ACPR approach to FinTechs and innovation

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I. How we adapt at the ACPR

What are the findings?

- An increasing number of innovative project owners
  - **Supply:**
    - Technology factor (technology maturity)
    - Pressure on income (competition, low rates) and costs (regulations)
    - New regulations (DSP1, crowdfunding)
  - **Demand:**
    - Demographics (new generations)
    - Learning curve
    - Financial crisis
I. How we adapt at the ACPR

Such that the supervisory authorities are urged to adapt

- New dossier flows (new independent institutions, new business models)
- Owners of innovative projects and their need for specific support
- Far more international competition, including in the EU (European passport)
- Analyze, anticipate and suggest regulatory changes
- The ACPR contribution: knowledge of the market, its degree of compliance and improvements to tools it uses (RegTech/SupTech)
I. How we adapt at the ACPR

What conclusions can we draw?

- Setting up the FinTech-Innovation Section: a policy of openness
  - 1 June 2016 (3 people)
  - Heightened coordination with the AMF
  - Single point of entry for FinTechs at the ACPR
  - Better knowledge of innovation (new stakeholders, established stakeholders) to prepare supervision (national, European, international)
  - « Innovation Hub »
I. How we adapt at the ACPR

- Setting up the FinTech innovation section: an upstream policy
  - Explain the regulation and supervision framework, identify the most suitable status and provide support during the license application phase
  - Looser formalism
  - More reactivity (tighter knit team, priorities)
  - Capacity to mobilize our own experts
I. How we adapt at the ACPR

- **How the supervisor adapts**
  - Setting up an internal ACPR network (mobilizing our own experts, effects of digitization on banking and insurance)

- **And how all of the Banque de France adapts as well**
  - FinTech network
  - Security for means of payment (National Committee for Cashless Payments)
  - Experimenting with blockchain technology
  - Chief Digital Officer and a Department of Digital Transformation
I. How we adapt at the ACPR

- **FinTech Forum**

- **A unique body**
  - 35 representatives; mainly from FinTechs

- **Remit: intelligence gathering, dialogue and proposals**
  - Identifying and understanding the challenges better (risks and opportunities)
  - Forming an opinion on national and European projects
  - Reporting to the authorities on matters of concern to professionals

- **3 main subjects**
  - Proportionality
  - Use to which data are put
  - Identifying customers and getting to know them

Mai 2017
I. How we adapt at the ACPR

Challenges

- FinTech / newcomers
- Digitization in banking and insurance
- Impacts on BUs and functions at the ACPR
- Impacts on BUs and functions at the Banque de France
- International involvement (FSB, BCBS, IAIS, EBA, ECB)

Secretary General of the ACPR

FinTech / newcomers

ACPR FinTech-Innovation Network
- Licensing
- Consumer protection
- Banking supervision
- Insurance supervision
- On site audit
- Research
- International

Interaction with the BDF
- DSPM
- OI
- DSF

FinTech Forum

Analyses and proposals

FIC Division

ACPR FinTech-Innovation Network

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II. The philosophy

- Regulations: an essential item that is not isolated from the FinTech/innovation ecosystem
## II. The philosophy

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Risks</th>
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<td>- For the consumer: lower prices and improvements to products and services</td>
<td>- Less income</td>
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<td>- For finance stakeholders: lower costs and better internal processes</td>
<td>- More operational risks (interdependence of the ISs, cybersecurity, <em>cloud computing</em>)</td>
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<td>- Better compliance with regulatory requirements (<em>RegTech</em>)</td>
<td>- Heightened diligence regarding the challenges of AML-CFT and customer protection</td>
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<td>- Implementing supervision and regulations is harder (delocalization risk, fragmentation)</td>
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II. The philosophy

- Regulations: factor of trust

- Innovation
  - Technology or usage
  - Financial services

- Regulations
  - Integrate
  - Over time

- Trust
  - Customers
  - Partners
  - Investors
II. The philosophy

- Bring substance to the principle of proportionality
- Need for stability and regulatory visibility
II. The philosophy

- Proportionality already exists
  - In legislation
    - eg: order dated 3 November 2014
      Reporting entities shall ensure they implement internal control by adapting all of the measures laid down in this order in addition to directly applicable European provisions, if necessary, to the extent and volume of business, where they do business and the nature, the scale and the complexity of the inherent risks in their business model and their lines of business (article 4)
    - Diversity of the statutes by which FinTechs set up business and develop in a secure framework
  - In practice (control based on risks)
II. The philosophy

Monitor the digital transformation of the leading stakeholders in finance

- Detailed questionnaire sent to banks and insurance companies for a crossfunctional study
  - Impact of digital technology on business models
  - Digital strategy: definition and execution
  - Risks, especially cyber and data risks
  - Matters for regulation

- Monitoring the innovative projects of established stakeholders
  - Fintech acquisitions
  - New products/ new ways of starting a business relationship
  - New licensed structures
II. The philosophy

- And also….

- Openness for dialogue and sharing experience
  - New and established stakeholders
  - Professional Federations
  - Consulting firms and law firms

- Initiate and organize interprofessional debate in the regulatory community
  - ACPR
  - Other authorities (CNIL, ANSSI)
  - Legislator and Ministry of Finance

- Involvement in international bodies (Basel Committee, IAIS, European Union etc.)
I. How does the ACPR adapt to financial innovation and FinTechs?

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III. Assessment criteria

- Integrate and prepare the regulatory dimension as soon as possible
  - License/Approval
    - Which regulatory status?
    - Which shareholders?
    - Which business model?
    - Which income?
    - Lead time for getting a license and an approval?
  - Control
    - Which controls (off-site, on-site)?
    - Which reports?
  - Difficulties
    - Anticipate and let ACPR know
    - Protect customers
III. Assessment criteria

- Which regulatory regime?
  - 1st step: identify and qualify the business line
  - 2nd step: determine the most suitable status
    - License?
      - Banking (credit, deposits)
      - Insurance
      - Payment services
      - Investment services
    - Intermediary?
      - Banking
      - Insurance
      - Crowdfunding
    - Non regulated business
III. Assessment criteria

Main points requiring attention with licensing

- Market research
- Available resources (funds, retroplan, partners, internal control, reporting)
- Governance measures (legal status, supervisory committee, effective management, training, availability, properness of management)
- Exhaustive and adequate risk heat map (incl: AML-CFT)
- Structure of internal control measures
- Prudential own funds and capital requirements (3 year business plan, target scenario and stressed scenario)
Conclusion

One email address (edress)

fintech-innovation@acpr.banque-france.fr

Dedicated web pages on the ACPR website
For informing the FinTech community

https://acpr.banque-france.fr/lacpr/missions/pole-acpr-fintech-innovation/
Conclusion

Our ambition is to be a hub for excellence both in terms of security and adapting to legislation; this way, we should be able to attract leading FinTech and financial innovation initiatives.

François Villeroy de Galhau
Governor of the Banque de France, Chairman of the ACPR
Roll-out of the ACPR-AMF FinTech Forum – 18 July 2016