

PORTUGAL
FINLAB
WHERE REGULATION MEETS INNOVATION

PORTUGAL
FINLAB
REPORT

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01.

PORTUGAL FINLAB OVERVIEW

Portugal FinLab is a privileged communication channel between financial sector innovators, start-ups or incumbent institutions, and the Portuguese financial competent authorities – Autoridade de Supervisão de Seguros e Fundos de Pensões (ASF), Banco de Portugal (BdP) and Comissão do Mercado de Valores Mobiliários (CMVM). By joining forces, the Authorities provide participants with the framework to operate within the Portuguese regulatory regime. This initiative aims at creating a more favourable environment for the development of FinTech businesses and projects, thus responding to the global growth trend in the sector.

The 4th edition of Portugal FinLab took place from May 2022 to December 2022. Considering the experience gathered so far, and the concentration of the projects in the first batch of the previous editions, this last edition had only one batch of applications. Once the application period was closed in June 2022, 15 projects were selected for the “pitch days” taking place in the following month. The pitch days were an opportunity for the candidates to render their projects to the Authorities and present their regulatory questions.

Subsequently, five projects were selected for a detailed analysis of the regulatory aspects which may, in whole or in part, impact or hinder their execution. For these selected projects, the support was delivered through a comprehensive and detailed report with a non-binding position that reflects the Authorities’ understanding of the regulatory issues raised by the participants, identifying any regulatory obstacles and critical points for the implementation of the project, according to the limits imposed by Portuguese legislation and regulations. For all other projects, the pitch either directly clarified their regulatory questions, led to the conclusion that their questions would be better addressed by Authorities in other sectors, or was the start of further bilateral interactions with the relevant Authorities.

In this 4th edition, projects of a cross-sectorial nature predominated, followed by “Lending and Credit”, “Blockchain and Crypto”, “RegTech” and “Payments”. Like in previous editions, most of the applications were from Portuguese entities, but there has also been a relevant stream of foreign applicants, which shows the relevance of Portugal as a FinTech cluster.

Portugal FinLab was launched in 2018, and during its four editions, the Authorities have received one hundred and sixteen applications, showing the success and interest of this initiative for the FinTech market. The usefulness of Portugal FinLab is confirmed by the numbers and testimonies that can be read throughout this report, as well as in the reports of previous editions. This 4th edition further proved the consolidation of a successful initiative that has outperformed the most optimistic expectations and keeps fulfilling its major purpose of connecting technology-based innovation in financial services with the financial Authorities.

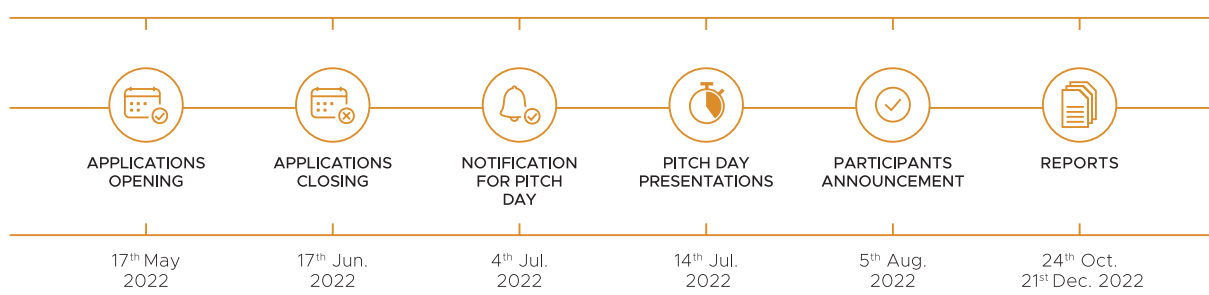
02.

4th EDITION NUMBERS

TIMELINE

In view of the experience gathered so far by the Authorities and the concentration of projects in the first batch of the previous editions, the 4th edition had only one batch of applications.

