

# **European Forum for Innovation Facilitators (EFIF)**

## **Summary of the October 2020 meeting<sup>1</sup>**

### **Opening remarks**

Tim Shakesby, Chair of the EFIF, welcomed members and observers to the event.

Referring to the core objectives of the EFIF,<sup>2</sup> the October EFIF event enabled members and observers to:

- learn about developments in the design and operation of innovation facilitators;
- hear from private sector participants about multi-purpose digital platforms facilitating the provision of financial services and exchange views on experiences and market developments/future trends;
- hear from private sector participants about RegTech and exchange views on experiences and market developments/future trends;
- get an overview about the activities of the Directorate-General for Structural Reform Support (DG REFORM) and the European Bank for Reconstruction and Development (EBRD) in the field of financial innovation and exchange views on interactions with the EFIF;
- hear from the European Commission about the final outcome of the Digital Finance Strategy adopted on 24 September 2020 and exchange of views on its implications for the EFIF;
- exchange views on next steps to implement a strengthening of the EFIF.

### **Innovation facilitators: Developments**

Members provided an update on:

- the new innovation hubs and regulatory sandboxes that have become operational since the July 2020 event; and

---

<sup>1</sup> Format: conference call hosted by the EIOPA.

<sup>2</sup> See the Terms of Reference: <https://esas-joint-committee.europa.eu/Pages/Activities/EFIF/European-Forum-for-Innovation-Facilitators.aspx>

- significant progress in the establishment of innovation hubs and regulatory sandboxes (e.g. public consultations, progress of legislative measures etc.).

The majority of members noted no significant changes to the functioning of their innovation facilitators. However:

- one member noted the establishment of a regulatory sandbox in September;
- another member also noted the establishment of a regulatory sandbox in July 2020; multiple applications are at pre-testing stage at the moment;
- one member noted the approval of a draft law on digital transformation; based on the positive feedback it is likely to assume that a regulatory sandbox will be put in place in December 2020;
- one member reported that a new innovation hub will be launched at the end of 2020, which will facilitate the exchange of ideas, skills, experiences and collaboration with academics and other institutions, but which will also be a place where the public sector will support innovative ideas from the private sector complying with specific criteria;
- another member noted that two sandbox projects are currently in progress; the application period to another cohort will start as of November 2020 and subsequent testing is foreseen for Q1 2021;
- another member reported additional applications related to RegTech to its regulatory sandbox; applicants are currently in the process of drafting a testing plan;
- one member reported that testing of a P2P insurance platform in its regulatory sandbox is almost finished and that there are already some preliminary conclusions to draw;
- one member noted that its innovation hub is up and running and that feedback in general is positive;
- one member noted that the innovation hub is most popular amongst the RegTech and Payments subsectors and that majority of enquiries are coming from SMEs and unauthorised firms;
- another member noted that a summary of the responses received to a public consultation on regulatory sandboxes has been published; the majority of responses support the establishment of a regulatory sandbox;
- one member reported that the government published a law requiring the national competent authorities to issue a report on sandboxes until the end of 2020;

- in the light of the COVID-19 pandemic, one member reported that any engagement with firms through innovation facilitators is still facilitated fully virtual;
- one member noted the publication of a guide on frequent mistakes done when applying for a financial services license as well as the publication of an infographic illustrating the steps needed for entering into the financial market;
- another member reported that the Finance Ministry and the Ministry of Justice and Consumer Protection presented a draft law on the introduction of electronic securities, as part of the government's Blockchain strategy.

## **Multi-purpose digital platforms facilitating the provision of financial services**

A representative from an international law firm provided an overview of the 'Platformisation' landscape, which was followed by two presentations from market participants about multi-purpose digital platforms.

Members and market participants agreed that platformisation is one of the key digital trends reshaping the European financial sector.

Market participants noted that platforms put significant pressure on incumbent financial institutions' traditional business models. In consequence, it was argued that this development compels many incumbent institutions to reconsider their business models and to overhaul them. In this context, market participants emphasized that many financial institutions see technology companies not only as competitors, but also as an opportunity to cooperate and innovate further their business models.

It was argued that the financial industry will more and more become a platform industry in the future. According to market participants, the companies that are best positioned are the ones that have direct access to the customer and their trust. For this reason market participants illustrated that they have already taken first steps to transform their business into a platform, a one-stop shop for their clients' financial needs and beyond. In this process, FinTechs are not perceived as a threat, but rather represent valuable partners. The actual competitors are the BigTechs or those companies that also want to become a marketplace.

