

# Feedback Statement to the Consultation Document on the MFSA Fintech Strategy

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## 1 Introduction

On 31 January 2019, the Malta Financial Services Authority ('MFSA' or 'the Authority') issued the '[MFSA FinTech Strategy – Consultation Document](#)' ('the Consultation Document') which presented the MFSA's vision *"to establish Malta as an international FinTech hub which supports and enables financial services providers to infuse technology in product and service offerings to drive innovation"* together with a proposal for a FinTech Strategy ('the Strategy').

In order to achieve this vision, the Consultation Document identified six key pillars to nurture a robust FinTech sector which foster innovation, growth and competition in the financial services field, whilst ensuring robust investor protection, market integrity and financial soundness. The consultation period closed on 18 March 2019.

The MFSA received several responses from a wide range of industry participants and interested parties including regulated firms, associations, technology providers, law firms and consultancy firms.

This Feedback Statement summarises the feedback the MFSA received and sets out the **MFSA's response and position thereto**. It will not delve into specific recommendations provided in relation to specific pillars as these will be discussed in further detail in due course.

## 2 Feedback Statement

### 2.1 Overall Feedback

Question 1 - What are your overall views on the MFSA FinTech Strategy?

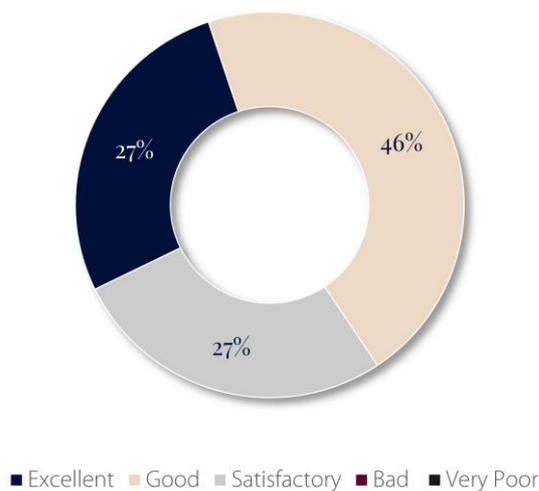


Figure 2-1: General Feedback

#### 2.1.1 Feedback Received

The MFSA’s proposed Strategy was positively received by all respondents, noting that overall the proposal was viewed as excellent (27%), good (46%) and satisfactory (27%). These figures are presented in Figure 2-1. In this respect, respondents generally highlighted that this Strategy proposed a vision which is forward looking and which truly seeks to build on the MFSA’s past initiatives within the crypto-assets space, and position Malta as an international FinTech Hub.

Respondents further commented that this Strategy would act as an enabler for

technology induced financial innovation by FinTech start-ups and scale-ups, technology firms and established financial services providers as well as the MFSA. Consequently, respondents noted that the identified pillars and their respective strategic objectives provided a strong foundation towards achieving the proposed vision.

Notwithstanding the latter, respondents noted that in order for the proposed Strategy to achieve its stated vision, mission, and synergistic elements, the MFSA should, when implementing its strategic objectives, consider at the heart of the Strategy, (i) sustainable financial innovation, (ii) open dialogue, and (iii) effective and efficient implementation.

With regards to sustainable innovation, respondents expressed the view that the appropriate amount of “regulatory pressure” should be applied, so that this delicate

ecosystem, is on one hand, empowered to innovate, but, is also instilled with the necessary regulatory and supervisory culture. This balancing act between innovation and regulation should be such that enables technology which harnesses financial innovation. This should consider the needs of its ultimate consumers and, to a greater extent, the reputation of the financial services markets; thus, yielding a positive benefit within the FinTech ecosystem, the wider financial services sector and the Maltese economy.

Respondents also noted that open dialogue between the Authority, key stakeholders and interested parties, across all sectors of the financial services landscape, will be vital towards implementing the Strategy in a sustainable manner so that this proposal takes into consideration the specificities and needs of the FinTech sector.

Lastly, respondents argued that, as with all strategies, effective and efficient implementation of the strategic objectives was necessary to maximise the resulting benefits and synergies both internally within the FinTech sector, and externally within the broader Maltese financial services sector.

### *2.1.2 MFSA Position*

The MFSA welcomes the feedback received from the industry. The MFSA understands the **industry's concerns**, and shall strive to enshrine the notions of: (i) sustainable financial innovation; (ii) open dialogue; and (iii) effective and efficient implementation. These are central towards achieving **the MFSA's vision**, and it is evident that the proposed Strategy seeks to enshrine these concepts within its mission, pillars and strategic objectives.

