

European Forum for Innovation Facilitators (EFIF)

Summary of the February 2021 meeting¹

Opening remarks

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

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

- learn about developments in the design and operation of innovation facilitators across the EU;
- exchange views on the idea to put in place an EFIF database, which includes enquiries and applications received by EFIF members to their innovation hubs and regulatory sandboxes;
- get an overview of the results of the RegTech survey carried out amongst EFIF members in January 2021;
- exchange views on the first draft of a procedural framework for cross-border testing in the EU;
- hear from some market participants and representatives of dedicated Blockchain sandboxes about their experiences regarding Blockchain technology and exchange views on current market developments and future trends regarding this particular type of innovative technology.

Innovation facilitators: Developments

Members provided an update on:

- the latest developments in operation of their innovation hubs and regulatory sandboxes since the December 2020 event; and

¹ Format: conference call hosted by EIOPA.

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

- progress in the establishment of innovation hubs and regulatory sandboxes in cases where such initiatives are ongoing (e.g. public consultations, progress of legislative measures etc.).

The majority of members did not report significant changes and updates in the functioning of their innovation facilitators, while some members updated on the following developments:

- one member reported about their progress in the establishment of a regulatory sandbox by highlighting that they have received the final draft of an assessment report (benchmarking exercise, FinTech market overview, high-level sandbox design) and entered into the detailed design phase;
- one member noted that following the regulatory sandbox law, which was passed in November 2020, they are currently running a first call for applications to their regulatory sandbox;
- one member reported that they have received five applications to the second cohort of their regulatory sandbox and that they are currently in the process of publishing final reports for the two sandbox projects, which participated in their first cohort;
- another member reported that they have received 20 applications to the first cohort of their innovation hub, whose application deadline was on 29 January;
- one member reported that subsequent to the establishment of their regulatory sandbox in September 2020, the first firm, a provider of an app for trading in security tokens, was admitted to the sandbox in January;
- another member noted that they are continuing with the preparation for the establishment of a regulatory sandbox and that they have recently conducted a survey assessing how firms implement innovative technologies in their business models;
- another member reported that they have started a FinTech laboratory initiative together with FinTech accelerators, which aims to facilitate the dialogue with firms, which are keen to introduce new products and services based on innovative technologies;
- one member reported that in 2020 more than 100 firms have asked for physical meetings/conference calls via their innovation hub's newcomer programme, which aims at providing guidance to firms seeking to be licenced in their national market;

- one member reported that their current work on the publication of an update on their three years old innovation hub, which will provide detail on the trends in innovation they have observed through their engagements with firms through the innovation hub;
- another member noted the continuation of their innovation hub's regional engagement programme with a focus on InsurTech in 2021;
- one member noted the establishment of an internal pilot laboratory for information technologies in order to enhance internal expertise and supervisory processes;
- one member noted the development of a SupTech strategy for the period until 2025, which is accompanied by an improvement of supervisory processes in 2021.

Facilitation of information sharing on enquiries to innovation facilitators

Tasks of the EFIF according to the EFIF Terms of Reference³ are:

- to identify possible recurrent regulatory obstacles or gaps for scaling up of financial innovation stemming from existing EU legislation;
- to identify any areas in which actions may be needed to address any risks [...] arising from financial innovations;
- to share general trends regarding topics raised by firms via innovation hubs and identify regulatory and supervisory issues.

Against the background of the above tasks of the EFIF and in light of discussions from last year about measures to strengthen the EFIF, members exchanged views on the idea of an EFIF database. Such a database could include enquiries and applications received by EFIF members to their innovation hubs and regulatory sandboxes.

It was agreed that gathering information on enquiries to innovation facilitators might well bring value-add to the work of the EFIF, but further discussion will be needed. Future discussions should focus in particular on the amount and type of data gathered and on the design of the parameters of the database avoiding any

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sort of administrative burden to members. Members were invited to share their views about the idea also in written format.

Summary of EFIF results from RegTech survey

EBA staff provided members with an overview of the results from a RegTech survey, which was conducted amongst members in January. In total, 24 members responded to the survey (18 innovation hubs and 6 regulatory sandboxes).

The results of this survey will contribute to the objectives of the EC Digital Finance Strategy and feed into the EBA's thematic report on RegTech, which is expected to be finalised for publication mid-year, and takes into account other EBA information-gathering initiatives with financial institutions and RegTech providers, bilateral interviews with financial institutions and RegTech providers as well as the discussions of a workshop on 'RegTech'.

Procedural framework for cross-border testing: Dedicated EFIF project team

The dedicated EFIF project team for cross-border testing⁴ provided members with a first draft of a procedural framework for cross-border testing in the EU in advance of the event.

