

# **Welcome to the FinCoNet Seminar and Open Meeting 2017**

*Fintech and Financial Consumer Protection – Challenges  
for Supervisory Authorities*

Dublin, 7 April 2017

## Panel 1

# Financial Innovation and its Implications for Financial Consumer Protection

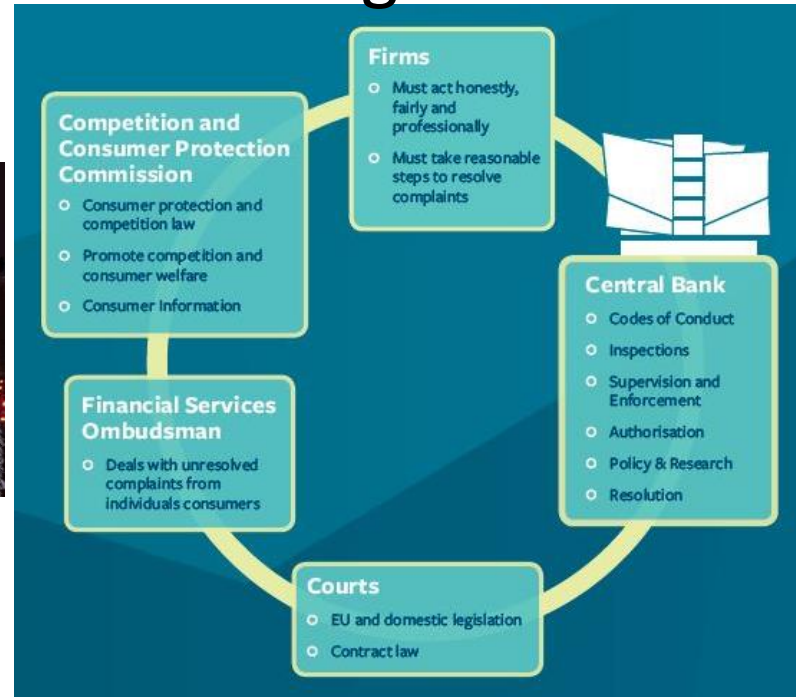
*Speakers: JB McCarthy (UCC), Peter Oakes (FinTech Ireland),  
Killian Barry (Accenture), Gillian Kelly (KPMG), Feilim Harvey  
(PWC)*

Dublin, 7 April 2017

# Innovation: Fishing Net versus Safety Net



# Fintech: Barbarians at the gate versus business people



## **FinCoNet Seminar**

April 7<sup>th</sup> 2017

# **Financial Innovation and its implications for consumer protection**



# CATALYSTS OF FINANCIAL INNOVATION

## CHANGING CUSTOMER NEEDS & EXPECTATIONS

- **Liquid expectations** raise the bar for customer experience
- **Data is viewed as a currency** - 67% are willing to share more personal data with their banks <sup>1</sup>
- **Alternative providers have a new appeal** - 31% would consider purchasing banking services from online providers such as Google or Amazon <sup>1</sup>

## RAPID TECHNOLOGICAL ADVANCEMENT

- **AI is the new UI** - 76% of executives believe that in the next three years, the majority of organizations in banking will deploy AI interfaces as their primary point for interacting with customers <sup>2</sup>
- **Open API platforms** enable rapid innovation, better customer outcomes and expanded distribution
- Blockchain and IoT present new opportunities for the industry

## MARKET REGULATION

- **PSD2 and Open Banking** are fast-tracking innovation and competition within the European industry
- **Real time payments** are a step towards a 'real time everything' industry
- GDPR, eIDAS, eMoney Directive etc.

## NEW ENTRANTS AND BUSINESS MODELS

- **Increased competition** from Fintech, technology giants and pioneering banks
- **Ecosystem and platform business models will unlock new value** - 76% of executives agree that competitive advantage will be determined by the strength of their chosen partners and ecosystems <sup>2</sup>
- **'Utility' providers** will offer products and infrastructure without managing the CX

1. Accenture, 2017 Global Banking Distribution & Marketing Consumer Study  
2. Accenture, Banking Technology Vision 2017

# NEW EXPERIENCES AND USE CASES ARE EMERGING

**DEVELOPMENTS SUCH AS OPEN BANKING WILL PRESENT OPPORTUNITIES FOR BANKS AS WELL AS NEW ENTRANTS**

## SAMPLE PRODUCTS & SERVICES



Payment Initiation

Account Aggregation

Product Comparison

Product Switching

Personal Finance Management

Lending & Crowdfunding

## FINTECHS



Stripe

Moven

Money Super Markets

Which?