This batch started in the middle of May with the applications opening and it was concluded with the delivery of the reports. Three reports were delivered in October 2022 and the remaining two reports were delivered in December 2022 due to the need of additional interactions with the participants.

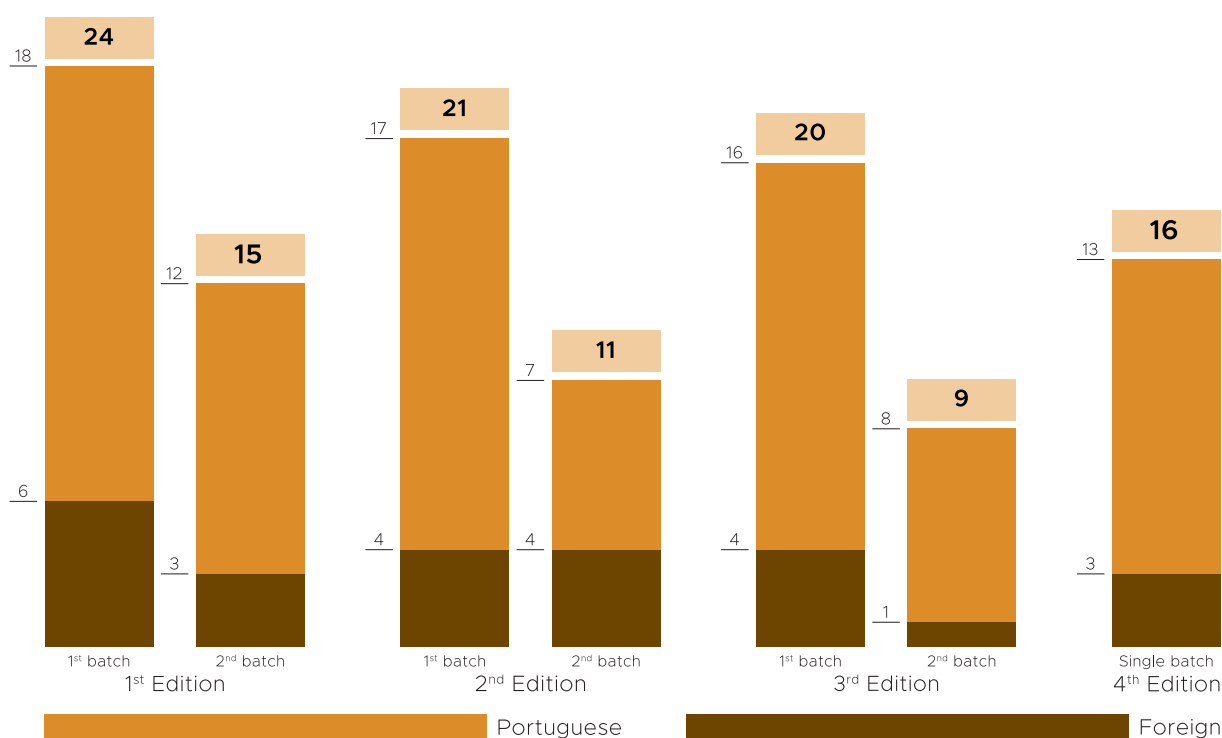


RELEVANT STATISTICS

The 4th edition of Portugal FinLab has attracted 16 applications. Most of these were Portuguese projects, corresponding to 81% of the applications.

