

## Fin-Tech HO 2020: Project kick-off

FinTech Lab, University of Pavia – Friday, 01 February 2019

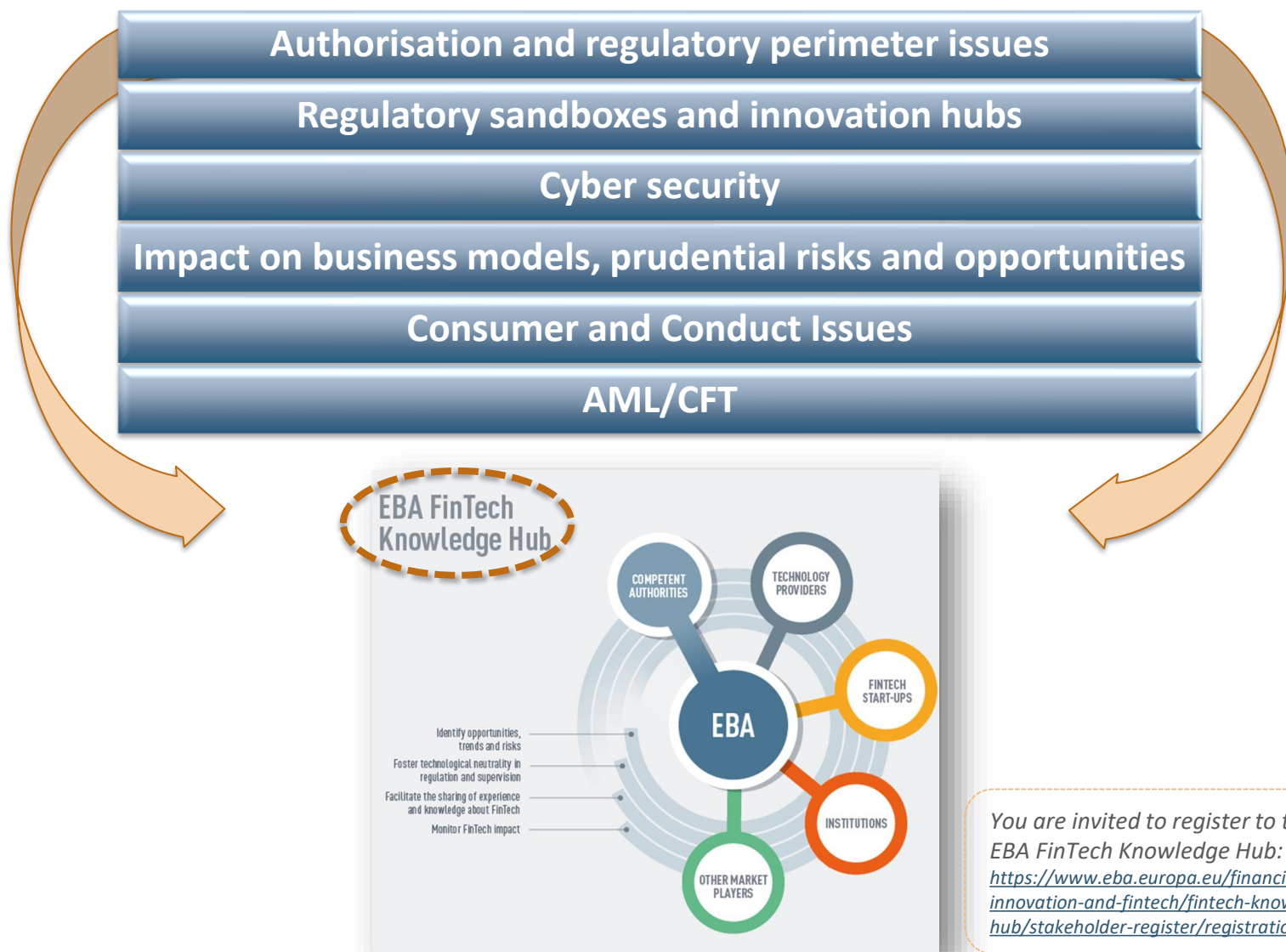
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# Overview

