

Investment Summit, Workshop FinTech, May 16, 2017

Reduction of barriers to market entry for FinTech firms

Fred Bürki Kronenberg

State Secretariat for international Finance SIF

Head Financial Market Analyses

fred.buerki@sif.admin.ch



Agenda

1. **Introduction**
2. How might FinTech innovation change the financial industry?
3. What should an ideal regulatory framework look like?
4. Swiss regulatory approach



1. Introduction
2. **How might FinTech innovation change the financial industry?**
3. What should an ideal regulatory framework look like?
4. Swiss regulatory approach

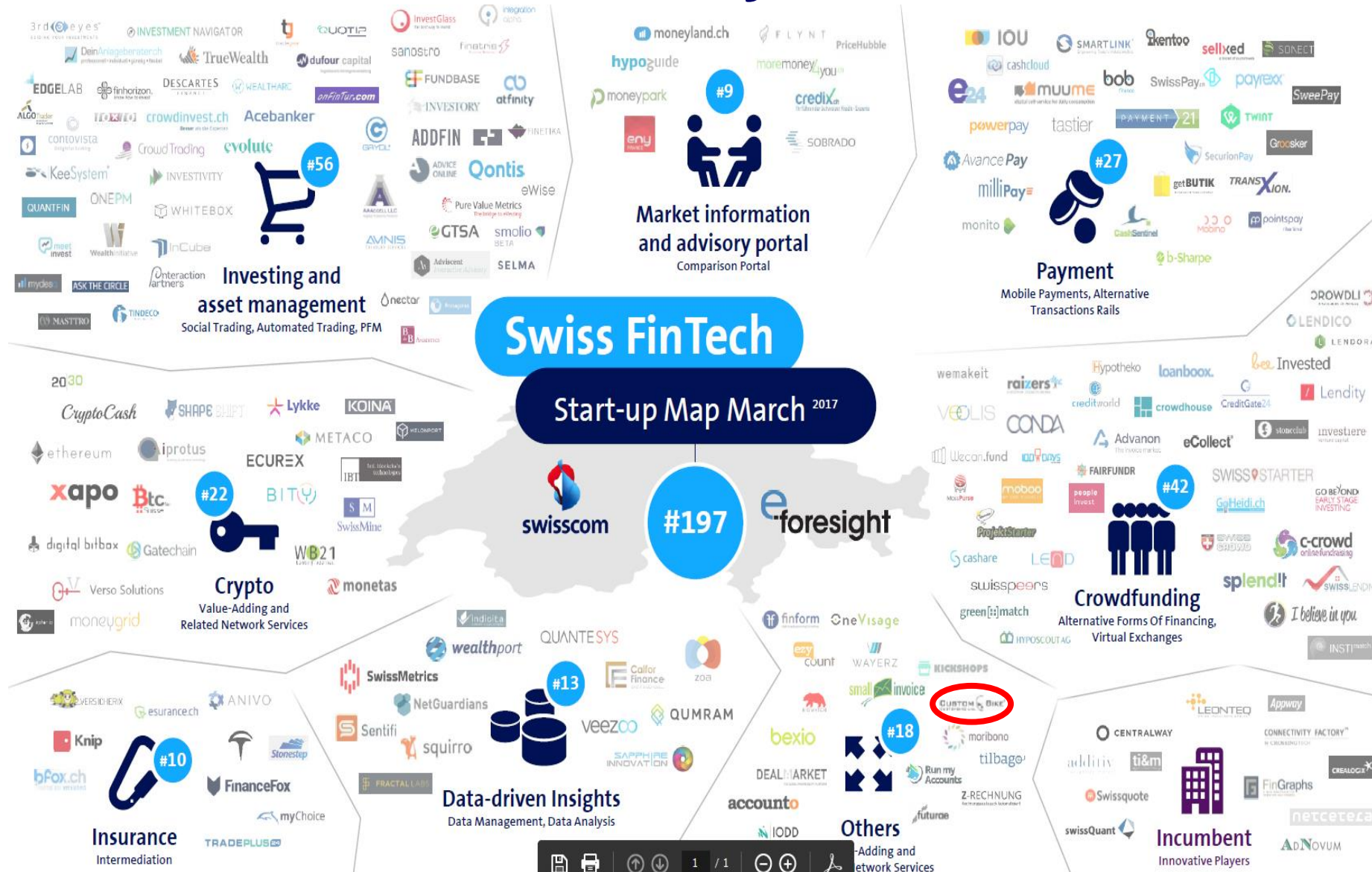


Definition FinTech

- FinTech can be defined as
«software solutions for innovative products, services and processes in the financial industry, improving, complementing, and/or disrupting existing offerings».
- Hence, FinTech companies are
«firms whose main activities, core competencies, and/or strategic focus lie in developing those solutions».



