

MFSA MALTA
FINANCIAL
SERVICES
AUTHORITY

MFSA FinTech Strategy

harnessing innovation through technology

Contents

Foreword by the CEO	3
1 Introduction	4
2 MFSA FinTech Vision and Mission	6
2.1 Vision	7
2.2 Mission	7
3 The Six Strategic Pillars	8
3.1 Regulations	9
3.1.1 MFSA Internal Capacity	9
3.1.2 FinTech Regulatory Sandbox	10
3.1.3 Proportionality	10
3.1.4 Regulatory and Supervisory Technology	11
3.1.5 Smart Regulations	11
3.2 Ecosystem	12
3.2.1 Malta FinTech Innovation Hub	12
3.2.2 National Cooperation	13
3.2.3 Access to Finance and Resources	13
3.2.4 Collaboration between FinTechs and Sector Incumbents	14
3.2.5 Market Education, Inclusion and Adoption	14
3.3 Architecture	14
3.3.1 Open APIs	14
3.3.2 Shared Platforms	15
3.4 International Links	16
3.4.1 Strategic Priorities	16
3.4.2 MFSA's Contribution	16
3.5 Knowledge	16
3.5.1 Talent	16
3.5.2 Research and Development	16
3.6 Security	17
3.6.1 Strategic Priorities	17
3.6.2 MFSA's Contribution	17

Foreword



Joseph Cuschieri
Chief Executive Officer

The digital revolution is bringing about disruption to every sector of business, with no exception to the financial services industry. Recent technological advancements such as artificial intelligence, distributed ledger technology, the internet of things and cloud technologies, are rapidly transforming the way customers access financial services and engage with financial products providers.

FinTech underlies the rate at which the financial services industry is being disrupted. The term disruption seems to have a negative connotation to it, especially since FinTechs use technologies that often compete effectively with traditional financial services firms through disintermediation and cost efficiencies. To remain competitive, traditional players need to ensure that their services remain relevant to customers and more so, that their business models are not rendered obsolete. Yet, while FinTech provides opportunities for FinTech start-ups to enter the market with innovative products that closely meet customer demands, it also provides an opportunity for incumbent firms to improve their customer experience and meet changing customer needs. Through innovative technology, the financial services industry is being given the means to provide a better service to customers and build a collaborative ecosystem that helps create business efficiencies.

The potential benefits introduced by FinTech are significant. However, the downside risks for customers brought about by innovative technologies may also be considerable. New financial products and channels for distribution may create customer misunderstandings *inter alia* in relation to the risks involved, right of redress in the event of complaints and access to compensation schemes in the case of losses.

The accelerated evolution of the FinTech space also brings about legal and regulatory uncertainty for start-ups and traditional firms alike. Cyber security, money laundering and financing of terrorism are also major areas of concern.

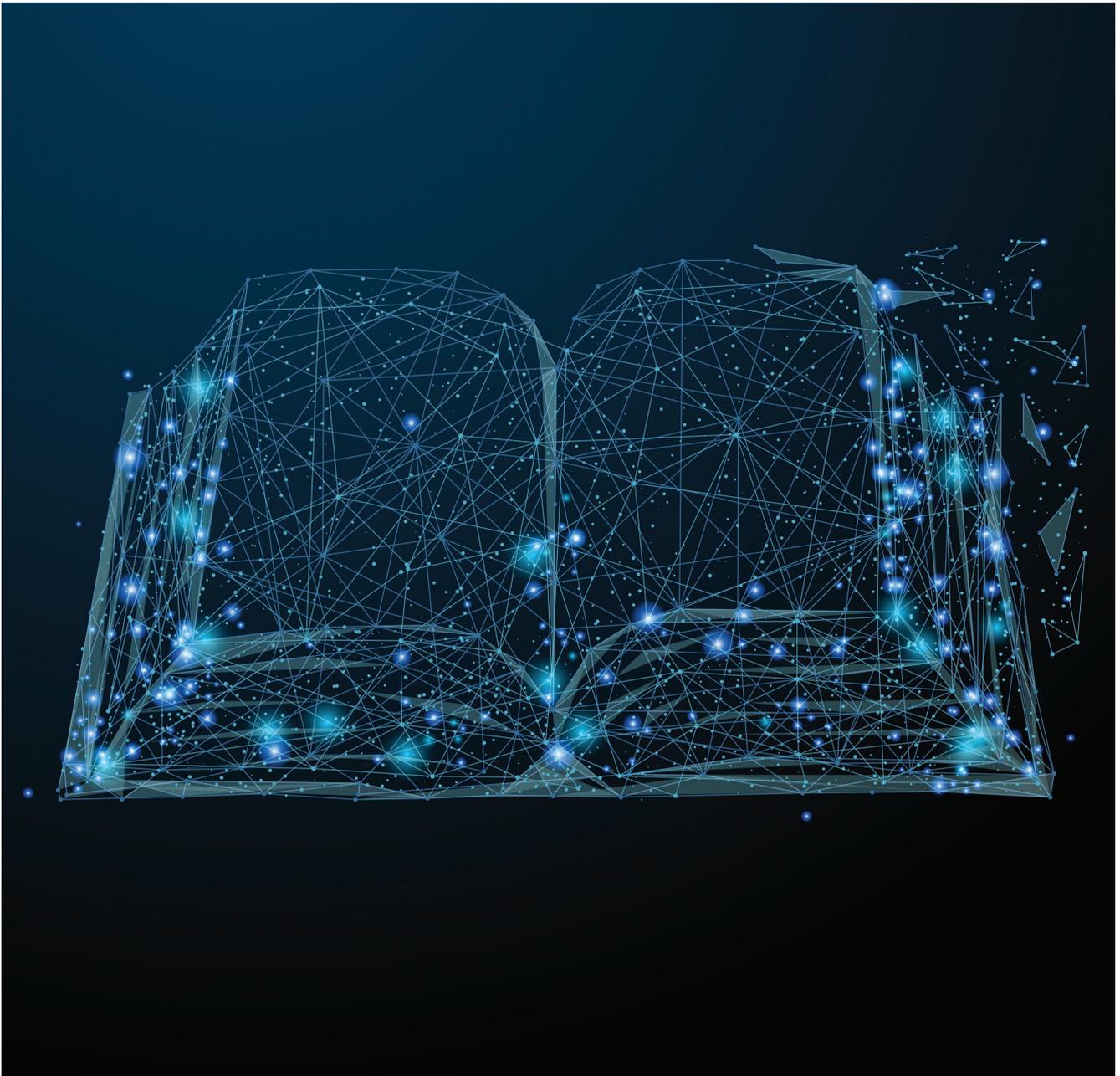
While supporting the financial services industry to harness the opportunities presented by technological innovation, the MFSA is seeking to provide legal and regulatory certainty to industry players and ensure effective investor protection, market integrity and financial soundness in the FinTech environment, by embarking on a longer-term strategy. The Malta Virtual Financial Assets Framework is a modest beginning to the MFSA FinTech journey.