1. EBA approach to FinTech
2. EBA recent findings on FinTech
3. EBA work to date and key areas of focus in 2019

# EBA FinTech Roadmap and FinTech Knowledge Hub

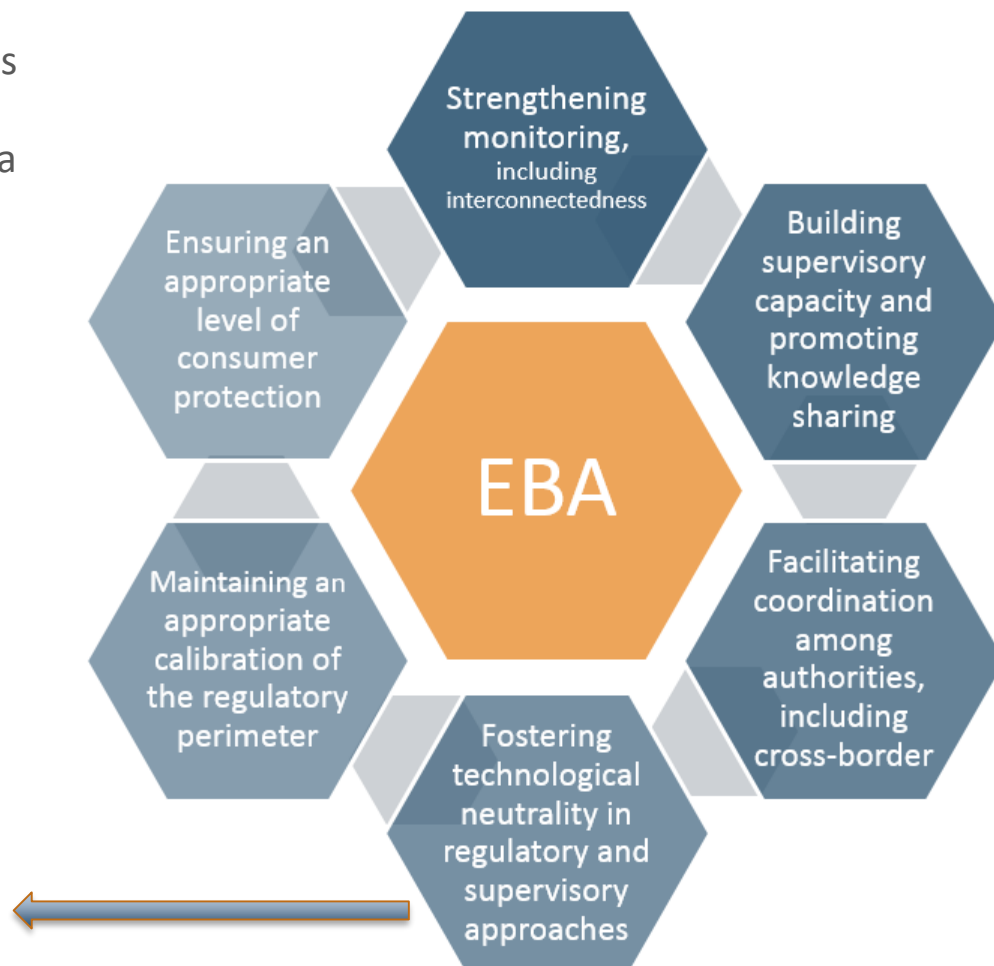


# Regulatory approach

Strong evidence of fundamental changes to delivery mechanisms for ‘traditional’ financial services – actions identified in a number of areas.

