



Michael McGrath

Assistant Secretary, Financial Services Division,
Department of Finance, Ireland

Encouraging innovation alongside fostering digital inclusion and protection

Technological developments and changes in the area of financial services have continued to grow at pace and sophistication since the Global Financial Crisis. The growth in fintech reflects a trend where companies with the latest technology tend to be better able to service customers and, in some cases, smaller companies may be more agile than current incumbents. The entry of new fintech firms, supported by changes in European legislation such as PSD II, have provided greater flexibility and ease for consumers. As the digitalisation of financial services continues to grow at pace, we must continue to question if we have the appropriate legislative and regulatory frameworks in place for such entities.

Our goal as policy makers must be to ensure that our frameworks enable firms to harness opportunities, while providing better services for their consumers and users. Our frameworks, while being robust, must allow for start-ups to have a chance to grow and develop. We must avoid rules or frameworks that stifle innovation. Otherwise we will never see the development of European Fintech firms competing globally or truly develop the Capital Markets Union that we all want. This flexibility must be balanced by ensuring that we have the appropriate protections in place for consumers such as potential mis-selling of products, misuse of personal data, liquidity or cyber risks.

We must strive to ensure that we don't create regulatory gaps as this is important due to the cross border nature of digital finance. To maintain confidence in European Single Market and the benefits of the provision of financial services across the Union, the ability for policy makers to react quickly to developments in this area is critical to maintain this confidence. In Ireland our competent authority has introduced an Innovation Hub that allows for fintech firms to engage with the regulator outside of existing formal regulator / firm engagement processes. This enables an open and activate engagement with start-up fintech firms.

This provides an important route for those firms to understand how to navigate the regulatory landscape and also provides our Regulator with important intelligence on developments and innovation in the sector. We see this approach as an important tool to ensure that we have the correct balance in having a supervisory regime that does not stifle innovation, while being able to react quickly if required to protect consumers.

While it is important that we assist the development of the digitalisation of Europe's financial system, we must also ensure it does not result in disadvantaging certain parts of our population, such as the elderly or

the less well off. The need to provide digital inclusion for all of our citizens is as important as improving financial literacy. Both of these associated goals can help us deliver on the objectives of CMU as envisaged in the recent High Level Forum Report.

To conclude, the digitalisation of the financial sector will continue to accelerate over the coming years. Fostering digital innovation while protecting consumers and securing digital inclusion for all is key. We also must be mindful of the need to have appropriate mechanisms so that our fintech firms are able to finance themselves. We must be able to support European fintech firms as they move through their different growth phases, from start-ups to global players. Therefore, we must have the flexible regulatory frameworks in conjunction with a deeper and more developed European capital market that provides the necessary financing for our companies to grow and compete globally. ●