The Authority is now establishing a wider, cross-sectorial approach underpinned by six strategic pillars. The key foundational elements of the Strategy will be the introduction of a 'FinTech Regulatory Sandbox' and a FinTech Innovation Hub. The Sandbox would provide a platform where firms may explore and test their business concepts and solutions with proportionate safeguards, in a contained environment for a well-defined duration. This space will allow the Authority to monitor the innovative business with contained risk. It will also allow the MFSA to build capacity and experience in regulating and supervising this field.

By presenting the MFSA's FinTech Strategy, I look forward to continue working with industry players to create an environment that is conducive to technological advancements and innovative business models, which at the same time protects consumers of financial services and safeguards market integrity and financial stability.

Chapter 1

Introduction



The interconnection of finance and technology is by no means a new phenomenon. Indeed, since the inception of the Third Industrial Revolution during the mid-20th century, the adoption and integration of technology by financial services providers has long been leveraged to drive financial innovation into new products, services and organisational forms.

The world now stands on the brink of another revolution, the Fourth Industrial Revolution¹, and it is within this context that FinTech operators ('FinTechs') intend to add value towards how consumers transact with one another. Supported by technological advances in computing power, connectivity and knowledge dissemination, FinTech solutions are proposing a paradigm shift in the way financial services providers service their customers.

Building on the Government of Malta's initiative to establish Malta as a global thought leader in the innovative economy, the Malta Financial Services Authority ('MFSA' or 'the Authority') is now also focusing its efforts towards supporting this revolution, and establishing a holistic and robust FinTech sector for both start-ups and industry incumbents.

This Document presents the MFSA's vision and strategy towards developing Malta into a global FinTech hub, taking into consideration the European Commission's FinTech Action Plan which seeks to harness the opportunities presented by technological innovation, and the Commission's efforts to build a true Digital Single Market.

The rest of the Document is split into two additional sections as follows:

- **Chapter 2** outlines the MFSA's vision and mission towards establishing Malta as a global FinTech Hub;
- **Chapter 3** discusses and identifies the strategic priorities which the MFSA together with other stakeholders should aim at achieving in order to attain this goal;

¹ Klaus Schwab, 'The Fourth Industrial Revolution: What It Means and How to Respond' (World Economic Forum, 2016) <https://goo.gl/W7gnoi> accessed 11 August 2018.

Chapter 2

MFSA FinTech vision and mission



2.1 Vision

The MFSA's vision is 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.

2.2 Mission

The MFSA aims to establish the foundations to enable FinTech start-ups and scale-ups, technology firms and established financial services providers to develop viable FinTech solutions which drive innovation and enhance access to financial products, increase competition whilst promoting market integrity, deliver better customer experiences, and ultimately, contribute to the long-term success of the Maltese financial services sector.