Walla.by

Lending Club

iDEAL

Mint

Compare the Market

Switch Guarantee

On Trees

Kabbage

PayPal

Money Dashboard

Confused.

uSwitch.com

Hello Wallet

Kickstarter

Sofort

Capital

Go Compare

Bill Guard

Crowdcube

Trustly

Yodlee

Fintonic

## GAFA



Google

Apple

Facebook

Amazon

# WHAT WILL THE FUTURE LOOK LIKE?

## **BANKS WILL...**

- 1** Interact more frequently and in new ways with customers
- 2** Not just sell banking products but coordinate an ecosystem
- 3** Not be the only ones distributing their products
- 4** Not run all of their processes, or systems nor own their own channels
- 5** Take the lead in shaping the new rules

**WHAT DOES THIS  
MEAN FOR  
CONSUMER  
PROTECTION?**



# THANK YOU

To find out more visit:

[www.accenture.com/bankingtechvision](http://www.accenture.com/bankingtechvision) and  
[www.accenture.com/FSConsumerStudyBanking](http://www.accenture.com/FSConsumerStudyBanking)

Or contact:

Killian Barry [killian.barry@accenture.com](mailto:killian.barry@accenture.com)



# Fintech

## Regulatory landscape

7 April 2017



# Regulation overview



## Regulations

- Many countries have adopted a regulatory regime to foster innovation in FinTech.
- Countries such as the UK also provide support to navigate regulatory frameworks.
- Some countries are working on regulations to foster collaboration between financial institutions and FinTech.
- Countries including Ireland are also focusing on accounting standards such as those for software development.

## Regulatory Authorities

Enterprise Ireland (EI)

Central Bank Ireland (CBI)

Department of Finance

FinTech and Payments Association of Ireland (FPAI)

## FinTech in growing stage | Development of regulatory regime in progress

### Regulatory structure — Current state

- FinTech firms operating in Ireland are required to follow the EU regulatory mandates, which are applicable for the financial services industry. With the implementation of IFS2020 strategy, multiple initiatives have been undertaken by the government to promote FinTech.
- CBI, Enterprise Ireland and FinTech Payments and Association Ireland** have been collaboratively working toward the development of an engagement framework which will facilitate the growth of the FinTech sector.

### Policies under discussion

- Standard framework:** According to the IFS 2020 Strategy, CBI and Department of Finance announced plans to work collaboratively on the development of the authorization standard framework. CBI delivered authorisation workshop on 23 Feb 2017 as part of that process, also introduced revised guidelines on 90 day turnaround for PI and EMI licenses in Nov 2015.

## CBI's model of regulatory engagement

Monitoring

Analysis

Policy consideration

Regulation

Supervision

Enforcement

Resolution

# Future regulatory requirements - FinTech authorisations

FinTech Authorisation type	Regulatory requirements								
	Payment Services Regulations 2018 (PSD2)	E-money Regulation 2011	Minimum capital requirements	Consumer Protection Code 2012	Consumer Credit Agreement Regulations 2010	4AMLD July 2017	GDPR May 2018	Fitness & Probity	Cross Industry Guidance in respect of Information Technology and Cybersecurity Risks
Payment Service Provider/ Payment institution	✓		✓ Varying levels	✓	✓ To the extent that credit is extended	✓	✓	✓	✓
Payment Initiation Service Provider	✓ Limited application			✓ TBD		✓	✓	✓	✓
Account Information Service Provider	✓ Limited application			✓ TBD		✓	✓	✓	✓
E-money institution	✓ If providing payment services	✓	✓ Applicable capital framework dependent on extent of client monies held	✓	✓ To the extent that credit is extended	✓	✓	✓	✓

# Regulatory challenges – policy issues

## still emerging

### 1. Supervisory regime

- The authorisation process for existing licence types is more mature in some European jurisdictions, such as the UK, and is less prescribed in other countries
- Supervisory approaches are diverse and can be disproportionate, inconsistent or over-cautious
- Should there be an overarching “FinTech” licence?