## Technological neutrality – what it means in practice

- (i) Equipping supervisors to ask the right questions to ensure a proportionate prudential response to the opportunities and risks identified.
- (ii) Scrutinising the position of consumers: ensuring appropriate conduct regulation to protect consumers and promote financial inclusion.
- (iii) Reviewing legislation to prevent bias towards/prohibition of specific technologies.



# FinTech in the EU

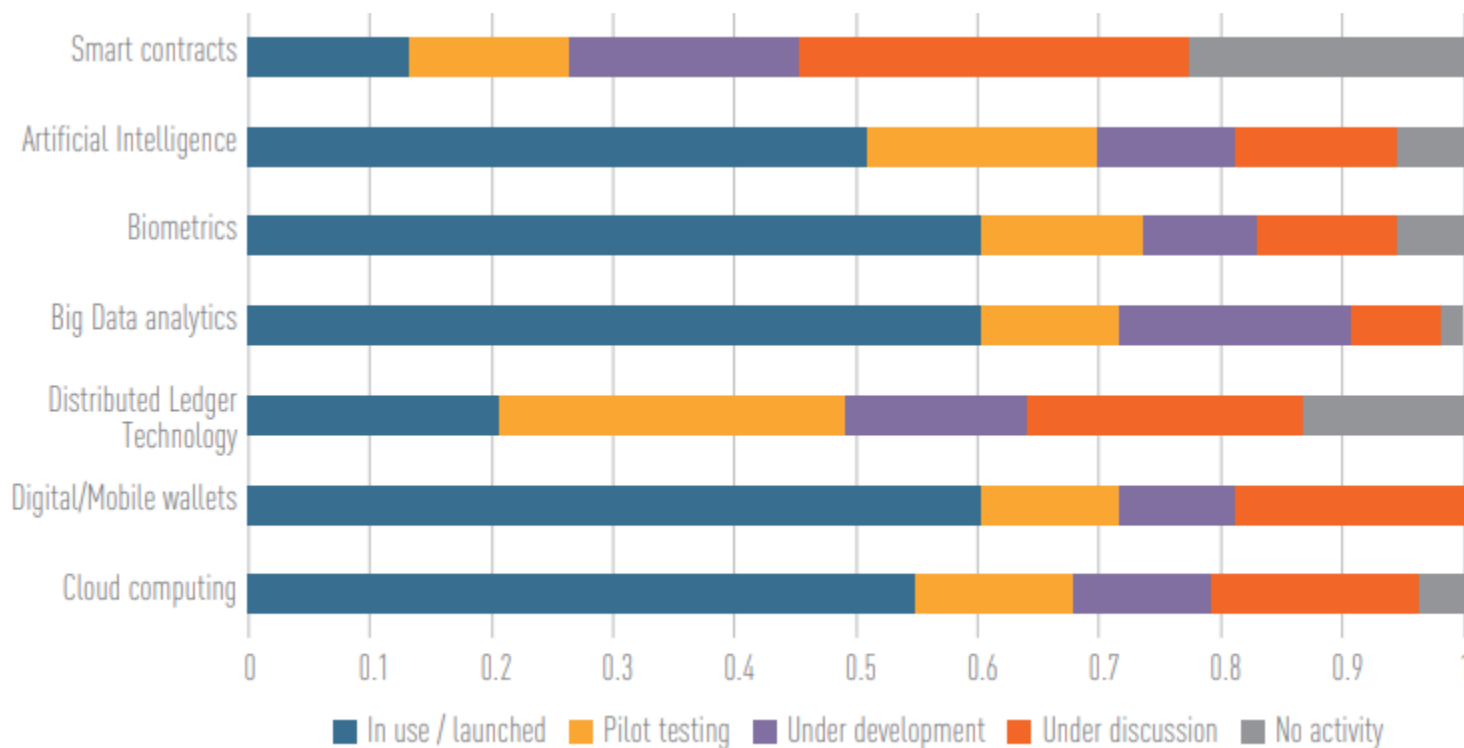
A wide range of financial innovations are being applied to support the provision of credit, deposit and capital raising, payments, clearing, settlement, and investment services.

