



## FinTech: Looking beyond the label

NBR and IMF Financial Stability Seminar, 26 October 2017

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## Overview

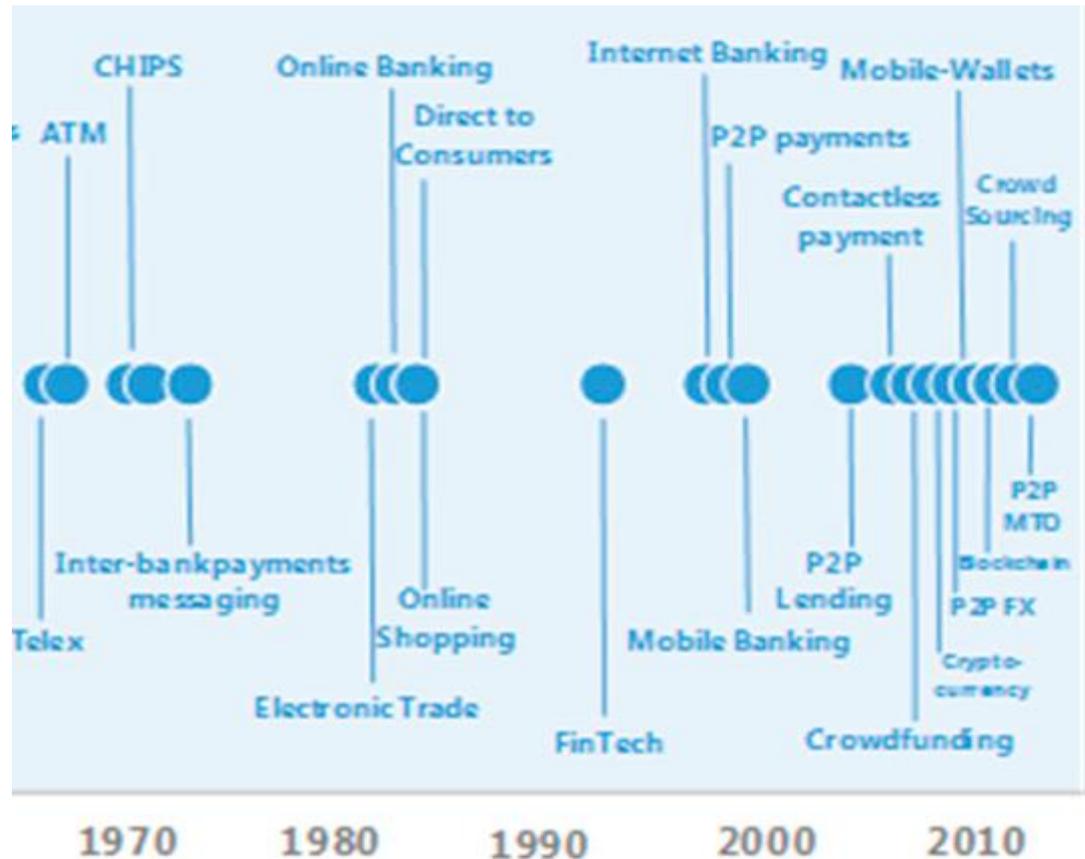
- What is FinTech?
- FinTech in the EU: EBA mapping
- A snapshot: Central and Eastern Europe and Romania
- Key areas of regulatory focus

FinTech

WHAT IS FINTECH?

# What is FinTech?

*“Technologically enabled financial innovation that could result in new business models, applications, processes or products with an associated material effect on financial markets and institutions and the provision of financial services.”*



Source: FSB

Sources: Extract of Arner, Barberis, and Buckley (forthcoming); Quinn and Roberds (2008); World Economic Forum (2015)

FinTech

## FINTECH IN THE EU: EBA MAPPING

## FinTech mapping exercise: Overview

- 2017 EBA survey of the competent authorities.
- 24 responses received (22 from Member States and 2 from EEA States) with a reporting sample of 282 FinTech firms (the FinTech sample).
- Output informed the Discussion Paper on the EBA's approach to FinTech (August 2017).
- Survey scope defined by reference to firms using technologically enabled financial innovation for the purposes of the provision, or enabling the provision by another entity, of one or more specified financial services.