The draft framework sets out the rules of procedure that follow after (a) firm(s) has/have indicated interest in involving multiple NCAs from two or more EU Member States in its/their testing activities. The addressees of the framework are all NCAs in the EU, which have indicated interest in a participation. The objective of the framework is to facilitate the scaling up of innovative products and solutions across the EU.

Members discussed this first draft and shared views on immediate next steps. Whilst acknowledging the sharing of testing-related information between NCAs on a cross-border basis to be an important step to facilitate the scaling of financial innovations across Member States, some Members also expressed concerns. In

⁴ The team was launched in November 2020 and includes a number of EFIF Members.

particular, these concerns were related to the inclusion of NCAs, which do not operate a regulatory sandbox, as observers in the framework. The respective NCAs fear that the establishment of a procedural framework could create an un-level playing field between NCAs which operate a regulatory sandbox and those which do not.

The project team will continue its work taking account of the feedback received and reach out to EFIF members as appropriate.

Blockchain: Experiences and emerging trends

External speakers shared with members their experiences and views about the usage of Blockchain technology in financial services. Whilst members received presentations about Blockchain technology from two incumbent players under the first part of this agenda item, the second part brought in also the perspectives of two dedicated Blockchain sandboxes in the EU.

Following many years of investment, according to market participants recent evidence suggests that Blockchain technology is on the cusp of being truly “enterprise-ready” and is about to bring an enhanced level of control, automation and new functionalities to the finance sector. Therefore, industry representatives outlined a broad spectrum of initiatives, which leverage digitisation across the financial sector using Blockchain technology. In this respect the importance of a collaborative approach between incumbent players and key stakeholders, ensuring that Blockchain solutions are developed in a scalable and effective manner and with the right network of participants to ensure success, was highlighted.

In particular, Blockchain technology bears the potential to improve efficiencies in the financial sector, to reduce certain types of risks (such as settlement and counterparty risks) and to enhance functionalities (e.g. by using smart contracts).

Recent market developments such as discussions about the introduction of a digital euro, the launch of the world’s first Blockchain bond, the legalisation of electronic securities on the Blockchain in parts of the EU and last but not least the ‘Bitcoin hype’ underpin the importance of Blockchain technology for the financial sector.

As the EFIF is a forum to discuss issues related to innovation facilitators in particular, representatives of CeTIF's Blockchain Insurance Sandbox and LBChain introduced to members the concepts behind those two sandboxes in the second part of this item.

The Blockchain Insurance Sandbox is an academic and pre-competitive environment aiming at the development and testing of DLT and Blockchain-based financial solutions in the Italian financial market. It is being operated by CeTIF⁵, but in close cooperation with the Italian financial market authorities (Banca d'Italia, CONSOB and IVASS). The sandbox offers to interested firms a controlled and safe environment to test new and innovative financial products and services.

LBChain⁶ is a sandbox developed by the Bank of Lithuania, which is focused on Blockchain use cases only. The sandbox offers firms a regulatory and technological infrastructure to test their business solutions in a safe and controlled environment. The platform is based on Hyperledger Fabric and Corda and is currently under development.

The discussion on Blockchain was complemented by an ESA update on ongoing work regarding Blockchain technology.

Presentations:

- Mathew McDermott, Global Head of Digital Assets, Managing Director, Goldman Sachs
- Jean-Marc Stenger, Chief Executive Officer, Societe Generale – FORGE
- Chiara Frigerio, Coordinator of the Italian Insurance Blockchain Sandbox and Associate Professor, Università Cattolica del Sacro Cuore
- Andrius Adamonis, Blockchain Project Manager leading the LBChain project, Bank of Lithuania

⁵ CeTIF: Research Centre on Technology, Innovation, and Finance of the Università Cattolica del Sacro Cuore in Italy (<https://www.cetif.it/>)

⁶ More information is available at: <https://www.lb.lt/en/lbchain#ex-1-1>

AOB

Members were informed about the decision of the Joint Committee (JC) to align the JC chairmanship (from January to December) with the EFIF chairmanship. In order to achieve this aim, the JC decided in its February meeting that:

- EIOPA's chairmanship of the EFIF will be extended to 31 July 2021;
- ESMA will chair the EFIF from August 2021 to September 2022;
- The EBA will chair the EFIF from October 2022 to 31 December 2023.

Furthermore, members were informed about the decision that the JC website will be disabled in 2021. All content on the JC website (including all information about EFIF) will be replicated on the websites of the three ESAs.

Finally, it was announced that the EFIF Secretariat will share with members a list of lead points of contact on matters relating to crypto-activity supervision by NCAs in order to promote information-sharing and cooperation in view of rapid market and policy developments.
