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Olivier Guersent

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Introduction

Hello.

Thank you very much for giving me today the opportunity to share our vision for the European financial sector, in particular in the context of the on-going work carried out in the Commission by the Task Force on Fintech.

Let me start by stressing that the European Commission aspires to a thriving and globally competitive European financial sector which can take advantage of the most cutting-edge technology to bring benefits to the European economy and society. The financial services sector is one of the key pillars of the European single market. It is the key source for funding for all European businesses and an integral part of consumers' daily lives.

This sector has changed significantly in the last years in response to post-crisis market conditions and regulation. And now, change in consumer expectations, technological innovation and new competitors are having a major impact. All of this comes with challenges but also opportunities for the sector – this is what you have been exploring today.

I recognise that to achieve a globally competitive financial sector, it is crucial that the European policy and regulatory framework supports and encourages firms to harness the opportunities from innovation – if we get this right, the prize is there! However, it is as important to ensure the safety and soundness of the market and that consumers and investors are protected.

I will use the next 15 minutes to give you my "two-cents worth" from the European regulator's perspective. I will:

- first talk about some of the main changes and challenges for the industry as we see them,

- then proceed with describing some of the initiatives that are already on the way, and
- finally share some thoughts about what may be our next steps.

Changes and Challenges

Digital consumer

Digitalisation has transformed many industries across the world and the banking sector is no exception. Mobile and digital technologies have completely changed the way consumers interact with their financial services providers.

Customers and investors now want to access services anytime, anywhere, including more and more often from their mobile phones. While developing innovative services, providers have to therefore offer fully digital and seamless processes to their clients.

Incumbents have to compete with new entrants, start-ups offering fully digital services and delivering superior digital customer interactions.

These changes are of course bringing huge benefits for consumers and we are seeing an increase of transparency in the sector, more convenience and cheaper services for consumers.

Of course these developments also bring new risks. First, with ever increasing amount of transactions executed from mobile phones, sometimes through new types of providers, high security standards must be guaranteed to all consumers.

Consumer organisations stress that everyone should be protected when it comes to the use of personal data. Consumer data protection rules are essential and new ways of using data, possibly used by providers to better target their offers ("data profiling"), should be looked at carefully. The ability to better target offers and adapt them to the specific needs of consumers can have clear advantages, but also carries risks.

Finally, we need to bear in mind that not all consumers want to enter into the new digital world - some people will always prefer bank branches, human interaction or advice, and we must ensure that these clients do not get excluded.

Digital bank – challenges

At the Commission, we are also not blind to the challenges banks face in this period of fast change. These stem not only from changing customer expectations but also, to name a few, from the low-interest environment, new competitors, revamped regulatory and prudential requirements, the incredible speed of technological change and the struggle to keep up when having legacy IT systems.

I saw that in the Swiss Finance Council Discussion Paper published today, a suggestion is that the bank of the future might be a platform bank that connects the service and product providers it is collaborating with – a plug-and-play system hosted by the bank. Another vision I have heard is that provision of financial services will become part of everyday activities, even when connecting with other platforms - for example when using Facebook. So banks will have to learn how to 'serve what they do not own'. And last month, there was indeed news that Facebook users can now start making transfers through Transferwise without leaving Facebook messenger.

Either way, it will be a challenge to make the banks' legacy systems talk smoothly to the new players' technology and the other way around. The key to both scenarios seems to be developing robust ways of co-operation and interoperability between traditional providers and new entrants.

In the middle of all this change and increased competition, banks are calling for a level playing field – same activity, same rules. I do believe that the EU financial services regulations recognise this principle – it is activity based, so anyone who wants to provide a regulated service has to ask for a license and comply with rules. But we should also honour the principle of proportionality. But I will come back to this a little later.

Coming to what the Commission has done so far…

Role of regulation – technology neutrality

The Commission's current stance in relation to technology in financial services can be described for the most part with three principles: neutrality, proportionality and soundness (in terms of financial stability, integrity and security). However, we are now considering whether the European regulatory, but also supervisory, framework should become more supportive and encourage firms to harness the opportunities from FinTech.

