

Opening remarks

3rd ESMA Financial Innovation Day – Paris

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I am delighted to welcome you all here to ESMA for our third Financial Innovation Day. I am regularly here in Paris to chair ESMA's Financial Innovation Standing Committee and as a member of the ESMA Board. So I find myself in a familiar setting to discuss a topic that I have spent quite some time thinking about.

The world of FinTech is continually changing, as new technologies are designed and launched, which makes it an exciting subject for our attention. The dynamism of FinTech firms and technologies also makes it all the more important for us to think about FinTech systematically, in the context of financial innovation more broadly.

I am convinced that financial innovation can offer various benefits to a wide spectrum of users. Equally important, I am convinced that innovation can boost growth. However, for financial innovation to unleash its potential benefits, adequate controls need to be in place. We are fully aware that while innovation in finance has contributed to economic growth, some financial innovations have been identified as a factor that gave rise to financial instability, notably during the 2008 crisis. We also have seen innovations threatening to undermine investor protection. That is why ESMA believes in a balanced approach, one which protects consumers and the financial system while supporting the benefits financial innovation brings.

Understanding financial innovations – their drivers and intricacies, how they may develop through time and their potential consequences – is at the heart of our work. In defining innovation, we include innovations both in terms of products and processes. By products we refer to an innovative financial instrument or class of instruments. By processes we refer to an inventive way or technique in which to produce or distribute products or services to targeted participants in financial markets. In addition, we realize that financial innovation does not need to be radical – though in some cases, it might be – but may be incremental.

We have prepared an exciting program for you today, which covers a wide range of topical issues in the industry highly relevant to market participants, investors and regulators. Our

theme is ‘innovation, infrastructure and inclusion’. The references to infrastructure and inclusion acknowledge the breadth of the impact of innovation, from institutions central to the financial ecosystem to those consumers who may struggle to participate at all. As regulators, we must think about how our work and the actions we take affect the functioning of the system as a whole, as well as how they affect investors and consumers.

Cora Van Nieuwenhuizen, Member of the European Parliament and FinTech rapporteur on behalf of the Parliament, will start our session with a keynote speech, looking at some key themes in FinTech and anticipating some of the questions that we will be pondering throughout the day.

We will then move on to four successive panels:

- The first panel will discuss financial technology, its drivers and the interaction with regulation. We are now witnessing a virtual torrent of financial technological innovations coming to market. But why has the FinTech phenomena occurred only now? Its recency is somewhat surprising when we observe that in certain other sectors, analogous technological changes happened over 20 years ago. To shed some light on this puzzle, the panel will examine what the drivers are of today’s post-financial crisis FinTech revolution. The issue of FinTech and the regulatory response is a critical topic for both regulators and market participants. The challenge is to identify when the regulator should step in. This is the regulatory ‘tipping point’ --- the point between ‘too small to care’ and ‘too large to ignore’. The panel will also attempt to tackle this most difficult challenge.
- The second panel will consider the use of Artificial Intelligence – or AI, for short – and Big Data in the financial sector. The rapid growth in available data across the financial sector and the wider economy, coupled with exponentially increasing processing power, are powering innovative techniques for data analysis. In this way AI and Big Data go hand in hand, since the use of AI-based tools, such as machine learning algorithms, require very large amounts of data to function effectively. These innovative techniques have applications throughout the financial sector, from helping asset managers devise investment strategies to facilitating the compliance and reporting work of firms, a field sometimes referred to as “RegTech”.
- The third panel will discuss the Distributed Ledger Technology. As you know, ESMA just this week published a report on the DLT. The report suggested that early applications of DLT will focus on optimizing existing processes under the current market structure. In the interim, the report suggest proponents of the technology will work to overcome certain known obstacles that may inhibit the technology from entering more mainstream financial market activities. The panel will explore anticipated early applications as well as how market participants are working to overcome the known impediments from the DLT entering more standardized financial activities.
- Finally, the fourth panel will look at how FinTech can improve retail investors’ access to, and understanding of, financial services. Financial inclusion is of course desirable

in its own right, helping people meet their financial goals. It is also indirectly of benefit to the wider economy, as increased participation in savings and investments channels funding to businesses. The regulatory challenge in this sphere is in striking the right balance between removing barriers to useful retail innovations while at the same time ensuring that such developments do not introduce unwanted risks.

To talk about these four topics, we have the pleasure of welcoming 20 remarkable speakers. I will not introduce each one of them now, as this will be done at the start of each panel. But please let me just tell you how glad I am that we have people with such a deep and diverse set of experience and knowledge with us today. I want to thank all of them for their participation. I look forward to hearing the valuable insight and ideas of all the panellists, whose contributions will help us to improve our work on financial innovation.

We hope you will find the programme interesting and will be as excited as we are to move forward in this initiative on financial innovation that ESMA launches today.

I am now leaving the floor to Cora Van Nieuwenhuizen, our keynote speaker for the day. Cora van Nieuwenhuizen has been a Member of the European Parliament since July 2014. On behalf of the Dutch liberal party VVD she is a member of the Committee on Economic and Monetary Affairs (ECON) and the Committee on Industry, Research and Energy (ITRE). Her mission is to improve the competitiveness of the European Union through bringing about structural reforms, completing the internal market, cutting unnecessary administrative burdens and stimulating research and innovation. Importantly for today's discussions, Cora is rapporteur on the Fintech Report of the European Parliament.

Have a productive and 'innovative' day!