

New financial innovation policies in Europe

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The importance of financial innovation is increasing in the eyes of the authorities and the media. This is due to the fact that new banking services that are emerging with the entry of new firms into the markets. As a result, there is a wider range of these services available and greater expectations in terms of financial intermediation. However, it can also signal the appearance of new areas of risk, requiring closer supervision by the authorities.

In order to be able to understand and regulate this new scenario, a series of initiatives such as the public fintech consultation by the European Commission, defined as innovations in financial services with a technological basis, regardless of the size and volume of operations undertaken by the companies in question. Innovation support measures are nevertheless being drawn up in a number of European countries which differ in terms of their design and development. For example, in France, bureaucratic management has been made easier, facilitating the entry of new offerings coming onto the markets as well as streamlining the registration of new companies, with a closer monitoring of their activities over the first few months. The clearest case is that of the UK with its complete framework of initiatives, including the so-called regulatory sandboxes, temporary testing environments for new project financial innovation projects as legal precepts are eased, all under the strictest supervision of the authorities. The regulator may have a better understanding of how these innovations operate, taking informed decisions, as they will have been involved in the project throughout. However, risk has also been limited, as the project is yet to enter the market and instead is operating in a separate space. As far as Spain is concerned, the authorities undertook a consultation last spring regarding a possible implementation of a national regulatory sandbox.

In any case, one of the main characteristics of these new policies is the willingness to improve the quality of the dialogue between the authorities and businesses. While from a theoretical standpoint this industry-authority interaction is highly beneficial, it is still too early to assess its effectiveness. Divergent approaches adopted within the European Union may also lead to a series of new obstacles and a fragmentation in the provision of these services, as some countries will offer measures that will not be permissible in others. For this reason, the creation of a new minimum framework that harmonises operations on a European level is desirable in order to reduce asymmetries between countries, avoiding the need for arbitration within the single market and facilitating the provision of services on a pan-European level.

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