We did seek to encourage technological innovation in the field of payments in the past years, initially by creating new categories of institutions in our legal framework, but also more recently with the adoption of the revised Payment Services Directive ('PSD2'). With this directive, we are indeed opening the market to a variety of new businesses such as on-line payment solutions or information account aggregators for instance.

Action Plan on retail financial services

Besides, digitalisation of the banking sector was at the heart of the public consultation on retail financial services launched last year. Disruption had an impact first on retail financial services (e.g. payment and lending) and innovative on-line services represent a major opportunity for enhancing the Single Market in retail financial services.

However, to make it happen, a number of obstacles have to be overcome, in particular the need for firms to be able to identify consumers from a distance (e.g. the so-called "KYC" requirements) in full compliance with anti-money laundering rules.

E-IDAS regulation already creates an interoperability framework for the national e-ID systems that will be notified soon by Member States. At the same time, the 4th AML directive acknowledges new developments regarding e-ID and accepts digital means under e-IDAS. Considering these new developments, the Commission will propose initiatives in this area in the upcoming action plan. All financial services providers should be able to offer on-line services easily and across borders in compliance with anti-money laundering rules.

CMU (robo-advisors and crowdfunding)

On the investment side, the Commission also looked into these issues in the context of the CMU Action Plan. Particularly interesting is the on-line advisors area.

Web-based distribution channels may facilitate investors' access to financial services and have the potential to improve access to financial advice for those who find its price too high.

However, new technology also gives rise to challenges in meeting conduct of business rules where the human interaction is significantly reduced.

Let me be clear, investment advice is regulated by MiFID, regardless of the type of interaction with the client. Face-to-face and online advisers are subject to the same conduct standards to ensure that a recommended product is suitable for the client.

As part of this conduct regime, robo-advisors are required to carry out suitability test with the client and – as of January 2018 – will have to provide retail clients with suitability reports.

MIFID 2 clarifies that the responsibility to undertake the suitability assessment lies with the investment firm providing the service and cannot be reduced by the use of an electronic system.

Being aware of these rapid technological developments, we are exploring the impact of on-line distribution on investor protection through a study. The study will analyse how online platforms comply with conduct of business rules and how mis-selling risks are addressed in online business. Depending on the outcome of this research, the Commission will consider whether further EU action is necessary.

I would also like to talk about crowdfunding.

Crowdfunding is still small but growing fast in Europe. If appropriately regulated, crowdfunding has the potential to be a key source of financing for SMEs over the long term. EU Member States have begun to put in place national frameworks to support the growth of the sector and ensure investors are appropriately protected.

In the framework of the CMU, the Commission published a report that explains the market and regulatory landscape in this dynamic field.

Crowdfunding in the EU remains largely local. A number of reasons account for this, including home bias and the fact that investing in a local company or venture takes less of a leap of faith than investing in an equally worthwhile opportunity hundreds if not thousands of kilometres away. However, divergences in national regulatory frameworks and in the interpretation of EU rules applying to crowdfunding activities could create obstacles to the development of cross-border business and lead to market fragmentation.

The need to comply with different requirements may be too costly and prevent smaller platforms from achieving the scale necessary to operate cross-border. In addition, divergences in regulatory regimes may pose challenges to cross-border investor protection.

Therefore, the Commission is keeping developments in the sector under review, and meet regularly with ESMA and EBA, national regulators and the crowdfunding sector. This will ensure the Commission is able to respond in a timely manner if further steps to support regulatory convergence are needed, both to promote the development of the sector and to ensure appropriate investor protection.

What happens next - Task-Force on Fintech

Of course FinTech developments are much broader. They are indeed cross-sectoral and will impact the whole financial sector. They do not only make the financial sector even more technological, they also bring the technology sector more and more into the realm of finance. For this reason, we decided to create a FinTech taskforce last year.