It was emphasized that for a development towards a marketplace it is necessary to broaden the scope of products and services offered to consumers, including products and services from other companies. The reason for this is that, according to market participants, it is convenient for consumers and therefore helps maintain the all-important customer relationship, providing them direct access to the customer (and their data).

Moreover, market participants also emphasized that the growth opportunities in the platform business are significantly greater than in the traditional financial business these days, as it allows to go beyond classic product fields.

EBA, ESMA, and EIOPA staff reported about their work underway on the topic of platformisation. EIOPA published a Discussion Paper on new business models and conducted a public consultation on this in summer 2020, which touches on the topic of platformisation as well.<sup>3</sup> The EBA is currently assessing the use of digital platforms for the provision of banking and payment services; the EBA plans to issue a report in mid-2021 setting out a summary of market trends and any regulatory and supervisory issues arising, including (as appropriate) recommended actions. To inform the thematic work, two surveys have been launched (one for competent authorities, one for industry).<sup>4</sup> ESMA also refers to the topic of Platformisation in section ‘BigTech – implications for the financial sector’ of the ESMA Report on Trends, Risks and Vulnerabilities No. 1, 2020.<sup>5</sup>

Finally, it was agreed that the EFIF will continue monitoring developments in the field of platformisation from a cross-sectoral perspective drawing on direct experiences from innovation hubs and regulatory sandboxes. In this regard, the individual work of each ESA will feed into the discussions and the ESAs will continue coordinating with one another on this important topic.

Introduction:

- Anne Fischer, Counsel, Allen & Overy

Presentations:

- Frank Pohlgeers, Managing Director, Deutsche Bank

---

<sup>3</sup> EIOPA Discussion Paper on new business models is available at [https://www.eiopa.europa.eu/content/eiopa-consults-reinsurance-value-chain-and-new-business-models-arising-digitalisation\\_en](https://www.eiopa.europa.eu/content/eiopa-consults-reinsurance-value-chain-and-new-business-models-arising-digitalisation_en).

<sup>4</sup> The industry survey is available via the EBA’s FinTech Knowledge Hub: <https://eba.europa.eu/financial-innovation-and-fintech/fintech-knowledge-hub>.

<sup>5</sup> ESMA Report on Trends, Risks and Vulnerabilities No. 1, 2020 is available at: [https://www.esma.europa.eu/sites/default/files/library/esma\\_50-165-1040\\_trv\\_no.1\\_2020.pdf](https://www.esma.europa.eu/sites/default/files/library/esma_50-165-1040_trv_no.1_2020.pdf).

- Sebastian Langrehr, CSO, Market Strategy & Sales, Friendsurance

## **RegTech**

Members got an introduction on the topic of ‘RegTech’ from an international law firm and then received presentations from market participants about propositions involving RegTech solutions.

RegTech (Regulatory Technology) is the use of technology to enhance risk management and regulatory compliance in financial institutions. Members agreed that RegTechs service providers leverage on technology to enhance the efficiency and effectiveness of surveillance and to increase compliance. However, it was also agreed that even though RegTech solutions provide opportunities in reducing risks, RegTech service providers must be cautious about potential technology risks of their solutions (e.g. cyber risk).

Market participants presented some concrete RegTech use cases such as the standardisation of regulatory responses across national competent authorities, standardisation in regulatory reporting concepts or RegTech for risk management and compliance.

EBA staff complemented this agenda item by highlighting that the authority conducted a RegTech industry survey amongst relevant stakeholders (financial institutions and ICT third party providers) in summer 2020. In this survey stakeholders were invited to share their views and experience on the use of RegTech solutions. The survey results will form the basis for an EBA thematic report on RegTech. ESMA also refers to the topic of RegTech in section ‘RegTech and SupTech – change for markets and authorities’ of the ESMA Report on Trends, Risks and Vulnerabilities No. 1, 2019.<sup>6</sup>

It was agreed that the EFIF will continue monitoring developments in the field of RegTech from a cross-sectoral perspective drawing on direct experiences from innovation hubs and regulatory sandboxes. In addition to this, the work at

---

<sup>6</sup> ESMA Report on Trends, Risks and Vulnerabilities No. 1, 2019 is available at: [https://www.esma.europa.eu/sites/default/files/library/esma50-report\\_on\\_trends\\_risks\\_and\\_vulnerabilities\\_no1\\_2019.pdf](https://www.esma.europa.eu/sites/default/files/library/esma50-report_on_trends_risks_and_vulnerabilities_no1_2019.pdf).

ESA/individual ESA level will feed into the discussions. The ESAs will continue coordinating with one another on this important topic.