In relation to open dialogue, the MFSA intends to continue to onboard any essential feedback relevant towards developing a sustainable FinTech sector and will therefore continue working with all market participants to create an environment which facilitates technological advancements and innovative business models while safeguarding the Maltese, and broader, European financial services sectors. Nevertheless, so as to facilitate communication with stakeholders and interested parties, the MFSA is proposing to organise workshops during the consultation process. Complementing other sources of feedback, such workshops shall aim to promote a healthy and constructive forum between all relevant parties to discuss the topic/s at hand.

In view of the above considerations, the MFSA is of the opinion that no changes are required to the overall structure of the proposed MFSA FinTech Strategy.

## 2.2 Pillar I – Regulations

### Question 2 - What are your views on the proposed Pillar I of the MFSA FinTech Strategy?

#### 2.2.1 Feedback Received

As illustrated in Figure 2-2, all respondents **agreed with the MFSA’s** proposals presented under Pillar 1, with the majority noting that the proposals were excellent (27%), good (46%), and satisfactory (27%).

Respondents welcomed **the MFSA’s proactive initiative to establish a** dedicated FinTech Team to deal specifically on FinTech related matters, albeit noting that it should have adequate capacity to deal with cross sectorial issues including technology.

Respondents also welcomed the implementation of the main proposal under this Pillar, the FinTech Regulatory Sandbox (**the Sandbox**). Respondents opined that such a framework would place us at par with other leading jurisdictions and would provide the necessary space for innovation within a regulatory environment. Additionally, it was noted that the Sandbox would provide a framework to cater for financial innovations which question the applicability of existing financial services legislation and, where certain gaps have been identified, to determine the appropriate regulatory and supervisory response. In this respect, respondents argued that the MFSA should collaborate with stakeholders knowledgeable and experienced on the operations of foreign sandboxes so as to gain further insight and understand the challenges and risks faced by such initiatives.

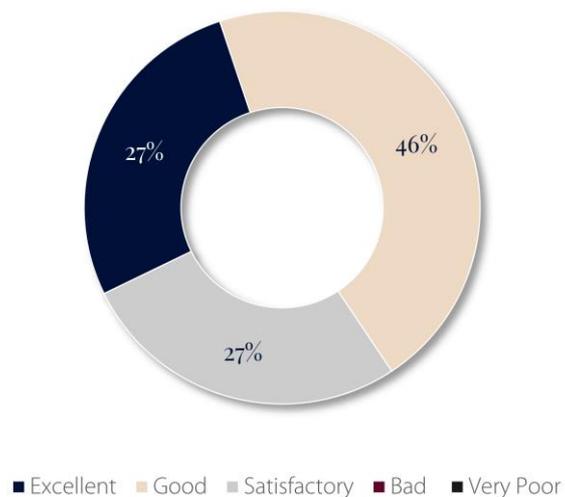


Figure 2-2: Pillar I Overall Feedback

Respondents also suggested that the Sandbox should also encourage partnerships and collaboration between established financial services providers and start-ups, scale ups and technology firms. Such partnerships would allow for synergies between parties, and benefit Sandbox participants in terms of authorisation and ongoing requirements. One respondent specifically recommended the use of protected cell companies for the purposes of potential InsurTech participants.

Furthermore, a number of respondents agreed with the application of proportionality within this nascent and delicate sector; however, it was observed that such approach should be supplemented with clear guidance on its practical application. Another salient concern focused on level playing field implications arising from the application of proportionality within this sector, particularly, with the exclusion of established financial institutions from participating in the Sandbox and other strategic objectives.

### 2.2.2 MFSA Position

The MFSA welcomes the feedback received and looks forward to receive further detailed feedback in relation to this Pillar once a dedicated Consultation Document in relation thereto is issued. This notwithstanding the Authority will continue to welcome any *ad hoc* feedback. Therefore, on the basis of the feedback received, no amendments shall be made to the proposals presented under this Pillar.

In relation to the Sandbox, the MFSA would like to clarify that this framework will provide the opportunity for all financial services providers to test the commercial and regulatory viability of their innovations whilst providing an open channel of communication with the MFSA to ensure that the innovation aligns with the current regulatory framework/s or helps to identify any possible gaps and the appropriate regulatory or supervisory response. Therefore, subject to all eligibility criteria being met, participation within the Sandbox will be open to all FinTech start-ups and scale-ups, technology firms and established financial services providers proposing financial innovation.

