

EU Fintech Rapporteur Welcomes Action On Innovation, Cybersecurity

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The European Parliament's rapporteur for fintech has told PaymentsCompliance that she is optimistic a regulatory action plan on innovative financial technology can be produced within months.

The Parliament finalised a wide-ranging [report](#) last month that urged the European Commission to craft a regulatory framework specifically targeting fintech.

The report argued that a modernised legal environment would help European businesses remain competitive against technology hubs in North America, the Middle East and Asia, while ensuring new developments do not place consumer funds or data at risk.

Cora van Nieuwenhuizen, the Dutch MEP who drafted that report, welcomed the launch of an [industry-wide European Commission consultation](#) into fintech last month, and said the parallel developments could mean change is brought about more quickly than usual.

"I think it will be a firm mandate and a strong position from the European Parliament as to what our wishes are," said van Nieuwenhuizen, who is also a member of the Parliament's influential Economic and Monetary Affairs Committee (ECON), in an interview with PaymentsCompliance last week.

"They can really move faster — because the normal way it would have been to present their action plan in November, then probably the Parliament would only start working in January, and then maybe a report could have been finished in September 2018 or so.

"So with this initiative we saved about a year in advancing and moving onto concrete actions."

She said a political agreement has now been reached on the report, meaning the Parliament is likely to reach its final position in the next two months.

"That means we will be able to vote later this month in ECON, and we will have the vote in the plenary in the second session of May," she said.

"So it will be completed by June 1, and then the commission can take on board all the general principles we agree upon and can really use it for their fintech action plan."

For the financial sector, van Nieuwenhuizen reiterated that the first priority should be closing [legislative gaps around cybersecurity](#).

"That is not at the heart of our regulation," she said. "It is more seen as part of the operational risk management.

"But I think the more our business models are becoming dependent on connectivity and on data, the more important cybersecurity is.

"That is for both material risk and operational risk, and maybe even systemic risk. We should have more focus on that in our regulation."

The fear is not only that innovative firms might expose consumer funds to cybercriminals, but that the vast amount of valuable financial data that institutions have access to is at an ever-increasing risk of being stolen or manipulated.

The MEP said regulators should be more "tech-savvy" to understand exactly how hackers work, and that a central point of information sharing should be set up for EU businesses to support and learn from each other.

"The financial sector is under attack thousands and thousands of times per day, so they have a lot of knowledge on it already, but also they are the most vulnerable," she said.

Another area singled out by the report was virtual currencies such as Bitcoin.

Van Nieuwenhuizen cited a [report](#) by Europol in 2015 claiming Bitcoin is used for 40 percent of all online criminal-to-criminal payments, and said the emergence of other virtual currencies has likely compounded that issue.

The development of tumbler services, which pool and redistribute user funds to disguise their transaction history, poses a further challenge to regulators.

She said: "I don't have the ideal answer to solving all these problems, but I think the existence of mixers or tumblers is really one thing that should be on the political radar

thing that should be on the political radar.

"Of course there is the difficulty that they are not 'real' currencies but commodities, and that makes it difficult to legislate, but you see that around the globe — other regulators are struggling with this."

Another implication of the technology is that it could be used to obscure funds for tax evasion purposes, and due to its global nature, it is difficult for law enforcement to take action.

[Proposed amendments](#) to the [4th Anti-Money Laundering Directive](#), currently being discussed at EU level, are expected to bring virtual currency exchanges and custodian wallet providers within its scope.

Controls are also being tightened on prepaid cards and e-money instruments that can be funded anonymously.

But for van Nieuwenhuizen, heaping additional compliance burdens on financial firms already subject to stringent controls is "certainly not what our intentions are".

"Of course, with cybersecurity if they have no contingency plan in place it means an extra administrative burden — but on the other hand I think it would be pretty stupid if they don't have that," she said.

"But it could also mean lowering burdens, because one of the recommendations is for the commission and the European supervisory authorities to try using a permissioned blockchain for reporting, so that could lower costs incredibly."

She added that policymakers will need to ensure they are facilitating fintech rather than stifling it, not least so they can benefit from the job creation and economic growth expected to be spurred by the sector's development.

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