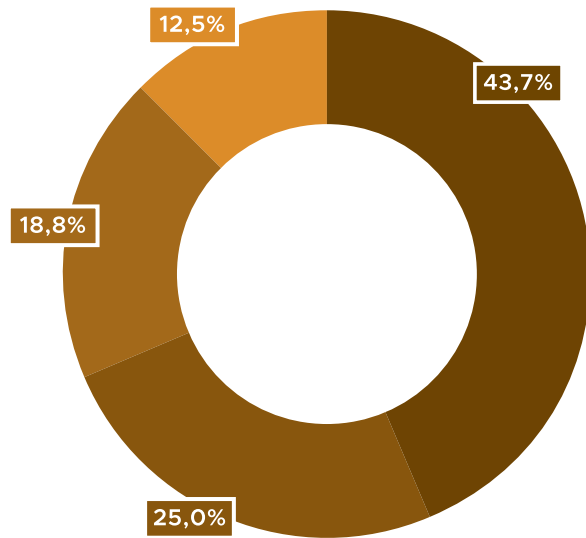
The number of projects of this edition compares well with the batches of previous editions, proving that this initiative remains relevant to the FinTech market.

Number and origin of applications



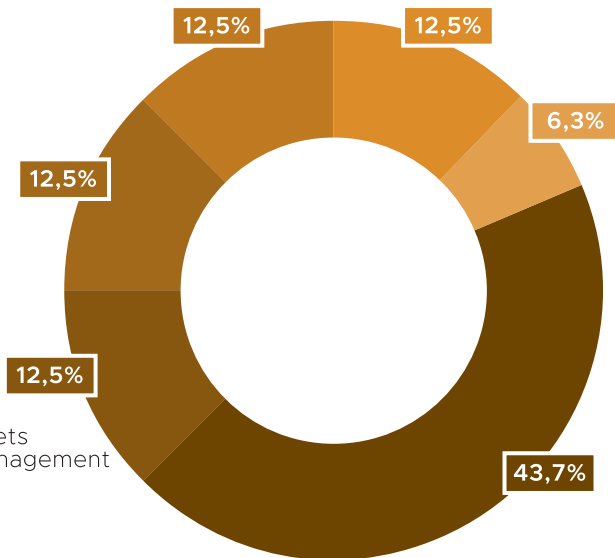
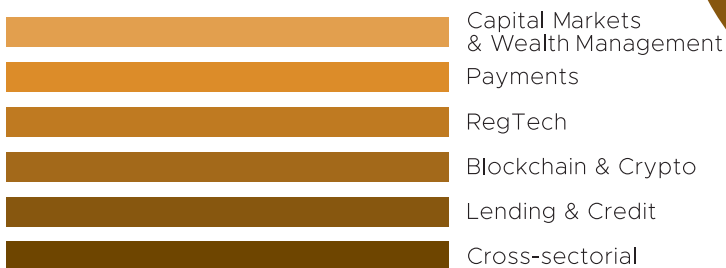
Applications by stage of development

Alike previous editions, most of the 4th edition's applications were at an initial stage of development. The most representative stage was "Pre-seed" (seven applications), followed by "Seed" (four applications). "Early Stage" and "Growth" accounted for the remaining applications (three and two applications, respectively).



