

EPRS | European Parliamentary Research
Service Transcript of an EPRS Podcast
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PODCAST Fintech

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Voice 2: Sarah

JINGLE to open intro to podcast

VOICE 1

You're listening to the European Parliamentary Research Service podcast on financial technology, or fintech.

VOICE 2

Digital technology is refashioning financial services and capital markets around the world, bringing new challenges and opportunities...

VOICE 1

But is EU regulation fit for fintech? Stay and explore with us the impact of this rapidly developing sector, and the challenges it poses to policymakers and regulators in Europe!

END OF JINGLE

VOICE 2

When the first transatlantic cable for telegraph communications was laid in the 1860s, a world that had seemed infinite was reduced to human proportions... Finally, information from the US financial centres could reach Europe in a matter of hours rather than days... leading us to the first age of financial globalization!

VOICE 1

But we've come a long way since then! And today, financial technology –or fintech- is one of the fastest growing sectors world-wide... Suffice to say that the value of global fintech investment grew by 75% in 2015, to over 20 billion Euros!

VOICE 2

And corporates, venture capital and private equity firms have invested more than 46 billion Euros, in almost 2.500 global fintech start-ups since 2010!
But what is fintech exactly?

VOICE 1

Well, basically, it refers to firms which rely on technology and innovation to provide financial services, or to make the financial system more efficient. It includes cashless payments, robotic trading, crowdfunding platforms and virtual currencies such as Bitcoin, and this list will only grow larger!

VOICE 2

The EU has been quick to identify the opportunities of this rapidly growing sector... it could increase efficiency, strengthen financial integration and enhance the EU's role as a global player in financial services. The challenge is how to lay down the right conditions to support innovation while protecting consumers and financial stability at the same time?

VOICE 1

Despite the increasingly tight European regulatory grip on financial services, there are still areas, such as crowdfunding and virtual currencies, where regulation is left to Member States. ...

VOICE 2

The danger of this is twofold... We could end up with a fragmented environment preventing businesses from expanding across borders, and create an uneven

playing field incentivising companies to settle in countries requiring less red tape... So, how to proceed?

VOICE 1

Well... to clarify the way forward, the European Commission set up a Financial Technology Task Force in 2016 to weigh the pros and cons, and help develop a comprehensive strategy on fintech.

VOICE 2

And the European Parliament is also busy with this... In January 2017, the Economic and Monetary Affairs Committee discussed a draft report on the influence of fintech on the future of the financial sector which is due to be voted in April. But let's take a look at the potential economic impact of the fintech sector! Stay with us...

MUSIC JINGLE

VOICE 1

In Europe, fintech investment rose by 120% between 2014 and 2015! And an increasing number of start-ups are financing themselves on peer-to-peer lending platforms – online services that match lenders directly with borrowers.

VOICE 2

The US fintech sector is still the world's largest but China is catching up quickly! With a supportive regulatory environment, the Chinese fintech sector increased by 445% in 2015, and internet payments are booming. At the end of 2012, the online payment provider Alipay had over 800 million registered accounts, logging more than a million transactions per day!

VOICE 1

Figures are somewhat more modest in Europe... but the benefits of financial technologies are no less important. They can accelerate, for instance, the integration of member states' capital markets, leading to the much desired capital markets union.

VOICE 2

Applied to securities markets, distributed ledger technology - used in databases spread across multiple sites, countries or institutions, and accessible to anyone - could also increase processing speeds and facilitate the recording of ownership and the safekeeping of assets, which could result in significant cost benefits as well as greater security.

VOICE 1

According to the European Central Bank, that will not dramatically reshape the structure of financial markets, since, whatever the technology used, certain functions will still need to be performed by traditional institutions

VOICE 2

Traditional market players, in any case, will have to contend with newcomers and be ready to review their business models. Academics and regulators have also identified operational, governance, privacy and legal concerns, as well as potential risks to the use of this technology in supporting infrastructure as critical as that underpinning financial services...

VOICE 1

So the European Securities and Markets Authority has advised firms willing to embrace distributed ledger technology to take a good look at existing regulations. But what do European laws say about fintech? Let's have a look!

MUSIC JINGLE

VOICE 2

Well, the first thing one should know is that there is no single piece of legislation covering all aspects of fintech, so companies using technology to provide financial services have to abide by the same rules as any other company providing the same service.

VOICE 1

And these rules vary depending on the financial activity being carried out. If we

talk about crowdfunding or virtual currencies, for instance, national laws apply. On payment services, however, the EU has already introduced several regulations to create a more efficient and integrated market for payment services in the EU.

VOICE 2

The updated payment services directive (known as PSD2), will enter into force in January 2018. This directive responds to technological changes in the payment industry, and aims to make payments and money transfers more secure and less expensive.

VOICE 1

In 2015, the European Commission published its position on retail financial services, and addressed many of the challenges and opportunities of the fintech sector. One such challenge is linked to the use of big data in financial technology and how to ensure the protection of personal data. In this regard, the EU has passed new data protection laws to make Europe fit for the digital age, though they will also apply only from 2018...

VOICE 2

What's clear is that fintech poses great challenges to European and global regulators... Financial technology companies still operate in a regulatory grey zone, and are increasingly performing services traditionally offered by banks and investment advisors, without being subject to the same licensing and regulatory regimes...

VOICE 1

At the same time, and due to their digital nature, fintech products cannot be contained within national borders, so international coordination is needed to ensure that these activities do not move to less regulated jurisdictions.

VOICE 2

So regulators face a balancing act... encouraging disruptive innovation without allowing unacceptable risks or losing consumer's trust. So, how do they solve this dilemma? Let's have a look!

MUSIC JINGLE

VOICE 1

Generally speaking, there are two approaches to fintech regulation: based on rules or based on principles. Now, what are their pros and cons?

VOICE 2

Rule-based regulatory frameworks set out compliance obligations more clearly, but these are often expensive for start-ups and could impair innovation and job creation. On the other hand, principle-based regulation is more flexible but could lead to some uncertainty as to what exactly is expected in terms of compliance...

VOICE 1

Most fintechs prefer the second, more flexible option, as did the UK, which is now seen as one of the most welcoming countries for fintech... Regulators in Germany, on the other hand, are taking a less active approach, and sticking to the principle of "same business, same risk, same rules", which means that technical considerations do not influence the definition of permissions and responsibilities...

VOICE 2

This 'technical neutrality' is also being favoured by the European Commission, which has announced its intention to conduct a study to assess the impact of fintech on the banking sector and financial services, and to consider different regulatory scenarios. So, what can we expect?

VOICE 1

Well, with such a rapidly developing sector, it's difficult to predict what will happen but the EU's position so far seems to be a mix of caution and moderate

promotion, so let the revolution flourish while addressing some of the risks that could emerge, such as cyber-attacks or money laundering...

VOICE 2

Time will tell whether a tighter regulatory approach to fintech becomes necessary...

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MUSIC JINGLE TO CONCLUDE