Afore Consulting

FIN 4TH TECH

ANNUAL CONFERENCE
3 MARCH 2020

AND REGULATION
DELIVERING FOR THE FUTURE

CONFERENCE REPORT

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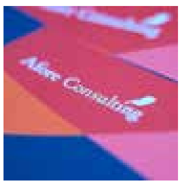
#FinTechEU2020

On 3 March 2020, Afore Consulting organised its 4th Annual FinTech & Regulation Conference: Delivering for the Future. The event again brought together more than 350 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 and all who helped make this conference the success it has become.

This year's conference coincided with the European Commission's upcoming public consultation on the 2nd FinTech Action Plan, as well as the Roadmap on a European strategy for payments. The discussions focused on the global dimension of FinTech, the relationship between financial services companies and third party technology providers, the shift towards an increasingly open architecture in retail finance and what this means for policy, technology's role in the integration of EU capital markets, and responding to the emergence of a multitude of cryptoassets.



HIGH LEVEL OBSERVATIONS

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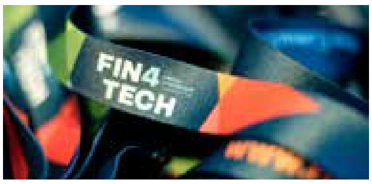
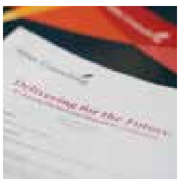
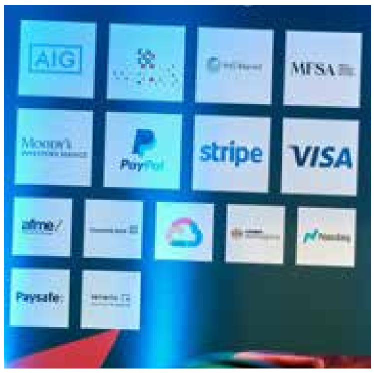
Speakers highlighted that international cooperation in FinTech is paramount and offers the potential for common rules, rather than compromise rules based on entrenched positions. Supervisors prioritise engaging and learning from each other based on their understanding of new technological developments and how to manage these risks. As supervisory priorities shift to operational resilience, applying proportionality and clarity to the mandate of supervisory responsibilities within well-defined boundaries is important. Is there a need for supervisors to look at whole supply chains on cloud? Should they really be asked to police the European Commission's current political aspirations for strategic autonomy by imposing on the commercial decision-making of the firms they supervise? The risks from FinTech are not novel but what is new is the speed of technological developments, the scale of innovation in financial services and the ability to utilise data.

The conference highlighted the strategic importance of data underpinning FinTech. Issues of the use of data surrounding ownership, underlying access, fairness and consumer protection were raised. Over time, data localisation will be seen as an impediment to innovation and economic growth. Global stablecoins might make cross-border payments easier, cheaper and quicker, but the potential for mass scale, and the cross-border dimension of crypto is focusing regulators on financial stability and the international monetary risks. Historically economies of scale and scope have been drivers of financial services. With FinTech, size does not matter potentially allowing smaller jurisdictions to become world leaders.

Speakers mentioned that expectations for FinTech are high. Driven by experiences of open payments, Europe is moving to open finance and the potential of CMU combined with FinTech has tremendous opportunities to transform the efficiency of financial services in the EU including contributing to sustainable finance. Devising a regulatory framework that provides necessary safeguards, while at the same time acting as a facilitator for innovation will not be easy and regulation could become a hindrance unable to keep up with developments. This could be compounded by many regulations crucial for FinTech, in the fields of data, Artificial Intelligence and machine learning, which will be conceived outside of financial services and will apply horizontally across all sectors of the European Union.







KEYNOTE SPEECHES

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Valdis Dombrovskis, Executive Vice-President, European Commission focused on new technologies bringing great opportunities but not without risks. Europe has an opportunity to become a global standard-setter and allow European companies to be leaders in new technologies. If the EU is to benefit from innovations, it needs to maximise the Single Market's potential so that companies can scale-up across borders. This is essential if European companies are to compete with their peers in Asia and the US. European rules should be technology-neutral, proportionate and strike the right balance between promoting innovation and managing risks. The Commission is consulting on a common framework for digital operational resilience and believes there is merit in thinking about extending the approach taken in PSD2 to other sectors, extending open banking to open finance. Later this year, the Commission will present a strategy for an integrated EU payments market. One important element of this strategy is instant payments where European solutions are required. Currently, even the strongest European operators have to team up with larger international operators that are not European if they want to offer pan-European payments and the Commission wants to change this.

