

### **Financial Services in the Digital Age**

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#### Financial Services in the Digital Age



#### Financial Services Oligital III Siloital Age Leveraging in the Digital Age Technology and Regulation to Achieve a Stronger Capital Markets Union



'New technology is changing the face of financial services. It will be an important driver of the integration of capital markets. Examples like electronic trading, crowdfunding and FinTech show this.'<sup>1</sup>

Jonathan Hill, European commissioner for financial stability, financial services and capital markets union

The opinions expressed in this Digital Insight are those of the author alone and do not necessarily reflect the views of the European Digital Forum or any of its associates. All errors of fact or judgement are the author's sole responsibility. DIGITAL INSIGHTS: SPECIAL EDITION By Sergey Filippoy

Dr Sergey Filippov is associate director of the Lisbon Council. Previously, he served as assistant professor of innovation management at Delft University of Technology. He holds a PhD in economics and policy studies of technical change from UNU-MERIT, a joint research institute of the United Nations University and the University of Maastricht.

On 18 February 2015, the European Commission released *Building a Capital Markets Union*, a 27-page 'green paper' that launched a public consultation on how Europe could leverage its single market to improve financial services, consumer choice and, most importantly, access to capital for investmentstarved European businesses.<sup>2</sup> If the public consultation goes well, the European Commission intends to follow up with legislative proposals by 2019.

This Digital Insight Special Edition was prepared for and submitted as part of the European Commission's consultation on Building a Capital Markets Union, visit http://cc.europa.eu/finance/ consultations/2015/capitalmarkets\_union/index\_en.htm.

 Commissioner Hill survey to a question posed by the author during the Live Chat on 20 April 2015. "Dear Commissioner Hill, how do you see the role of digital technology in the achievement of the Capital Markets Union?" <u>http://ec.europa.eu/finance/chat/index\_en.htm</u>

2 According to Wikipedia, a green paper is 'a tentative government report and consultation document of policy proposals for debate and discussion, without any commitment to action - the first step in changing the law. http://mwikipedia.org/wiki/creen.paper



- Policy brief launched in May 2015 as a contribution to the European Commission's public consultation on Building a Capital Markets Union
- It calls for a strong **"digital pillar"** in the emerging Capital Markets Union plan – and a closer collaboration between **DG CNECT** and **DG FISMA**

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### **Lord HILL: Tech and Financial Services**

'New technology is changing the face of financial services. It will be an important driver of the integration of capital markets. Examples like electronic trading, crowdfunding and FinTech show this'



Lord Hill, European Commissioner for Financial Stability, Financial Services and Capital Markets Union



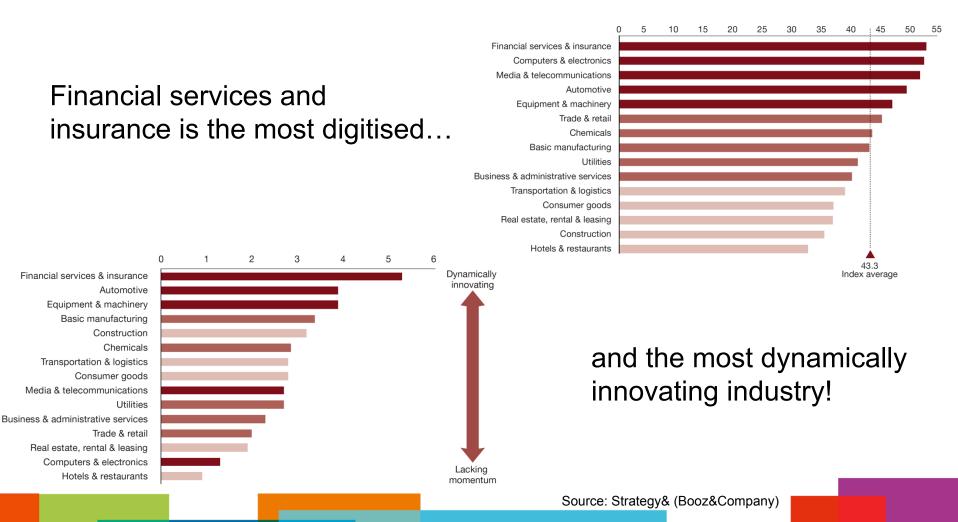
## **Digital Transformation in Banking**