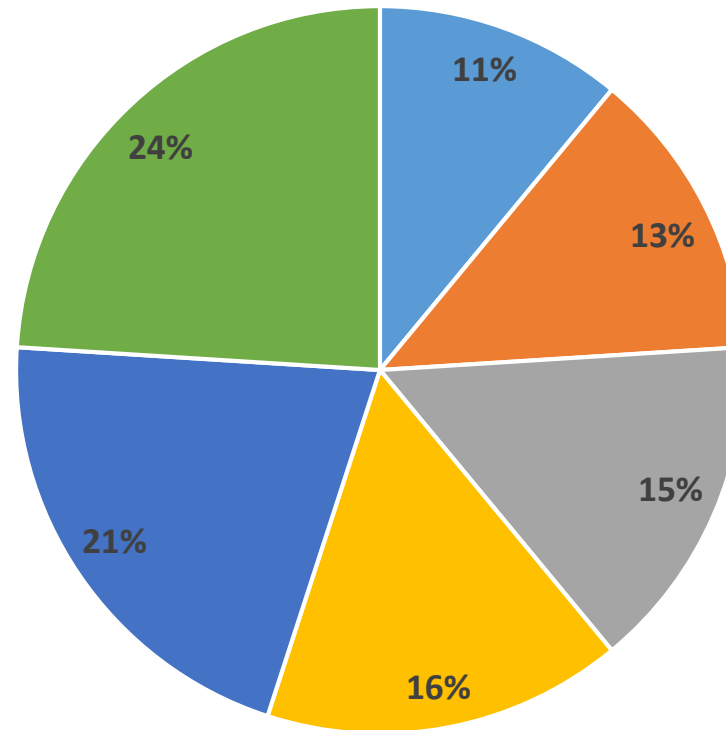
How might FinTech innovation change the financial industry?





How might FinTech innovation change the financial industry?

Structure of the 176 Fintech Companies in Switzerland (without InsureTech)



