

More ambition for the European Fintech

Diario Expansión (Spain)

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23 Apr 2018

Fintech refers to the application of new technologies 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 process of digitisation will no doubt bring numerous benefits, such as efficiency gains and a greater supply of financial services. But it also poses challenges for the regulators as regards financial stability and consumer protection, the challenge being to design policies that promote innovation safely. With this objective, the European Commission recently published an Action Plan on Fintech, setting out the roadmap to mid-2019.

Although acknowledging the existence of these benefits and risks, the Commission was cautious when proposing specific reforms to the regulatory framework for financial services in the European Union. This decision was based partly on the intention of gaining an even more in-depth understanding of the market and of the latest technological developments before starting to regulate them. However, the real reason could be much more pragmatic: the current European legislature is nearing its end. So, it could be that the current Commission has opted to prolong the exploratory phase by a few months in order to lay the foundations for the work that the new EU executive embarks on from 2019.

Despite this caution, the Action Plan includes some measures that have been received with optimism by the European financial services industry. One such measure concerns initiatives aimed at promoting easier dialogue among all the relevant authorities at national and European level, also taking advantage of the practical experience of the private sector as far as possible. To this end several forums and working groups will be set up during this year with a view to identifying the existence of regulatory obstacles in the European financial services framework to the adoption of innovative technologies. Among them we might mention Cloud computing, artificial intelligence and blockchain. Moreover, at a time when the security of information and privacy of data are more relevant than ever, the European Commission has put cybersecurity at the centre of its Action Plan, promoting the exchange of information on cyber-threats and trying to improve coordination of risk management and oversight.

It has also recognised that the path to a more innovative financial sector will involve a few tumbles, and therefore points to initiatives such as regulatory sandboxes as ways of promoting innovation in controlled environments. These proposals are already up and running in countries such as the UK, while others such as Spain are considering whether to implement them. With this range of national initiatives, the Commission acknowledges that undesirable divergences may arise. In response, the Action Plan proposes an in-depth investigation of the existing programmes to identify best practices. Ideally, this could lead to more national authorities plucking up courage to try regulatory sandboxes in their countries and doing so under harmonised rules.

In short, the measures included in the European Commission's Fintech Action Plan represent necessary steps on the path towards a more innovative financial services market that is safe. However, it is evident that the plan is lacking in ambition and that a more in-depth improvement of the regulatory framework will remain as a task for the next legislature. A clear example is precisely the proposal for sandboxes. Although the

actions identified may help to mitigate the differences in the single market, if the authorities really wish to see innovative models thrive with a European label, it's necessary to take decisive steps towards creating a common framework for experimentation for the whole of Europe.

Because Europe needs to give a more decisive response to the challenge of digitisation. Only in this way will it be possible to integrate the new technologies in a way that is safe for the financial system and its users, making sure that innovation attains a genuinely European scale and allowing the European financial sector to retain its lead position in the global context.

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