The MFSA will strive to:

- i. **Lead** by taking on a steering role in the development of this emerging sector through actions and initiatives to drive innovation.
- ii. **Facilitate** by becoming an enabler of innovation through (i) the establishment of a **FinTech Regulatory Sandbox** to promote innovation and experimentation, and (ii) supporting the development of a **FinTech Innovation Hub** to further stimulate collaboration and innovation.
- iii. **Collaborate** by working hand-in-hand with various stakeholders, international regulators and market participants to develop the FinTech sector while building trust and dialogue amongst parties.
- iv. **Embrace** innovation by adopting RegTech and SupTech solutions and by developing the capacity to understand and be proactive towards addressing the regulatory challenges brought about by such innovations.
- v. **Educate** consumers and the industry as a whole on the benefits and risks of FinTech and any related technologies.
- vi. **Strengthen** confidence in the market and its institutions, thereby fostering a robust and dynamic FinTech sector in Malta.

Chapter 3

The six strategic pillars



This FinTech Strategy sets out six pillars: (i) Regulations (ii) Ecosystem, (iii) Architecture, (iv) International Links, (v) Knowledge, and (vi) Security for the MFSa to create a holistic long-term approach to catalyse innovation, growth and competition in the financial services sector, whilst ensuring robust investor protection, market integrity and financial soundness.



Establishing these six pillars necessitates the collaboration of various partners, including *inter alia*, authorities, governmental ministries and agencies, academic bodies and institutions, key experts and other relevant stakeholders. Close international cooperation is envisaged to leverage best practice, drive collaboration on common challenges and make it easier for firms to operate across global borders.

The six pillars, which will be discussed in further detail through specific Consultation Documents, are expected to provide the medium to build Malta into a thriving FinTech hub and enable firms to fully embrace technology, innovation and change in the way financial services are delivered.

3.1 Regulations

3.1.1 MFSa Internal Capacity

3.1.1.1 Strategic Priorities

FinTech is a priority of international standard setting bodies. A number of important reports have been published in this regard.² Moreover, global FinTech hubs have gained significant traction by creating dedicated FinTech units at their respective financial services regulatory and supervisory entities. These units have deep knowledge of FinTech business and service models and the underlying technologies enabling their solutions, together with a

thorough understanding of national and international regulatory and supervisory frameworks. These teams are often responsible for conducting research on regulatory barriers to innovation, engaging with FinTech and financial services providers on FinTech related matters, and implementing programmes and policy measures to encourage FinTech innovation.

3.1.1.2 MFSa's Contribution

The MFSa has set up a dedicated FinTech and Innovation Function. The Authority will invest heavily in this Function through capacity building, technology and training initiatives to drive the successful execution of this Strategy.

With FinTech now firmly set as one of the Authority's priorities, the Function will look to propose clear policy guidance on how FinTech related activities and services fall within the existing guidelines and explore whether new forms of policy responses are required for FinTech related activities.

The FinTech and Innovation Function will continue building on the work developed by the MFSa FinTech Team *inter alia* that of the implementation of the Virtual Financial Assets ('VFA') Framework.³

² See amongst others: Basel Committee of Banking Supervision, 'Implications of FinTech developments for banks and bank supervisors, February 2018, <https://goo.gl/Cb6rSf>; European Central Bank, Guide to assessment of FinTech credit institution licence applications, March 2018, <https://goo.gl/nTCqTe>; Financial Action Task Force, FATF FinTech and RegTech Initiative, November 2017, <https://goo.gl/yWp4B>; Financial Stability Board, Financial Stability Implications from FinTech, June 2017, <https://goo.gl/q3UeS2>; International Association of Insurance Supervisors, Paper on increasing use of Digital Technology in Insurance and its Potential Impact on Consumer Outcomes, <https://goo.gl/S7F31V>; International Organisation of Securities Commissions, Research Report on FinTech, February 2017, <https://goo.gl/iwBk5e>. All documents accessed 11 September 2018.

³ More information on the VFA Framework may be found on <http://www.mfsa.com.mt/fintech>

3.1.2 FinTech Regulatory Sandbox

3.1.2.1 Strategic Priority

The MFSa intends to create a FinTech Regulatory Sandbox ('the Sandbox'), which would provide entities with the space to operate in a controlled but fully functional financial services environment in which innovative new products, services, business models and delivery mechanisms can be tested, monitored and enhanced. Such entities would be closely monitored by the MFSa and would require temporary regulatory authorisation to participate.

The Sandbox would provide the MFSa with the opportunity to build its technical capacity in terms of knowledge and infrastructure whilst identifying the applicable financial and market risks, consumer protection measures and appropriate regulatory response. It is envisaged that this testing environment will help in policy formation to enhance regulatory clarity and lead to the development of new regulatory frameworks where required.

The Sandbox would give the opportunity for financial services providers to test the commercial and regulatory viability of their innovations whilst providing an open channel for communication with the MFSa to ensure that the innovation aligns with the current regulatory frameworks or help identify any possible gaps and the appropriate regulatory or supervisory response.

3.1.2.2 MFSa's Contribution

In order to develop the Sandbox, the MFSa will establish a regulatory and supervisory framework within which it would operate. The framework would, *inter alia*, include the assessment process and the respective eligibility criteria for entrants, as well as the licencing conditions applicable to entities operating within it. In the meantime, the MFSa shall seek to allocate the necessary resources, in terms of capacity, expertise, and infrastructure to operationalise the Sandbox.

