IRSG RESPONSE TO CONSULTATION ON A NEW DIGITAL FINANCE STRATEGY FOR EUROPE / FINTECH ACTION PLAN

The International Regulatory Strategy Group (IRSG) is pleased to respond to the European Commission's consultation on a new digital finance strategy for Europe / FinTech action plan.

The IRSG is a practitioner-led body of leading UK-based representatives from the financial and professional services industry. It is an advisory body to the City of London Corporation, and to TheCityUK. The IRSG develops its policy positions through a number of workstreams which comprise representatives from across the industry to ensure a cross-sectoral response.

The IRSG agrees with the Commission that digitalisation is transforming the European financial system and the provision of financial services to Europe's businesses and citizens. We strongly believe that this change should be viewed in the context of a ***global*** **digital transformation in financial services.** Therefore, in commenting, the IRSG intends to emphasise the need to align regulatory approaches and calls for interoperability with other global financial centres in order to support innovation and ensure the best result for the customer. Under this core belief, this response aims to highlight four areas of interest:

1. **The need to coordinate with international partners to provide regulatory clarity**
2. **The benefits of implementing a regulatory sandbox**
3. **The importance of placing the customer at the heart of technological innovation**
4. **The importance of remaining internationally connected in regards data access and sharing**
5. **The ability for digital finance tools to promote the sustainable finance agenda**

As well as addressing the international dynamic of digital finance, this letter primarily addresses the following questions in the consultation: Q1, Q20, Q24, Q26 and Q47.

Key recommendations:

- The Commission should clarify how it will work with international partners and third countries on the FinTech agenda to remove regulatory barriers to innovation and to prevent regulatory arbitrage.
- The Commission should look to build on the success of the European Forum for Financial Innovators (EFIF) in promoting the use of sandboxes at a European level, and should explore opportunities to collaborate on this approach with international bodies such as the Global Financial Innovation Network (GFIN).
- Customers should be at the centre of service providers' approach, and initiatives to improve financial education and literacy should be encouraged in order to support all customer groups.
- It is essential that any EU framework for financial services data takes into consideration the international dimension and interoperability with approaches taken in other countries.
- It is necessary to ensure a stable regulatory and policy framework in order to guarantee the availability and accessibility of both digital and sustainable financial products. The FinTech ecosystem has a role to play in the move to a sustainable society, with the ability to influence both the "E" and "S" of ESG.

1. **The need to coordinate with international partners to provide regulatory clarity**

In response to Q1, the IRSG believes that digitalisation has no borders and the willingness to coordinate with international partners should be extended across the whole FinTech agenda. **It is unfortunate that this consultation does not touch on third-country access to the EU digital single market, or how to deal with services and economic operators based in third countries**. The existence of regulatory borders, both between EU Member States and between the EU and third countries will prevent innovation, as contradicting and diverging regimes increase the regulatory burden on FinTechs, many of whom may be start-ups.

Therefore, **the IRSG would welcome further clarity from the Commission as to its commitment to work with international partners and third countries on the FinTech agenda to remove regulatory barriers to innovation and to prevent regulatory arbitrage.**

The IRSG notes the recommendations in the Expert Group on Regulatory Obstacles to Financial Innovation (ROFIEG) report, and in particular welcomes the focus on the need to remove cross-border barriers in order to develop a digital single market. Regulatory fragmentation across Europe can hamper the adoption of innovative technologies, detrimentally impacting tech-driven cross-border business and imposing additional costs for compliance with multiple regimes. The EU should therefore promote regulatory harmonisation and create common standards across jurisdictions. The promotion of regulatory harmonisation by the EU should be viewed as part of the global move to attribute regulatory clarity to FinTech activity. In line with the IRSG response to the Commission's consultation on cryptoassets, the IRSG agrees that in this area:

> *"the EU must co-ordinate with its international partners in this regard, bearing in mind the inherently borderless nature of the technologies and need for international consistency"*[1]

2. **The benefits of implementing a regulatory sandbox**

In response to Q20, in highly regulated industries, such as financial services, overly complex compliance requirements and regulatory uncertainty hinder innovation, as they might delay and increase the costs of bringing innovation to the market. Therefore, regulatory sandboxes – if adequately implemented – can offer promising benefits for all the parties involved.