Applications by activity sector

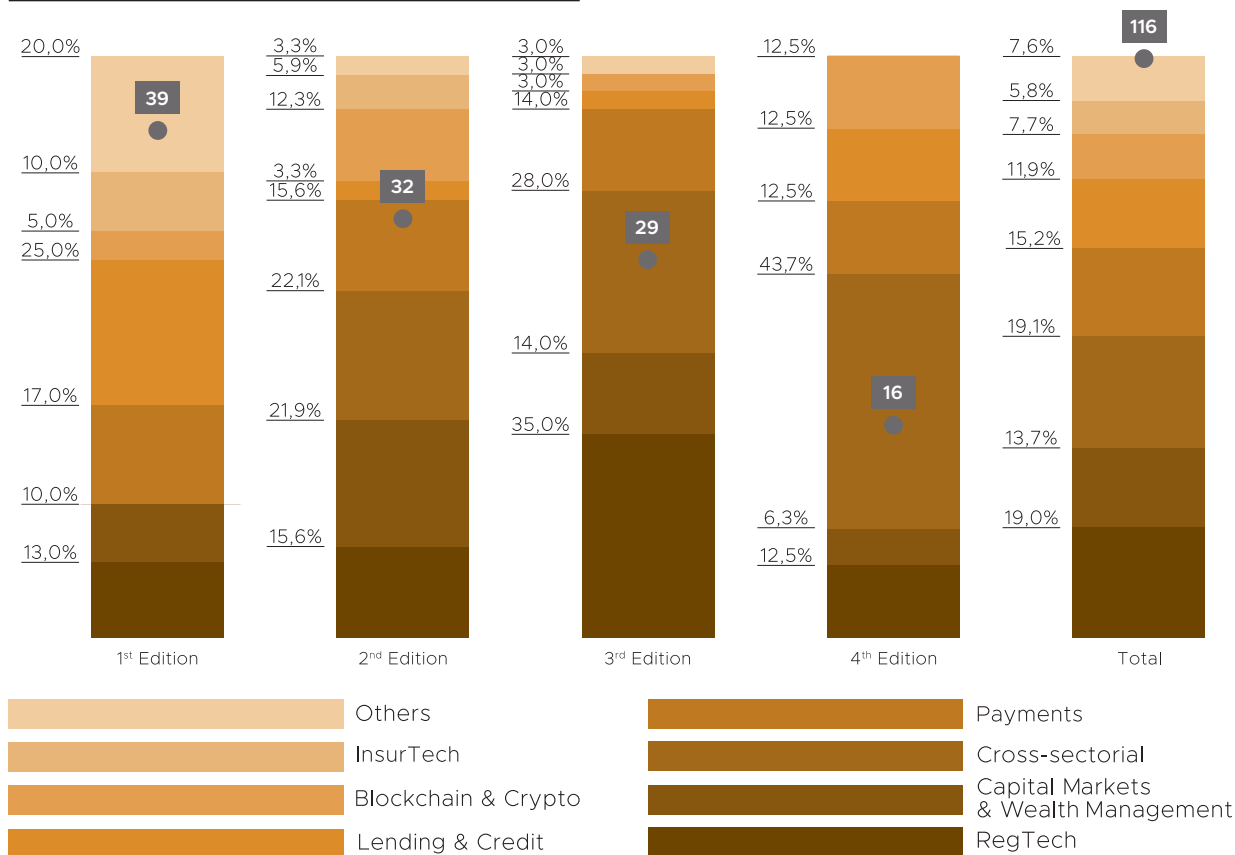
The applications submitted to the 4th edition were predominantly "Cross-sectorial" projects (seven applications). The remaining were distributed evenly among the following sectors: "Lending and Credit", "Blockchain and Crypto", "RegTech" and "Payments". The less representative category was "Capital Markets and Wealth Management" (one application).



Comparing with previous editions, the sector that grew the most was the "Cross-sectorial" one, which illustrates the increasing complexity of new business models and/or products. On the opposite side, "InsurTech" was not even represented in this 4th edition.

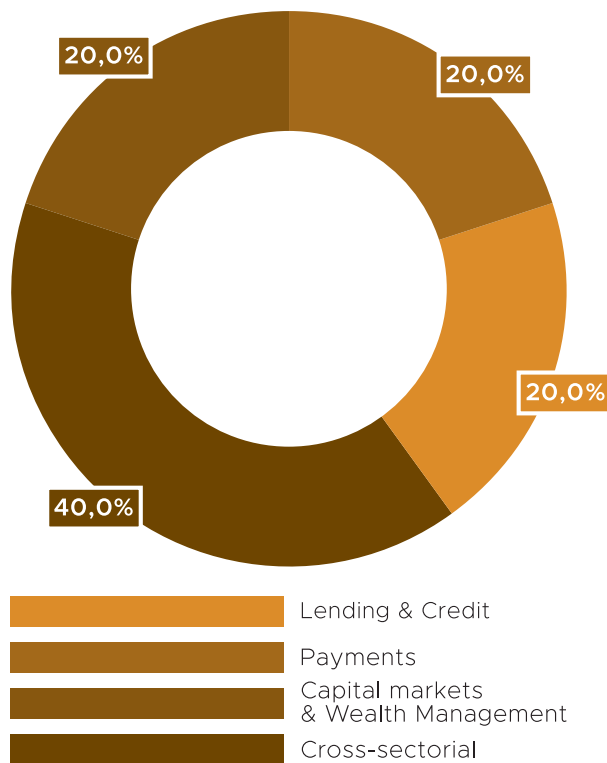
Overall, considering the four editions, "Cross-sectorial" and "RegTech" are the most relevant categories (both with 22 applications).

