use **third party providers and their technology** to meet their regulatory requirements. Participants in particular called for more clarity around outsourcing rules. Legal certainty would help to realise the cost reduction and quality improvements FinTech, RegTech and third party service providers have to offer.
- Regarding **artificial intelligence**, speakers agreed that it was too early to assess the impact in the financial services industry. It seems that the benefits outweigh its risk. Policy makers are concerned not to build bias into algorithms and their use. Another area of concern is the allocation of liability around the use of AI. Supervision should be outcome based.
- Panellists agreed that **different standards fragment the market.** Ideally, the EU should work together with its partners at the international level to promote harmonisation. This would also avoid regulatory arbitrage. Speakers also agreed that the governance process needs to be inclusive and allow changes to be made to standards. Otherwise, there is a danger the industry could get locked into a particular technology.
- Ideally going forward **regulation and supervision of financial services should focus on activities rather than institutions alone.** Where an activity poses risks to the market or customers it should receive policy attention irrespective of whether the activity is carried out by a financial institution or a non-financial institution.
- Speakers were keen to stress that innovation takes place in all segments of the financial services market and **there should be no preferential treatment by the supervisors towards either start-ups or incumbents.** There was agreement that the European Commission had tried to carefully balance this in the drafting of the revised Payment Services Directive (PSD2).

Olli Rehn, Member of the Board of the Bank of Finland, Chair of the FIN-FSA, and former Vice-President and Member of the European Commission identified 3 types of developments in what he called the digital revolution. These developments are:

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1. Increasing social welfare (mobile and real-time payments),
2. To be closely watched and even prevented (ICOs, cryptocurrencies), and
3. Merit further expansion (blockchain and DLT).

He believes that digital innovation is creating new business models but this is only one part of the financial transformation alongside regulation and consumer behaviour.

Jean Paul Servais, Chair of the Belgium Financial Services and Markets Authority and the Chairman of the Financial Innovation Standing Committee of ESMA said that FinTech regulation should ensure that financial innovation benefits consumers by promoting financial disintermediation. Regulating FinTech should be done at EU level but supervision at national level.

Hon. Silvio Schembri, Parliamentary Secretary for Financial Services, Digital Economy and Innovation, Government of Malta announced that Malta will shortly adopt new legislation on innovative technologies. This legislation will be cross-sectoral establishing principles for the application of new innovations such as DLT. Malta is aiming to become a centre of excellence for FinTech.

Andrea Enria, Chair, European Banking Authority said that the EBA is looking at the licensing of FinTech operators. In this context, it is important to distinguish between what is the essence of banking services and other services provided by banks but in which FinTech companies could compete. The Chairman also reiterated that cyber risks will be a key priority for the EBA during 2018.

Steven Maijor, Chair, European Supervisory and Markets Authority called for a measured approach to FinTech, which takes into account both risks and opportunities. He welcomed the ESA Review. This would provide ESMA with a clear mandate regarding the supervision of FinTech activities.

In her closing keynote, **Lisa Hunt, Chair, SIFMA and Executive Vice President, Business Initiatives, Charles Schwab Corporation**, emphasised the value of data. This extends to access, security, transparency, permission and scope of data use. She believes that demand for independent financial advice will grow rather than retract as consumers turn to digital distribution channels for financial services products. She also called for more consistency in EU regulation taking the General Data Privacy Regulation and PSD2 as examples.

Johan Van Overtveldt, Belgian Finance Minister said new technologies would help to ensure that some of the traditional risks in banking can be managed more effectively. He recognised the opportunities and challenges that FinTech poses. He suggested that policy makers and regulators need to take a broad view on FinTech. In effect, it extends to all areas where there is 'tech for fin'.

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