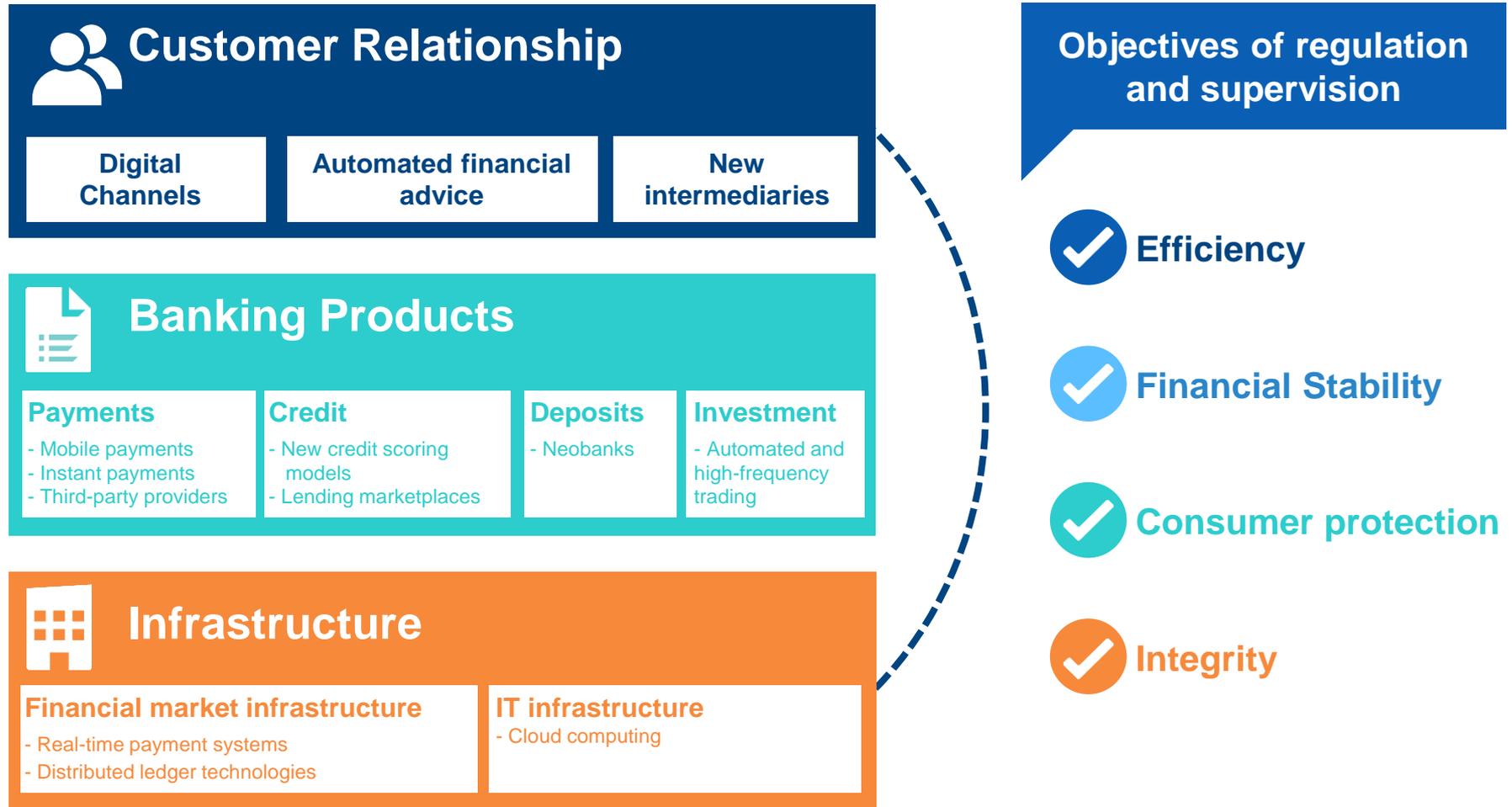


BBVA | Research

Fintech: key regulatory challenges

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Transformations in banking as a result of the new digital age are challenging financial regulation and supervision



Benefits and risks from the transformation of financial services

Efficiency



- +Automation of processes
- + Disintermediation (blockchain)
- + Flexible and scalable IT infrastructure
- + Increased competition
- + Lower costs of managing cash

Financial Stability



- New operational IT risks
- New providers subject to laxer controls
- More pressure on banks' profitability
- Increased volatility and procyclicality
- + More diverse ecosystem
- + New tools to manage risks
- + Lower settlement risks

Consumer protection



- New security risks
- Greater access to and use of personal data
- Risks from automated tools
- New providers subject to laxer rules
- + Control & traceability of customer interactions
- + Empowerment of consumers