Following on another strategic pillar, International Links, the MFSa will also seek to collaborate with other global regulators to foster knowledge sharing and explore multi-jurisdictional Sandbox collaboration opportunities.

3.1.3 Proportionality

3.1.3.1 Strategic Priorities

The European Commission, in its March 2017 consultation document 'FinTech: A More Competitive and Innovative European Financial Sector' identified proportionality as one of three key principles in its approach to the regulation of FinTech⁴. With reference to regulatory frameworks, it noted that:

"[...] these must also be applied in a proportionate manner, reflecting the business model, size, systemic significance, as well as the complexity and cross-border activity of the regulated entities. More proportionate rules will help promote competition and enhance the resilience of the financial system by safeguarding its diversity without compromising prudential and conduct of business objectives, such as financial stability, financial integrity and consumer protection. To support innovation in financial services, it is important to ensure that this proportionality principle is applied, especially when authorizing and supervising smaller start-ups."

Start-ups and small companies make up a considerable segment of the FinTech space. For such entities, certain regulatory obligations may potentially impede development or act as a barrier to entry. The MFSa believes that availing of the proportionality principle could facilitate growth in this sector while at the same time ensuring that the objectives of financial services regulations are achieved. Similarly, while more proportionate regulatory and supervisory requirements would apply to small, less complex entities, full requirements would apply for large and more complex businesses.

3.1.3.2 MFSa's Contribution

The MFSa intends to further apply, where applicable, the principle of proportionality in its regulatory and supervisory capacity with the aim to facilitate entry and growth of small entities and start-ups in the FinTech space. A number of different approaches will be explored. One will be a risk-based approach which takes into account the proportionality of legislative and supervisory actions to risks and materiality of risks. The MFSa will also explore the possibility to implement the appropriate policy response where current regulation may not cater for specific FinTech activities.

⁴ European Commission, 'FinTech: a more competitive and innovative European financial sector', (March 2017)

The Sandbox is expected to contribute significantly to the exploration of this concept, both in terms of testing concepts within a limited controlled environment with close monitoring by the MFSA and secondly by helping to identify the appropriate regulatory or supervisory response.

3.1.4 Regulatory and Supervisory Technology

3.1.4.1 Strategic Priorities

In parallel to the evolution of the FinTech sector, we have seen the growth of a new sector emerge in which firms harness technology to deliver products or services to facilitate regulatory compliance. In this respect, the following areas are being explored:

1. RegTech

RegTech provides technologically advanced solutions to address regulatory challenges in the financial services industry. RegTech enables the compliance function to become more effective and efficient in the exercise of its role by *inter alia* increasing capacity to conduct further data analysis, monitoring regulatory change, interpreting regulations, providing regulatory data, and generating automatic regulatory reports. Through the use of RegTech, businesses can improve the decision-making process, mitigate potential threats, risks and compliance breaches, and reduce the compliance cost base.

2. SupTech

SupTech is the use of innovative technology by supervisory authorities to support regulatory supervision work, with a strong focus on the digitisation of reporting and regulatory processes. SupTech primarily focuses on two aspects: data collection and data analytics. This allows for more efficient reporting, the streamlining of workflows, new supervisory capabilities and a more proactive monitoring of licenced entities. SupTech will also lead to a reduction in the burden on firms.

3.1.4.2 MFSA's Contribution

The MFSA will advocate RegTech solutions to improve regulatory processes, with the aim of helping regulated entities to comply more efficiently and with greater certainty. Such solutions could include compliance, risk management, identity validation and transaction monitoring, amongst others.

The MFSA is also actively working on embracing regulatory innovation itself, through investment in SupTech. SupTech can enable the MFSA to conduct more effective and real-time supervision of licenced entities.

In doing so the MFSA will continue adopting and following relevant European and international standards established by standard setting bodies such as the European Central Bank, the European Union, the Financial Action Task Force, the Financial Stability Board, the International Organisation of Securities Commissions and the International Association of Insurance Supervisors.

3.1.5 Smart Regulations

3.1.5.1 Strategic Priorities

Machine-readable rules could drive more accurate and efficient regulatory reporting by removing the need for human interpretation, thereby benefitting both regulators and firms. Under such a scenario, regulated entities would be able to implement and on-board changes to regulatory requirements seamlessly. This could also drive the enablement of automated reporting, thereby reducing the administrative burden and facilitating enhanced compliance.

3.1.5.2 MFSA's Contribution

The MFSA will work and collaborate with market participants and industry incumbents to explore the viability of Smart Regulations and assess the way forward. The work will cover:

- i. consideration on whether the introduction of machine readable rules should be voluntary or mandatory, if feedback is positive;
- ii. identification of which areas should be considered and prioritised;
- iii. timelines for implementation and the transitory periods required; and
- iv. determination of how standard setting should be developed and maintained.

The MFSA will also engage with other international financial services regulators to explore the potential for developing a common set of standards to facilitate cross-border application.

