

Technological Innovation and Competition in the Financial Sector in Portugal

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New technologies applied to the financial sector - **FinTech and InsurTech** - offer important opportunities in terms of increased competition, innovation and consumer welfare.

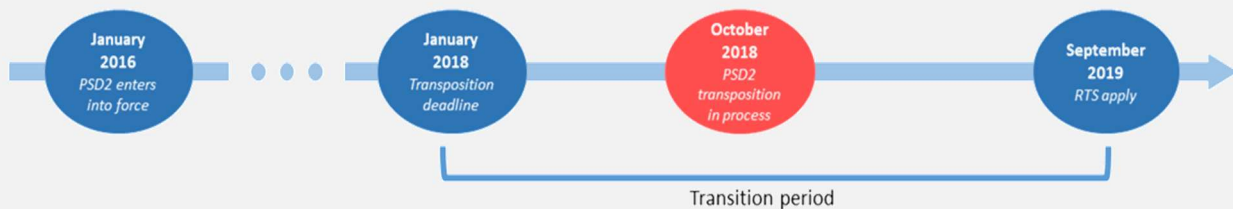
In its mission to promote competition, the Portuguese Competition Authority (*Autoridade da Concorrência*, AdC) analyzed the market entry conditions for new FinTech players, with a focus on **payment services** and **crowdfunding**. The AdC also addressed **regulatory regimes that promote innovation**. In April 2018, an Issues Paper was submitted to Public Consultation where the AdC identified barriers to entry and expansion in the Portuguese financial sector and issued recommendations to promote innovation and competition.



Payment Services

Identified Risks and Barriers

- **Market foreclosure risk:** FinTech players depend on incumbents (banks) to access essential inputs, such as account data and banking infrastructure. Banks do not have incentives to grant FinTech competitors access to these inputs.
- **Delay in the transposition and implementation of the Second Payment Services Directive (PSD2):** the absence of a regulatory framework has prevented the benefits of innovation and competition in the payment services sector from materializing.



Main AdC Recommendations

- **Need for a timely regulatory response:** upon PSD2's transposition, there should be a timely adoption of the subsequent regulation on which its implementation depends. The embraced solutions shall safeguard competition and market access in an adequate, proportional and non-discriminatory manner (Recommendation to the Government).
- **PSD2's operationalization:** DSP2 and the regulatory technical standards (RTS) impose account data sharing between incumbents and FinTech entrants, and may therefore mitigate foreclosure risks. In this context, the AdC recommends the reduction of potential degrees of freedom in the obligation to grant access, namely by ensuring (i) system interoperability, (ii) quality of access, (iii) non-obstruction in obtaining consent, (iv) the type and granularity of information, and (v) exemption of charges (Recommendation to the Government).
- **Transition period:** FinTech players should be able to provide their services during the transition period (Recommendation to the Bank of Portugal).
- **Access to the central bank's technical infrastructure:** a technical solution that enables all service providers to access SICOI (the national clearing and settlement system) under equal conditions should be considered, eliminating their dependence on bank intermediation (Recommendation to the Bank of Portugal).


 **Crowdfunding**

Identified Risks and Barriers

- **National regulation imposes investment limits** that several stakeholders regard as discouraging investment and limiting the sector’s expansion.
- **Regulatory patchwork at the European level and absence of service provision rights** for operators based in other EU countries.
- **Impossibility of Central Credit Register (CRC) reporting** by lending-based crowdfunding platforms.

Main AdC Recommendations

- **Evaluation of the necessity and proportionality of investment limits**, considering their elimination (Recommendation to CMVM – Portuguese Securities Market Commission).
- **Possibility of granting service provision rights** to platforms authorized in other EU countries under MiFID - Markets in Financial Instruments Directive (Recommendation to CMVM).
- **Granting of CRC access and reporting rights** to lending-based crowdfunding platforms (Recommendation to the Bank of Portugal).

 **Regulatory Regimes that Promote Innovation**

AdC Recommendation

- **Introduction of regulatory sandboxes:** these regimes promote entry through a temporary adaptation of regulatory barriers, enabling companies to test innovative products, services and business models in the market. This is done under the supervision of regulators, while safeguarding consumers’ interests and preserving the system’s security and integrity. In this context, the AdC considers that a regulatory sandbox covering a broad range of financial services, **based on a coordinated approach by the various sectoral regulators**, would enhance the benefits of the regime.
- While acknowledging the benefits of the “Portugal FinLab” innovation hub, **sandboxes have the potential to mitigate barriers to entry and expansion in the financial sector** in a more systematic manner, thus promoting innovation and the opportunities associated with FinTech and InsurTech.

