# Public consultation on financial innovation environment in Estonia

23. May – 6. June 2019

## TargetThe aim of this consultation

Finantsinspektsioon would like to map the financial innovation landscape in Estonia and consult on the use of financial technology and its potential, obstacles and feasible solutions.

Finantsinspektsioon considers financial innovation or financial technology to include financial products/services that involve technological solutions and bring some kind of novelty aspect to them.

Financial innovation in the context of this consultation may also be all kinds of innovative systems and compliance mechanisms.

Finantsinspektsioon is a supervisory authority which strategic role in financial innovation is to:

* Analyse potential supervisory activities
* Contribute to more efficient financial safety net and
* address the opportunities and risks involved with financial innovation.

We are constantly monitoring the area of financial innovation, reacting to the distortions of the products, assessing risks and taking proportionate measures without hindering the innovation. Finantsinspektsioon offers direct contact with relevant specialists in order to provide initial regulatory guidance and assistance in qualification of innovative business models.

You may read further about financial innovation facilitators of Finantsinspektsioon on our website:

www.fi.ee > Finantsinspektsioon > [Financial innovation](https://www.fi.ee/en/investment/aktuaalsed-teemad-investeerimises/financial-innovation);
www.fi.ee > Finantsinspektsioon > [Konsultatsiooni pilootprojekt](https://www.fi.ee/et/investeerimine/aktuaalsed-teemad-investeerimises/finantsinnovatsioon/konsultatsiooni-pilootprojekt) (only in Estonian).


[Finantsinspektsioon’s strategical directions for the next three years include](https://www.fi.ee/en/finantsinspektsioon/about-finantsinspektsioon/finantsinspektsioon-operating-strategy-2019-2021) *inter* *alia* developing a more innovation-minded financial sector. To that regard, Finantsinspektsioon shall draw up and apply a supervisory policy in consultation with market participants under which the introduction by a supervised entity of IT solutions that are new, but sufficiently secure, will see a reasonable relaxation of the assessment and application of the requirements for market entry for that entity, except where the supervised entity was responding to a violation of the law or in matters of personal suitability.

Finantsinspektsioon abstains from restricting the definitions of financial innovation or financial technology. However, for the purposes of this consultation, we would like to bring some examples of the most popular technologies:

#### Artificial Intelligence (AI)

A technology that is made to train machines to learn from experiences, adjust to new inputs and perform human-like tasks. It relies heavily on deep learning and natural language processing. Some AI examples are the following: chatbots, voice recognition, credit scoring, identifying insurance interests, robo-advise, automated phone calls and/or presentations on credit risks, AML prevention, data processing, etc.

#### Big data

It is a term that defines a large volume of data (hereby both structured and unstructured) that overwhelms daily an entity. It is used to uncover hidden patterns, correlations and other insights that may refer to something. All the processes where Big Data analytics can help are much faster and better than with traditional BI (business intelligence) it has been. Examples, that support Big Data analytics are the following: data management, data mining, predictive analytics, etc.

#### Distributed ledger technology

For example, digital currencies, cross-border payments, financial markets infrastructure in the securities markets, collateral registries, smart contracts, etc.

## Daily calendarConsultation period and other observations

The consultation period lasts from the 23rd of May until 6th of June.

The observations and comments are welcomed on the questions stated below, but as well on financial innovation in general.

Please send your feedback and views to Finantsinspektsioon by e-mail: info@fi.ee.

Please note that by submitting information for the purposes of this consultation you agree that Finantsinspektsioon may use the information for its general purposes stemming from legal acts. Personilized information will not be used without the explicit consent of the person. The submitted information shall be covered by the confidentiality clauses as set out in the Financial Supervision Authority Act.

When responding to the consultation, in addition to your views and approaches, please also describe real cases and examples that you have encountered when providing or planning of your innovative services.

## ChecklistConsultation questions

### I Mapping of the financial technology application

1. Please describe your business:
	* 1. name,
		2. area of activity (whether you have a licence);
		3. time that you have been operational,
		4. place of establishment,
		5. place of headquarters.
2. Please describe the financial innovation of your business that you ave been using for the last three years and also the innovation that you are planning to use.
3. Which of the abovestated example technologies (or any ohter) do you use for your business (including the solutions from the third parties)? Which kind of functions do these solutions proovide in your business? How lõng have they been in use?
4. Please describe shortly how these financial technology solutions work for your business.
5. How did the development and testing of the financial technology look like?
6. How many persons were involved in the development and testing phases and what were their profiles?
7. Which financial technology solutions would you like or plan to use in the future?

### II The problems of financial technology application stemming from technologies and economy. Potential solutions thereto.

1. Please describe the factors that in your view are hindering and posing the most risks to the development and application of financial technology. If possible, please bring specific examples.

For example:

* Economical environment of the establishment of the business – favourable conditions that are set out for (starting) businesses e.g. in tax system or other areas. Also access to the specialist employees, possibility for digital procedures (e-residency), access to capital and so on.
* Competition – financial products/services available in the jurisdiction of establishment and potential clientele.
1. Please describe how, in your view, should these problems and hurdles be handled.

### III The legal problems of financial technology application and potential solutions thereto

1. Do you see any legal hurdles to the application or access to financial technology? Please describe these hurdles that stem from the legal framework or supervisory activities conducted to the business. If possible, please bring real examples.
2. Do you find that the authorisation proceedings of Finantsinspektsioon should be changed? For example, is there a need for applying relaxations from the authorisation requirements so that the requirements would be more proportionate considering the (planned) business volumes? If yes, then in which areas and which legal acts should provide for such relaxations and how would you reason these exemptions?
3. How do you see the role of Finantsinspektsioon in the context of financial innovation? For example, providing a contactpoint for financial innovation matters, testing environment (sandbox), organising of financial innovation events and so on. Please bring real examples or specific ideas and also state the cases where the financial innovation has not been applied or has been aggravated.
4. Have you encountered hurdles (economical, legal or operational) that Finantsinspektsioon could solve with e.g. a sandbox or any other way?

*Sandbox* (testing environment) is a way of facilitating financial innovation. The exact model of this initiative may vary. In general, it provides the financial innovators opportunity to, together with a supervisory authority, qualify their innovative product or service and where applicable, assistance to the authorisation proceedings (with potential relaxations to the requirements). Thereafter, the business would have the opportunity to test its product or service according to certain conditions in a restricted environment and period of time. The European Supervisory Authorities have compiled a report on the financial innovation facilitators in Europe: [Report. FinTech: Regulatory sandboxes and innovation hubs](https://www.esma.europa.eu/sites/default/files/library/jc_2018_74_joint_report_on_regulatory_sandboxes_and_innovation_hubs.pdf).

1. Please describe your contact with Finantsinspektsioon regarding financial innovation. Do you find that something should be changed in the communication? If yes, then please explain.

Thank you for your time!
Please send the responses to info@fi.ee.