3.2 Ecosystem

The development of this pillar involves various deliverables aimed at creating a holistic all-encompassing ecosystem which has the necessary building blocks to foster financial innovation from both start-ups and industry incumbents. The strategic priorities of the Ecosystem Pillar and the MFSA's contribution in relation to each priority are:

3.2.1 Malta FinTech Innovation Hub

3.2.1.1 Strategic Priority

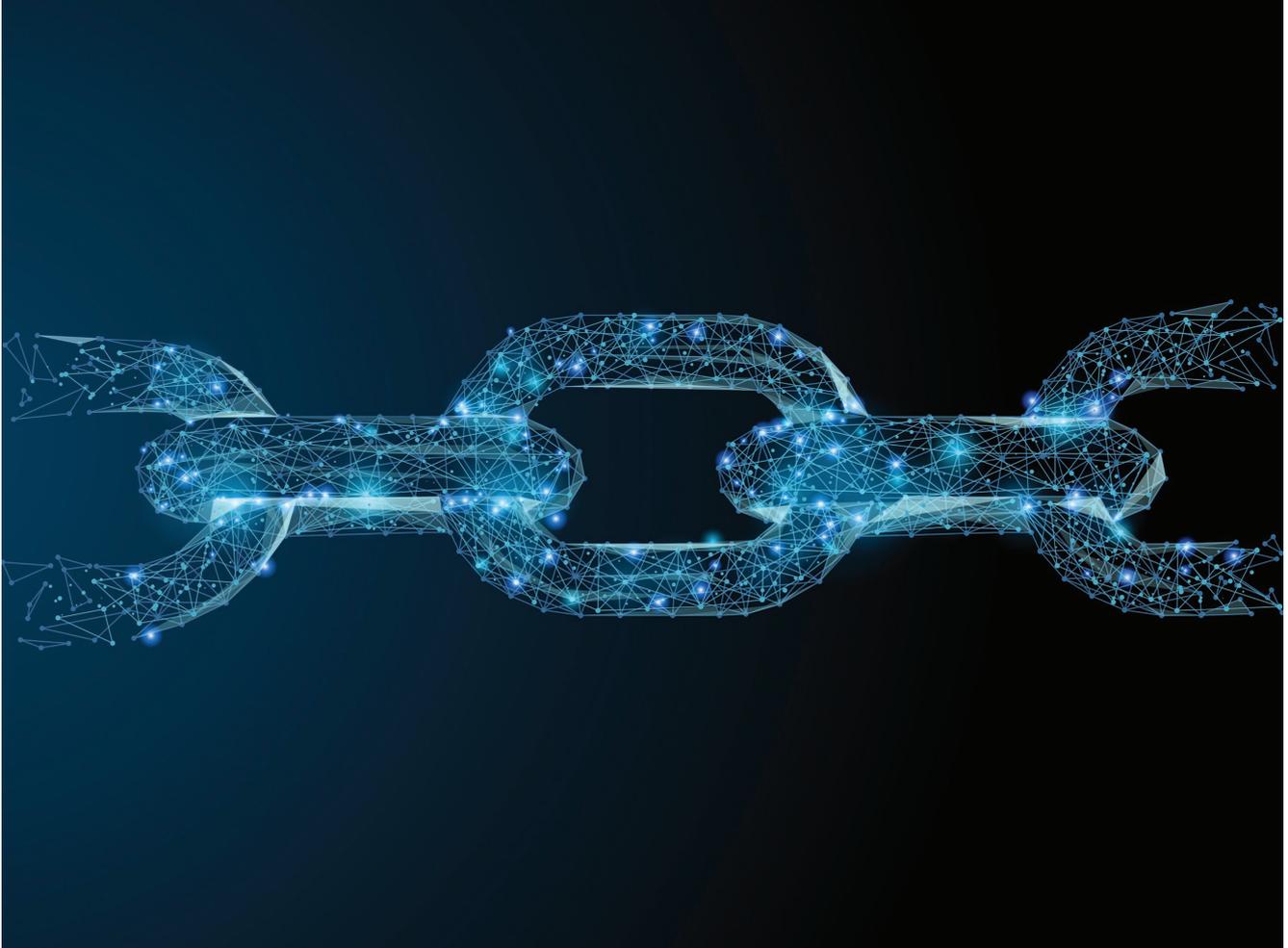
Building a holistic ecosystem for FinTech to thrive is a key strategic priority. Cities and countries that have positioned themselves as leading international FinTech jurisdictions have a number of common factors in place including a strong start-up community and culture; incubators and accelerators with links to the local financial services ecosystem and the international funding community; dedicated FinTech bodies and associations; strong international marketing; a deep-pool of talent and business advisors; government policies across FinTech

related regulation, tax and sector growth initiatives; end-client demand across consumers, corporates and financial institutions; and access to start-up and growth capital.

3.2.1.2 MFSA's Contribution

Central towards positioning Malta as a leading international FinTech jurisdiction attaining and reaping the full potential of a truly holistic ecosystem, the MFSA intends to collaborate with other partners to set up and develop a FinTech Innovation Hub ('the Hub') that would combine all the elements of the ecosystem as well as other strategic pillars into one platform for stakeholders to tap into.