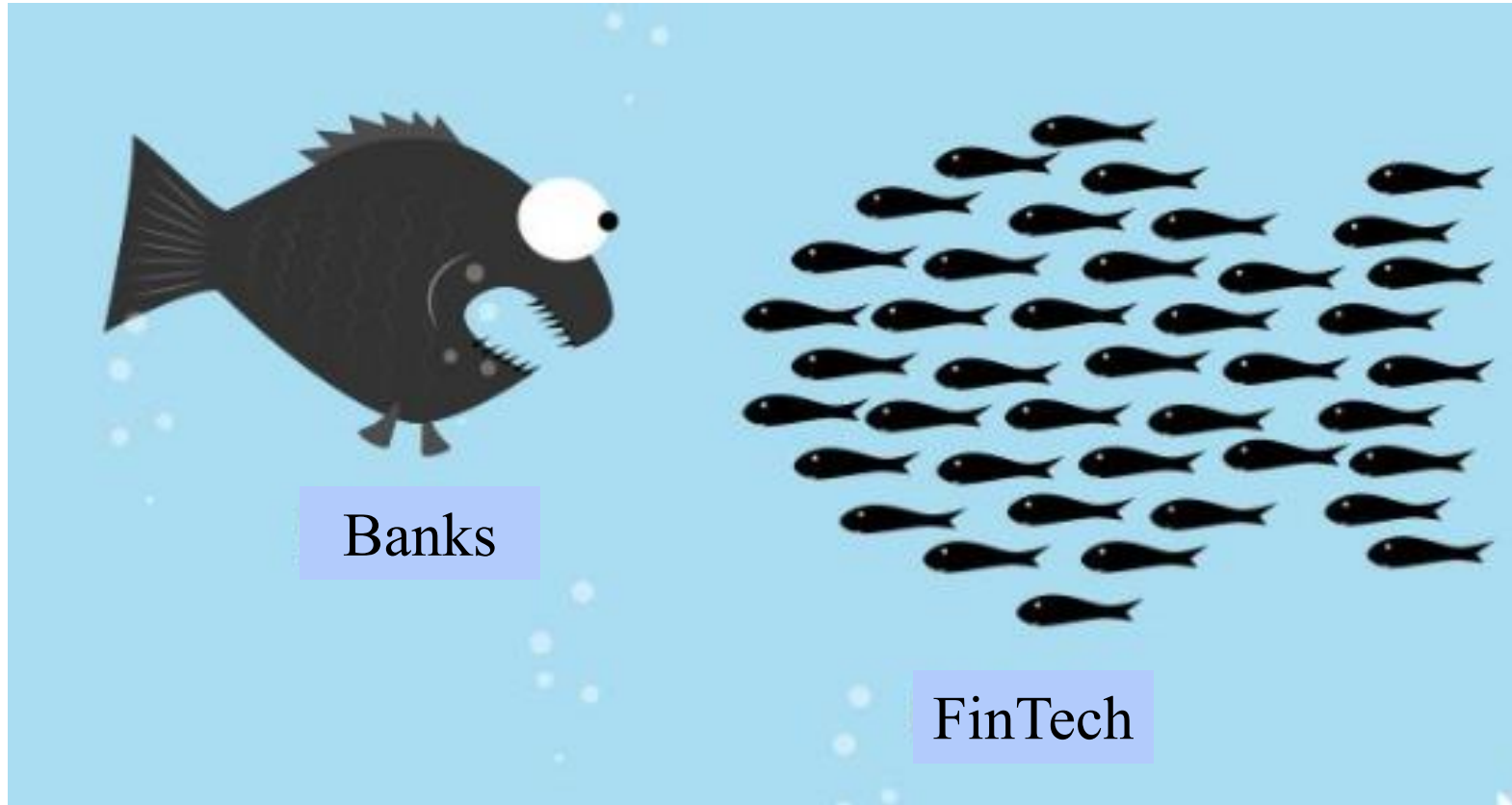
- Blockchain (in particular crypto-money)
- Payment Services
- Investment Management (e.g. robo-investment)

- Analytics (in particular comparison and information platforms)
- Deposit and Lending (in particular crowdfunding, P2P)
- Innovative Banking Infrastructure