### 2. Consumer Protection

- Lack of a cohesive European framework for consumer protection
- Many existing, national frameworks are not “fit for purpose” to regulate the interaction between customers and innovative digital providers in the financial services space
- No middle ground or FinTech lite

### 3. IT / Cyber Risk

- New innovations such as big data analytics, artificial intelligence, Distributed Ledger Technology, cloud computing are developing
- The question is to what extent these innovations will impact on the safety and soundness of regulated entities

### 4. Lending

- The emergence of crowd-funding, peer-to-peer lending, e-commerce finance practices, whilst limited now have the potential to change the lending landscape.
- Challenge is to balance this type of activity with the risks it presents – money laundering, terrorist financing, data protection, fraud

*“FinTech” describes  
technology-enabled innovation  
in financial services, regardless  
of the nature or size of the  
provider of the service*  
EC - 2017







“

Complex regulation is the disease of which it  
purports to be the cure.

”

Niall Ferguson  
Economic Historian (on FS regulation)

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# ***Redrawing the lines: FinTech's growing influence on the Consumer Experience of Financial Products and Services***

**Féilim Harvey**

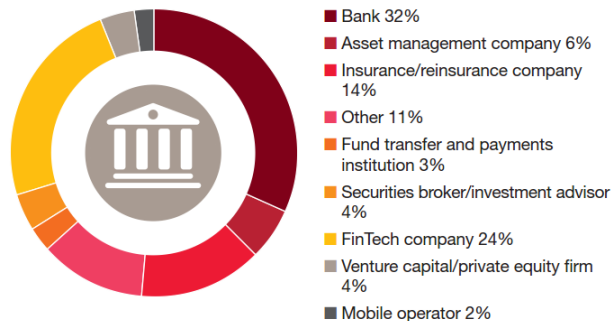


[pwc.com/FinTech](http://pwc.com/FinTech)

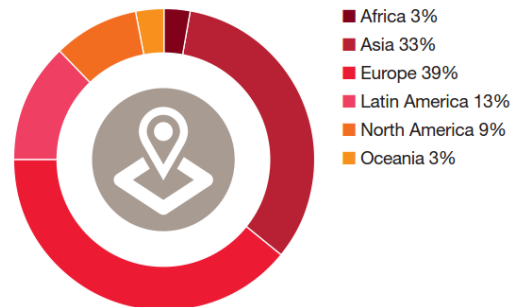
## Global FinTech Survey 2017: Participant Profile

More than **1,300** respondents, from **71** different countries around the world

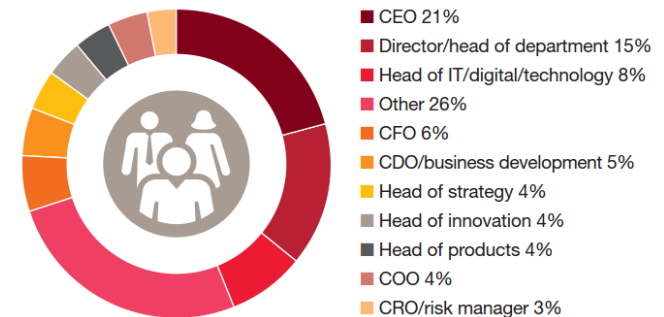
Type of companies



Origin of respondents



Type of respondents



Source: PwC Global FinTech Survey 2017



## Global FinTech Survey 2017: Key messages for Regulators

1

### **The Nature of the firms you regulate is changing**



**88%** of incumbents concerned they are losing revenue to innovators



**45%** are engaging in partnerships with FinTech companies



**82%** expect to increase FinTech partnerships in the next 3 to 5 years



Start-ups; Social Media Platforms; and Large Tech companies likely to be most disruptive to their business

2

### **The way financial services firms deliver service to consumers is changing at pace**



**56%** of Financial Institutions are putting disruption at the heart of their strategy to become "self-disruptors"



**77%** of Financial Institutions will increase internal efforts to innovate



**30%** of large Financial Institutions are investing in Artificial Intelligence



**56%** believe consumers are already conducting Personal Finance activities with FinTech companies

3

### **Regulation is part of the FinTech ecosystem**



**54%** of incumbents see data storage, privacy and protection as the main regulatory barrier to innovation



RegTech has emerged as tech innovation is focused on solving complex regulatory challenges.