The services offered by the Hub would be valuable to all partners, ranging from the availability of office space (being dedicated desks, hot desks, private offices or virtual connectivity), incubation and accelerations spaces, IT infrastructure and shared platforms to build applications and software, alongside with the networking and concentration of innovation and creativity generated by participants and industry experts.



Therefore, the MFSA intends to:

- i. Initiate dialogue between interested parties, and collaborate in the establishment of the necessary operational foundations of the Hub.
- ii. Collaborate with interested parties (government agencies, public or private entities) to develop a dedicated physical space, housing *inter alia*, private offices, meeting rooms, communal lounges, co-working spaces, media studios and event space.
- iii. Provide support in engaging with stakeholders interested in setting up FinTech incubation or acceleration programmes within the Hub.
- iv. Engage with partners to help define FinTech infrastructure requirements.
- v. Set up a desk at the Hub to encourage dialogue on potential regulatory implications at an early stage of development of innovative products or business models.
- vi. Engage regularly with the FinTech community to discuss innovation developments and policy proposals.

3.2.2 National Cooperation

3.2.2.1 Strategic Priorities

A FinTech ecosystem cannot flourish through singular nodes or in a vacuum. Multiple entities and agencies need to collaborate and contribute their knowledge, expertise and resources. For a jurisdiction to develop a FinTech sphere, it is crucial that other authorities, governmental ministries and agencies, academic bodies and institutions, key experts and other relevant stakeholders align towards a common goal. The support and coordination of these various parties is required to make the elements of the ecosystem work. Their integration and synergies will provide space for innovation to prosper.

3.2.2.2 MFSA's Contribution

The MFSA intends to collaborate with all the relevant stakeholders, including *inter alia*, authorities, governmental ministries and agencies, academic bodies and institutions, key experts and other relevant

stakeholders, through the establishment of partnerships in order to develop this Strategy and support the development of a sustainable FinTech sector.

3.2.3 Access to Finance and Resources

3.2.3.1 Strategic Priority

Financing is a necessary element towards creating a sustainable FinTech sector. Start-ups, particularly, often require funding to convert their innovative ideas into viable solutions within the financial sector, but may find it difficult to obtain funding through traditional financing due to ventures potentially being perceived as high-risk given the stage of development of the business, regulatory uncertainties or a lack of consumer adoption.

This strategic priority has various aspects, including supporting greater access to traditional financing and the exploration of alternative sources of financing.

Lending and investment-based crowdfunding has become an increasingly popular source of alternative financing. In its FinTech Action Plan⁵, the European Commission has proposed regulation which will allow for a single set of rules related to crowdfunding, enabling platforms to offer their services across the EU, improving access to funding. Furthermore, a recent development within the alternative financing sphere is the issuance of crypto-assets through Initial Coin Offerings ('ICOs') and Security Token Offerings ('STOs').

3.2.3.2 MFSA's Contribution

Building on Malta's recently enacted VFA Framework, which regulates initial VFA offerings⁶ as a source of alternative financing and on the European Union's drive towards improving access to finance across all Member States, the MFSA intends to:

- i. Encourage financial institutions to become much more proactive in offering financing solutions to the FinTech sector whilst supporting private equity.
- ii. Support the set-up of incubator and accelerator programmes for start-ups and scale-ups to build knowledge and enhance the investment attractiveness of such entities.

⁵ European Commission, 'FinTech Action Plan: For a More Competitive and Innovative European Financial Sector', (March 2018) <https://goo.gl/2PXetp> accessed 11 August 2018.

⁶ Commonly referred to as Initial Coin Offerings ('ICOs').

- iii. Work with other bodies such as FinanceMalta to develop programmes and events to attract angel investors, venture capitalists and private equity houses to Malta.
- iv. Run awareness campaigns highlighting the different sources of traditional and alternative financing and provide information on some of the potential benefits and challenges of each.
- v. Develop policy frameworks which facilitate the adoption of alternative financing, including STOs and lending-based crowdfunding.
- vi. Establish advisory programmes which educate SMEs on the accessibility of financing programmes, locally and abroad.

3.2.4 Collaboration between FinTechs and Sector Incumbents

3.2.4.1 Strategic Priority

Collaboration, both between FinTechs operating in different spaces, as well as with industry incumbents, is one of the key themes contributing towards the acceleration of the digitisation of financial services.

FinTechs stand to benefit from the collaboration between one another in the ever-growing financial services sector. Building on the wealth of knowledge and resources of established and experienced industry incumbents, collaboration may result in a shift towards the newer innovative ideologies and solutions. Through strategic and collaborative partnerships, firms may develop the propositions that they would otherwise not have achieved alone.

FinTechs often benefit from the financial resources, established customer bases, reputation and relationships that incumbents hold. Incumbents on the other hand often benefit from a more innovative and product centric approach, lower development costs and quicker time to market.