Top 5 financial innovations applied	Status of adoption by incumbent institutions
1. <i>Online distribution channel</i>	➤ Use of <b>biometrics</b> (fingerprint, face and voice recognition) widely implemented for customer authentication and identification purposes.
2. <i>Online platform (e.g. crowdfunding, P2P transfers)</i>	➤ <b>Open Banking/APIs</b> : Implementation of PSD2 in progress. Potential to significantly improve competition in the sector by creating new rules for access to consumer data whilst maintaining high standards of protection.
3. <i>Mobile distribution channel</i>	➤ <b>Cloud</b> adoption: Implementation is progressing in many institutions citing cost savings/enhanced data security.
4. <i>Value transfer networks/DLT</i>	➤ <b>Machine learning and Big Data</b> : Explorative phase in many institutions, considered for the algorithms to inform credit scoring, automated advice, with big potential for solutions based on AI. Many institutions investing in exploring wider use of big data in day-to-day activities.
5. <i>Electronic personal financial management tools</i>	➤ <b>Robo-advice</b> : For now more developed in investment services and more based on automated structured questionnaires. Close scrutiny of <b>ethical aspects</b> , impact on <b>financial inclusion</b> etc. needed.
	➤ <b>DLT</b> : A number of consortia formed, explorative work and testing of cases underway (trade finance is an important area; also money remittance).

Source: EBA 2017 FinTech mapping exercise

Please refer to the EBA thematic reports on FinTech (July 2018)

# Status of adoption of financial technologies by EU banks

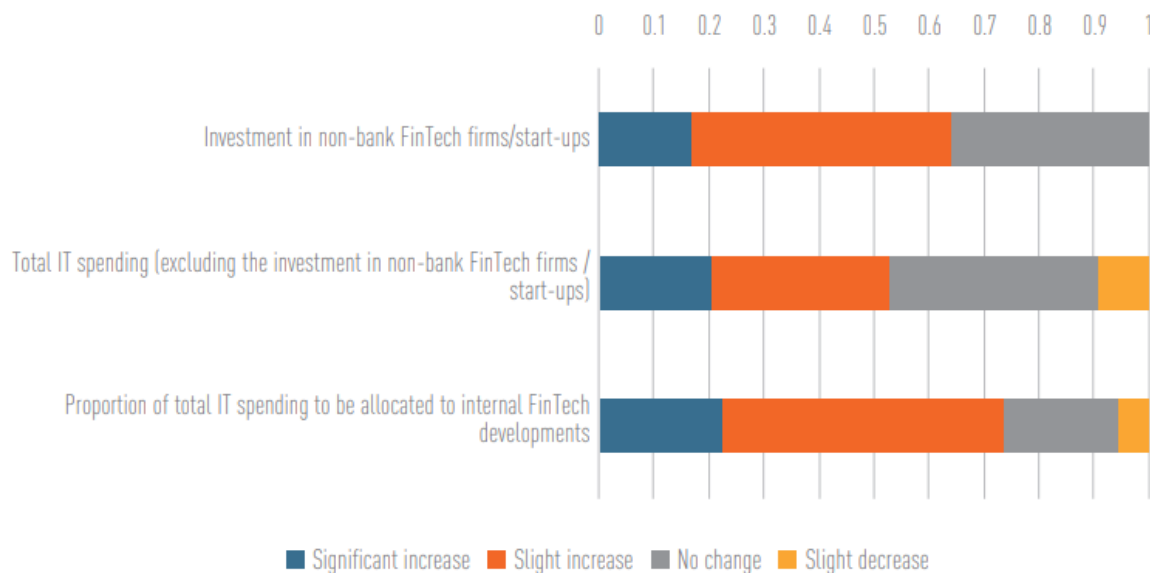


Source: EBA RAR – December 2018

## Open Banking / APIs

- PSD2 is perceived as an opportunity with most institutions currently designing their **open banking/API strategy**
- Relevant RTS is directly applicable from **14 September 2019**