The IRSG believes that there are numerous benefits of regulatory sandboxes from a supervisory perspective. They can help authorities to increase their knowledge on technology-based financial innovations, and to identify unnecessary barriers to innovation that may exist in the regulatory framework for the financial sector. Sandboxes can also help a policymaker understand how use cases fit or do not fit with their regulatory framework.

The IRSG welcomes the establishment of the European Forum for Financial Innovators (EFIF) and believes that regulatory sandboxes should be promoted at European level, both to promote

[1] European Commission. (2019). *Final report of the Expert Group on Regulatory Obstacles to Financial Innovation: 30 recommendations on regulation, innovation and finance*, p. 58.

convergence among EU regulators but also in order to foster collaboration with international financial services regulators**.** Regulatory sandboxes can help create frameworks for cooperation between financial services regulators in different jurisdictions.

The Global Financial Innovation Network (GFIN) was established in 2019 out of a proposal to create a global sandbox. Through a network of 50 organisations, the GFIN seeks to provide a more efficient way for innovative firms to interact with multiple regulators. **The IRSG supports the aim of the GFIN to provide firms with an environment in which to trial cross-border solutions**, **and would also recommend for EFIF to link to the GFIN.** At present, there are only three European members of the GFIN, therefore there is an opportunity for further engagement with this global body from a European perspective.

3. **The importance of placing the customer at the heart of technological innovation**

Digital finance is a data intensive ecosystem. Providing services that are tailored to individual needs involves the use of consumers' data. Under the appropriate consumer and data protection framework, this can bring substantial benefits to end-users. The appetite for more data concerning the circumstances and behaviours of customers also gives rise to data and privacy concerns. Any misuse of data can result in loss of trust in digital finance tools.

The key driving principle behind digital finance in the future is to ensure customers have trust in the providers and mechanisms of such services, and that they are sufficiently digitally enabled to access more convenient and powerful digital services provided by systems that are robust, high performing and secure. Regardless of the technologies applied, **the IRSG believes that consumers should be at the centre of service providers' approach and all technologies should be aimed at constant improvement of the user experience.**

In response to Q24, making the consumer experience personalised, relevant, safe, reliable and consistent is critical for the success of digital finance. Digitisation offers the opportunity to achieve broad-based financial inclusion by extending the availability and penetration of digital financial services, benefitting the 37m 'unbanked' EU citizens who lack access to formal financial services[2]. However, efforts to encourage the use of digital solutions should also include effective financial education and financial inclusion policies to ensure customers are empowered and to prevent exclusion for certain vulnerable groups. IRSG Members noted the need for industry to support vulnerable customers (some of whom might not be digitally literate) to ensure that customers can control their own financial data. Therefore, **the IRSG welcomes initiatives to achieve improved financial education and literacy in order to support all customer groups.**

4. **The importance of remaining internationally connected in regards data access and sharing**

In response to Q26, according to McKinsey, cross-border data flows now make a larger impact to global GDP than trade in goods[3]. It is therefore vital to recognise the importance of the EU within the global landscape**.** As the IRSG noted in its response to the consultation on a 'European strategy for data', we

[2] WSBI-ESBG. (2016). *Close to 40 million EU citizens outside banking mainstream.*
[3] McKinsey Global Institute. (2016). *Digital globalization: The new era of global flow.*

support the development of common European data spaces, but a lot of work is needed to determine how these will operate and how they should be governed. The IRSG believes that the most appropriate governance role for authorities is a high level one. This should involve establishing principles of access and playing a convening role to achieve interoperability between data spaces, alongside developing any necessary standards on how to access data. **As technology and data are increasingly borderless, it is essential that any EU framework takes into consideration the international dimension and interoperability with approaches taken in other countries.**