Applications by activity sector



SELECTED PROJECTS

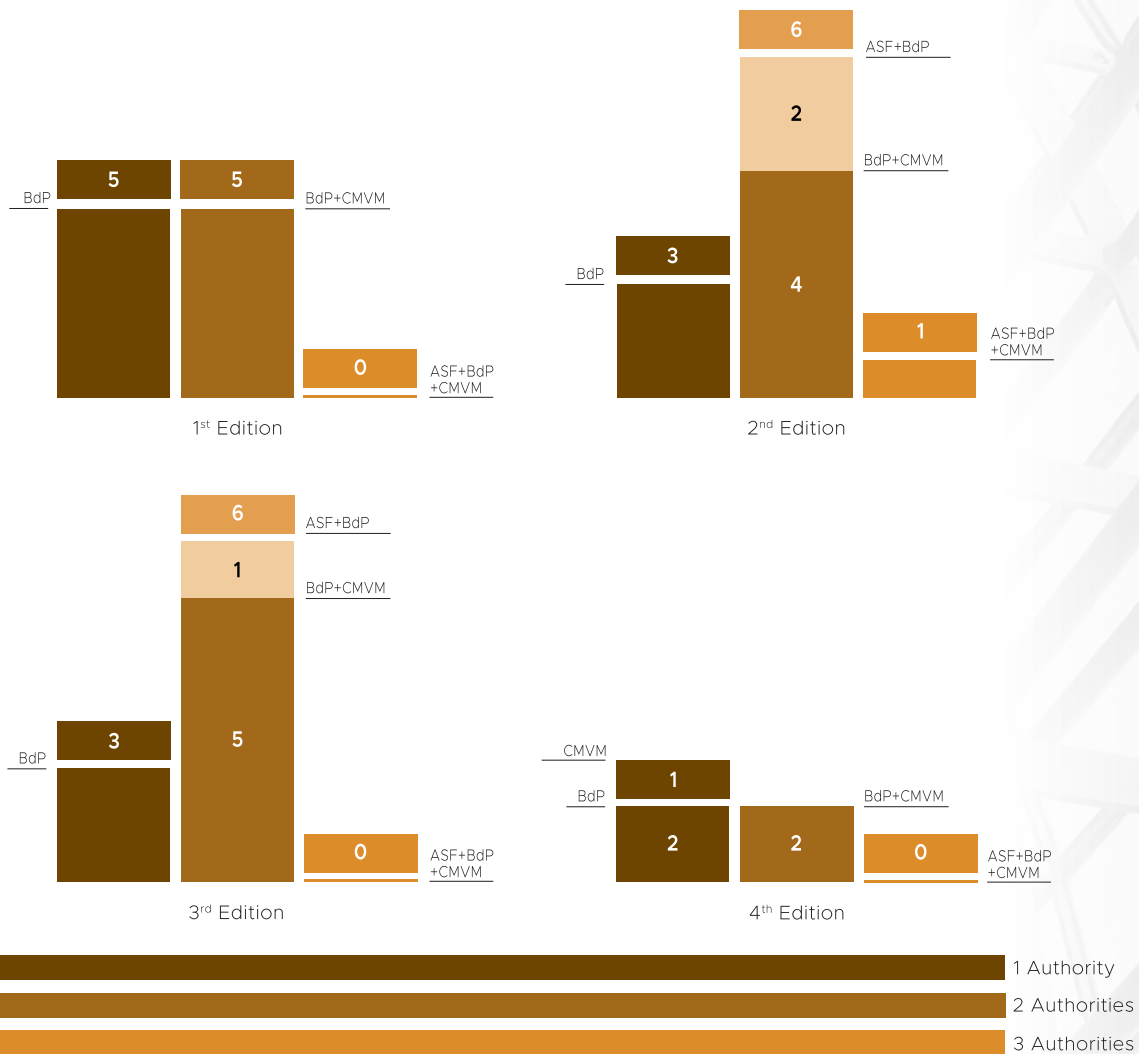
The Authorities selected five projects for analysis in this edition of Portugal FinLab. The selected participants were announced on the 5th of August. Likewise for the total of applications, the most representative sector was “Cross-sectorial”, with two participants. The remaining selected participants were evenly distributed between “Payments”, “Capital Markets and Wealth Management” and “Lending and Credit” (one participant of each sector).