# Expected changes on IT spending, FinTech investments and internal FinTech developments



Source: EBA RAQ (December 2018)

- Looking forward, the outlook for the next 12 months is **expected increase on IT spending**, as reported by more than 50% of EU banks while on the other hand, approximately 9% of banks indicated projected slight decrease on IT spending.
- In general, a growing trend appears in investing to non-bank FinTech firms, as more than 60% of EU banks are planning to slightly or significantly increase their investments. Even higher proportion of banks (around 70%) expects to **increase the share of IT spending allocated to internal FinTech development**. Currently the proportion of IT spending allocated to internal FinTech developments for 8 out of 10 banks does not exceed 10%.



# EBA work to date on FinTech-related topics

## 2019

- ESAs Report on **regulatory sandboxes and innovation hubs**
- Report on **crypto assets**

## 2018

- Consultation Paper on **Guidelines on outsourcing arrangements**
- Report on the **impact of FinTech** on incumbent credit institutions' **business models**
- Report on the **prudential risks and opportunities arising for institutions from FinTech**
- Opinion on the implementation of the RTS on **strong customer authentication** and common and secure communication
- ESAs report on **Big Data**
- ESAs Warning on **Virtual Currencies**
- ESAs Opinion on the use of innovative solutions in the **customer due diligence processes**
- Guidelines on **ICT and security risk management**

## 2017

- Report on **Innovative uses of data**
- Recommendations on **outsourcing to cloud service providers**



# Innovation facilitators – on the rise

## January 2019 ESA joint report on:

### *Regulatory sandboxes*

- schemes to enable firms to test innovative financial products, services or business models. May imply the use of legally provided discretions (depending on the relevant applicable EU and national law), but do not entail the disapplication of regulatory requirements;
- operated by competent authorities in **5 EU Member States**. Preparations are underway to establish sandboxes in 3 other EU MSs and 1 EEA state.

### *Innovation hubs*

- dedicated points of contact for firms to raise enquiries with competent authorities on FinTech-related issues and to seek non-binding guidance on regulatory and supervisory expectations and conformity of innovations with licensing requirements;
- operated by competent authorities in **21 EU MSs** and **3 EEA states**, and preparations underway in 1 Member State.

The report sets out **comparative analysis**, **best practices**, and **options to enhance coordination**.

# Overview of findings on crypto-assets

## Crypto-asset activities in the EU

- Relatively limited and **do not appear to give rise to implications for financial stability**. Scope to improve monitoring and consumer-facing disclosure practices.

## Perimeter of EU regulation

- **Typically** crypto-asset activities **do not constitute regulated services within the scope of EU banking, payments and electronic money law**.
- **Some crypto-assets qualify as financial instruments within the scope of the MiFID**, but clarifications are required to ensure the effective application of the existing regulation.
- Some crypto-assets fall entirely outside the scope of EU law, leaving uncovered risks to consumers and investors, for instance in the context of **crypto-asset trading platforms** and **custodian wallet providers**.
- Risks to the level playing field in view of emerging national initiatives.

## AML/CFT

- Some areas for improvement needed in light of market developments and FATF October 2018 recommendations.

## Need for EU-level solutions: Advice for the European Commission

To **assess, on a holistic basis, whether EU-level action is appropriate and feasible at this stage.**