Source: PwC Global FinTech Survey 2017

## ***Key Consumer Protection Themes for Regulators: Disaggregation***

### *Who Owns the Customer Journey?*

- Disaggregation of the value chain is central to the “disruptors opportunity” for FinTech.
- More open legislation such as PSD2 further enables.
- Understanding Customer Journeys used to be a lot easier!

### *Increased complexity:*

- Shared customer journey creates new challenges e.g. IT security, Incident Identification etc.
- More complex end-to-end customer journey.



## ***Key Consumer Protection Themes for Regulators: Pace and nature of Innovation***

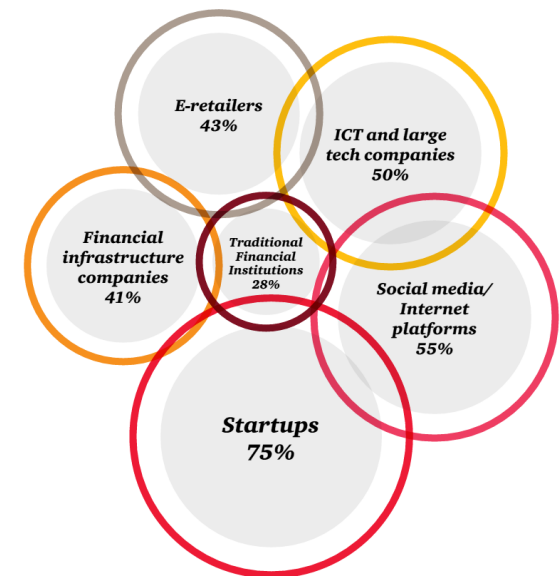
### ***Regulators need to keep pace with Innovation:***

- Rate of innovation and pace to market is staggering.
- New profile of companies delivering financial services.
- Better customer experience and new solutions.

### ***Regulators need to understand changing risk profile facing Consumers:***

- Traditional Financial Services firms vs. new FinTech companies.
- Understanding risks associated with new FinTech products and services.

***Which entities are likely to be the most disruptive in the next five years?***



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## Contact

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[pwc.com/FinTech](http://pwc.com/FinTech)

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## **Panel 2**

# **Financial Innovation at the Regional and Global Level – What’s Being Done by Whom?**

*Speakers: Chris Green (ASIC), Niamh Moloney (LSE), David Geale (FCA), Sajedah Karim (EY), Nathalie Beaudemoulin (ACPR), Kate McKee (CGAP)*

## **Panel 3**

# **Fintech and the Consumer**

*Speakers: Theodor Kockelkoren (McKinsey), Amanda Long (Consumers International), Farid Aliyev (BEUC), Pete Lunn (ESRI), Sean Smith (Deloitte)*

