

FinTech: influence of technology on the future of the financial sector

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The Committee on Economic and Monetary Affairs adopted the own-initiative report by Cora VAN NIEUWENHUIZEN (ALDE, NL) on FinTech: the influence of technology on the future of the financial sector.

Defining an EU framework for FinTech: Members welcomed the new developments in the area of FinTech, and called on the Commission to draw up a comprehensive FinTech Action Plan in the framework of its [Capital Markets Union](#) (CMU) and [Digital Single Market](#) (DSM) strategies. They called on the Commission to deploy a proportionate, cross-sectorial and holistic approach to its work on FinTech and to act as first mover in order to create a favourable environment for European FinTech hubs and firms to scale up.

They stressed legislation and supervision in the area of FinTech should be based on three principles:

- Same services and same risks: the same rules should apply, regardless of the type of legal entity concerned or its location in the Union;
- Technology neutrality;
- A risk-based approach, taking into account the proportionality of legislative and supervisory actions to risks and materiality of risks.

Members emphasised the importance of regulators and supervisors developing sufficient technical expertise to adequately scrutinise increasingly complex FinTech services so that they can detect and anticipate specific risks of different technologies and step in immediately and with a clear agenda when it becomes necessary.

They recognised that:

- FinTech companies contribute positively to the development of financial intermediation, but also create new risks related to financial stability;
- RegTech has the potential to improve compliance processes, in particular the quality and timeliness of supervisory information, by making them less complicated and more cost-efficient.

Members called on the relevant authorities to take a proactive approach in trying to understand the barriers to using new FinTech and RegTech solutions in areas of pre- and post- trade processes that are covered by the Markets in Financial Instruments Directive ([MiFID](#)), the European Market Infrastructure Regulation ([EMIR](#)) and the Central Securities Depositories Regulation ([CSDR](#)) and, where no barriers exist, to clarify the right of actors to use such solutions for the purpose of fulfilling their obligations under those pieces of legislation.

They called on the Commission and the European Supervisory Authorities (ESAs) to:

- monitor and avoid overlaps of regulation, new barriers to entry on the market, and national barriers to those services;
- to apply, where applicable, passporting regimes to providers of new financial services offered across the EU.

They also supported the Commissions efforts to address how the EU can help improve choice, transparency and competition in retail financial services to the benefit of European consumers, and emphasised that this goal should be complementary to the objective of improving the efficiency of the financial system.

Data: Members recalled that the collection and analysis of data play a central role for FinTech, and therefore stressed the need for consistent, technology-neutral application of existing data legislation, including the General Data Protection Regulation ([GDPR](#)), the Revised Payment Service Directive ([PSD2](#)), the Electronic Identification and Authentication Services ([eIDAS](#)) Regulation, the Fourth Anti-Money Laundering Directive ([AMLD4](#)) and the Network and Information Security ([NIS](#)) Directive.

They emphasised the need for clear rules on data ownership, access and transfer and stressed that while the GDPR provides a clear legal framework on personal data more legal certainty is needed regarding other categories of data.

Cybersecurity and ICT risks: Members called on the Commission to make cybersecurity the number one priority in the FinTech Action Plan, and on the ESAs and the ECB in its banking supervision role to make it a key element of their regulatory and supervisory programmes. They called on the Member States to ensure the timely transposition of the directive on security of network and information systems (NIS Directive).

Blockchains: Members underlined the potential of blockchain applications for cash and securities transfer, as well as for facilitating smart contracts, which open up a wide range of possibilities for both sides of financial contracts, in particular trade finance and business lending arrangements. They are, nevertheless, concerned by the increased use of unpermissioned blockchain applications for criminal activities, tax evasion, tax avoidance and money laundering.

Interoperability: Members stressed the importance of interoperability of traditional and new payments solutions in order to achieve an integrated and innovative European payment market. They asked the ESAs to identify in which cases targeted or risk-based authentication can be an alternative to strong authentication and the Commission to investigate whether the strong authentication processes can also be executed by other entities than banks. They called on the ESAs, in cooperation with national regulators, to develop technology-neutral standards and licences both for know-your-customer and remote identification techniques.

Financial stability and consumer and investor protection: Members called on:

- the Commission to pay specific attention, in designing its FinTech action plan, to the needs of retail consumers and investors and the risks to which they might be vulnerable, in the light of growing expansion of FinTech in services to non-professional clients, for example in crowdfunding and peer-to-peer lending;
- regulators and supervisors to monitor the impact of digitisation on the competitive situation across all relevant segments of the financial sector, and to design and deploy tools to prevent or remedy anti-competitive behaviour or distortions of competition.

Financial education and IT skills: Members called on the Commission and the ESAs to increase their support for initiatives to improve financial education and stressed that vocational training and information on consumer and investor rights should be easily accessible.