KEYNOTE SPEECHES

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Vilius Šapoka, Minister of Finance of Lithuania, spoke about the attractiveness and success of Lithuania in FinTech through achieving a balance of speed without compromising security. Lithuania has become number one in the EU through changing its supervisory mindset, along with the abundance of talent and quality of IT infrastructure in the country. Data has become the new oil, so data protection and cyber resilience are crucial. In Lithuania, the Central Bank, Regulator and Ministry of Finance provide a one-stop-shop with industry and prioritise staying up-to-date with the latest FinTech developments. Lithuania has seen the most licences in payments and electronic money been issued, but hopes to replicate this success in other areas of financial services, and also hopes their success will inspire others. The EU needs to remove cross-border barriers to allow the better management of risks and permit scalability across borders. Lithuania is supportive of the Commission's FinTech action plan, which is one of the catalysts to a successful Capital Markets Union.

KEYNOTE SPEECHES

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Ante Žigman, Envoy of Vice-Prime Minister of the Croatian Government and Minister of Finance, and President of the Board of the Croatian Financial Services Supervisory Agency (HANFA) spoke about innovation being a moving target making it impossible to predict the future landscape in financial services. Nevertheless, understanding the emerging trends helps us prepare for the future. There are two major trends of disintegration in financial services and disintermediation of the financial services supply chain. New technology is allowing business models to develop that allow services to be offered separately and are not vertically integrated. The barriers to entry in financial services have been reduced substantially as a consequence of technology and data optimisation driving changes in the financial services landscape. This is changing who we supervise and leading to greater concerns over data, cyber security and operational resilience. New unregulated financial products and markets are being offered alongside existing regulated products and it is important to shift crypto assets for example under the supervisory framework.

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Thomas Lillelund, CEO Europe, Middle East & Africa, AIG, focused on technology having a profound transformational impact on society in everything we do, not just in financial services. As opportunities from technology have increased, in parallel, the risk that we face as businesses and as individuals have also increased. The insurance industry can provide unique insights into those risks today and in the future. AIG has been writing cyber insurance for over 20 years and introduced cyber insurance at a time when most people were not focused on cyber, or the value of data. Cyber insurance is much more than just paying claims – although clearly that is fundamental. Insurers are uniquely placed to share insight from their experience across the market and can help clients manage the risk of cyber-attacks by working with businesses to understand their vulnerabilities as well as partnering with clients to respond effectively when a cyber-attack happens. Cyber is still an evolving risk and the regulatory environment needs to ensure flexibility to enable innovation. In order to mitigate systemic risk for insurers and also to help clients manage their own risk, it is crucial that there is clarity about when cyber risks are covered in insurance policies and when they are not. AIG has taken a leadership role in moving its insurance book over to 'affirmative cyber' where cyber risk is clearly ruled in or ruled out. This has taken a huge amount of work, and regulators have a role to play in encouraging the rest of the industry to follow suit with this important change in market practices. Finally, it is vital that all parties work together on cyber given the interconnectivity between businesses, regulators and policymakers.

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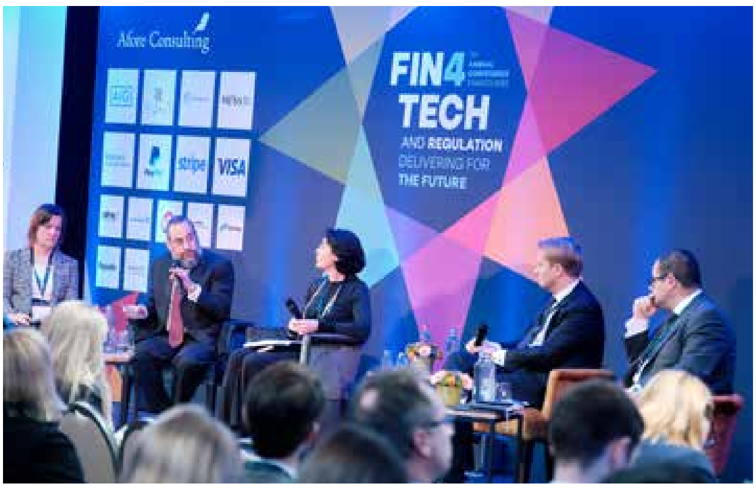
Mitchell A. Silk, Acting Assistant Secretary for International Markets, U.S. Department of the Treasury, spoke about the importance of financial innovation to economic growth and financial stability. He specifically discussed market developments in FinTech and the U.S. Treasury's response. Domestically, the Trump Administration has focused on appropriately calibrating financial regulation to better enable growth, while maintaining high-quality regulatory standards. In the international context, Treasury's Office of International Affairs (IA), under Secretary Mnuchin's leadership, has been leading the international response to the impacts of new technologies and business models on the financial system. A key Treasury IA initiative is its global engagement on data connectivity as a result of the significant threat to productivity growth and financial stability from harmful barriers like data localization requirements.