# FinTech mapping exercise: Financial innovations

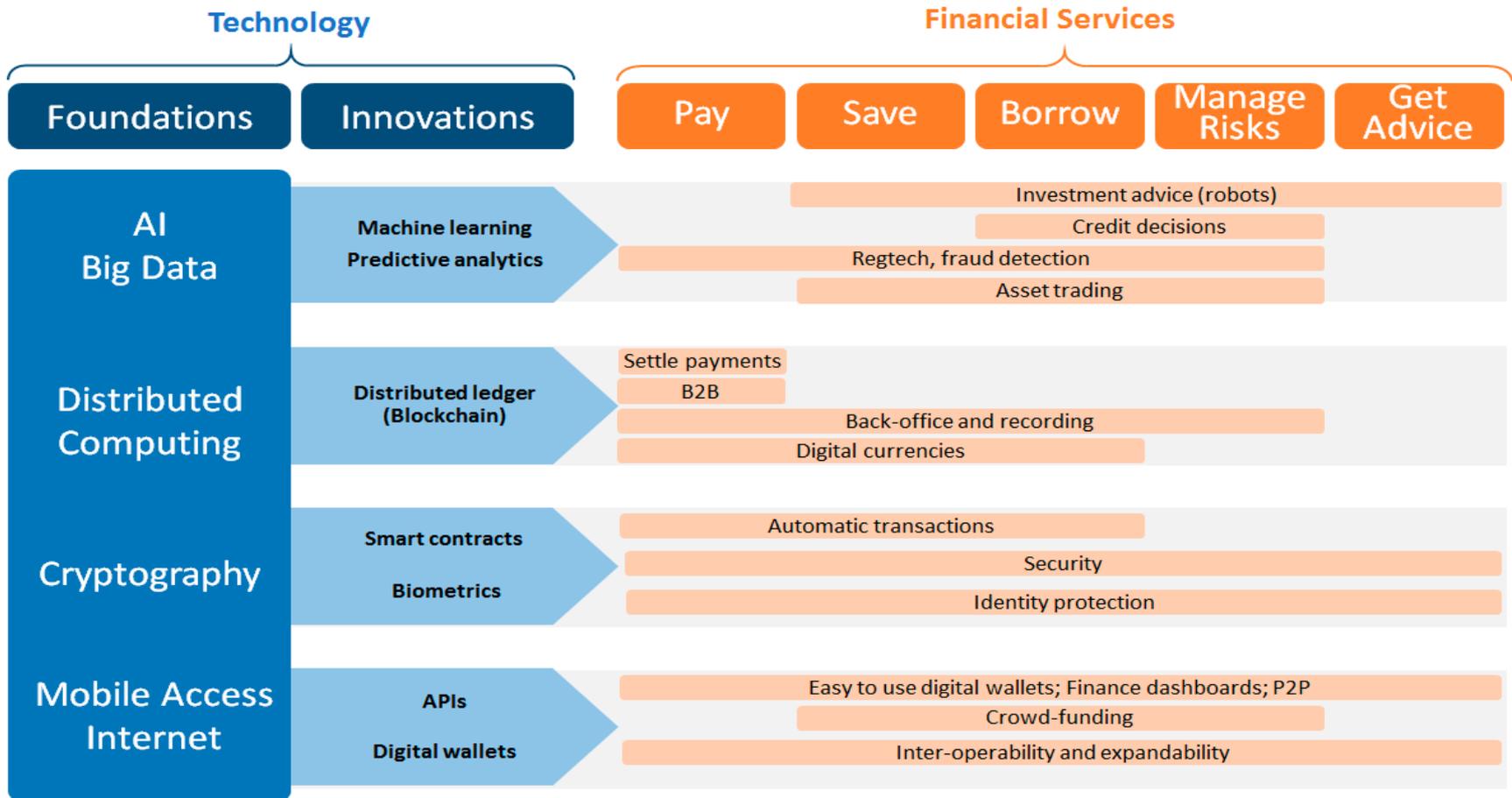
## Examples:

- distribution channel is online or mobile only (e.g. digital wallet);
- virtual currency (e.g. technology enabling buying/holding/selling VC and technology enabling exchanging VC into fiat currency);
- Big Data analytics;
- electronic personal financial management tools;
- robo-advice;
- online platform (e.g. to enable crowdfunding or peer-to-peer transfers);
- data aggregation services;
- DLT (e.g. Blockchain);
- RegTech.

