

# **“What can be expected from the EU fintech policy framework?” - speech by Kalin Anev Janse**

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Speeches

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**“What can be expected from the EU fintech policy framework?”**

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*Photo: Eurofi*

Seven years ago, Europe was facing a big challenge. The survival of the common currency was at stake. Today, we are talking about FinTech and the Capital Markets Union in the country where I was born, Bulgaria. What a turnaround! I want to show you that technology played a large role in this.

When I joined the EFSF, the ESM's predecessor, in 2010, my staff number was 9. I was put in charge of building a modern public sector institution that needed to hit the ground running and calm the markets that were getting very jittery about the euro area at that time.

As a millennial, I live and breathe technology, so I strongly advocated building this new institution using the latest technologies. Looking back, I must say that I am proud of what we achieved.

Fast-forward to 2018, and the ESM is a permanent feature of the euro area. It is a successful firewall against the euro crisis. What facilitated our achievements, is our reliance on technology.

The ESM is fully cloud-based. Our staff uses internal social media for conversations. We were the first public institution to join the London-based FinTech circle 5 years ago, where we follow 50 to 80 companies with the greatest potential to disrupt the financial services industry.

The ESM aims to be an institution fully on top of the latest trends in FinTech. We see the topic in a broad sense: it includes Legal Tech, Reg Tech, Risk Tech and other fields. They have one thing in common: digitisation. Whether of financial processes, markets, or institutions.

We have our own *sandbox*, the so-called “ESM 4.0 group”. Some 40 staff members take part to discuss and engage in FinTech solutions.

The ESM is a major supranational issuer of debt. This year we will issue more than €40 billion in bonds, and nearly €25 billion in bills. We have an interest not only in following the debate about FinTech, but also steering it and influencing the way capital markets operate, so that we can make it more efficient for taxpayers and investors alike.

We are developing our own market intelligence tool, using deep data analytics. We have a database of some 180,000 market trades, tracing every single one of our bonds since their issuance in primary and secondary markets. This allows us to understand how markets react. For example, we can monitor how investor types or regions trade our bonds, reflecting the sentiment on the euro. This algorithm also allows us to keep track of the sizes that our bonds are trading in, as well as to determine whether banks are using them for real trading. Thanks to this, we can internally grade some 40 banks we engage with.

This is just one example. In my view, FinTech can make capital markets more efficient in many different ways. So these efforts would not only be true to the ESM's nature as an organisation born in the digital age, but also fit in the mandate of the ESM to protect euro area stability.

Let me give you another example. We also propose the creation of a European debt issuance platform, which would be fully in sync with the Commission's FinTech Action Plan and the development of the Capital Markets Union. First tentative discussions about the idea are already taking place. It would help standardise primary markets, based on state-of-the-art technology. It could also help overcome persisting market fragmentation and lead to the creation of a European "domestic" market. This would increase efficiency to the benefit of investors, issuers and banks, while banks would continue to play an important role.

But we cannot speak about technology without mentioning risks. The most prominent risk is cyber-security. This is a threat not only to the financial industry, but also to our global supply chains. While executive teams have a very good understanding of traditional market, credit, and operational risk, few are tech natives... yet!

You can't blame them though. The average Darknet attacker or crypto-currency trader is between 15 and 25 years-old. They can bring companies down, and even entire banking or government systems. Recently, this happened in the Netherlands, when the website of the tax authority was brought down for several hours. An 18 year-old hacker was later arrested over this crime. Do today's top managers have the knowledge to prevent such events?

There are also risks from outsourcing to cloud service providers, in particular when it comes to critical activities. This may impact the ability of institutions to manage their risks. And if large parts of the business are concentrated in a handful of outsourcing providers, just imagine what would happen if one of them has a major outage.

Does this mean we should not innovate? Absolutely not. The EU public sector has the potential to be a role model. We should work with FinTech start-ups, and recruit some of them to help us advance our agenda. And we should also develop technology skills internally.

The EU FinTech Action Plan is an important step in this direction. Navigating technological changes is key for European public institutions. It makes them stronger, and better equipped to lead the policy debate in the current technological evolution. Or, according to taste, revolution.

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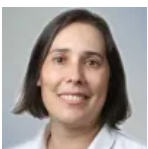


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