KEYNOTE SPEECHES

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Olaf Sleijpen, Director and Member of the Executive Board, Central Bank of the Netherlands (DNB) focused on the rising importance of data and data sharing arrangements. Open finance is a natural progression from PSD2 where third parties would be able to access consumer data on products such as savings, mortgages and insurance. Customer savings could be transferred from one account to another to get a much better savings rate, or their insurance contract switched to a more favourable contract. There are three key lessons open finance should learn from PSD2. First, organisations who store data need standardised terms to allow access to third parties to help avoid market fragmentation. The terms under PSD2 have become complex and fragmented making it difficult to offer services across the EU. Financial incentives for data storage will also be required. Second, authorities should cooperate and coordinate on designing data sharing arrangements. Finally, consumers must trust third parties with their data. If they do not, they will not share their data. This means it needs to be easy to give and revoke consent.

KEYNOTE SPEECHES

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Steven Maijoor, Chairman, European Securities and Markets Authority (ESMA), spoke on the theme of scale: the scale of financial innovation and the scale of projects. The entry of 'BigTechs' in finance may bring benefits such as efficiency gains, financial inclusion and personalised services, but also risks. Overtime financial services integrated with other lines of business raises issues around data privacy and could facilitate price discrimination. If competition suffers over time, consumers may lose out and markets may face concentration risk. DLT is an area that promised much, but is yet to deliver projects on a grand-scale. However, BigTechs may allow DLT applications to reach critical mass. Global stablecoins might make cross-border payments easier, cheaper and quicker but the potential for mass scale raises a host of challenges for regulators, not least risks to financial stability and the international monetary system.

KEYNOTE SPEECHES

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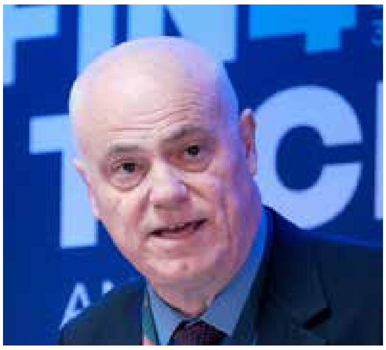

Jose Manuel Campa, Chairman, European Banking Authority (EBA), talked about the EBA's work to achieve technological neutrality and the challenges of securing not only cross-jurisdictional, but also cross-sectoral consistency. The EBA have identified cases where existing regulation, or the absence of regulation, results in outcomes that are not technology neutral and where significant divergences pose a barrier to the scaling up of activities cross-border. Areas the EBA have identified where additional regulation is required include the appropriate oversight framework for TPPs and crypto-assets, but there will be other areas over time. Jose Manuel Campa laid out the strategic priorities for the year ahead. FinTech remains a priority in addition to focusing on crypto-assets, AI, big data, machine learning, RegTech and SupTech and operational resilience. The EBA will undertake a thematic review of the trend towards the re-aggregation of products and services on platforms and emerging new forms of interconnection.

KEYNOTE SPEECHES

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Fausto Parente, Executive Director, European Insurance and Occupational Pensions Authority (EIOPA), focused on digitalisation of finance being dependent on many things, but core are technology and data. Data is valuable and technology vulnerable; and that leaves companies and people open to risks of cyber-crime. Given the importance of data, EIOPA is focusing on fairness and non-discrimination, transparency and explainability, and governance issues pertaining to data. A sound cyber insurance market is an important enabler of the digital economy and EIOPA believe a lack of data is one of the biggest obstacles to the provision of proper coverage as insurers are unable to price risk and estimate the liability of exposures. A European-level standardised cyber incident reporting framework is required that enables the sharing of anonymised, aggregated data so that insurers and reinsurers can develop adequate pricing and risk management models. There also needs to be a common understanding of contractual definitions and EIOPA are working with national supervisors to ensure appropriate underwriting standards are in place.

