

European Forum for Innovation Facilitators (EFIF)

Summary of the December 2019 meeting¹

Opening remarks

Piers Haben, Director, Banking Markets Innovation and Consumers, EBA, welcomed members and observers to the event.

Referring to the core objectives of the EFIF,² the December EFIF event enabled members and observers to:

- learn about developments in the design and operation of innovation facilitators;
- hear from private sector participants about their experiences of engaging with innovation facilitators, in particular with respect to artificial intelligence (AI), Big Data and machine learning solutions;
- discuss market and regulatory developments relating to crypto-assets, including so-called stablecoins, drawing on experience acquired in the context of innovation facilitators;
- discuss platformisation.

Innovation facilitators: Developments

Members provided an update on:

- the new innovation hubs and regulatory sandboxes that have become operational since the September 2019 EFIF event; and
- significant progress in the establishment of innovation hubs and regulatory sandboxes (e.g. public consultations, progress of legislative measures etc.).

One announced the establishment of a new regulatory sandbox. It was also noted that the domestic data protection authority is planning to set up a sandbox, drawing inspiration from a sandbox set up by an information commissioner in

¹ Hosted at the EBA's premises, Paris.

² See the Terms of Reference: <https://esas-joint-committee.europa.eu/Pages/Activities/EFIF/European-Forum-for-Innovation-Facilitators.aspx>

another Member State. It is envisaged that there will be a cooperation arrangement established between the two sandboxes.

Another noted that, further to a consultation process in H2 2019, it is expected that a regulatory sandbox will be launched in Q1 2020 which will be open to both regulated firms and also non-regulated firms where seeking to test in partnership with a regulated firm.

Another provided an updated on the measures to implement a law passed in 2019 to establish a cross-financial sectoral regulatory sandbox. The necessary implementing measures are being prepared by the finance ministry with the full cooperation of each of the financial sector supervisory authorities in the Member State. The implementing measures will, among other things, define the scope of the sandbox, the conditions for entry, the simplified regulatory obligations, disclosure requirements, and the procedures to be followed at the end of the testing period. The implementing measures are likely to come into force in Q1 2020. A committee has been established with representatives, among others, from the finance ministry, supervisory authorities and data protection authorities, to discuss innovation developments, and consider the potential need for changes to legislation and regulatory stances.

One provided an update on the parameters of their next sandbox cohort highlighting two areas in which the authority has encouraged more innovation and testing: use of federated learning and algorithms and complex scenario modelling and simulation. The authority is also exploring how to facilitate access to high quality synthetic data sets for the purposes of RegTech testing (i.e. a so-called digital sandbox). An update on the outcome of the cross-sectoral sandbox consultation was provided, noting that the exercise had been very useful in triggering a deeper discussion about how best to engage with other authorities (e.g. on data protection and consumer protection issues).

Two highlighted the establishment of innovations since the last EFIF event (in the form of a digital interfaces) which have been positively received by industry. Another indicated that an innovation hub will be established for the banking sector, to mirror the hub already established for the insurance sector.

One highlighted that a new edition of the innovation hub has been launched and will be supported with additional staff in view of the anticipated use rate. Although there was an aim to extend the hub to authorities from the non-financial

sector (specifically the data protection authority), this was not possible at this stage due to limited resources on the part of those authorities.

Another jurisdiction noted that they had been promoting the innovation hub, including with Governor and senior management level engagements at conferences and through media channels. Work is continuing on the establishment of a regulatory sandbox for which legislative changes are required.

Members again reported the use of innovation hubs for a high number of enquiries about licencing requirements, PSD2-related queries (in particular, concerning licences), AI and machine learning and the GDPR, remote customer onboarding, Blockchain and crypto-assets, and noted an increasing number of queries about RegTech and SupTech. Several jurisdictions also outlined their own work on SupTech experimentation to enhance supervisory processes.

In view of the increasing number of innovation hub enquiries about data protection-related issues, and emerging initiatives to bridge financial sector and data protection authorities on innovation, it was concluded that there would be benefit in returning to this topic at the next EFIF event.

It was also agreed that there may be benefit in reflecting on potential performance metrics for innovation hubs (for example numbers of enquiries, ‘conversion rates’ from firms going on to apply for a licence to carry out a regulated activity) and regulatory sandboxes, which competent authorities might choose to use to help illustrate how innovation facilitators are being used.

AI, Big Data and machine learning: Experiences and emerging trends from innovation facilitators

Members received presentations from market participants about propositions involving AI, Big Data and machine learning, which can be broadly grouped within two categories: (i) cognition and problem solving, and (ii) human interaction (e.g. natural language understanding; visual recognition; Q&A).

