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The European approach to Artificial Intelligence in Fintech: current efforts and ambitions

There are prominent synergies between Artificial Intelligence (AI) and the financial services sector as emerging technologies rapidly extend their impact on the financial industry. This reality is reflected in and addressed by the European Commission's new Digital Strategy (2020), the European Data Strategy (2020), the White Paper On Artificial Intelligence - A European approach to excellence and trust (2020), the SME Strategy (2020), the eIDAS Regulation, Payment Services Directive 2 as well as non-legislative financial services initiatives such as the FinTech Action Plan (2018).

In the financial sector, AI solutions are already being used to enable personalisation of financial services and products, better anti-fraud protection, and faster and more reliable credit assessment. The 2020 Digital Strategy lays out the ambition to create a new regulatory and policy framework for digital finance addressing crypto assets, cyber resilience, as well as a strategy for an integrated pan-European digital payment infrastructure. These efforts are part of a broader EU objective to deepen the Single Market for digital financial services and promoting a data-driven financial sector in the EU, in which AI will play a critical role.

Europe is well-positioned to tap into the potential of AI by capitalising on Europe's competitive industrial and professional markets, including financial services, and its digital innovation and research capacities. At the same time, building an ecosystem of trust is essential. A European approach to AI should ensure that machine-based learning technologies are human-centric, ethical, sustainable and respect fundamental rights and values.

It is important to recognize that while AI can do much good, including by providing better access to finance, reduce costs, and increase efficiency, it can also have negative impacts. It is therefore imperative to mitigate unintended consequences, in particular the risks of data bias, which may arise in the financial services and other sectors. The integrity of the data is paramount, as is the design of AI applications with fundamental rights protections in mind (especially personal data and privacy protection, and non-discrimination).

The Commission is addressing these challenges through a variety of efforts and initiatives, including providing guidance in its AI strategy (2018), Coordinated Plan with the Member States, the Guidelines on Trustworthy AI published by the High-Level Expert Group (2019), and most recently the Commission White Paper on Artificial Intelligence (2020).

For any future EU regulatory framework on AI it will be important that it strikes the right balance. It would need to be effective to ensure the protection of fundamental rights and consumer protection, while encouraging innovation and investment in AI and not imposing a disproportionate burden on developers or business.

A relevant approach in ensuring the protection of fundamental rights and consumer protection is that of regulatory sandboxes. In the SME Strategy for a Digital and Sustainable Europe, it was stated, 'The Commission will encourage Member States to develop proposals for regulatory sandboxes by launching a pilot.' Regulatory sandboxes in the financial services area give opportunities to firms to live test applications, pursuant based on a specific testing plan agreed and monitored by a dedicated function of the competent authority, such as innovative financial products, financial services or business models. Another pertinent and related approach is that of innovation hubs. Innovation hubs provide a dedicated point of contact for firms to ask questions to competent authorities on FinTech related issues and to seek non-binding guidance on regulatory and supervisory expectations, including licensing requirements.

As foreseen in the FinTech Action Plan, the Commission has set up a EU Fintech Lab. The EU FinTech Lab provides a regulators forum to discuss regulatory and supervisory issues regarding new technological applications that are on the market with experts. The Lab has met four times so far (1x cloud, 2x artificial intelligence, 1x RegTech/SupTech), the last time in December 2019 (on AI). ●