

European Forum for Innovation Facilitators (EFIF)

Summary of the April 2020 meeting¹

Opening remarks

Piers Haben, Director, Banking Markets Innovation and Consumers, EBA, welcomed members and observers to the event.

Referring to the core objectives of the EFIF,² the April EFIF event enabled members and observers to:

- learn about developments in the design and operation of innovation facilitators;
- receive an overview of the December 2019 report of the Expert Group on Regulatory Obstacles to Innovation (ROFIEG);³
- hear from European Commission staff about the consultation on the Digital Finance Strategy⁴ and discuss preliminary suggestions on measures to further strengthen the EFIF in the context of the upcoming strategy;
- receive an update on the EFIF work programme 2020;
- discuss perceptions around the role of FinTech in responding to the COVID-19 crisis and impact of the crisis on the FinTech industry;
- hear from private sector participants about their experiences of engaging with innovation facilitators, in particular with respect to artificial intelligence (AI), Big Data and machine learning solutions;
- receive an update from European Commission staff on the development of a legislative proposal for a common EU framework for crypto-assets.

Innovation facilitators: Developments

Members provided an update on:

¹ Format: conference call hosted by the EBA.

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

³ https://ec.europa.eu/info/publications/191113-report-expert-group-regulatory-obstacles-financial-innovation_en

⁴ https://ec.europa.eu/info/consultations/finance-2020-digital-finance-strategy_en

- the new innovation hubs and regulatory sandboxes that have become operational since the December 2019 event and February 2020 conference call; and
- 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 has received approval for EU funding to support the establishment of a regulatory sandbox;
- one member noted that the consultation period for the draft proposal on the conditions defining the functioning of the sandbox has been extended due to the COVID-19 crisis;
- another noted that the draft legislation establishing a regulatory sandbox has been submitted to parliament for scrutiny;
- one member noted that a consultation on the establishment of a regulatory sandbox will be commenced in Q2 2020;
- one member noted that the application process for the newly established regulatory sandbox (December 2019) has now closed; applications are under review with a view to admittance and commencement of testing in Q2 2020;
- one member noted the intention to establish a specific RegTech initiative due to an increase in pilots in this area.

Additionally, several members noted a fall in enquiries addressed to innovation hubs since the start of the COVID-19 crisis.

ROFIEG report

Philipp Paech, Associate Professor of Law, London School of Economics and Political Science, Chair of the European Commission Expert Group on Regulatory Obstacles to Financial Innovation, provided an overview of the ROFIEG report setting out 30 recommendations addressed to the European Commission on measures to create an accommodative framework for technology-enabled provision of financial services ('FinTech') in the EU.

The recommendations reflect the work of the ROFIEG to:

- identify obstacles to the adoption of FinTech in the EU (Task 1);
- identify obstacles to the scaling-up of FinTech across the Single Market, including with a view to enhancing the global competitiveness of the EU (Task 2);
- clarify whether existing safeguards addressing specific risks can be applied smoothly to the new technology-based environment where it poses similar risks, or whether clarification or adaptation might be necessary (Task 3);
- identify whether the emergence of FinTech poses any entirely new risks that would necessitate new safeguards (Task 4).

The recommendations cover all segments of the financial sector, all types of novel technologies, a wide range of business cases currently observed and all types of market players. They also span important policy areas, including the prevention of money laundering and terrorist financing ('AML/CFT'), consumer protection, data sharing and use, and governance and operational resilience within the financial sector.

The recommendations are intended to help inform the European Commission's Digital Finance Strategy and can be grouped into four categories:

- the need to adapt regulation to respond to new and changed risks caused by the use of innovative technologies, such as AI and DLT, and take up any emerging opportunities with respect to RegTech or SupTech (Recommendations 1-12);
- the need to remove regulatory fragmentation and ensure a level playing field between incumbents and new market entrants, both FinTech start-ups and BigTech firms, across the entire EU (Recommendations 13-24);
- the necessity to reconcile the regulation of personal and non-personal data with the opportunities and risks offered by FinTech (Recommendation 25-28);
- the need to consider the potential impacts of FinTech from the perspective of financial inclusion and the ethical use of data (Recommendations 1 and 29-30).

Recommendation 14 was highlighted: *The Commission and the ESAs should further assess the need to establish an EU-level 'regulatory sandbox', or similar scheme, taking account of the experience acquired in the context of European Forum for Innovation Facilitators.*

It was emphasised that the ROFIEG did not favour a specific label or model of innovation facilitator – the main point of the recommendation is to address fragmentation by ensuring that firms receive consistent pan-European answers to rolling out technology-enabled financial services whilst still reflecting the balances of competences between national and EU-level competent authorities.

European Commission consultation on its Digital Finance Strategy and measures to further strengthen the EFIF

Jan Ceyskens, Head of Unit, Digital Finance, European Commission, noted the publication of the consultation on a new digital finance strategy for Europe with a deadline of 26 June for responses.