Dublin, 7 April 2017

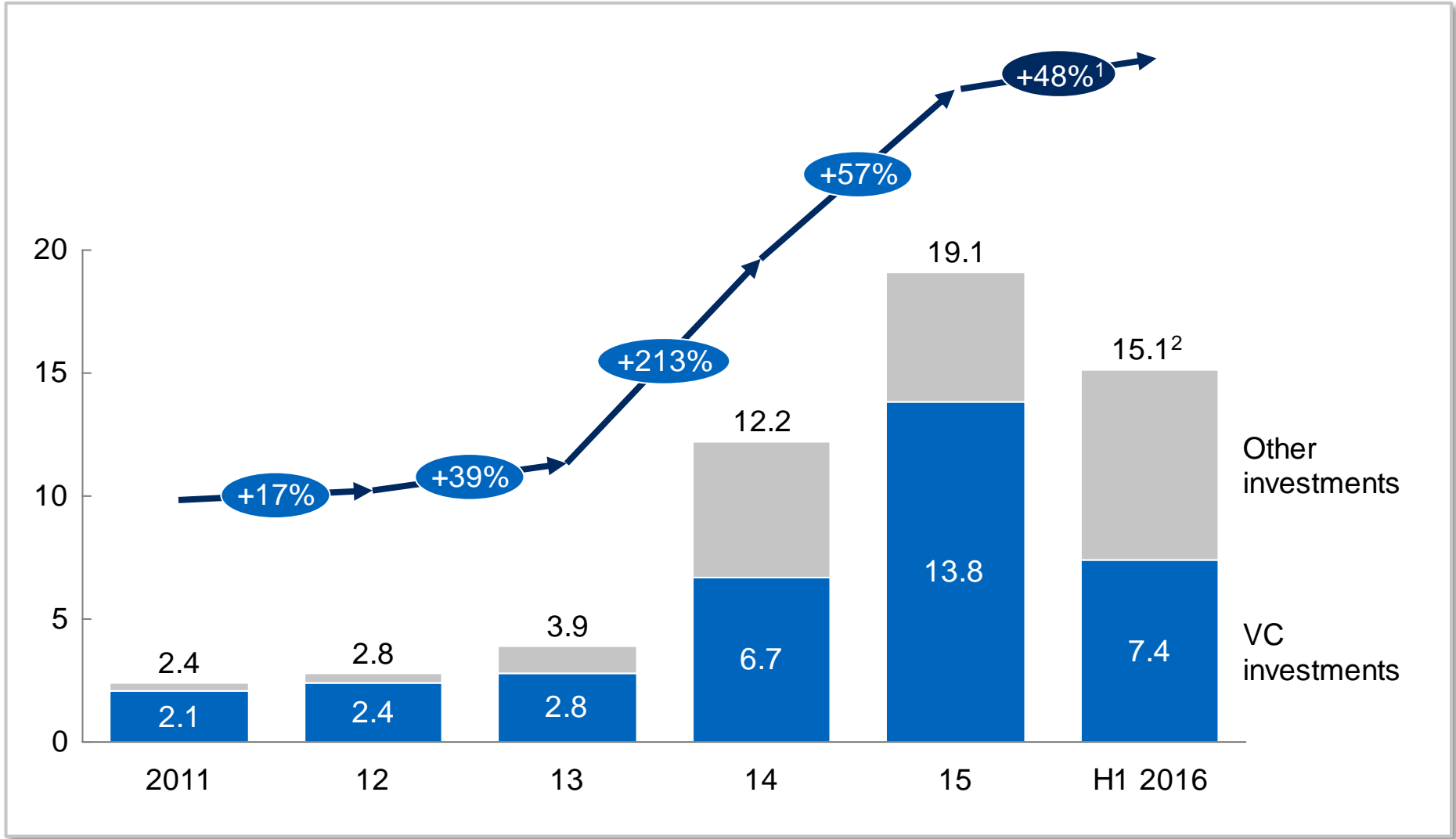
# A perspective on FinTechs in the banking market

FINCONET

Presentation | April 6, 2017

# The level of FinTech financing continues to boom

Global investment in Fintech, USD billion



1 Growth rate calculated on half year figures H1 2015 and H1 2016  
2 This figure includes \$4.5bn Series B round raised by ANT Financials, which distorts the figure



