



FinTech in Banking: Competitors or partners ?

DIFI 2017: Digital Finance, FinTech & Banking Innovation Forum

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Who is the EBF ?

Who we are

- National Banking Associations from 32 countries
- 4.500 banks with 2.3 million employees

From

- Major cross-border institutions and small regional entities
- Wholesale and retail financial institutions



Who is the EBF ?

Our mission

- To be the voice of Europe's banks
- To serve the interests of the European banking industry
- To position the European banking industry within the European and global regulatory frameworks



4 Strategic themes for 2017:

- Banking Supervision & SSM
- Digital transformation of banks
- Financing the Economy & the Single Market
- Reputation



Bill Gates

**BANKING IS
NECESSARY.**

**BANKS ARE
NOT.**



What does FinTech means ?



What does FinTech means ?

- FinTech, is not just about innovative or so-called disruptive startups.
- FinTech is a broader category that is clearly shaping the future of financial services, beyond the bank customer level.
- FinTech should be understood as finance enabled by or provided via new technologies, affecting the whole financial sector in all its components, from banking to insurance, pension funds, investment advice, payment services and market infrastructures;
- This concept should be “activity” based not “infrastructure” based.

Banks' partners and competitors in their digital transformation



Banks' partners and competitors in their digital transformation

- Tend to oppose them but FinTech start-ups are banks' "best friends"
- Likely to see increasing cooperation and partnership in the banking sector among incumbent banks and new Fintech start-ups providing innovative products and services to the market
- Banks are FinTech



The digital transformation an opportunity for banks

- To innovate
- To modernize
- Enhance innovation and customer experience
- More efficiency and systemic reduction of cost structures or sharing of resources promising Developments of Regtechs, shared utilities such as Know Your Customer (KYC)) needed by banks to fulfil their regulatory requirements
- Many partnerships with FinTech are on-going in particular in the field of e-identification (e.g Start-up in Estonia helping banks to verify the ID of customers to facilitate on-boarding and creation of bank accounts)
- Digital transformation will definitely be an opportunity for consumers too

But challenges remain - What do we observe ?



- Banks are keen to innovate but they are strongly regulated and supervised which could be a barrier to innovation.
- New players are less burdened by regulatory requirements and they tend to choose the optimum legal structure to avoid the heavy regulatory burden of the financial sector.
- The digitalisation should not leave the financial sector open to new risks, significant failures thus endangering financial stability, and causing loss of public confidence.
- Technology (and digital platforms) neutrality is also an important concept : otherwise banks will face competitive disadvantages from potential competitors given their control of digital platforms on which banks offer their services.

Example of e-identification

- The e-IDAS Regulation clearly presents e-identification and e-signature as a new opportunity to facilitate the establishment of non-face-to-face business relationships.
- Currently there is however inconsistency between e-IDAS and the 4th AML directive but the new legislative proposal amending the 4th AML Directive include a reference to e-identification
- There are also barriers to cross-border acceptance, mutual recognition and level playing field

EBF Main message to the EU



- A number of adjustment to existing legislation / regulatory frameworks and removal of regulatory barriers - which impede banks from deploying fully their digital strategies
- A thorough, complex fitness check of the existing regulatory framework by the EU is necessary to ensure it is fit for purpose to support banking in the digital age (concordance innovation principle) ,
- Level playing Field : same activities, same risks, same rules (and same supervision) – shift from entity based regulation to activity based regulation.
- Technological neutrality at all level of legislation
- Data access, portability (raw data) and free flows of data
- EU framework to favour experimentation (sandboxes)
- Clarify and simplify the outsourcing rules for compliance (RegTechs)
- Comprehensive framework on end-to-end cybersecurity

**What is happening
at EU level ?**



FinTech the new trend for policy makers

- European Commission:
 - Follow-up to the CEOs Roundtable on Bank in the Digital Age and presentation of the EBF vision paper for banking in the Digital Single Market the European Commission launched:
 - FinTech task force
 - Action plan on Retail Financial Services
 - Consultation on FinTech (deadline 15 June 2017)
- European Parliament:
 - EP resolution on “FinTech: the influence of technology on the future of the financial sector”



FinTech the new trend for supervisors

- European Banking Authority
 - The EBA published a discussion paper on its approach to financial technology (deadline for comments: 6 November 2017).
- European Central Bank
 - The ECB published for consultation draft guides to bank licensing and fintech bank licensing (Deadline 2 November 2017)
 - The guides explain the application process, the licensing requirements for credit institutions in general and specific considerations for those with Fintech business models
 - The ECB aims at enhancing the harmonisation of licensing assessments, while at the same time maintaining all prudential standards for licensing new credit institutions.

FinTech the new trend for global entities

- **Financial Stability Board:**
 - FSB issued a report on the financial stability implications from FinTech
 - Ten areas have been identified, of which the following three are seen as priorities for international collaboration:
 - the need to manage operational risk from third-party service providers;
 - mitigating cyber risks; and
 - monitoring macrofinancial risks that could emerge as FinTech activities increase.
- **World Economic Forum Published a report on FinTech:**
 - It considers the evolution and impact of fintech firms on financial services to date and presents a series of contrasting outlooks for the future of the industry. The report focuses notably on:
 - Platforms Rising
 - Financial Regionalization
 - Systemically Important Techs

FinTech the new trend for global entities

- Basel Committee Banking Supervision
- The Basel Committee published a consultative document entitled "Sound practices: Implications of fintech developments for banks and bank supervisors" (deadline 31 October 2017).
 1. the overarching need to ensure safety and soundness and high compliance standards without inhibiting beneficial innovation in the banking sector;
 2. the key risks for banks related to fintech developments, including **strategic/profitability risks, operational, cyber and compliance risks**;
 3. the implications for banks of the use of innovative enabling technologies;
 4. the implications for banks of the growing **use of third parties**, via **outsourcing** and/or partnerships;
 5. **cross-sectoral cooperation** between supervisors and other relevant authorities;
 6. **international cooperation** between banking supervisors;
 7. adaptation of the **supervisory skillset**;
 8. potential **opportunities for supervisors** to use innovative technologies ("suptech");
 9. relevance of existing regulatory frameworks for new innovative business models;
 10. key features of **regulatory initiatives** set up to facilitate fintech innovation.



Thank you

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