- Digital transformation of economy and society – ranging from manufacturing to culture and healthcare
- Financial sector at the **forefront** of technological advances (digitalisation started in 1970s)
- Not only do digital technologies enhance existing business processes, but they also allow to reengineer complete systems and architectures and create new business opportunities in the financial sector





### **Industry Digitisation Index**





### **Customer Expectations in a Digital World**

### Expectations are 'liquid'

 Customer experiences seep over from one industry to an entirely different industry: e-commerce to banking, taxis to airlines

### 24/7 customer engagement

- Real-time omnichannel services
- Convenience and customisation
  - Consumers in the driver's seat: products and services tailored to their needs and preferences



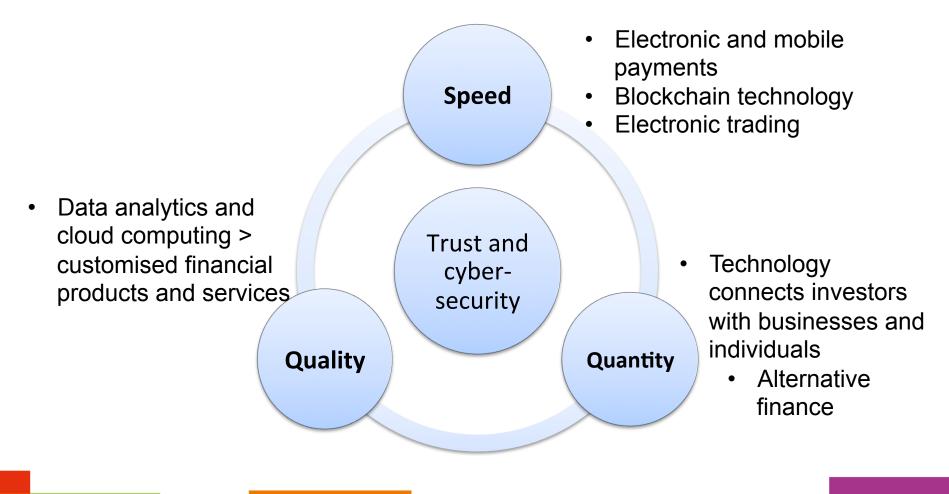
### How Banks Respond to Customer Expectations

Most leading global banks **embrace the digital revolution**:

- 1. Invest massively in **banking platforms**, improve and reengineer internal processes
- Invest in FinTech through dedicated venture capital funds
- 3. Pursue **open innovation** approach and implement innovative business models
- 4. Promote **cultural transformation**, integrate (external) know-how and become agile innovators



### **Digital in Financial Services**





### **Trust: At the Core of Financial Sector**

- **Centralised trust model**: Historically, the financial sector is heavily regulated. Risks are concentrated and regulated in order to guarantee trust
- Distributed trust model: Technology-driven developments (such as peer-to-peer transactions, blockchain), shaping wider societal trends (the sharing economy)
- **Hybrid model**: complementarities between centralised and distributed trust. World's biggest banks are exploring the potential of blockchain technology
- Increasingly, **cybersecurity** is a dominant concern



## **Regulating the Financial System**

- Two necessary requirements:
  - Make regulation **fit for the digital age** 
    - Financial regulation designed for industrial age: reactive or dynamic, future-proof regulation?
  - Build a single European market in financial services and capital
- To make European financial industry competitive in the global context for the benefit of the overall European economy









## **Policy Principles**

- 1. Europe needs financial sector **policies** that are **enabling and opening**. We need **a larger market** that is better regulated.
- 2. New technological developments in financial services such as blockchain technology should be promoted.
- 3. FinTech should be encouraged for everyone startups, technology companies and financial services incumbents. Legislation needs to be enabling for data-driven businesses and 'cloud-friendly.'
- **4.** Alternative finance should be encouraged, and remain complimentary to traditional finance.
- 5. Regulation can and should remain 'proportionate.' The emphasis should be on getting the balance right.



### **Getting the Regulatory Balance Right**

Innovation, Business opportunities & User convenience



# Empowering **tech entrepreneurs** and growing Europe's **digital economy**