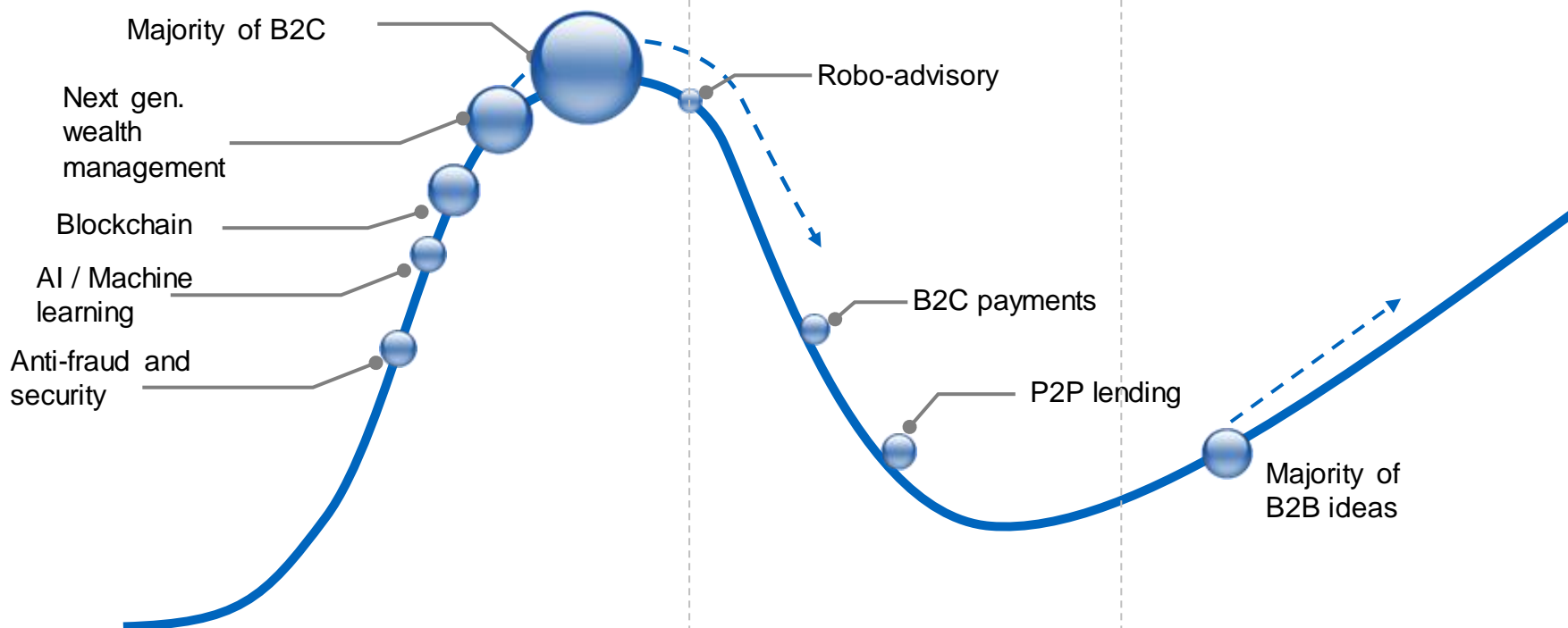
# Different types of FinTechs are in different stages of the maturity curve

ILLUSTRATIVE

## The "HYPE" phase

## The "BUST" phase

## The "ENLIGHTENMENT" phase



### Possible regulatory involvement

- Follow trends
- Explore potential opportunities as well as threats to consumers
- For more risky initiatives follow closely
- Cut off likely harmful initiatives

- Identify key issues with initiatives that are growing in size
- Explore avenues to facilitate initiatives that have potential to serve clients better
- Where necessary invest in 'innovation room' type of approach

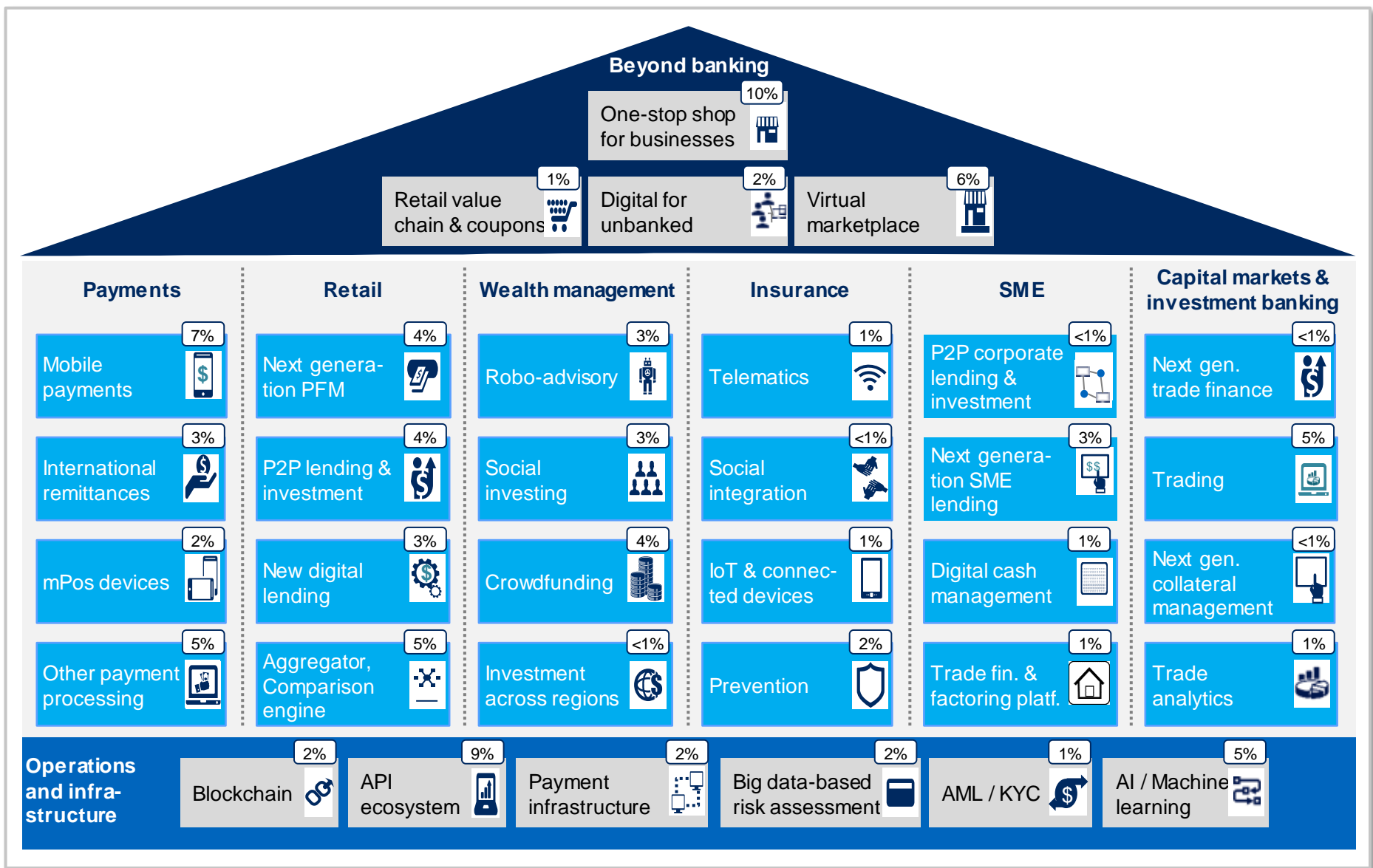
- Following market and client conduct closely, ensure a clear perspective on risks involved
- Differentiate supervision accordingly
- Based on more established market presence identify required changes in regulations