**The MFSA notes the industry's concerns in relation to proportionality.** As outlined in the Consultation Document, the MFSA will continue to apply the principle of proportionality depending on the nature, scale and complexity of the business model, where applicable and provided by legislation.

## 2.3 Pillar II – Ecosystem

### Question 3 - What are your views on the proposed Pillar II of the MFSA FinTech Strategy?

#### 2.3.1 Feedback Received

The MFSA’s proposals under Pillar II were well received, with all respondents, as indicated in Figure 2-3, stating that the proposals were excellent (36%), good (37%) and satisfactory (27%). It is noteworthy to mention that the respondents **recognised the MFSA’s intention to include all players within this sector and noted that it was crucial for all parties to come together to develop the ecosystem underpinning this Strategy.** Several recommendations were put forward by the respondents mainly covering (i) the FinTech Innovation Hub, (ii) access to finance and (iii) resources and support structures.

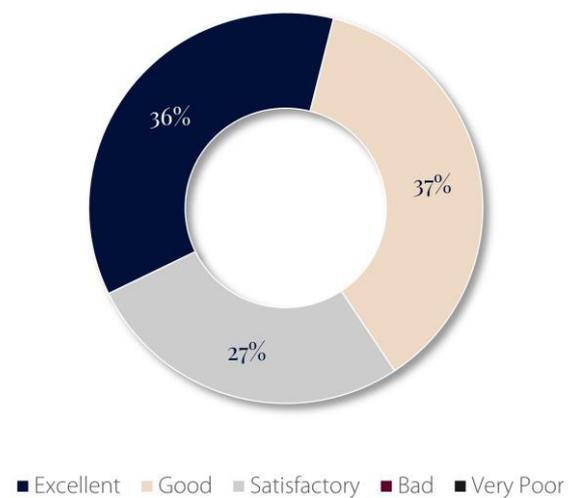


Figure 2-3: Pillar II Overall Feedback

In relation to the FinTech Innovation Hub, **most of the respondent’s welcomed the MFSA’s initiative to develop a FinTech Innovation Hub as it is seen crucial in promoting innovation within the Maltese financial services sector.** Respondents further proposed that this should be open to all players within the ecosystem and that it should be close to the MFSA’s offices so as to facilitate communication.

Another salient concern treated the lack of accessibility for FinTechs to open bank accounts with respective financial services providers.

### 2.3.2 MFSA Position

The MFSA will take all feedback received in relation to this Pillar into consideration when drafting the respective Consultation Document. The Authority looks forward to discuss these proposals in further detail with all stakeholders at that stage.

In relation to the lack of accessibility for FinTechs to open bank accounts with respective financial services providers, the MFSA, together with the Financial Intelligence Analysis Unit ('FIAU'), **has initiated an industry wide discussion by issuing, on 27 April 2019, a 'Consultation Document on Guidance for Credit Institutions, Payment Institutions and Electronic Money Institutions opening accounts for FinTechs'** ([link](#)). Further detail in relation to this consultation will be issued in due course.

On the basis of the above, no changes shall be made to the proposals presented under this Pillar.

## 2.4 Pillar III – Architecture

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Question 4 - What are your views on the proposed Pillar III of the MFSA FinTech Strategy?

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### 2.4.1 Feedback Received

As indicated in Figure 2-4, while 55% of respondents were satisfied with the proposals presented under this Pillar, 27% and 18% of respondents noted that the proposals were excellent and good respectively. Indeed, respondents noted that having open **Application Programme Interfaces ('APIs')** and shared platforms would be conducive towards establishing Malta as a global FinTech Hub. Furthermore, respondents also noted various concerns which merit attention during the implementation of the strategic objectives under the Pillar, specifically, security, competition, privacy, and implementation.

#### Security

Information security and cybersecurity was one of the key aspects of concern identified by respondents given the wealth of personal and financial data potentially accessible on such platforms.

