

## ERFF Consensus Paper: FinTech in retail financial services, April 2017

*The European Retail Financial Forum (ERFF) is a pan-European forum bringing together around one table consumers, business and policymakers to support the opening up of retail financial markets in Europe. Representing all aspects of the retail sector - traditional, wider investment and digital - we are citizens-focused, favour removing key barriers and increasing choice and transparency for all customers across borders in ways that keep Europe competitive.*

FinTech can be defined as the application of financial technology to financial services. We believe it holds out the promise of increased competition, lower prices, easier access to retail financial services and products, greater choice, and wider financial inclusion. Thus we welcome the European Commission's public consultation launched on 24 March 2017, which expresses similar views. However, like the Commission, we believe obstacles remain to developing a true digital single market in financial services. In this paper, we discuss three key opportunities where barriers still need to be overcome and we put forward possible solutions.

### 1) [Enabling new and better services for consumers](#)

#### **Opportunity**

The ever-increasing possibilities to use data are leading financial institutions to reinvent their business models and improve the customer experience, often in partnership with start-ups. Innovative use of consumer data can allow for better pricing and personalised offers. It will increase financial inclusion by making risks (such as diabetes) insurable that could not be insured in the past or by offering discounts (e.g. for better driving).

#### **Obstacle**

There is a lack of consumer trust regarding use of personal data.

#### **Solution**

Consumers need to be informed in a transparent and easily understandable way about how customer information is stored, and how such information is used to deliver specific services. This would also help consumers to correct data where it is inaccurate. The data will always belong to the consumer and its processing will only be done with their consent. Moreover, relevant regulation should be consistent.

### 2) [Open banking](#)

#### **Opportunity**

As discussed in the EC's FinTech public consultation document, the opening up of data will inject a new wave of competition and facilitate innovation and the development of tailored products and services for consumers.

Under the second Payment Services Directive (PSD2), banks are becoming a platform on which third parties can build their own applications. However, the open banking agenda goes

further, allowing digital banking customers to give consent to a broader range of third parties accessing their data, which banks must then provide.

Thus consumers could give third parties permission to look at their bank data, for example with a view to being offered a credit card with a better interest rate or a cheaper energy provider – deals that they could accept with one click.

### **Obstacle**

Currently, there are no agreed Europe-wide standards for data sharing between banks and third parties. Furthermore, data sharing on a cross-industry basis is not technically feasible, as there has been no standardisation of data formats akin to requirements for banks under PSD2.

### **Solution**

We are pleased to read of the Commission's support for strong standards in the FinTech consultation document. In our view, the development of an open API standard in banking would make it easier for third parties to create new services without duplication of effort, while making data sharing more secure – thereby reducing the need for consumers to share credentials with third parties. Furthermore, standardisation of formats for data sharing beyond the financial sector – from energy and healthcare providers to social networks and online market places – would facilitate the next big leap in innovation.

## 3) [Adapting the supervisory and regulatory environment to FinTech world](#)

### **Opportunity**

New providers of financial services usually enter the market with a different business model than incumbent players. Their services may be partially similar to existing services in that they satisfy the same consumer need for certain aspects of banking services, however they are provided in different ways. This opens opportunities for cooperation and new ways to satisfy consumer demand.

### **Obstacle**

The absence of a consistent EU-wide regulatory and supervisory approach is holding back the emergence of new players. It also hinders existing players from further developing their services e.g. via Distributed Ledger Technology. And at the same time, consumer risks are not being addressed.

### **Solution**

Promote a consistent activities-based regulatory approach to FinTech and emerging business models, ensuring that risks posed to consumers (e.g. fraud, identity theft, unauthorised transfers) and the broader financial system (e.g. AML/ KY, terrorist financing) are addressed.

The EC's consultation document discusses the use of regulatory sandboxes extensively; we would emphasise the use of licensing and passporting to enable businesses to operate across borders – whether these businesses are FinTechs, incumbents or others such as technology and telecoms companies – thereby ensuring a level playing field for all.

To conclude: while we welcome the consultation and evidence-gathering underway and see earlier initiatives such as the EBA and ENISA's work on cloud guidelines as good steps, we believe much more is needed to enable digitalisation of banking and a digital single market in financial services. In our view, the Commission could consider a single digital supervisory approval across a range of activities via the Single Supervisory Mechanism (SSM) and / or the ESAs. The challenge is to build-up supervisory expertise efficiently. Is this best done with 28 different sets of rules on digital activities being discussed within 28 different Member States, each with its own differing level of experience, knowledge and resources?

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#### About ERFF

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