The need to remain internationally connected is crucial in order to effectively identify, respond and fight financial crime and cybercrime. A conservative estimate considers that the proceeds of organised crimes within the European Union have reached EUR 110 billion a year and that despite all efforts, the rate of confiscation of criminal assets in the EU could be as low as only 1.1%[4,5].The fight against financial crime and cybercrime is a cross-jurisdictional issue and requires the processing – and specifically the sharing - of personal data across borders to be effective. This is something that the Financial Action Task Force (FATF) has acknowledged in their recent report on COVID-19 and Anti-money laundering and counter-terrorist financing[6].

5. The ability for digital finance tools to promote the sustainable finance agenda

In response to Q47, the **IRSG believes there is a powerful possibility to support the sustainable finance transformation through the use of digital finance**. Consumers are increasingly aware of the consequences of climate change, and digital finance tools can provide accessible and quick contribution towards sustainable development. The use of digital tools can offer more attractive choices for consumers through initiatives that are based on more resource efficient options. New sources of finance can be unlocked by digital platforms allowing a larger number of consumers to engage in trading. Digital finance initiatives that engage retail investors, such as online robo-advisors, can unlock new finance and boost liquidity, as well as fill financing gaps and improve the performance of climate related projects.

It is important for industry to improve the visibility of sustainable digital finance solutions for the end-user; however regulators and supervisors are also key to ensure that the regulatory and policy framework is appropriate and builds the right incentives. Such a framework should be holistic, encompassing all actors and ensuring a level playing field, building on existing practices and regulatory frameworks to avoid overlaps, and flexible enough to accommodate the financial and technology developments as they develop. It is clear that digitalisation can help to address climate and environmental risks (E), however social risks (S) should also be considered in order that the transition to a digital society is done in a fair and just manner. As previously mentioned, initiatives with an aim to improve financial literacy across society are necessary to ensure that all can understand the role of – and fully benefit from – data, AI and distributed ledger technology.

---

[4] Commission Staff Working Document. (2019). *Analysis of non-conviction-based confiscation measures in the European Union*, SWD 1050 final, circulated as 8627/19.
[5] Europol. (2016). *Does Crime still pay? Criminal Asset Recovery in the EU, Survey of Statistical information 2010-2014*, p. 4.
[6] Financial Action Task Force. (2020). *COVID-19-related Money Laundering and Terrorist Financing.*

IRSG
INTERNATIONAL REGULATORY STRATEGY GROUP

Therefore, the **IRSG believes that ensuring a stable regulatory and policy framework, with close interaction between regulators and supervisors, is key to guarantee the availability and accessibility of digital tools and sustainable financial products that integrate sustainability goals into the FinTech ecosystem.**

We thank you for considering this submission.

Contact address:
IRSGSecretariat@cityoflondon.gov.uk

Annex - IRSG EU REGULATION STANDING COMMITTEE & IRSG DATA WORKSTREAM – MEMBERSHIP

ABI
AFB
AFME
AIMA
Allen & Overy
Aviva
Bank of America Merrill Lynch
Blackrock
Bloomberg
BNP Paribas
BNY Mellon
CBI
Citadel
Citigroup
City of London Corporation
Clifford Chance
CME Group
Credit Suisse
Deloitte
DLA Piper
Fidelity
FLA
Freshfields
Goldman Sachs
HSBC
IA
IBM
Impax Asset Management
Invesco
JP Morgan
Linklaters
Lloyds Banking Group
London Stock Exchange Group
MarketAxess
Marsh UK & Ireland
Mastercard
Morgan Stanley
Nasdaq
Norinchukin Bank
PIMFA
Prudential
PwC
Refinitiv
Santander
Schroders
Scottish Development International
Société Générale
Standard Chartered
State Street
techUK
TheCityUK
UBS
UK Finance
Willis Towers Watson