Integrity



- Anonymity of virtual currencies
- Greater speed of payments
- + New tools to monitor & analyse transactions
- ? Digital methods of identity verification

A Level Playing Field for all providers is needed to properly address the risks and to ensure fair competition

Same regulatory treatment for activities involving similar risks



No unnecessary barriers to fair competition

Financial stability

Access to payments infrastructure

Consumer protection

Access to and use of clients' data with due consent

Integrity (AML/CFT)

Access to regulatory and supervisory guidance

Banking prudential rules and regulatory loopholes lead to asymmetries between competitors

Same regulatory treatment for activities involving similar risks



	Non-bank players	Banks	
Financial stability	Activity-specific regulations or no regulation	Prudential regulation	Restrictions to engage in unregulated activities (e.g. cryptoassets)
Consumer protection	Activity-specific regulations or no regulation		
Integrity (AML/CFT)	Activity-specific regulations or no regulation		

Prudential regulation has implications for non-core businesses in which banks compete with non-bank players

How can these asymmetries be reduced?



Limiting the scope of prudential regulation when warranted

Exceptions or exclusions from the prudential perimeter for non-core businesses



Addressing existing gaps in the regulation

A regulatory and supervisory framework for the new activities



Facilitating innovation for all players

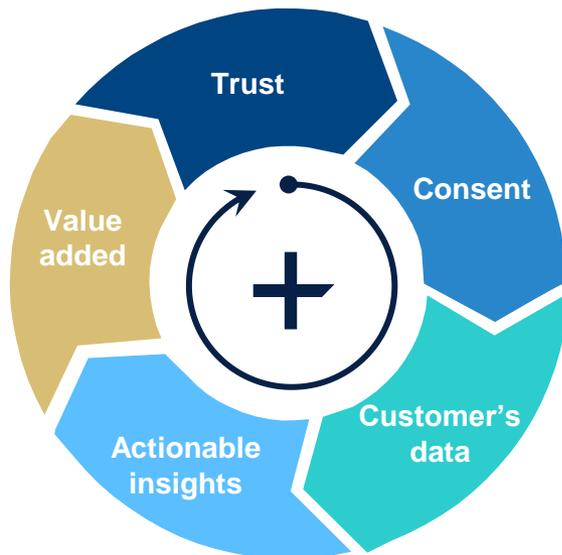
Regulatory sandboxes as a safe testing framework for both incumbents and new players

Data is a key strategic asset in the digital economy and might also be a source of Unlevelled Playing Field



No unnecessary barriers to fair competition

The virtuous circle of data



Access to payments infrastructure

Access to and use of clients' data with due consent

Access to regulatory and supervisory guidance

Regulations on the accessibility / portability of clients' data have broad implications for consumer protection, competition and the structure of the financial services market

European authorities are considering the above issues in setting their regulatory stance on FinTech



Regulating new
business models
or services



Identifying new
sources of risk



Promoting
innovation and
competition

FinTech is defined* as “***technologically enabled innovation in financial services that could result in new business models, applications, processes or products with an associated material effect on financial markets and institutions and the provision of financial services***”

* Following the Financial Stability Board

The European Commission has defined its guiding principles

Policy goals

Fostering access to financial services

- Automated financial advice and execution
- Crowdfunding
- Sensor data analytics

Increasing efficiency for the industry

- RegTech
- Outsourcing and cloud computing
- Distributed ledger technologies (DLTs)

Lowering entry barriers

- Licensing and passporting
- Innovation facilitators (regulatory sandboxes)
- Standards and interoperability

Balancing data sharing with security & protection

- Free flow of data
- DLTs for data storing & sharing
- Big data to lower information barriers
- Cybersecurity

Core principles



Technological neutrality

Proportionality

Market integrity

The European Banking Authority's approach to FinTech

The EBA takes stock of a FinTech mapping exercise (1H2017): **31% of the sample of FinTech firms in the EU are not regulated**, and 14% are only regulated under national regimes

Six lines of action for EBA's work

Authorisation and sandbox regimes

Impact on **business models**
of banks and other regulated entities

Impact on **resolution of financial firms**

Prudential risks

for banks and other regulated entities arising from FinTech

Consumer protection and conduct

Impact on **AML/CFT**

The European experience in regulating access to clients' data

PSD2 (by 2018)

access to payments accounts

for third-party providers offering aggregation or payment initiation services

individual & business clients



individual clients

transactions on **payments** accounts



“transactional” data from **all sectors**

real-time access with certain standardization



deferred access with less standardization

Sectoral regulations might create asymmetries between players in a digital context in which the boundaries between sectors are becoming blurred

Thanks!

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