

Group Briefing

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European Commission
Launches Internal Task
Force on Fintech

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Rapid technological advancements, including in areas such as processing and storage capacity, cloud computing, social networking and platform technologies, artificial intelligence, and mobile and distributed ledger technologies (including blockchain), have all led to a huge increase in the number of companies, both established and start-up, providing or developing solutions to provide online financial services to customers, as well as consumer acceptance of these new ways of doing business. This technology-enabled financial services revolution, across business areas such as payments, lending, raising capital and investment management, foreign exchange, money transfer, and robot advisory, is broadly known as FinTech¹, and is rapidly turning the established financial services sector upside-down. The FinTech sector can be broadly defined as a range of companies that use new technology and innovation to leverage available resources in order to compete in the marketplace of traditional financial institutions and intermediaries in the delivery of financial services. In that sense the sector is both innovative and potentially disruptive of existing financial services.

Similar technology advancements are occurring in the insurance sector, broadly known as InsurTech, which for discussion purposes will be deemed to fall under the

FinTech heading. The FinTech revolution has numerous advantages, providing both new opportunities for consumers and industry as well as posing serious and currently unanswered questions as to how FinTech based financial services will be implemented, supported, secured and regulated.

The European Commission has recognised how technology can drive efficiency gains and allow the disintermediation of financial services, leading to consumer benefits and providing a competitive edge to agile banks and start-ups, all within the European Community, as well as the inherent risks in such a potentially rapid transformation of an important market sector. It is the goal of the Commission to develop a comprehensive strategy on FinTech². As a first step towards achieving this goal, the Commission announced on 14 November 2016 that it will set up an internal task force, known as the Financial Technology Task Force (FTTF), with a view to formulating policy recommendations and proposed measures in the course of 2017.

AIMS OF THE FTTF

The aim of the FTTF is to create “*the right conditions to support innovation and for a future-proof environment to emerge*”. The

FTTF wishes to find the delicate balance between fostering innovation and supporting the pursuit of opportunities associated with financial technology, while at the same time addressing “*any risks that may emerge*” from the expeditious rate of expansion of the financial technology industry. The FTTF, which is expected to report the findings of its investigations in the first half of 2017 (which appears to be a very fast process), will recommend policies to the Commission which it believes will ensure financial stability, security, consumer confidence and the preservation of competition, but will not be so restrictive as to inhibit the development of FinTech innovation, thus, allowing this innovation to reach its full potential and allowing businesses to adapt and take advantage of the constantly developing technology. It is thought that a clear regulatory framework will also aid in instilling public confidence in online financial services. The detail of the form and content of any regulatory framework that may be proposed by the Commission remains to be seen.

CHALLENGES FACED BY THE FTTF

The rapid rate at which FinTech services are developing creates many challenges, which the FTTF plan on addressing. At the root of these challenges lies the essential difficulty faced by Community regulatory authorities in keeping up with the rate of expansion of services available in the marketplace, a difficulty which the various national regulatory authorities have addressed in differing ways, which brings up obvious Community harmonisation issues. National regulatory authorities are faced with challenges not just of keeping up with technological change (if possible), but also whether regulators should lead or follow technological led change or remain technologically neutral, along with the risks posed

by lack of a harmonised regulatory approach across the Community. These types of challenges are currently being addressed by the Commission across a range of technologically impacted areas, all of which have some degree of overlap, including IoT, core data protection legislation, the application of data protection law to development of mHealth applications and network and information security of operators of essential services (including in the financial services sector). The current various initiatives likely reflect the single largest response to technological based change in the history of the EU.

While the point has been made that payment services by banks need to be, and are, strictly regulated and similar regulations are necessary for those who provide payment services without a banking license³, the fact is that it is near impossible (even if it were desirable) to make regulations at the same speed at which the developments in the FinTech sector are taking place. The growing gap between regulation and technology leads to numerous issues of concern, including a range of issues related to e-identification, data, cloud services, cybersecurity, platforms, payments and digital skills. The FTTF is tasked with formulating policy recommendations that can reduce or eradicate these issues of concern, while making sure not to make the policies so restrictive as to inhibit the ultimate aims of the Commission for the development and expansion of FinTech services, and for making the EU a leading global player in FinTech services. This is at very least a delicate balancing act.

COMPOSITION OF THE FTTF

The FTTF is co-chaired by Roberto Viola, Director General of DG

Connect (Directorate General for Communications Networks, Content & Technology), which works to develop the digital single market, and Olivier Guersent, Director General of DG FISMA (Directorate General for Financial Stability, Financial Services and Capital Markets Union), which is the Commission department responsible for initiating and implementing EU policy on banking and finance. The FTTF brings together services responsible for financial regulation and for the Digital Single Market, along with other colleagues dealing with competition and consumer protection policy. Furthermore, outside experts and stakeholders will be involved in creating the policy that will be proposed to the Commission. No official indication has been given as to the exact number that will make up the task force (as of early January 2017). As mentioned, the FTTF intends to report on its recommendations by mid-year, which appears an ambitious timetable.

CONCLUSION

The fast-paced growth of FinTech and the increasingly easy availability of online financial services have numerous benefits for both suppliers and consumers alike and are transforming the way we manage our finances. Accompanying the advantages associated with the development of the FinTech sector come numerous causes for concern, which need to be addressed and hopefully resolved in order for the public to be confident in the (further) expansion of financial services into the online world. The FTTF aims to resolve these issues with policies that will encourage and support the expansion of this FinTech revolution. How successful it will be in this ambitious task remains to be seen.

³ <http://fortune.com/2016/11/14/eu-commission-puts-FinTech-review-on-agenda-for-2017/>

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