

Creating an Ecosystem that will allow EU FinTechs to Thrive

The European Fintech Association (EFA) warmly welcomes the call for evidence on digital finance by the European Securities and Markets Authority (ESMA) and the possibility to provide its input. The EFA represents more than 30 leading FinTech companies of all sizes across the EU that are active in different business areas.

As EFA, we actively engage with the European Institutions to contribute to the establishment of appropriate frameworks to create an ecosystem in which European FinTechs can thrive, and European consumers can reap the benefits of secure and seamless digital financial solutions. Hence, we are gladly willing to share EFA's market observations with ESMA to contribute to ESMA's technical advice to the European Commission.

A more fragmented financial services landscape

The financial services landscape has become more fragmented. While this trend has become more pronounced during the ongoing Covid-19 pandemic, we primarily see it because of FinTech firms specializing on individual parts of the financial value chain, as it enables them to deliver high-quality services to the consumers. Consequently, we see an increased collaboration with other market players including banks, large technology companies, or even other FinTechs.

This fragmentation fosters competition in the market, which in turn provides consumers with more choice and affordable products. Another result of increased competition is further innovation which can in turn lead to novel solutions addressing market problems in a record amount of time.

Evolving risks, slow-paced regulation

The rapid rise in the use of digital solutions by European consumers has become more pronounced as a result of the ongoing pandemic. Online shopping and mobile transactions have become even more common. The higher demand by Consumers for digital solutions has led to certain risks evolving within the digital landscape, such as risks relating to data and privacy, or money laundering and terrorist financing.

A number of European FinTech's have acted proactively to address these risks, putting a high number of additional controls in place to address potential vulnerable areas, such as bolstering their cybersecurity, ensuring business continuity, and developing products which have privacy at the heart of their design.

The EFA believes that even though technology companies have begun to address these risks within their internal structures, the regulatory framework has largely fallen behind, moving at a slow pace, and becoming an operational barrier to European FinTech's looking to scale across EU jurisdictions.

Towards a risk-based approach

The EFA is of the view that this new, innovative, and competitive landscape for European FinTech's will need to be regulated under a more comprehensive and timely approach. Financial institutions partnering between each other, or third parties, should be allowed to use a risk-based approach in pursuing and maintaining these types of partnerships and dependencies.

In this context, ensuring a level-playing field between the different players becomes of primary importance under any envisaged regulatory framework, supporting all sizes of technology firms and allowing them to compete on level terms with larger ones.

Thus far, regulation of the financial market has been based on purpose rather than activity. This has often put smaller market players at a disadvantage. The EFA advocates for altering this approach in favour of adopting the 'same activity, same risk, same rules' principle. This would ensure targeted regulation, enabling diligent risk control, while at the same time fostering competitiveness and thereby creating a truly innovative digital single market for financial services.

The EFA believes that the steps taken thus far, also through the European Commission's Digital Finance Strategy, are going in the right direction. However, in order to ensure competitiveness on a global scale, it is necessary to lay down a single set of legal and regulatory rules for the entire European market.