Notwithstanding the above, barriers towards collaboration still exist, given the uncertainties in identifying the right partners that are compatible to suit both business models and strategic objectives.

Effective collaboration should deliver value to all involved, and most importantly, to the end consumer. Customers would receive industry leading technology and services, and this might also occur under the security of a well-known brand through such collaboration.

3.2.4.2 MFSa's Contribution

The MFSa will facilitate collaboration between FinTechs, technology firms and established financial services providers through its involvement within the Hub or other collaborative platforms.

3.2.5 Market Education, Inclusion and Adoption

3.2.5.1 Strategic Priority

In view of the evolving nature of such FinTechs, continuous consumer education on the potential benefits of such solutions and their potential application is warranted. Additionally, the market needs to be informed about the current FinTech developments and the benefits and risks of such innovative FinTech solutions.

3.2.5.2 MFSa's Contribution

The MFSa intends to work alongside other authorities, government and its respective ministries and agencies as well as academic bodies and institutions towards the dissemination of market awareness to drive consumer adoption. It will also monitor the market and work with the respective stakeholders to provide education and knowledge to support the inclusion of all segments of the population in the use of FinTech solutions.

3.3 Architecture

3.3.1 Open APIs

3.3.1.1 Strategic Priorities

An open architecture is a type of technology infrastructure or software through which components can be added, upgraded, swapped and integrated with ease. Typically, developers of an open architecture publish parts of the infrastructure that they want to share and then require license agreements between the parties making use of the architecture.

One way that these open architectures are being used in financial services is through Application Programme Interfaces ('APIs'), which is a set of programmable instructions that allow one program, or part thereof, to interface with another. This brings about a great degree of functionality and versatility. Firms can download and tweak these APIs to benefit their own customer base while also sharing their changes to benefit the ecosystem as a whole.

One such application of the use of APIs in financial services is Open Banking⁷, enabled through the second Payment Services Directive ('PSD2') and General Data Protection Regulation ('GDPR'). Banks implement open banking by sharing customers' data with third-party providers - approved by the Competent Authority - through APIs, subject to customer approval and explicit consent. This gives the respective firms easy access to customer data which can be used in drawing insights and creating innovative products tailored to consumers, market and regulatory needs. Consumers and businesses will benefit from new or enhanced products and services, and more competition and transparency, enabling them to be better serviced by the industry.

3.3.1.2 MFSA's Contribution

It is the MFSA's objective to promote the implementation of open architecture and the use of APIs in financial services. The MFSA intends to:

- i. Commission research and conduct training and awareness activities on how APIs can be commercialised in Finance-as-a-Service models.
- ii. Encourage incumbent banks and financial institutions to share their APIs openly with approved third parties, including FinTechs.
- iii. Lead in convening working groups to define data, information, security and governance standards supporting these APIs, including other authorities and governmental ministries and agencies, academic bodies and institutions, key experts and other relevant stakeholders.
- iv. Explore the possibility to develop and mandate a single API standard for the implementation of PSD2 by banks to avoid fragmented technical standards in the local market.
- v. Create and host a repository of APIs containing dummy data, made accessible by local and international financial institutions, regulators, working groups and other stakeholders, for testing of new innovative products and services within a sandboxed, offline test environment.
- vi. Dialogue with other international regulators to explore potential areas for collaboration in this sphere.

3.3.2 Shared Platforms

3.3.2.1 Strategic Priority

The disruptive forces brought about by FinTech and digital-economy innovations have reshaped the financial industry. The concept of shared platforms (in which a group of market participants come together to develop shared resources) has supported firms and enabled them to develop solutions and services through easy access and distribution. Such shared platform solutions may include platforms for digital identity, due diligence and KYC tools, cyber security infrastructure and regulatory infrastructure. Such platforms may drastically enhance the speed of client on-boarding, reduce operational costs and improve the efficiency of compliance.

The introduction of shared platforms would align with the MFSA's strategic priorities on the use of open systems and the development and deployment of RegTech and SupTech solutions in the market.

3.3.2.2 MFSA's Contribution

The MFSA intends to carry out a scoping and consultation exercise to determine the need and interest in such platforms. Should the scoping exercise show that shared platforms would be beneficial for the industry as a whole, the MFSA is proposing to initiate discussions with its partners and interested parties to develop and implement the proposed solutions.

The MFSA will commission research in the field to help shape the discussions and understand how such platforms could operate in terms of, amongst others, fee-models, governance, risk management, liability and the respective regulatory considerations. The work will also explore the different types of sharing mechanisms available, the underlying infrastructure and technology platforms, such as utilities and shared repositories potentially exploiting Distributed Ledger Technology ('DLT') or APIs.

The MFSA will also engage with other international regulators exploring shared platforms to assess collaborative opportunities to launch such initiatives.

⁷ Open banking is defined by Laura Brodsky and Liz Oakes, 'Data Sharing And Open Banking' (McKinsey & Company, 2018) <https://goo.gl/dxrMtr>, as a collaborative model in which banking data is shared through APIs between two or more unaffiliated parties to deliver enhanced capabilities to the marketplace.

