

DIGITAL FINANCIAL SERVICES

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The Future of AI:

What is the impact for financial services?

Javier Lopez, Associate at Kreab, looks at the road ahead

The Financial Services sector is undergoing a profound digital transformation underpinned by the advancement in the use of new technologies. In recent years, Artificial Intelligence in particular (AI) has become one of the most disruptive technologies due to its all-encompassing applications, the increase of processing power and greater access to data. From health services to commerce, AI is increasingly being applied in most professional sectors and Financial Services is no exception.

In the Financial Services industry, both incumbents and FinTechs worldwide are leveraging the use of AI for different purposes: credit scoring, risk management, fraud prevention, process automation, trading, provision of customer services (i.e. chat-bots) and personalised banking, among others. Furthermore, AI has the potential to enable the development of personalised and higher value products, thus allowing firms to explore new business opportunities. With regards to new services, FinTechs are currently leading the race whereas incumbents are, in general, currently using AI to enhance their existing offering of services.

Nevertheless, the use of AI by the industry also poses several challenges as a result of numerous hurdles to AI implementation, difficulties of accessing data and regulatory and supervisory uncertainties. Overcoming these hurdles is key to promote the adoption of AI worldwide.

At the global level, the Organisation for Economic Co-operation and Development (OECD) presented nonbinding Guidelines for AI in May 2019. These Guidelines have been endorsed by multiple countries with the intention of setting principles serving as a framework for both national governments drafting legislation and corporations writing their own guidelines for the development of AI. One of the countries which has agreed on these Guidelines is the United States; the US currently opposes the adoption of binding principles and sees the OECD as the best platform to agree on international standards to define global guidelines for the development and use of AI, against a backdrop of increasing regulatory attention from the European Union.

Indeed, at the European Level, the European Commission started looking into AI in Financial Services within its 2018 FinTech Action Plan. Regulatory and supervisory issues have thus far been discussed in the EU Fin Tech Lab. Separately, the Commission Expert Group on Regulatory Obstacles to Financial Innovation (ROFIEG) put forward a few recommendations to the Commission and the European Supervisory Authorities (ESAs) to improve the explainability and interpretability of AI and associated technologies, by developing sector-specific or horizontal rules and by providing guidance on how to meet the explainability and interpretability requirements in December 2019.

The new European Commission is now taking AI more seriously than ever before. In her election as the new President of the European Commission, Ursula von der Leyen promised to regulate Artificial Intelligence within her first 100 days in office. Whilst the Commission's initial impetus to present legislation in its first 100 days has lost momentum, it seems committed to foster the development of a European, globally competitive and values-based digital economy. To do so, the Commission is focusing on a combination of strengthened enforcement, requirements for safety and liability, and mandatory requirements for developers and users of AI in high-risk sectors (i.e. healthcare, transport, police, the judiciary, etc.). Furthermore, it is also promoting the creation of a European single market for data to feed AI-powered services.

Furthermore, the Commission presented its White Paper on AI on 19 February and launched a consultation to receive feedback from stakeholders. Feedback will feed into the future regulatory framework for AI as well as determine whether horizontal or sector-specific legislation is needed.

All in all, the European Union is moving forward with its attempt to bolster the adoption of AI. Yet, no specific actions are foreseen for Financial Services as of yet. We will have to wait until the publication of the Commission's Digital Finance Strategy in Q3 to see whether any financial Services-specific approach to AI and data will be the Commission's chosen direction.

Data Strategy

Commission outlines plan for “Single Market for Data”

The European Commission continues to shape new ideas on how to capitalise on the vast amounts of data produced by European companies and increase the share of data stored and processed in the EU. Although the EU has a robust industrial base, a number of obstacles still hinder the European data economy, namely the lack of a data governance structures, technical tools and standards, imbalances in market power, and the concentration of data among a few U.S. Cloud Service Providers. Therefore, on 19 February, the Commission put forward a new Strategy to establish a Single Market for Data. The Strategy’s main proposal is to create a horizontal framework for the governance of common European data spaces, underpinned by a European Cloud Federation. This Federation would offer companies access to a wide range of cloud services compliant with EU requirements on data protection, security and energy efficiency. On the horizontal level, the Commission will explore the need for legislative action on B2G and B2B data sharing, as part of the Data Act expected in 2021. For the B2G space, the Commission will consider the ideas put forward in the report of the B2G Expert Group, including a network of “data stewards”, national governance structures and an EU regulatory framework providing a minimum level of harmonisation. The Commission’s approach to B2B cross-sectoral data sharing is more cautious. It follows the principle of voluntary data sharing, but states that data access may be made mandatory under specific circumstances or in sectors of high public interest, including finance. The Commission will also put forward sectoral legislation to develop nine common data spaces that pool data from these strategic sectors. For the common European financial data space, DG FISMA will set out concrete initiatives, including measures to further facilitate access to public disclosures of financial data or supervisory reporting data and possible initiatives on open finance beyond PSD2. The forthcoming Digital Finance Strategy (Q3 2020) will provide more clarity on Financial Services-specific measures

. Next steps:

A consultation on the new Digital Finance Strategy is expected in March, while the consultation on the Data Strategy as a whole is open until 19 May.

Digital Strategy

Commission’s future work to promote Europe as a global digital leader

The Von der Leyen Commission outlined a clear mission for the next five years: the EU should become a global standard-setter for technological innovation, whilst European companies should be able to compete with its U.S. and Chinese counterparts on fair terms. Accordingly, the Commission presented its new Digital Strategy on 19 February, focusing on three objectives i) technology that works for people, ii) a fair and competitive economy, and iii) an open, democratic and sustainable society. The relevant proposals for the financial sector include joint capacity-building in the areas of AI, cyber and blockchain, a competitive and secure Digital Finance Strategy, and a new Payments Strategy that supports pan-European digital payment solution. Leveraging private investment under the next MFF will be instrumental for the success of this strategy.

Next steps:

Legislative proposals on crypto assets, a digital operational resilience framework for financial services, and a Strategy on an Integrated EU Payments Market are expected in Q3 2020.

Cloud Outsourcing

EIOPA guidelines on cloud outsourcing

On 6 February, EIOPA published its Guidelines on Outsourcing to Cloud Service Providers for (re)insurance undertakings as well as National Supervisory Authorities. The Guidelines aim to provide clarification and transparency to market participants, to avoid regulatory arbitrages and to foster supervisory convergence regarding the expectations and processes applicable in relation to cloud outsourcing. The Guidelines cover : i) criteria to distinguish whether cloud services should be considered within the scope of outsourcing; ii) principles and elements of governance of cloud outsourcing; iii) pre-outsourcing analysis; iv) contractual requirements; v) management of access and audit rights and security of data and systems, and; vi) principle-based instructions for National Supervisory Authorities on the supervision of cloud outsourcing arrangement. Taking into account industry concerns, EIOPA has extended the date of application of the Guidelines to 1 January 2021 and the review of existing arrangements will be 31 December 2022.

KREAB FINANCIAL SERVICES AND TECHNOLOGY FORUM

Kreab's Financial Services and Technology Forum (FSTF) allows stakeholders to engage in high-level discussions on the most pertinent technological and regulatory topics. Launched in 2014, the Forum has addressed a broad spectrum of topics, such as security tokens, crowdfunding, blockchain, payments, data protection, and Artificial Intelligence. This year the FSTF will host quarterly events on issues likely to take centre-stage in 2020, including crypto-assets, Artificial Intelligence in FS, Instant payments, and cybersecurity in FS.

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