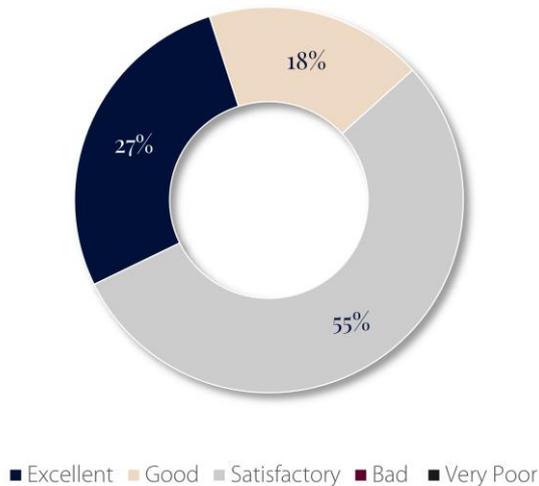


Figure 2-4: Pillar III Overall Feedback

**Competition**

Another concern highlighted by respondents was competition. In this respect, respondents argued that additional analysis on fair competition and market conditions within the financial services markets should be carried out prior to the implementation of such initiatives. Another concern related to the value added such platforms would offer to the ultimate consumers.

**Privacy**

Privacy concerns were also one of the main issues raised, specifically due to General Data Protection Regulation ('GDPR'). Respondents proposed

collaboration with the Information and Data Protection Commissioner ('IDPC') is warranted in view of the personal data used by FinTechs through such structures.

**Implementation**

Respondents highlighted various concerns in relation to the actual implementation of these strategic objectives, *inter alia*, including, timeframes, approach towards open APIs, feasibility and exploration of finance-as-a-service models.

*2.4.2 MFSA Position*

The Authority notes the feedback received and acknowledges the challenges present with the implementation of the Pillar. In this respect, over the coming months, the MFSA intends to consider the feedback and to further look into this Pillar with the aim to implement its various objectives. Further developments in this respect shall be communicated in due course.

On the basis of the feedback provided, the MFSA is of the view that no changes are required to the proposals presented under this Pillar.

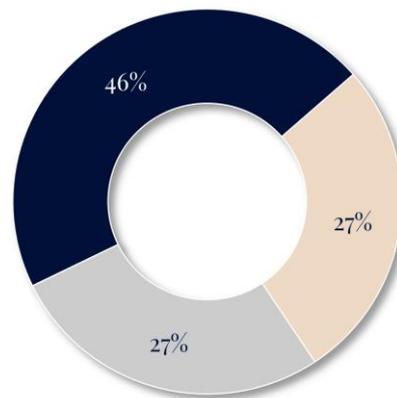
## 2.5 Pillar IV – International Links

### Question 5 - What are your views on the proposed Pillar IV of the MFSA FinTech Strategy?

#### 2.5.1 Feedback Received

All respondents responded positively towards Pillar IV of the MFSA FinTech Strategy with almost half of the respondents rating it as excellent (46%). Respondents remarked that building international links is crucial for the development of this emerging sector and that only through collaboration with other international peers would Malta become a global FinTech Hub.

Respondents also indicated that cross-border sharing of knowledge and investment would enhance the respective strategic objectives under each pillar and that such linkages will assist in reducing the barriers to innovation.



■ Excellent ■ Good ■ Satisfactory ■ Bad ■ Very Poor

Figure 2-5: Pillar IV Overall Feedback

#### 2.5.2 MFSA Position

In view that the feedback received has already been reflected within the strategic objectives of this Pillar, the MFSA is of the opinion that no changes are required.

## 2.6 Pillar V – Knowledge

### Question 6 - What are your views on the proposed Pillar V of the MFSA FinTech Strategy?

#### 2.6.1 Feedback Received

The majority of the respondents acknowledged that the proposals under this Pillar were good (64%). In this respect, the overall feedback was that this Pillar is vital for the development and sustainability of this sector. Moreover, respondents noted that the MFSA’s proposal to cultivate a robust FinTech sector by attracting, developing and retaining talent, and incentivising research and development was important for the overall vision of the Strategy.

Additionally, respondents further identified that short-term measures were also required to enhance talent locally, while others pointed out that more long-term initiatives bringing together finance and technology through educational and training are required. It was also

argued that the proposals under Pillar 4 – International Links and this Pillar were complementary, and that initiatives should be undertaken to bridge these Pillars together.