3.4 International Links

3.4.1 Strategic Priorities

FinTech Bridges are bilateral cooperation agreements which facilitate cross-border FinTech knowledge, adoption and investment. They assist to reduce barriers to market entry whilst encouraging innovation in both countries' financial services sectors by strengthening links between the regulators.

Furthermore, building strong international links provides jurisdictions with the ability to collaborate on common challenges or issues which can contribute positively to the development of the global FinTech sector. These collaborations help to identify emerging FinTech trends, enabling regulators to maintain visibility over regulatory and relevant economic or commercial developments in foreign markets.

3.4.2 MFSA's Contribution

The MFSA is building international relationships with the intention to establish FinTech Bridges with different jurisdictions, both within and outside of the EU. Such relationships will enable closer and stronger collaboration on FinTech with foreign governments, financial regulators and the industry, locally and abroad. Through the establishment of these links, the local FinTech sector will benefit in a number of ways. It will open up and make it easier for foreign FinTech firms access to the Maltese market, help local start-ups to scale-up through access to foreign markets, and create opportunities for international investment to our shores.

3.5 Knowledge

3.5.1 Talent

3.5.1.1 Strategic Priorities

A key priority in cultivating a robust FinTech sector is attracting, developing and retaining talent in three fundamental areas: (i) finance, (ii) technology and (iii) entrepreneurship. In view of its nascent nature, the FinTech space still suffers from a skills shortage and it is becoming increasingly difficult for several FinTechs to find and nurture the essential human talent that is required for growth. FinTechs have to compete extensively with each other to secure talent from the seemingly limited pool of candidates.

Aside from creating a demand for technology experts including designers, developers, and systems architects, FinTechs also require support services such as marketing,

business development, accounting and AML/CFT and compliance specialists which form an essential part of their service offering.

3.5.1.2 MFSA's Contribution

The MFSA wishes to cultivate the country's talent pool by means of specific policies and programmes focusing on increasing Malta's capacity through national and international initiatives.

i. National

The MFSA will actively collaborate with academic bodies and institutions such as, *inter alia*, the University of Malta to:

- increase the availability and level of programmes and courses specifically relating to FinTech subject matters; and
- offer internships in its FinTech team to students completing their studies.

This will help to create a skilled specialised workforce that is required for sustainable growth.

ii. International

The MFSA also intends to collaborate with foreign universities, institutes and training bodies as well as other foreign corporates and organisations to facilitate:

- student exchanges and secondments through partnership programmes; and
- partnerships with other foreign accredited and prestigious universities and institutes to offer university programmes and courses locally.

3.5.2 Research and Development

3.5.2.1 Strategic Priorities

Research is an essential aspect in developing a promising FinTech sector. The technologies employed require extensive preliminary research in order to be applied in a way to deliver potential consumer benefit. Consumer benefit may not only be derived from applying new technology to traditional services or products, but also employing this emerging technology to develop entirely new offerings.

3.5.2.2 MFSA's Contribution

While the FinTech Strategy will undoubtedly bolster development in financial technology and help create valuable opportunities for entities to embark on further research and development ('R&D') in this field, the MFSA is further suggesting the implementation of programmes to encourage R&D in innovation, in collaboration with government, other authorities and agencies and the private sector.

Such programmes could include:

- i. Running tech-sprints in which start-ups, scale-ups, incumbents and industry stakeholders such as consulting and technology firms work together in 2-5 day sprints to develop technology based ideas or proof of concepts to address specific industry challenges, identifying issues and focusing the discussion and awareness on potential solutions.
- ii. Supporting and establishing innovation challenge programmes where awards are granted to those developing innovative solutions. The MFSA could provide support across various areas from challenge ideation to programme design, management, assessment and promotion, both locally and internationally.
- iii. Commissioning high quality research into different themes or challenges and convening working groups to help shape solutions.
- iv. Coordinating with the respective governmental ministries and agencies, for the introduction of fiscal measures such as tax credits, tax reliefs to boost R&D of products and services that extend the knowledge in the FinTech field and generate expansion in concepts and ideas, and/or government-funded or subsidised R&D projects.
- v. Facilitating seed investment in FinTech related R&D projects from the private sector.

3.6 Security

3.6.1 Strategic Priorities

In order to mitigate the possibilities of unintended consequences and threats emerging from the nature of the technologies employed, it is paramount that FinTechs and industry incumbents implement robust and comprehensive cyber security risk-management systems including risk-mitigation techniques and recovery plans in case of cyber incidents.

3.6.2 MFSA's Contribution

The Authority has 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 the FinTech sector.

From a strategic point of view, the MFSA intends to foster a collaborative concept involving communication across financial services market players. Sharing of information gathered from cyber-attacks, subject to the EU GDPR requirements, with the MFSA, law enforcement agencies, and with other market players is key to build an infrastructure that is resilient to cyber-security threats.



Malta Financial Services Authority

Notabile Road, Attard, BKR 3000, Malta.

Tel: +356 2144 1155 Fax: +356 2144 1189

Email: communications@mfsa.com.mt

www.mfsa.com.mt