# FinTech mapping exercise: Financial services

Credit, deposit and capital raising	Payments, clearing and settlement	Investment services/ investment management services	Other financial-related activities
<p>e.g.</p> <ul style="list-style-type: none"> <li>- taking deposits or other repayable funds;</li> <li>- lending;</li> <li>- financial leasing;</li> <li>- granting guarantees and commitments.</li> </ul>	<p>e.g.</p> <ul style="list-style-type: none"> <li>- provision of payment accounts;</li> <li>- services enabling the placing and withdrawal of cash from payment accounts;</li> <li>- issuance/redemption of e-money.</li> </ul>	<p>e.g.</p> <ul style="list-style-type: none"> <li>- trading for own account or for account of customers in relevant investment instruments;</li> <li>- portfolio management and advice;</li> <li>- safekeeping and administration of securities.</li> </ul>	<p>e.g.</p> <ul style="list-style-type: none"> <li>- credit reference services;</li> <li>- comparison services;</li> <li>- compliance services related to know your customer/AML checks.</li> </ul>

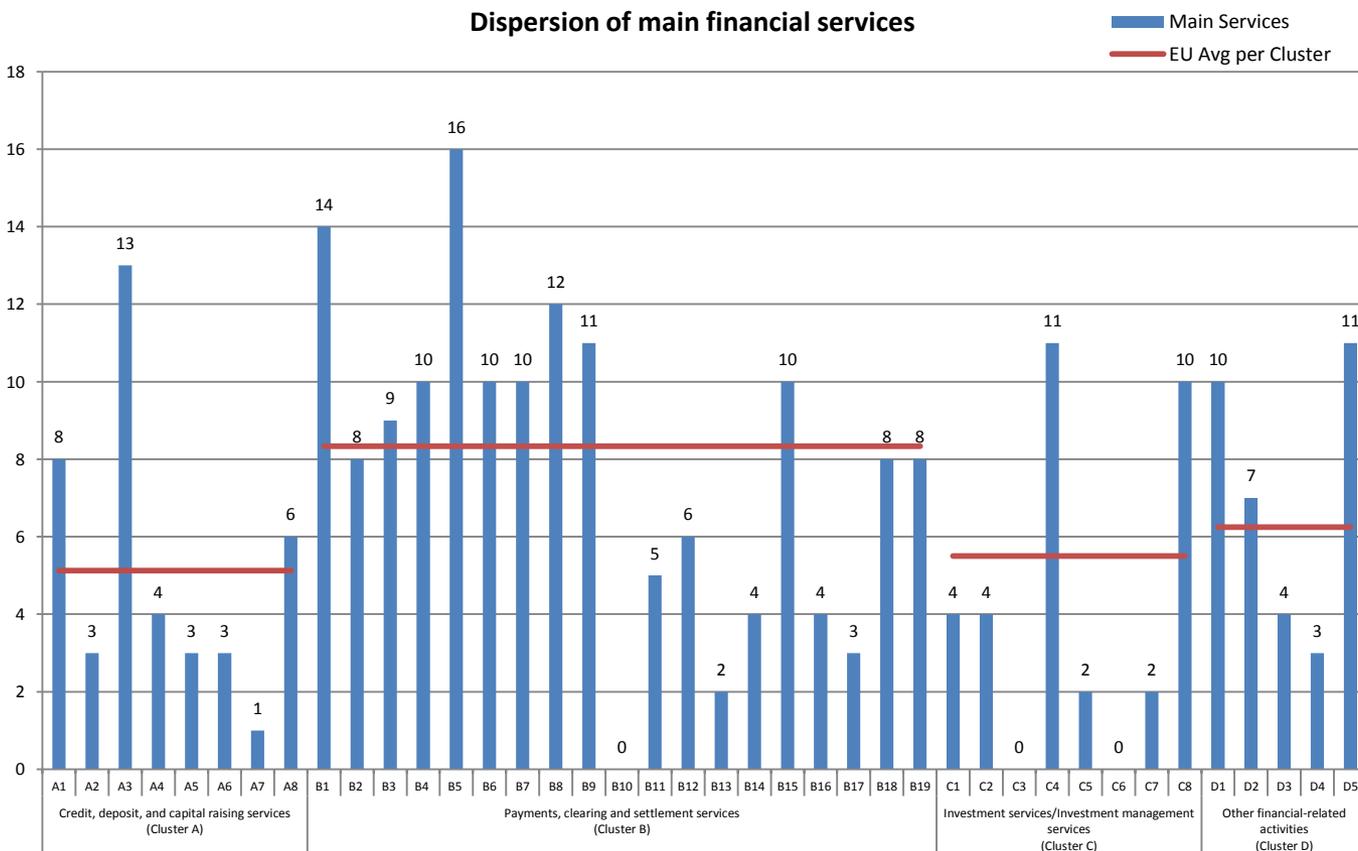
# Application to deliver financial services (examples)



Source: IMF Staff Discussion Note: FinTech and Financial Services: Initial Considerations

# FinTech sample: Financial services and innovations

A wide range of services are provided by firms in the FinTech sample, with payments dominating. In terms of innovations, online facilities dominate.