KEYNOTE SPEECHES

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John Berrigan, Director-General, DG FISMA, European Commission, noted that digital finance was one of the two priorities of DG FISMA, alongside sustainable finance. Digital finance is better finance given its ability to foster integration, improving access to finance, lowering barriers to entry, intensifying competition and widening the choice for consumers both at the national and international level. It also has huge potential for the single market through breaking down the national and geographical barriers and, in the case of securities markets, digital finance helps with interoperability between national market infrastructures. The key challenge from digital finance is that the risks do not disappear. Some reduce, others emerge or grow and these all need to be managed effectively. The key challenge for policymakers is to manage risks posed by digitalisation whilst exploiting benefits. International cooperation is necessary, especially on AML, tokenisation and reliance on third party providers, which cannot be done in isolation. By next year, the Commission will have a strategy in place on digital finance and will have made advances with EU co-legislators on crypto assets and operational resilience.

KEYNOTE SPEECHES

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Dr. Jörg Kukies, State Secretary at the Federal Ministry of Finance of Germany, highlighted the opportunities brought about by digital finance and the need for European rules. It is impossible to talk about any issue pertaining to European sovereignty without discussing issues under digital finance. The question of digital money is crucial. Saying no to LIBRA is not enough; regulators must formulate credible alternatives that promote, rather than threaten the role of the Euro. It is very good that the EU has institutions pushing forward these agendas, for instance on a digital currency, where the systemic risks can be addressed by a tiering model as proposed by Ulrich Bindseil from the ECB. To promote digitization, Germany has introduced a new regulation that ensures platforms open their interfaces to payment service providers on reasonable terms. Germany has dedicated 10 billion Euros to establish a growth fund managed by KfW with the goal of attracting digital businesses to Germany that invest into clean energy and technology. Germany is also digitising their securities market and is introducing legislation to tokenise securities.

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Jean Paul Servais, Chairman, Financial Services and Markets Authority of Belgium (FSMA), and Vice-Chair of the IOSCO Board, noted at the outset that FinTechs are not compelled to engage with supervisors, as their business model is usually outside the scope of action of supervisors, which is a challenge. He presented his expectations as a supervisor when engaging with the FinTech sector; facilitating, monitoring and supervising. These actions must happen at national, European and international levels, which are not competing with each other. Through facilitation, supervisors must ensure that innovation happens in a smooth manner. However, innovation must respect market fairness, financial stability, and consumer protection. Facilitation needs monitoring. Belgium has introduced a crowdfunding regime largely based on a mini-MiFID framework, where platforms are supervised by the FSMA. In addition, significant efforts have been made to foster greater financial education. At European level, ESMA is very active on the digital agenda and was one of the first bodies to publish a document on the legal qualification of cryptoassets. FinTech is also important for IOSCO, whose FinTech network covers 50 jurisdictions. Moreover, cryptoassets remain in IOSCO's top five priorities for 2020.

KEY OBSERVATIONS

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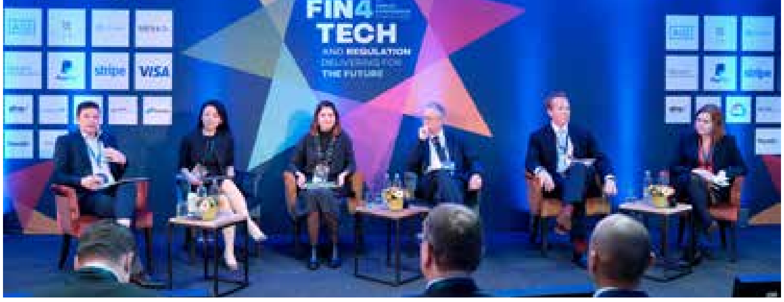
The conference consisted of five panel discussions covering international cooperation, reliance on third parties, open finance, FinTech and CMU, and crypto assets. This led to a number of interesting observations:

- In the discussion on **international cooperation** on FinTech, policymakers are sitting down together with a blank piece of paper, rather than having established and entrenched positions ahead of attempts to coordinate internationally which has been usually the norm. One speaker mentioned this is allowing the potential for common, rather than compromise rules. There is a lot of hope for international coordination and to look for solutions together, understand innovation and how it will impact existing and new businesses. FinTech has been an enabler for cross border financial services, particularly in payments, which has driven supervisory cooperation. Data is the enabler behind FinTech and data localisation will increasingly be a key area discussed internationally as an impediment to innovation and economic growth. One discussant raised the challenges of how FinTech is to harmonise rules at both the national and at the international level. International cooperation is not just important multilaterally but also bilaterally. Supervisors do not only talk to each other at international meetings, but also cooperation exists at supervisory college meetings and through bilateral discussions. Supervisors are very interested to learn from each other about their understanding of new technological developments, how they are managing these risks, particularly cross-border risks where services can be provided under different regulatory frameworks across different jurisdictions.



