

Rapid innovations in digital finance

Dávid Oršula, José Carles and Laurent Le Pajolec highlight the key points of the EC's new digital finance strategy in response to the Covid-19 pandemic.

The overall use of financial applications in Europe almost doubled in one week when the pandemic started. You can now open a bank account without visiting a physical branch, and payments for purchases have moved to the digital sphere or become wireless.

The guys in Brussels have understood that the impact of the lockdowns and various restrictions are boosting the courage of businesses and consumers to go digital. Consequently, the European Commission (EC) has proposed a new digital finance strategy for the EU. This article wraps up the key points.

Trendy innovation

Digital data and IT infrastructure have become key factors for development in digital finance. Data and infrastructure exist in the cloud, thus being flexible and available, but vulnerable to data protection leaks or attacks. Speed of innovation in digital finance has become even more of a factor. Life cycles of products and solutions are getting shorter and shorter.

The EC envisages embracing the trendy innovations and the opportunities of the digital revolution, which will boost financial product innovation and development, thus making funding to businesses more available. Another positive impact of embracing digital finance is the support of post-pandemic economic recovery, mobilising funding in connection with the EU's green deal and the new industrial strategy. An open strategic autonomy in financial services will be reinforced by a strong and dynamic digital financial sector. Lastly, the EU's Economic and Monetary Union will benefit from an enhanced financial markets integration in the Banking and Capital Markets Union.

Based on the positive voice collected in the public consultation, the EU will pursue four priorities:

Defragmentation

'The financial services digital single market must undergo de-fragmentation. Consumers must access cross-border services more easily and cross-border scale-up of digital operations must be simplified.'

An *interoperable digital identity* enabling new customers access to financial services will be implemented. AML rules need to be more harmonised, while the new rules will benefit from an updated e-IDAS regulation. Know your customer (KYC) procedures must be evaluated and data protection aspects will not be missed. A part of the new rules will define which ID documents will be necessary and which technology can be used for a person's identity verification purposes. The e-IDAS regulation's application should be extended to the private sector and promote trusted digital identities for all EU citizens (finally!).

Passporting will enable consumers and businesses access to cross-border services. This will be introduced for various crowd-funding services, while the crypto-assets rules currently proposed by the EC should enable passporting for crypto-assets issuers and service providers.

Facilitate distributed ledger technology

The upsides of crypto-assets and blockchains are cheap and fast payments, new funding possibilities and more efficient capital markets. Therefore, the EC has presented a legislative proposal for a regulation on markets in crypto-assets and a regulation on a pilot regime for market infrastructures based on distributed ledger technology, thus proposing an oversight framework for critical third-party ICT providers and the launch of a European cloud services marketplace. Future cloud services could be certified by the EU cybersecurity agency.

A common European financial data space

Enhanced data sharing rules require financial firms to publish comprehensive financial and non-financial information on their operations and products. A new strategy for reporting and supervision should impose rules on supervisory reporting requirements. The structure of the reports will be in machine-readable electronic formats and easy to process and combine.

Open finance, the use and sharing of customer data by banks and third-party providers, which has been enabled under the revised Payment Services Directive, supports better financial products, better targeted advice, and greater efficiency in B2B transactions. The EC will come up with a legislation proposal on a more open finance framework.

Risks and challenges

The 'same activity, same risk, same rules' principle will maintain the rules amongst market participants.

Large technology companies will become a part of the financial services ecosystem. Naturally, risks will evolve affecting global financial stability, competition and customers. New legislative initiatives will be introduced in order to address potential risks stemming from large financial services operations. Consumers will benefit from improved protection under the revised legislative framework.

A three-year plan?

To conclude, the reader may have the impression that within three years, the driving force of innovation and legislative updates triggered by the coronavirus will result in a more modern, flexible and digital-but-safe world of finance. We hope that the positive approach and enthusiasm of the Brussels officials will keep on, even if they have to work from their home office for several more months or maybe years. Who knows? □



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