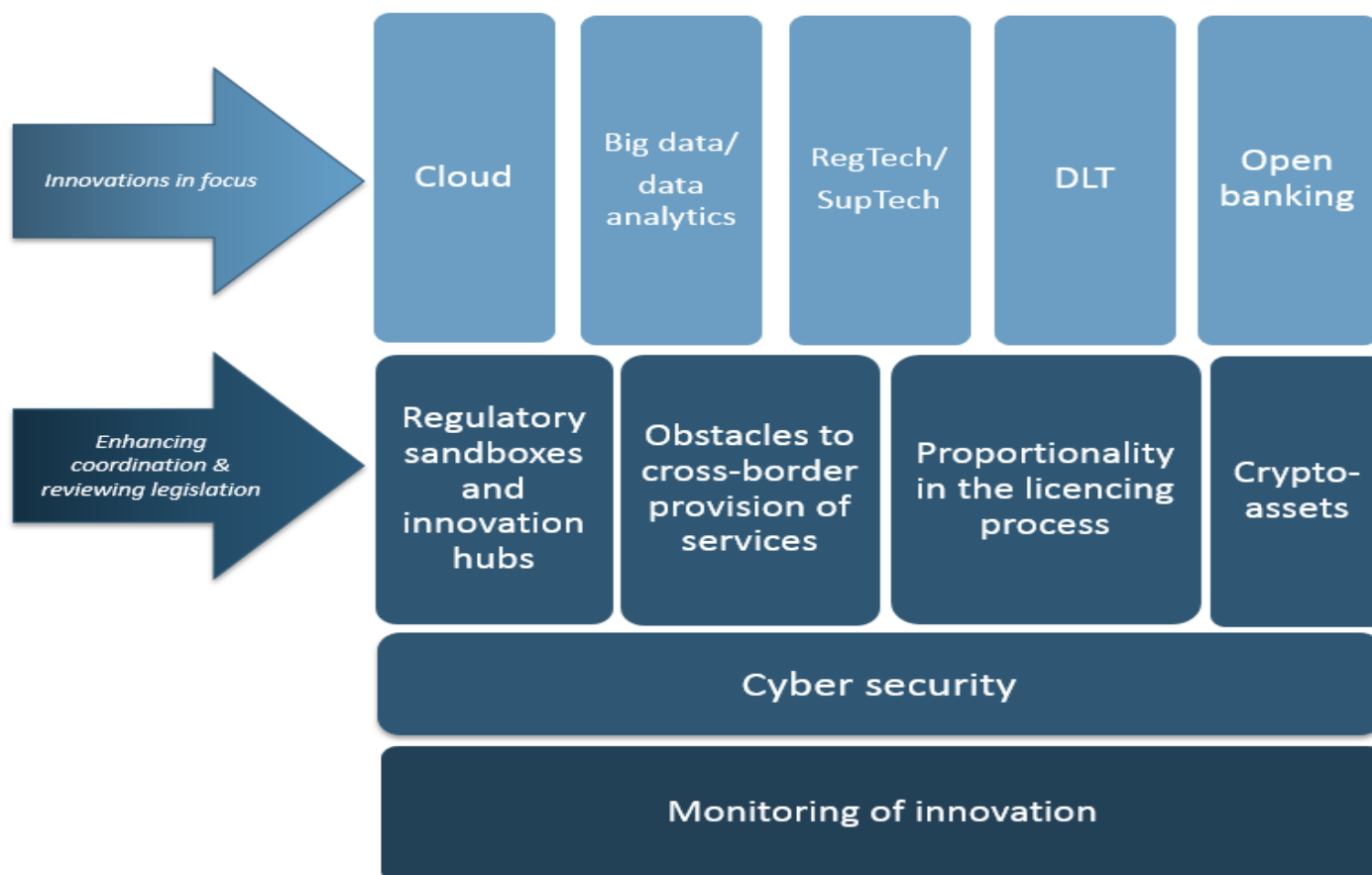
- Should take into account:
  - issues within and beyond the financial sector;
  - the environmental impact of some crypto-asset activity;
  - the latest recommendations of the FATF.

To take steps, where possible, to **promote consistency in the accounting treatment** of crypto-assets.



# EBA work programme 2019

Understanding opportunities and risks arising from financial innovations is one of the five strategic priorities for the EBA in 2019.





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