### Top 5 financial innovations applied

1. Distribution channel is online only
2. Online platform (e.g. crowdfunding, peer-to-peer transfers)
3. Distribution channel is mobile only
4. Value transfer network
5. Electronic personal financial management tools

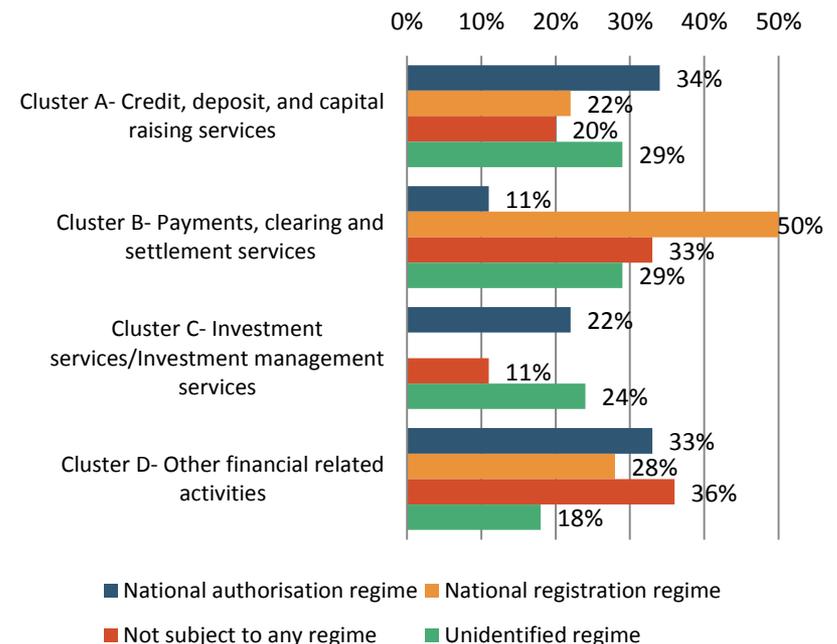
# FinTech sample: Regulatory status

Overall the regulatory status of firms in the FinTech sample is highly varied.

FinTech firms reported as ‘not regulated’ make up **31%** (the largest portion) of the FinTech sample. The next most reported types of entities within the FinTech sample are:

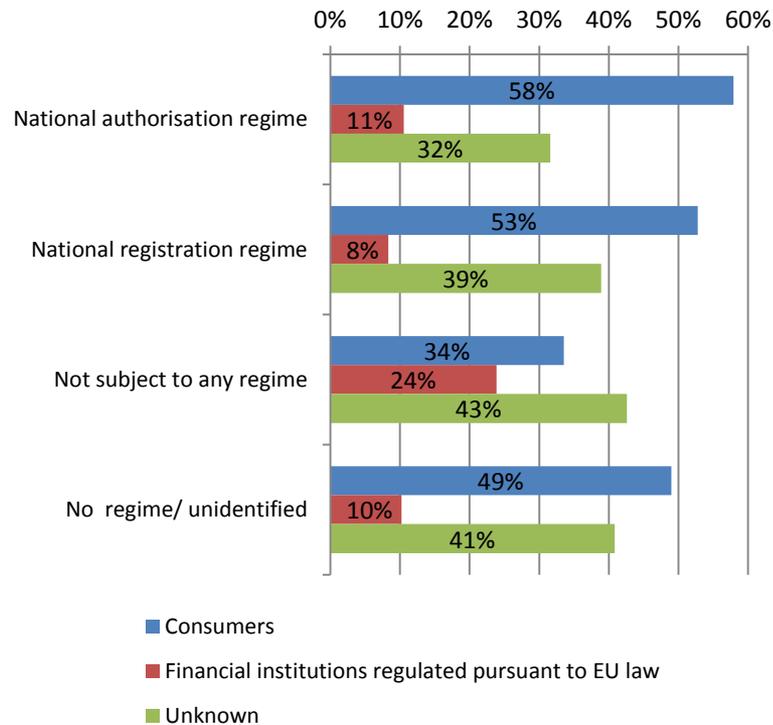
- payment institutions under PSD (**18%**);
- investment firms under the MiFID (**11%**);
- subject to national registration regimes (**9%**);
- credit institutions under the CRD (**9%**).