- The **reliance on third parties** in financial markets and concerns over data, oversight, cybersecurity, outsourcing and operational resilience were covered by discussants. Speakers broadly agreed that regulation should be proportionate and should not prevent outsourcing to third party providers, as many outsourcing arrangements can increase innovation or compliance. The EBA called for oversight of critical third party providers, which would be built around enhanced security and the need for authorities to have direct access, audit and sanction rights. However, speakers also noted that there is fragmentation in terms of regulatory practices across markets. The question was raised as to what is the tipping point when a service becomes critical. A harmonised view across the EU or even more globally on how to assess materiality and risk would be desirable. Concentration and 'lock-in' risks were addressed, however a multi-cloud approach cannot be a legislative solution as it is ultimately a business consideration. A key takeaway was the need to raise the level of security across all services, not just the critical ones, and not only across directly connected services but to look at other dependencies as well, given that risks are global and not confined to the financial services sector, especially in the area of supply chain security. ENISA called for cross-sectoral data-sharing but in a structured and targeted way. The need to ensure operational resilience by design and operational continuity was another key theme that emerged from the discussions.

- Europe is moving from open banking to **open finance** and open data more generally. PSD2 was an important step forward to allow data access by third party providers, but as Olaf Sleijpen from the Dutch Central Bank said, data sharing will




not end with payments data. The European Commission confirmed that there is merit in extending the approach taken in the PSD2 to other sectors and move from open banking to open finance. PSD2 and open finance will be part of a much broader social development through open data, which will bring added value to consumers. This requires a standardised data access framework. Legislators should design future proof regulation that combines different public interests and it is paramount that consumers are in control of their data. Trust in third parties is vital in the open finance space. For the European Commission, one way to continue developing open finance is through very high standards on security and safety. This will be a key part of the Commission's strategy to identify the best tools to promote open finance. Leena Mörttinen from the Finnish Finance Ministry said that data and information asymmetries are the biggest obstacles for efficiency in the economy and information sharing is needed badly. One of the challenges that the industry is facing is the lack of standardised APIs. There should be a more prescriptive approach that leaves room for innovation. Industry also called on regulators to facilitate the adoption of new technologies by companies.

- FinTech can help address some of the existing barriers to the **CMU**. Impacts of FinTech on the supply side are already visible, especially when it comes to crowdfunding, effects on DLT, tokenization and CorpTech. FinTech on the demand side should be increased. This will lead to a more liquid and efficient capital market. FinTech can help in creating more integrated and efficient capital markets and allow financial advisors to provide better advice through the utilisation of new data and methodologies. Speakers also addressed the question of compliance as





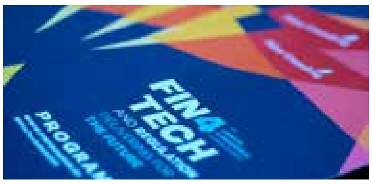
a barrier to market entry. The European Commission will continue to consult on the regulatory obstacles market participants see, especially in regard to scaling up. There are some worries around data localisation and the balkanisation of networks in AML/KYC area. Applying KYC rules should not be a barrier for new entrants. It is key that new market entrants do their due diligence fast and based on verifiable data. FinTech is about new business models and services which often cannot be predicted. It was suggested that policymakers should try to anticipate technological innovations and create the legal framework accordingly. The regulation has to prepare the market for new business models, by offering security to market participants and flexibility to allow for innovation. The biggest barriers for scaling up FinTech are regulatory gaps that create legal uncertainty. It is difficult to secure large investments for unregulated activities. FinTech is a specific area in which the lack of regulation is more detrimental than overregulation. Speakers also agreed that FinTech could be a great facilitator for a more sustainable economy, especially when it comes to providing high standard trustworthy data. This offers consumers more information behind ESG products and prevents greenwashing.

- On **cryptoassets**, panellists recognised that LIBRA was a wake-up call for Central Banks, notably for cross-border remittances, and forced policymakers to think of technology as a conversation-changer. However, it does have its weaknesses which are inherent to its nature. Turning to the role of money, it was agreed that irrespective of public or private money, the conditions of safety and confidence were necessary. The regulation of cryptoassets and digital currencies should follow an activity-based approach, said Sharon Yang from the US Treasury. However,






new products could fail to comply with AML/CFT obligations. Central Bank Digital Currency (CBDC) was discussed as a means and not an end; CBDCs will have little usefulness if they cannot provide a solution to cross-border payment barriers. However, Andris Strazds of the Central Bank of Latvia suggested that they could be an interesting, second-best option if private companies are unable to issue digital currency. Tom Mutton of the Bank of England, stressed that Central Banks need to look very carefully at data-driven business models and their implications on financial stability.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