Source: Institute of Financial Services Zug, 2017

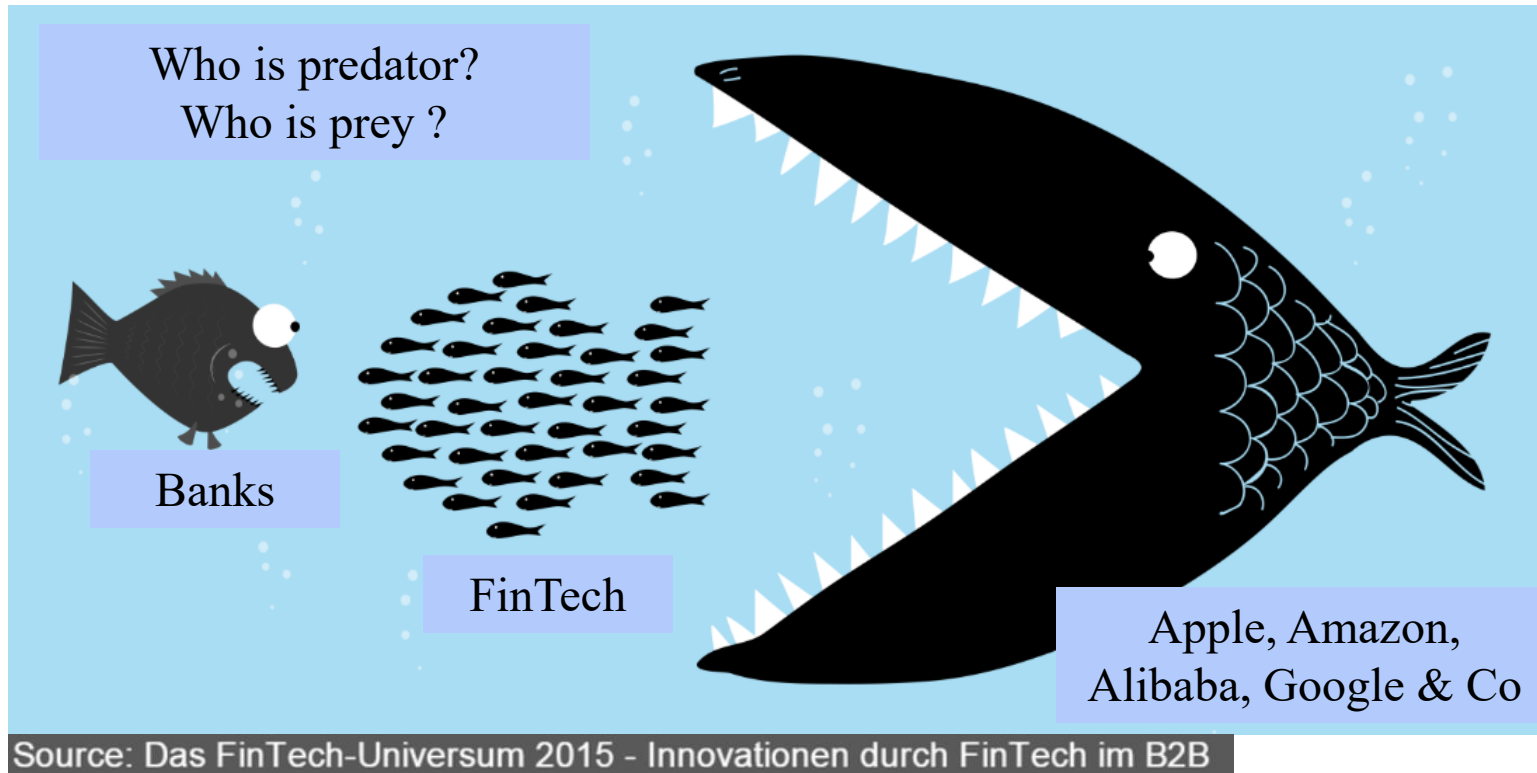


How might FinTech innovation change the financial industry?





How might FinTech innovation change the financial industry?





1. Introduction
2. How might FinTech innovation change the financial industry?
- 3. What should an ideal regulatory framework look like?**
4. Swiss regulatory approach



Principles of regulation

- 1. Same business, same risk, same rules**
- 2. Principle based regulation**
- 3. No technology-based regulatory gaps**



1. Introduction
2. How might FinTech innovation change the financial industry?
3. What should an ideal regulatory framework look like?
4. **Swiss regulatory approach**