Taking a closer look at the services provided by FinTech firms, firms outside the current regulatory perimeter (EU and national law) were reported as offering financial services:

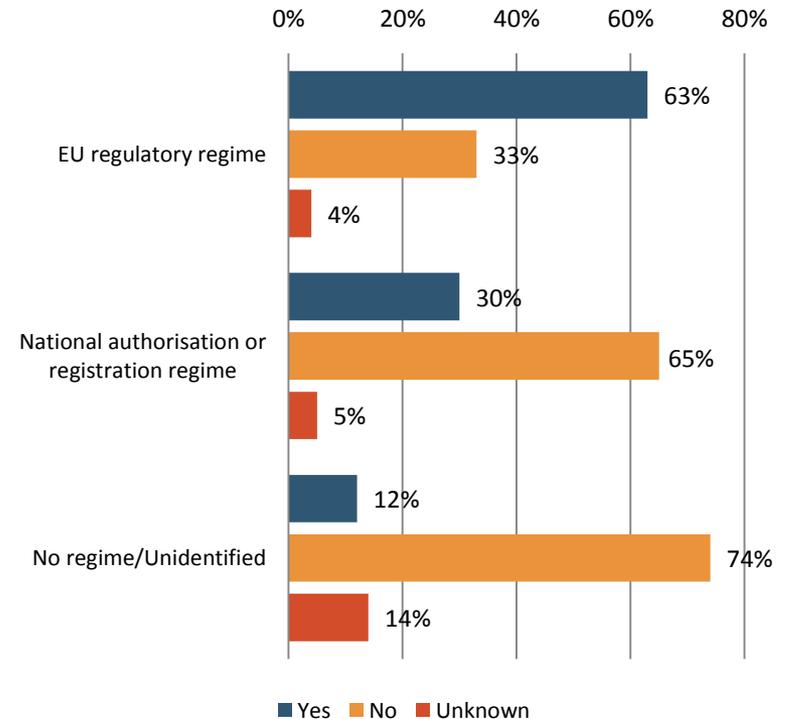


# FinTech sample: Users

Users span the full spectrum: financial institutions, corporates, and retail consumers:



And a significant percentage of FinTech firms enter into possession of client funds:



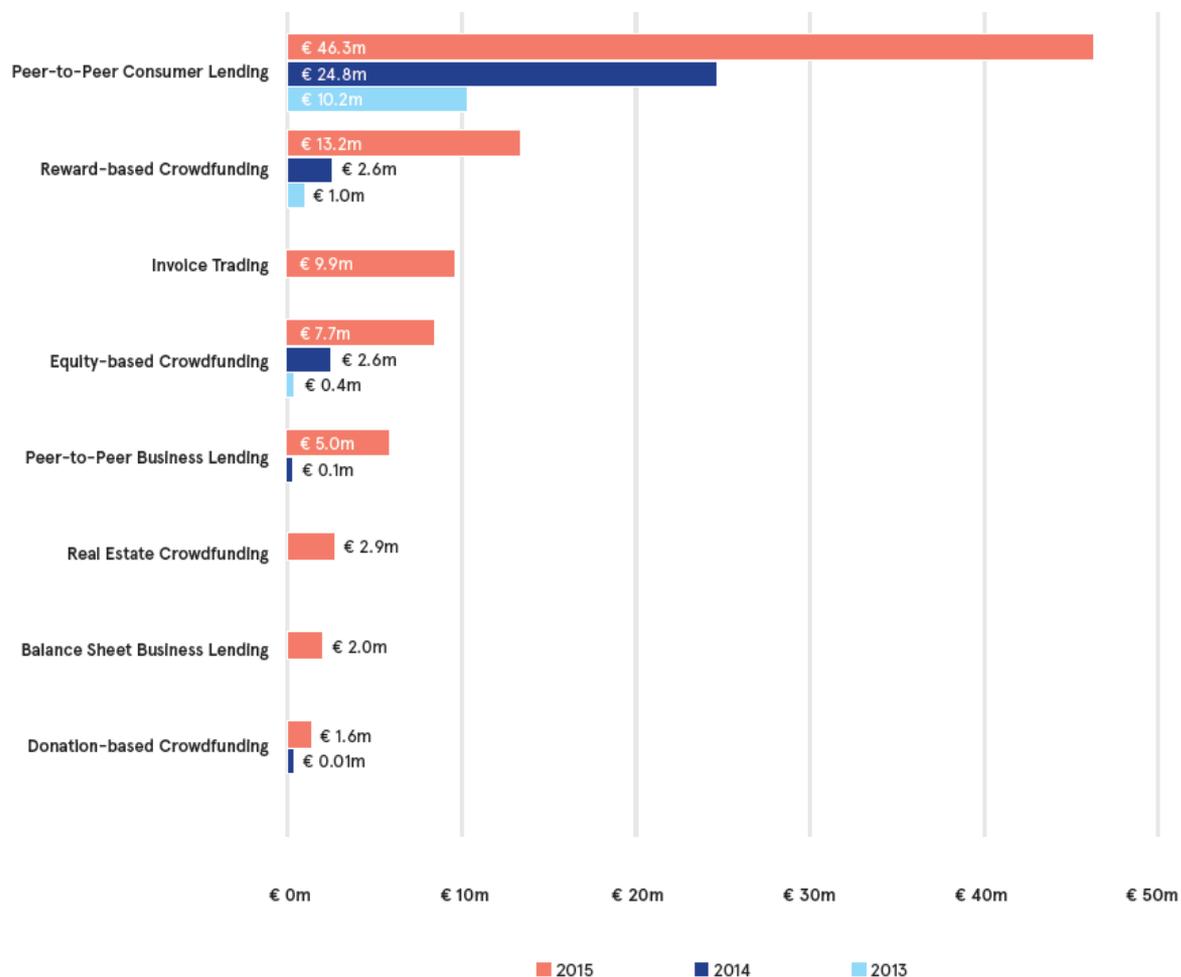
## FinTech

# A SNAPSHOT: CENTRAL AND EASTERN EUROPE AND ROMANIA

# Central and Eastern Europe: Innovation



# Central and Eastern Europe: Alternative Financing



Source: Sustaining Momentum, The 2<sup>nd</sup> European Alternative Finance Industry Report, Cambridge Centre for Alternative Finance (September 2016)

## Romania: General trends

- Romanian banks are following trends observed in other European banks in terms of integrating technological solutions to enhance user experience.
- Emerging financial technologies include:
  - multi-purpose ATMs;
  - mobile payment applications.
- Online and mobile banking are anticipated to grow.
- E-commerce is expected to grow.
- Youth engagement in tech.
- Local FinTech industry.

## FinTech DP

# KEY AREAS OF REGULATORY FOCUS

## Overarching issues

- Building supervisory capacity.
- Developing a suitable monitoring framework.
- Ensuring sufficient coordination among public authorities, including cross-border.
- Maintaining an appropriate calibration of the regulatory perimeter.

## EBA: Key work to date on FinTech

- EBA warning to consumers on virtual currencies (December 2013);
- EBA Opinions on virtual currencies (July 2014 and August 2016);
- EBA Opinion on lending-based crowdfunding (February 2015);
- Joint Committee report of the EBA, ESMA and EIOPA on robo-advice (December 2016);
- EBA RTS on strong customer authentication and common and secure communication under PSD2 (February 2017);
- EBA Recommendations on the use of cloud services by credit institutions and investment firms (May 2017);
- EBA Guidelines on information and communication technology (ICT) risks (May 2017);
- EBA report on innovative uses of customer data by financial institutions (June 2017).

## EBA: Priority policy areas for further analysis in 2017/18

1. Authorisation/registration regimes and sandboxing and innovation hub approaches.
2. Prudential risks and opportunities for credit institutions, payment institutions and electronic money institutions.
3. The impact of FinTech on the business models of credit institutions, payment institutions and electronic money institutions.
4. Consumer protection and retail conduct of business.
5. The impact of FinTech on the resolution of financial firms.
6. The impact of FinTech on AML/CFT.

The EBA consultation closes on 6 November 2017:  
<https://www.eba.europa.eu/regulation-and-policy/other-topics/approach-to-financial-technology-fintech->.



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