All relevant Commission services are part of this Task-Force and in particular experts in charge of technological developments, data and competition issues. We believe that we need to take a multi-disciplinary look at the issues brought about by the confluence of finance and technology.

Regulatory framework for Fintech and level playing field

If our aim is to support an innovative and competitive financial sector across Europe, we have to ensure our regulatory framework and policies are indeed supportive for firms and their customers.

EU financial legislation is activity-based, and therefore any firm carrying out a specific regulated activity has to comply with the relevant EU rules, in a proportionate manner of course. "Same activity, same rule" and "proportionality" together ensure a level playing field between all market participants.

In some cases though, innovative firms – be they start ups or long established financial institutions - may find it difficult to identify the relevant framework due to hybrid models or new ways of offering services.

In this respect, we are aware that the Swiss government recently launched a consultation on possible changes to be introduced in the licensing regimes for Fintech firms in Switzerland.

On our side, the Task Force is assessing technological developments and new business models, to determine whether existing rules and policies are fit for purpose and whether new licensing/passporting regimes are needed for instance. We indeed aim to ensure that innovative services can emerge and expand easily across the EU.

As I mentioned earlier, we are also looking at how financial institutions and new tech firms cooperate, for instance by outsourcing more and more activities to other providers. While outsourcing may bring significant efficiencies for incumbents, it could also bring operational and supervisory challenges. The Task Force is also exploring these issues and will assess whether the existing outsourcing requirements in the financial services legislation are adequate.

Supervisory practices and sandboxes

Although this may appear somewhat unusual for the Commission as we are not supervisors, the Task Force is also looking beyond regulation to understand the impact of supervisory practices.

Innovative firms, regardless of whether they are start-ups or already established on the market, regularly express concern that EU and member state supervisory practices limit their ability to innovate and to offer services cross-border. They can be subject to disproportionate, inconsistent or over-cautious application of regulatory requirements which were not designed for their new approaches, especially if the business model does not fit easily into the existing framework.

Recently, regulators and supervisors in some Member States have tried to be more proactive and are developing new methods to support the development of innovative businesses while learning from firms. These initiatives include hubs providing guidance on applicable regulation, teams focussing on policy implications of FinTech, and some member state supervisors are working with firms as they are testing their activities – I am sure that you have heard of regulatory sandboxes.

I know that in Switzerland, the Federal Council is also currently consulting on its draft project for an Innovation Sandbox.

Our Task Force is looking at the different practices and closely monitoring the path that global FinTech Hubs, including Switzerland, are taking. We are analysing whether there is a role for the Commission in that area, and how we may best facilitate such activities.

However, in the meantime, we encourage new supervisory approaches and cross-border co-operation when supervisors deal with innovative solutions. Consumer protection standards should remain intact. We believe this should help technological innovation to better adjust to the existing framework and supervisors to the changing financial landscape.

Finally, the Task Force is exploring cutting-edge developments such as distributed ledger technology, as well as essential issues related to cybersecurity.

Conference of 23 March

Besides the work carried out in the Task Force, the Commission will organise a Conference on Fintech on 23 March in Brussels where most of the topics mentioned earlier will be discussed. Panels gathering representatives from the industry, both incumbents and Fintech start-ups, as well as consumer organisations, national regulators and supervisors will share their experiences and contribute to this debate.

Digitalization and Fintech are attracting a lot of attention and the amount of interest in participating in this conference far exceeded the capacity of the largest conference facility that we have at our disposal.

Conclusion

Before I finish, I want to leave you with one final thought: regulators have a role in ensuring that the regulatory framework is fit for the new digital reality. But our work alone will not be enough.

Developing a framework and working methods that are fit for an innovative digital world will require commitment and effort from all stakeholders.

So, I invite you all, the national competent authorities and the industry, not to look only at the regulators for solutions; but be engaged, committed, and creative as we all explore solutions for building a true technology enabled European market for financial services.

As a first step, I expect to see many of you at our FinTech Conference on 23rd March.

Ladies and Gentlemen,

Thank you very much!