Fintech – Swiss approach

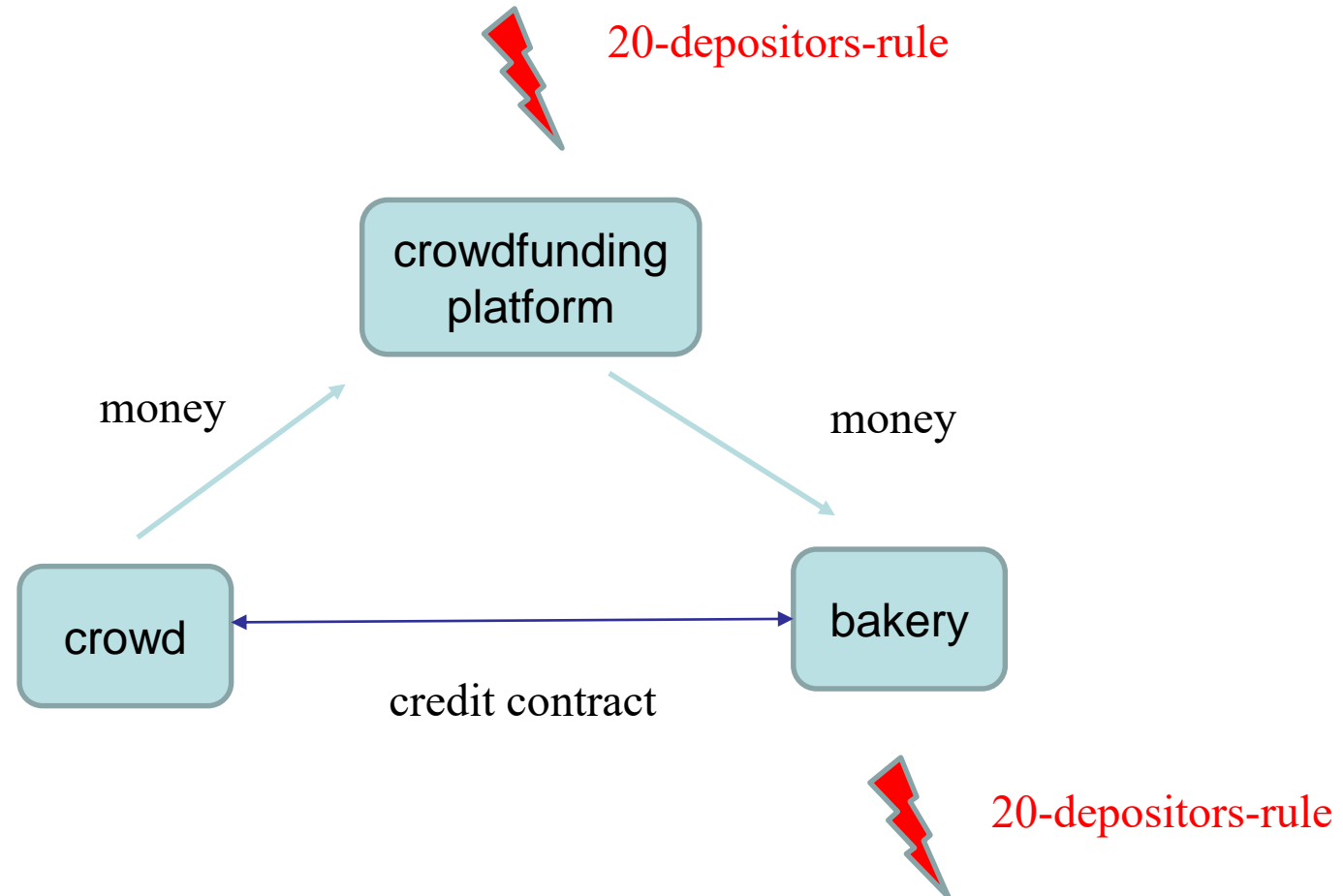
Goal: innovation-friendly
framework conditions

Reduction of barriers to market
entry (in the sense of technology-
neutral regulation)

Identified barriers to market entry:
banking law (in particular regarding
the acceptance of public funds)