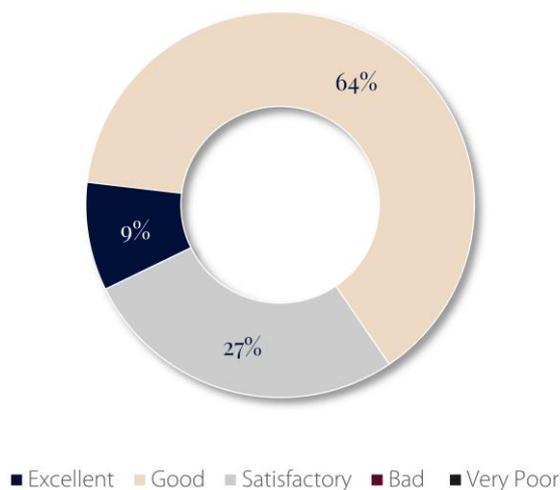


Figure 2-6: Pillar V Overall Feedback

#### 2.6.2 MFSA Position

The MFSA welcomes the feedback received, and is cognisant that increasing the local knowledge is crucial towards pursuing this Strategy. Nevertheless, on the basis of the feedback provided, the MFSA is of the view that no changes are required to the proposals under this Pillar.

2.7 Pillar VI – Security

Question 7 - What are your views on the proposed Pillar VI of the MFSA FinTech Strategy?

2.7.1 Feedback Received

The vast majority of respondents agreed that cybersecurity and information security merited its own focus through a specific pillar. Nonetheless, respondents clearly noted, as reflected with the 45% satisfactory rating, that more initiatives need to be proposed in the regard. Figure 2-7 indicates the overall feedback received in relation to this Pillar.

Respondents **welcomed the MFSA’s initiative to issue ‘Guidance Notes on Cybersecurity - Consultation Document’** ([link](#)), however it was also emphasised that this should only be a starting point given the importance of these concerns within this sector and their implication on the Maltese financial services sector.

Some respondents argued that information and cybersecurity guidelines issued by the MFSA should be mindful of the established standards issued by standard setting bodies. Additionally respondents highlighted that, where possible, the principle of proportionality should also be applied and that a risk based approach should be adopted.

Notwithstanding the latter, it was argued that a minimum standard should be adhered to by all market participants irrespective of the nature, scale, size and complexity of the technology service being utilised.

Lastly, it was also mentioned that for this Pillar to be truly successful more collaboration between stakeholders, in terms of knowledge and expertise, is warranted.

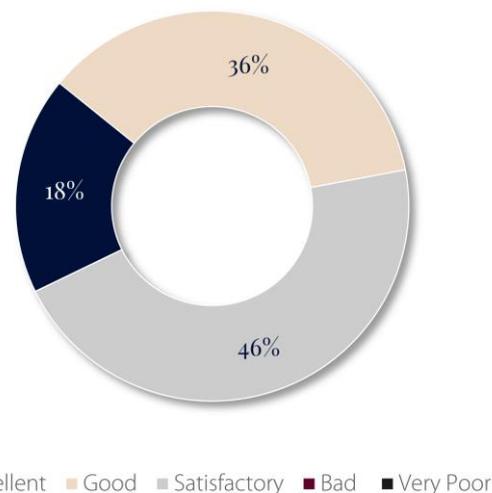


Figure 2-7: Pillar VI Overall Feedback

2.7.2 MFSA Position

The MFSA reiterates the industry’s comments that the objectives of the FinTech Strategy cannot be effectively safeguarded without having cybersecurity and information security at the core of its Strategy. The Authority will take into consideration all the feedback received and build on the recently issued ‘Guidance Notes on Cybersecurity – Consultation Document’ with the aim to ensure that cybersecurity and information security are at the centre of the development of this sector. In view of the above, the MFSA is of the opinion that no changes to the proposal under this Pillar are warranted.

2.8 Attainability of MFSA FinTech Strategy Vision

Question 8 - In your opinion, do the proposed Pillars attain the vision set out in the MFSA FinTech Strategy?

2.8.1 Feedback Received

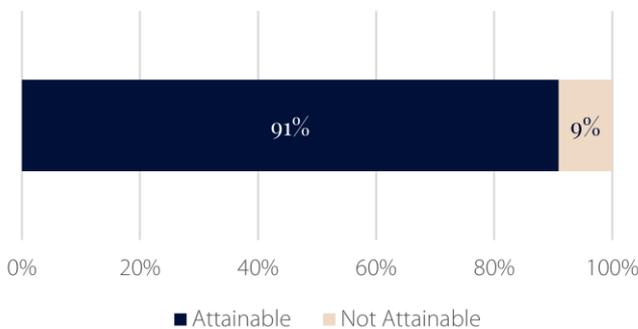


Figure 2-8: Attainability of MFSA FinTech Strategy

The vast majority of respondents had a positive outlook towards the MFSA’s FinTech Strategy with 91% agreeing that it is in a position to attain its ambitious vision. Respondents further commented that it reflected the needs of the market and that it was aligned with the trends being observed within the FinTech sector.

