

## **European Commission consultation on a new digital finance strategy for Europe/FinTech action plan**

The Swiss Finance Council (SFC) engages in dialogue around policy developments in finance at a European and international level. It represents the interests of internationally active Swiss financial institutions and provides a platform to share their experience, expertise and knowledge through a permanent representative office in Brussels.

The SFC would like to thank the European Commission for the opportunity to comment on the consultative document on a new digital finance strategy for Europe/FinTech action plan. We are pleased that the Commission continues the work initiated by the FinTech Action Plan of 2018 and we agree with the Commission that the digital transition should form an essential part of the recovery from the COVID-19 outbreak.

The SFC would like to express its full support for the response provided to the consultation by the Association for Financial Markets in Europe (AFME). To complement it, we would like to highlight a few aspects of particular relevance to our members.

The Commission's consultative document focuses on the EU digital single market and does not raise questions dealing with third country access or how to deal with services and economic operators based in third countries. We believe that it is essential that the different aspects covered in the consultation also take into account the global dimension which characterises the digital transformation in financial services. We highlight this via concrete challenges in the cross-border context described in this letter.

For a successful European digital finance strategy, we emphasise the need to reach out to other global financial centres to align regulatory approaches, possibly seek compatibility and jointly foster innovation. Digitalisation has no borders, if we start to set up borders with varying degrees of regulations or standards on a country-by-country or region-by-region basis we will stifle the market, provide enough divergence for criminals to leverage and fail at the one of the basic tenants of innovation - competition in a global environment.

In this respect, we would like to make the following further comments:

### **Setting an innovation-enabling framework that works cross-border including beyond the EU**

Question 1 of the consultation asks about the main obstacles to fully reap the opportunities of innovative technologies in the European financial sector. Technology exists today but cannot be fully deployed because of cross-border regulatory and supervisory fragmentation and obstacles within the EU single market - as highlighted by the Regulatory Obstacles to Financial Innovation Expert Group (ROFIEG) report of December 2019 - but also to access the EU market.

Global banks and other financial institutions need market access to exploit the full potential of technology in delivering new investment solutions to clients and to contribute to delivering a more sustainable economy overall.

We believe that a truly integrated digital single market should be seamlessly interconnected with non-EU financial centres, such as Switzerland, to deliver its full potential. In this respect, principles-based equivalence decisions are key for market access in financial services which are becoming increasingly digitised. Considering the borderless nature of technology, global cooperation and better connection

with the EU's closest partners should form part of a comprehensive approach that encourages financial innovation and sustainable investment.

### **Enabling digital identification and facilitating its use across jurisdictions**

Question 16 and following of the consultation discuss how to facilitate the use of digital financial identities throughout the EU. Digital identity is a key prerequisite for the digital single market and should therefore be a priority for policymakers. Emergencies such as the COVID-19 outbreak have underscored the importance of remote operations and made clients' digital onboarding and identification even more relevant.

We welcome the intention of the Commission to extend the use of e-ID to the private sector and to offer the possibility of private sector provision of digital identities within the framework of a revised Regulation on electronic identification and trust services for electronic transactions in the internal market (eIDAS Regulation). It is however important that the national e-ID systems should be made easily interoperable not only among member states but also with relevant third countries and non-EU financial centres. The EU should engage with other jurisdictions with a view to ultimately develop a broad-based global standard on interoperable and portable e-IDs based on agreed technical criteria.

### **Promoting increased digital financial education and skills including raising cybersecurity awareness**

Question 24 and 25 of the consultation refer to financial education and literacy in the digital context. Financial literacy is a key pillar of a sustainable financial system, playing a critical role in the empowerment of consumers and investors as well as in the success of the entrepreneurship ecosystem.

The Commission, together with international bodies such as the OECD and IOSCO, should strive to coordinate initiatives aimed at increasing digital and financial literacy. The Economic and Financial Affairs (ECOFIN) Council rightly called on the Commission and member states to facilitate the exchange of best practices and views on national measures in this regard.

In order to educate future generations about the appropriate use of digital financial services and to raise their awareness of accompanying risks, notably cyber-criminality, a common EU framework could be built to embed secure and responsible financial management in school *curricula*. These efforts would also feed into the wider objective of a broader and more equitable access to financial services and skill development. Ultimately it will foster a positive change in savings and spending habits.

The EU should also build on and leverage the availability of quality education and research, including the creation of an academic network that supports a European talent pool for financial services and expertise to grow business within Europe and beyond.

### **Increasing Europe's funding and competitiveness by leveraging on global capital markets**

Question 46 of the consultation addresses the EU's financial sector contribution to funding the digital transition. The macro-economic situation in which banks operate is a difficult one, with low growth perspectives in advanced economies and continued low or even negative interest rates in the Eurozone. This is a challenge to banks' profitability, weighing on market capitalisation and on the capacity to invest in the technology.

More generally, studies show that Europe lags behind the US and Asia in global investments into technology companies. If the EU wants to close the innovation funding gap, it will have to step up its efforts to attract more investment towards this sector. A Capital Markets Union (CMU) that is open and attractive to international investors would leverage global capital and funding that is available and ready to invest in the technology sector. To successfully contribute to the CMU, we believe that global finance needs a global alignment of the regulatory framework underpinned by global standards and robust supervisory cooperation while ensuring a level playing field.

Finally, from a broader and more fundamental perspective, we believe that the new digital finance strategy/FinTech action plan would benefit from further reflection on the impact of COVID-19 on the digitalisation of the financial sector before it is adopted and published. We would therefore recommend to the European Commission to take the necessary time to draw some lessons from the pandemic and its consequences on the users and providers of financial services and to integrate them into its thinking in order to build a robust digital finance strategy for the next five years.

We would like to thank the Commission for considering our comments. We look forward to an ambitious digital finance strategy, and we will continue to contribute to this debate in a constructive manner. We would be pleased to answer any questions you may have and to have the opportunity to discuss the issues we address in this letter in more detail with you.

In this respect, we would like to invite you to consult the SFC's latest Discussion Paper on the topic of the Commission's consultation. Entitled *Getting ready for the '20s - Technology and the Future of Global Banking*, our paper examines what has changed in the way how people consume financial services and invest, and how banks operate in an environment of rapidly evolving digital innovation. It can be found [here](#).

June 2020

---

The Swiss Finance Council was established in 2013 to engage in dialogue around policy developments in finance at a European and international level. It represents the interests of internationally active Swiss financial institutions and provides a platform to share their experience, expertise and knowledge through a permanent representative office in Brussels. The current members of the Swiss Finance Council are Credit Suisse and UBS. The Swiss Finance Council supports an integrated Single Market that can contribute to the creation of a strong, open and globally competitive European financial sector, and it advocates for an EU that remains attractive to foreign investors and service providers.