Members and market participants agreed that there is a wide range of potential applications for AI, Big Data, and machine learning across the financial sector and that the number and range of use cases (e.g. credit and market analytics, KYC, RegTech and SupTech) is developing rapidly (including in-house financial sector

experimentation and partnerships between financial institutions and technology companies), posing a challenge for authorities to keep pace with developments. To support authorities in responding to this challenge, it was agreed that the EFIF could be helpfully used to share use cases.

Market participants emphasised the need for a clear and coordinated articulation of supervisory expectations towards the use of AI, Big Data and machine learning solutions. Market participants also noted the need for clarity around some of the concepts in the GDPR in the context of data experimentation, again emphasising a need for closer coordination between financial sector and data protection authorities.

EBA, ESMA, and EIOPA staff highlighted the work underway, including the upcoming publication of the EBA's thematic report on Big Data and Advanced Analytics and EIOPA's ongoing work monitoring use cases across the insurance value chain. EIOPA has also established a multi-disciplinary expert group engaging industry, academics and consumer representatives. It was agreed that there is a lot of common ground in terms of areas of focus (in particular, explainability, governance, ethics and trustworthiness), and that the Joint Committee of the ESAs provides a useful coordination mechanism.

Members and market participants also agreed on the benefits of competent authorities and firms coming into closer proximity on the experimental use of AI, Big Data and machine learning in order to form a view on risks (e.g. potential for bias) and opportunities and appropriate mitigants.

It was observed that innovation partnerships between the public and private sector can also be invaluable in terms of enabling issues to be spotted early on in the experimentation stage and allowing for smoother proposition development.

Market participants also noted that the number of regulatory sandboxes is limited and the entry criteria differ which may, over time, result in market participants gravitating to a handful of jurisdictions for testing purposes, and continuing to face challenges in scaling up their propositions cross-border. Therefore, greater cross-jurisdictional coordination (with regard to all forms of innovation facilitator), would be welcomed to facilitate scaling. Better communications of 'lessons learned' to the wider market would also facilitate an understanding of regulatory expectations.

It was concluded that it would be helpful to return to the topic of AI, Big Data and machine learning at the next EFIF meeting, reflecting on ideas to help support knowledge-sharing on use cases and issues arising which can then be fed to relevant ESA work streams.

Presentations:

- Søren F. Mortensen, Director, Global Financial Markets, IBM
- Nicole Sandler, Head of Digital Innovation Policy, Barclays

Update on crypto-assets, including so-called stablecoins

Members received an update from European Commission, EBA and ESMA staff on EU and international work streams underway. The European Commission highlighted the consultation on an EU framework for markets in crypto-assets.

Members reported developments, noting a handful of new proposals for so-called stablecoins, and publications (guidance, policy stances etc.) issued by the competent authorities since the last EFIF event.

Members agreed to continue to monitor developments and provide a further update at the next EFIF event.

Platformisation: Perspectives from innovation facilitators

Members received presentations from market participants and the ESAs on platform models and the emerging trend towards the re-aggregation of products and services on digital platforms. Models vary including: (i) in-house platforms developed by financial institutions, (ii) technology company (including BigTech) platforms, and (iii) consortia/partnership platforms (financial institution and/or technology company). Products and services may be provided by third parties or

may be limited to platform operators/consortia members and may involve financial services (potentially multi-sector e.g. deposit, lending, investment and insurance products) and other services (e.g. multi-service marketplaces). Financial intermediation (in the sense of financial flows) may occur via the platform or off-platform. Target consumers may be based in one or more jurisdictions.

Market participants and members discussed challenges that firms may encounter in navigating:

- the regulatory perimeter, in particular, understanding which (if any) licence or registration requirements apply in the jurisdictions concerned and which authority to contact;
- conduct of business and AML/CFT requirements/supervisory expectations (e.g. regarding remote customer onboarding, disclosure requirements for terms and conditions) which can vary between jurisdictions;
- considerations around the use of data and compliance with GDPR obligations.

Market participants and members also discussed so-called e-ID initiatives and their potential utility in smoothing the boarding process and supporting the scaling up of business activities cross-border.

Members noted challenges in identifying new business models and new forms of interconnectedness, noting that, depending on their statutory mandates, they may approach market developments from a specific sectoral perspective (e.g. lending) and lack a holistic perspective. For this reason, members agreed to continue monitoring platform developments in the context of the EFIF to allow for a cross-sectoral and integrated approach to horizon-scanning.

Presentations:

- Jochen Welina, Legal Counsel, Raisin GmbH
- Frederic Maistre, Head of Strategic Partnerships Europe, Visa

EFIF priorities for 2020

Members had a preliminary exchange of views on ideas for priorities in 2020 to inform an update to the EFIF Work Programme, reflecting on the general tasks of the EFIF, areas of thematic focus, and group/firm-specific tasks set out in the 2019 Work Programme. A written procedure will be launched to obtain further inputs with a view to further discussion early in the New Year.