It was also observed that the respondents are looking forward to participate and discuss in more depth the needs of the proposed six pillars, given that the FinTech Strategy has touched upon the key aspects from a high level perspective.

2.8.2 MFSA Position

The Authority **welcomes the industry’s feedback and positive response and** looks forward to establishing the six pillars through collaboration with various partners, including authorities, governmental ministries and agencies, academic bodies and institutions, key experts and other stakeholders. The MFSA reiterates that it is only through the concepts of (i) sustainable financial innovation, (ii) open dialogue, as well as (iii) effective and efficient **implementation will the MFSA’s FinTech Strategy truly make Malta a global FinTech Hub** whilst ensuring robust investor protection, market integrity and financial soundness.

2.9 Threats or Potential Impacts

Question 9 - Do you foresee any threats or potential impacts that the proposed MFSA FinTech Strategy may have on the financial services sector?

2.9.1 Feedback Received

As indicated in Figure 2-9, 73% of respondents foresee that the proposed MFSA FinTech Strategy has various threats and potential implications on the financial services sector. Respondents reiterated the main concerns presented in the above sections and argued that the main threats and implications related to (i) proportionality; (ii) barriers to entry for FinTech start-ups and scale-ups; (iii) lack of access to resources; (iv) level playing field issues; (v) security threats; and (vi) regulatory arbitrage.

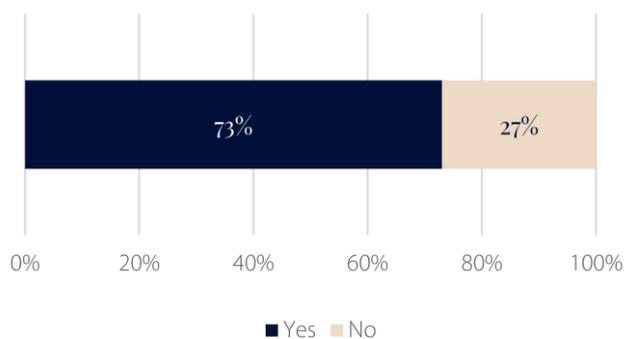


Figure 2-9: Are there any threats or potential implications?

In relation proportionality, respondents argued that the application of this principle should be applied equally and equitably across all sectors, and should this

### *2.9.2 MFSA Position*

The MFSA notes the above concerns, and will be taking them into consideration when implementing its FinTech Strategy. The MFSA notes that efficient and effective implementation of the Strategy would benefit both the FinTech sector and the wider Maltese financial services sector.

## 2.10 Other Considerations

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Question 10 - Are there any further initiatives that the MFSA should take into consideration to enhance its proposed FinTech Strategy?

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### *2.10.1 Feedback Received*

Respondents also noted other suggestions and initiatives related to the six pillars presented above, namely, with regards to the Sandbox, the Innovation Hub, Open APIs as well as access to finance and banking.

### *2.10.2 MFSA Position*

The MFSA notes the suggestions and initiatives put forward by the respondents. These considerations have been addressed in previous sections of this Feedback Statement.

## 3 **Next Steps**

### 3.1 Pillar 1 – Regulation

The MFSA will continue to focus its efforts towards the implementation of the strategic objectives presented within Pillar I, namely the MFSA FinTech Regulatory Sandbox. In this respect the Authority will shortly be issuing the first Consultation Document on the Pillar I – Regulation.

The MFSA encourages all interested parties to participate in this dialogue so that we can truly achieve the vision set out in the MFSA FinTech Strategy. In this regard, the MFSA is proposing to organise a workshop during the consultation process. Further details on this workshop will be communicated at a later stage on the MFSA’s **FinTech page** ([link](#)).

### 3.2 Other Pillars

The MFSA intends to issue a tentative timeline in relation to the implementation of the Strategy and its respective pillars. These developments will be communicated in due course and available on the MFSA’s **FinTech page** ([link](#)).

## 4 **Contact**

Any comments or queries in relation to this Feedback Statement should be directed to: [fintech@mfsa.com.mt](mailto:fintech@mfsa.com.mt).