The consultation covers a wide range of topics with a view to seeking input on how to:

- ensure that the financial services regulatory framework is technology neutral and innovation-friendly;
- remove fragmentation of the Single Market for digital financial services;
- best promote a well-regulated data-driven financial sector.

The consultation includes questions about regulatory sandboxes and innovation hubs and potential measures to enhance coordination between initiatives.

In this context, European Commission staff also presented a note on a preliminary set of potential measures to further strengthen the EFIF, building on the successes of the first 12 months following establishment. The potential measures presented for the purposes of ‘brainstorming’ included: greater publicity of the EFIF, working paper initiatives, measures to formalise the identification of obstacles to financial innovation on an ongoing basis, and measures to enhance the EFIF’s capacity to facilitate cross-border sandbox testing.

Members and observers welcomed engagement at this early stage of reflection on the role and tasks of the EFIF. Support was expressed for the direction of travel. It was agreed that further discussion will be needed during the summer, taking account of the responses to the consultation paper, the balance of competences between national and EU authorities, resourcing and organisational issues.

EFIF 2020 work programme

EBA staff provided an update on the 2020 work programme following the inputs provided by EFIF members. The agreed text includes the same areas of thematic focus as for 2019 with the addition of:

- the use of innovative technology for customer due diligence (CDD), in particular, identity verification and/or transaction monitoring;
- RegTech.

The work programme, as endorsed by the ESA Joint Committee, will guide EFIF actions in 2020, accommodating any changes required as a result of the European Commission's Digital Finance Strategy and in light of any reprioritisations/constraints on resources as a result of the COVID-19 crisis.

The role of FinTech in responding to the COVID-19 crisis and impact of the crisis on the FinTech industry

Members discussed the role of FinTech in responding to the COVID-19 crisis and the impact on the sector.

It was agreed that technological innovations, for instance remote client onboarding solutions and contactless payments, are helping enable consumers to access goods and services and facilitating business activities.

Indeed, as part of the EBA's response to COVID-19, the EBA has issued a statement on consumer and payment issues⁵ calling on payment service providers to contribute to measures that limit the spread of COVID-19 and, to that end, to facilitate consumers' ability to make payments without the need for physical contact by making use of the existing exemption from strong customer authentication (SCA) available for contactless payments and, where possible, to

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https://eba.europa.eu/sites/default/documents/files/document_library/News%20and%20Press/Press%20Room/Press%20Releases/2020/EBA%20provides%20clarity%20to%20banks%20and%20consumers%20on%20the%20application%20of%20the%20prudential%20framework%20in%20light%20of%20COVID-19%20measures/Statement%20on%20consumer%20protection%20and%20payments%20in%20the%20COVID19%20crisis.pdf

raise limits for contactless payments to the maximum thresholds of EUR 50 per transaction as allowed under the RTS on SCA&CSC.⁶

The crisis is also negatively impacting the FinTech sector, for instance as a result of lower levels of lending or investment activity (albeit governments are bringing forward exceptional schemes to support lending and venture capital activity), and deferred product launches/expansions/investments in new technology.

Some innovation hubs have also seen a downturn in the number of enquiries received.

Members agreed to continue to monitor the situation.

AI, Big Data and machine learning: Experiences and emerging trends from innovation facilitators

Members received presentations from market participants about propositions involving AI, Big Data and machine learning.

One presentation explained the role of data scoring algorithms and new product structures in the insurance sector which may be applied to help drive down costs, improve the accuracy of risks assessments, and enhance engagement and fairness in the product offerings. The solutions leverage the enhanced availability of data and capacity to aggregate and analyse different types of data. For example, data sources can include activity and health information from smart sensors embedded into portable devices.

The other explained the application of AI and machine learning tools in the context of transactions monitoring for sanctions purposes. The tools enhance transactions monitoring generating significant process efficiency improvements.

Members and market participants discussed various issues relating to the application of these technologies, including issues relating to: governance and risk management, staff training, organisation (e.g. creating cross-functional teams to combine necessary competences), the ethical use of data, and supervisory practices.

⁶ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32018R0389>

Market participants referred to a lack of consistency regarding supervisors' expectations regarding explainability. A need for more guidance (both general and sector/use case-specific) on the use of diverse data types and sources was also identified.

It was concluded that it would be helpful to return to the topic of AI, Big Data and machine learning at future EFIF events, reflecting on ideas to help support knowledge-sharing on use cases and issues arising which can then be fed to relevant ESA work streams.

Presentations:

- Stéphan Krzyzaniak, Head of AI Department (Compliance Division), Crédit Agricole
- Chris Madsen, ASA, CFA, MAAA, Head of Global Underwriting Center, Aegon N.V.

Update on crypto-assets

Members received an update from European Commission staff on next steps following conclusion of the consultation on an EU framework for markets in crypto-assets.⁷ It was noted that a legislative proposal is likely to be forthcoming before year-end.

⁷ <https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12089-Directive-regulation-establishing-a-European-framework-for-markets-in-crypto-assets>