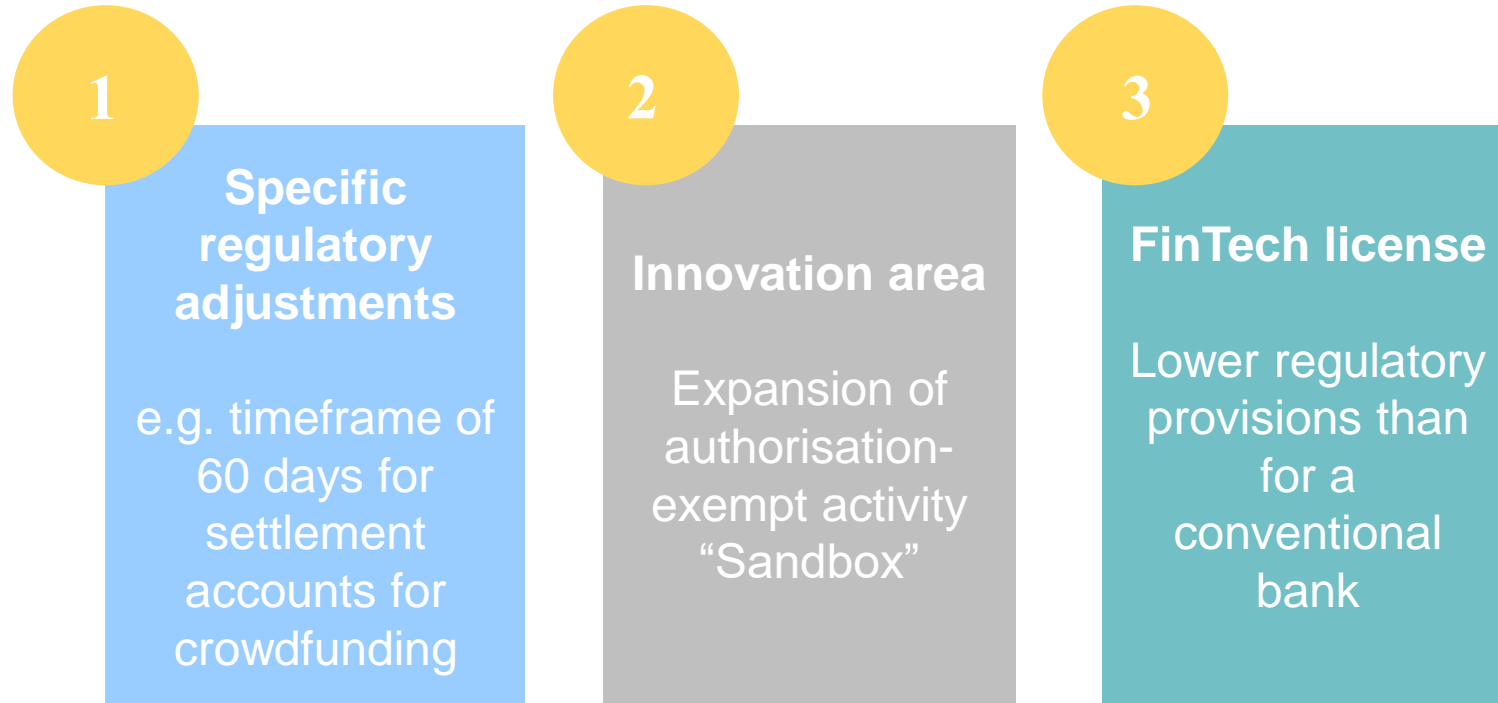
FinTech – Barriers to market





Swiss FinTech model

based on three elements





Element 1: Extension of the timeframe for settlement accounts

Problem

- Under the banking law, credit balances on client accounts that solely serve the purpose of the settlement of client transactions and on which no interest is paid may not be considered to be deposits
- Today, FINMA set a timeframe of seven days for such settlement accounts
- Fundraising for a crowdfunding project usually lasts longer

Solution

- A timeframe of **60 days** is set for settlement accounts at ordinance level
- Enables efficient crowdfunding
- Amendment is not restricted to fintech firms



Element 2: Innovation area

Problem

- Under current law, funds can be accepted from a maximum of 20 depositors without authorisation being required
- FinTech business models are generally aimed at more than 20 people
- Regulatory requirements prevent testing of new business ideas

Solution

- A provider without a banking licence will be able to accept public funds without restriction up to a total value of CHF 1 million
- Anti-money laundering and terrorist financing due diligence requirements apply
- Providers have to inform their clients that their firm is not supervised by FINMA



Element 3: FinTech license

Problem

- Many FinTech business models require a banking license, even though they are not involved in traditional banking activities (in particular maturity transformation)
- Such businesses feature a substantially lower risk profile compared to traditional banks
- A banking license is associated with high cost

Solution

- New FinTech license for institutions that are restricted to the deposit-taking business (acceptance of public funds) and thus do not operate in the lending business with maturity transformation.
- Public deposits accepted may not exceed a total value of **CHF 100 million**
- The deposits may not be interest-bearing
- The **minimum capital is 5%** of the accepted public funds, but no less than **CHF 300'000**



FinTech Switzerland

- Switzerland ist one of the world's leading financial centres
- Switzerland is one of the most competitive economies worldwide
- FinTech is a key factor for the future success of the Swiss financial center
- FinTech providers should be offered a regulatory framework that allows them to make optimum use of the opportunities provided by digitisation
- Both, the FinTech license as well as the sandbox are pioneering by international standards and should help to further strengthen the Swiss FinTech Ecosystem