# We see FinTechs emerging in over 30 areas of banking

NOT EXHAUSTIVE

## Key FinTech trends

...% % of database sample



# Six major areas are now the main focal points of FinTech

	Description	Use cases / applications being tested for banks	Examples
1 API ecosystems	<ul style="list-style-type: none"> <li>New Fintech API ecosystem builders have started to pop-up, offering one stop shop type solutions both for retail customers and for established players</li> </ul>	<ul style="list-style-type: none"> <li>It will be no longer complicated to tap into financial services for any players (regardless of their core business) with the help of APIs</li> </ul>	
2 Robo-advisors	<ul style="list-style-type: none"> <li>Automated investment solutions that rebalance investments within desired portfolio parameters at a much lower cost and minimum investment amount compared to what traditional players have</li> </ul>	<ul style="list-style-type: none"> <li>Banks can adapt to the new ways of how clients seek advice related to investments and are able to provide more sophisticated and personalized guidance</li> </ul>	
3 Blockchain	<ul style="list-style-type: none"> <li>Bringing step function improvements to financial services in terms of speed, convenience, costs, transparency, and security across many applications</li> </ul>	<ul style="list-style-type: none"> <li>Banks have started to experiment in this space to reduce infrastructure costs (estimates show expected reductions of \$15-20B in costs)</li> </ul>	
4 AI / machine learning	<ul style="list-style-type: none"> <li>Beyond automation, AI-based technologies replace human decision making by analyzing unstructured data and by learning and improving constantly</li> </ul>	<ul style="list-style-type: none"> <li>AI based engines help FIs to make their processes more efficient and lower costs e.g. in the areas of churn prevention, collection, risk management</li> </ul>	
5 Cyber-security	<ul style="list-style-type: none"> <li>Automates the process of collecting, real-time analyzing, correlating and sharing information on current and emerging cyber-threats</li> </ul>	<ul style="list-style-type: none"> <li>Makes it easier for banks to protect themselves against unknown attacks and gain information about hackers and cyber-threats</li> </ul>	
6 AML / KYC	<ul style="list-style-type: none"> <li>Enables businesses to perform real-time, online or mobile identity verification and identify fraudulent activities</li> </ul>	<ul style="list-style-type: none"> <li>Financial institutions can mitigate risk of fraud, meet KYC requirements, shorten procedures (e.g. onboarding), and enhance customer experience</li> </ul>	