Introduction:

- Dr Alexander Behrens, Partner & Head of German financial regulatory team, Allen & Overy

Presentations:

- Nicolas Fournier, Co-founder & CEO, Sequantis
- Rohini Gupta, Co-founder and Lead Regulatory Advisor, finreg-E

## **EFIF: Collaboration with EBRD and DG REFORM**

Members received presentations from the Directorate-General for Structural Reform Support (DG REFORM) and the European Bank for Reconstruction and Development (EBRD) with a view on potential future interactions with the EFIF.

The DG REFORM gave an overview about its field of work and in particular about the Technical Support Instrument (TSI) as the successor of the Structural Reform Support Programme (SRSP), the organisation of the 2021 technical support call, DG REFORM's priorities for the coming years and the kind of support, which the Directorate-General offers in the area of digital finance.

The TSI offers technical support for the design and implementation of structural reforms for all EU Member States based on request. The expertise of the DG REFORM covers the entire life cycle of the reforms in the area of digital finance.

In collaboration with the DG REFORM, the EBRD implemented more than 30 technical cooperation projects in the field of capital markets development in 10 EU Member States so far. As the experience gained in these projects is of high relevance to the EFIF, EBRD representatives shared with members more details on how the EBRD is engaged in financial innovation. EBRD representatives explained that the EBRD supports its Countries of Operations (CoOs) in leveraging the benefits of digital transition. Through multiple layers the EBRD is able to provide technical assistance, support the development of the venture capital (VC) asset class, provide advisory and other support to incubators and accelerators and participate as observers in relevant fora. Of particular interest to

members was the EBRD's technical cooperation with its CoOs in establishing regulatory sandboxes and accelerators.

It was agreed that the presentations from the DG REFORM and the EBRD brought added value to the discussions in the EFIF. As relevant there will be further interaction with them in the future.

Presentations:

- Magdalena Bos-Lewandowska, Policy Officer, EC Directorate General for Structural Reform Support (DG REFORM)
- Jacek Kubas, Associate Director, Debt Capital Markets, Local Currency and local Capital Markets Development (LC2) Team, EBRD

## **EU Digital Finance Strategy and EFIF**

Based on public consultations and the Digital finance outreach, the European Commission adopted on 24 September 2020 the digital finance package, including the digital finance strategy and legislative proposals on crypto-assets and digital resilience.

The digital finance strategy sets out general lines on how Europe can support the digital transformation of finance in the coming years, while regulating its risks. The strategy sets out four main priorities: removing fragmentation in the Digital Single Market, adapting the EU regulatory framework to facilitate digital innovation, promoting a data-driven finance and addressing the challenges and risks with digital transformation, including enhancing the digital operational resilience of the financial system.

As there are multiple touching points of the digital finance strategy with the EFIF, EC staff highlighted those and explained the implications for the work of the EFIF. A particular focus was put on the plan of the European Commission, in cooperation with EFIF, to establish a new EU digital finance platform. This new platform will serve as a channel to interact online and on an ongoing basis with the digital finance ecosystem. It will also offer an interface to the EFIF and to national innovation facilitators and national e-licensing procedures. Going forward, it could be developed into a broader platform for cooperation and a data space that could be used by industry or supervisory authorities to test innovation.

It was agreed that that the EU digital finance platform will be discussed in more detail at the next EFIF event.

## **Next steps to implement a strengthening of EFIF**

From the July EFIF event we could see that members and observers welcomed the continuation of the discussion on the role and tasks of the EFIF, including in particular the discussion on the development of an experimental cross-border testing framework. It was agreed that further discussion will be needed on this. As a follow-up to these discussions in the July EFIF event, EIOPA, as the Chair of the EFIF, in close cooperation with the other two European Supervisory Authorities and the European Commission, came back to members with some more details about measures to strengthen the EFIF.

EIOPA, in close cooperation with the EBA and ESMA, will proceed in promoting the EFIF as the main innovation facilitator network in Europe and in strengthening the communication with stakeholders. As relevant, the ESAs will also reach out to other authorities both within and beyond the financial sector. Members were encouraged to think about how to promote the EFIF at national level as well.

Based on the positive feedback from the July EFIF event, the ESAs have done some further thinking on the development of an experimental cross-border testing framework. As a result of this it was announced that a dedicated EFIF project team working on a procedural framework for launching cross-border testing in the EU will be put in place soon. All members were encouraged to become part of this project team, which will commence its work as soon as possible. The project team will constantly update the EFIF about its work and the progress made towards such a framework.

-----