

## Annex B. Background to innovation facilitators

In order to better understand new FinTech activities, business models, hazards, and motivations, the numerous platforms for regulatory outreach to the FinTech industry have become increasingly institutionalised through “innovation facilitators” that have taken different forms, depending on the jurisdiction, and mostly taking the form of innovation hubs and/or sandboxes. As it has been recommended in a number of OECD jurisdictions, including the European Union (EU) and the United States, it is important to consider the integration of specific entity-based regulations to address the emerging policy problems (Carstens et al., 2021<sup>[1]</sup>). Each jurisdiction has a distinct FinTech flavour which is influenced by these initiatives and the larger regulatory environment, and regulatory sandboxes have already become mainstream (Ahern et al., 2023<sup>[2]</sup>).

Innovation facilitators share the objective of supporting the potential of FinTech innovation while at the same time limiting risks and safeguarding the financial system. Innovation facilitators provide customised guidance to firms and intend to promote an active and constructive dialogue that benefits all stakeholders in the FinTech ecosystem. Furthermore, innovation facilitators promote the diffusion of understanding and knowledge of regulations, supervisions and norms, while at the same time informing the regulatory and supervisory authorities of the impacts of regulations, thus not only driving innovation in the market but also within the regulatory and supervisory bodies. Innovation facilitators can also enhance legal certainty: rules and regulations continue to apply; there is no bending of the rules for FinTechs.

EU national innovation facilitators are brought together by the European Forum on Innovation Facilitators (EFIF).<sup>1</sup> EFIF shares experiences from engagement with firms through sandboxes and innovation hubs, exchanges technological expertise, and seeks to reach consensus on the regulatory treatment of innovative products and services, along with producing case studies (such as RegTech) and cross-border testing. All 27 EU Member States (in the securities, banking, and insurance sectors) as well as three European Economic Area (EEA) countries (Iceland, Liechtenstein and Norway) are members of the EFIF. Both regulators and innovators recognise the benefits of innovation hubs and regulatory sandboxes. These benefits include spurring innovation while staying alert to emerging risks, reduced asymmetric information, and reduced regulatory costs or uncertainty (ESMA, EBA and EIOPA, 2019<sup>[3]</sup>). Additionally, authorities have observed increased engagement with FinTech firms as a result of these facilitators.<sup>2</sup>

An innovation hub is a facilitator of innovation that has been established by a supervisory body to assist enterprises, whether regulated or not, in navigating the regulatory landscape or in identifying supervisory policy or legal issues and concerns. Innovation hubs have usually a central point of contact for FinTechs to communicate directly with the authorities and get clarity on compliance with licencing standards and/or regulatory frameworks. FinTechs can benefit from innovation hubs to navigate the legal, policy, and regulatory systems. The support provided might be direct or indirect, through market direction, and often excludes product or service testing (World Bank, 2020<sup>[4]</sup>). Germany and the Bank for International Settlements (BIS) have established such innovation hubs for FinTech support.<sup>3</sup>

## References

- Ahern, D. et al. (2023), “The Role of Sectoral Regulators and other State Actors in Formulating Novel and Alternative Pro-Competition Mechanisms In Fintech”, [http://www.tara.tcd.ie/handle/2262/101\\_066](http://www.tara.tcd.ie/handle/2262/101_066) (accessed on 19 December 2022). [2]
- Carstens, A. et al. (2021), *Regulating big techs in finance*, BIS Bulletin No 45, <http://www.bis.org> (accessed on 19 December 2022). [1]
- ESMA, EBA and EIOPA (2019), *FinTech: Regulatory sandboxes and innovation hubs*, [https://ec.europa.eu/info/publications/180308-action-plan-fintech\\_en](https://ec.europa.eu/info/publications/180308-action-plan-fintech_en). (accessed on 5 May 2023). [3]
- World Bank (2020), “Global Experiences from Regulatory Sandboxes”, *Fintech Note*, No. 8, World Bank, Washington DC, <https://doi.org/10.1596/34789>. [4]

## Notes

<sup>1</sup> The EFIF is run jointly by the European Securities and Markets Authority (ESMA), the European Banking Authority (EBA), and the European Insurance and Occupational Pensions Authority (EIOPA) in collaboration with the European Commission (DG FISMA).

<sup>2</sup> Presentation delivered at the OECD Workshop in Prague on 24 November 2022.

<sup>3</sup> Presentation delivered at the OECD Workshop in Prague on 24 November 2022.



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