Contrary to the last years' trend, most of the selected projects had the involvement of only one Authority (three projects), two of which were analysed by Banco de Portugal and

one by CMVM. The remaining projects were assessed jointly by Banco de Portugal and CMVM.

Number of projects assessed by Authority





03.

PARTICIPANTS FEEDBACK

ALGAE



ADRIEN HARDY



JÉRÉMY ANDRÉ

DESCRIPTION OF THE PROJECT

Algae is an international platform that makes real estate investment accessible to all.

The mission is to democratize real estate investment from 10€ to empower the people and thus, making a social impact by better distributing wealth.

The principle is simple and uses tokenisation allowing people to buy digital shares of real estate providing monthly returns and increasing liquidity.

PARTICIPATING IN PORTUGAL FINLAB

We heard about it through the Fintech House. As we are innovating at the crossroads of two highly regulated sectors and we intend to collect money of individual investors, we wanted to make sure that we are fully compliant in respect of laws and regulations.

Our participation in Portugal FinLab was extremely positive. We got some clarity on our project to develop it in the most appropriate way in Portugal.



Established
2022



Headquarters
Paris and Lisbon



Offices and Countries
where operates
France and Portugal



Target Clients
**Individual
Investors
(B2C and B2B2C)**



Website
www.algae-app.com

ART2TRADING

Art2Trading



LUÍS RAIMUNDO



PAULO CARVALHO

DESCRIPTION OF THE PROJECT

Art2Trading's Art Robo-Advisor aims to simplify the lives of those who want to invest in the financial market in a safe and profitable way and provide smart investment decisions for everyone!

We develop proprietary automated trading software with artificial intelligence (AI) algorithms and digital applications for analysis and trading.

PARTICIPATING IN PORTUGAL FINLAB

With this participation of Art2Trading in Portugal FinLab, it was possible to obtain the scrutiny of the regulatory entities and financial supervisors, to identify the respective regulator for this project, as well as being able to rely on their experience and knowledge, in regulatory matters to identify the most sensitive issues. Thus, we were able to frame the Art Robo-Advisor project in order to comply with all mandatory regulatory requirements in Portugal and in the European Union (EU), including with regard to the use of algorithms and AI.

We heard about this initiative through a colleague from the University of Aveiro incubator.

We decided to participate to try to identify all regulatory issues, related to the development and use of AI applications and automation systems for trading financial assets in services intended for end users, such as Robo-Advisor. It was quite positive since it allowed us to obtain the regulatory information currently

available and in force, and, at the same time, allowed to open a communication channel between Art2Trading and the Authorities, more specifically with the CMVM. The identification of the regulatory framework of the Art Robo-Advisor project has enabled the adjustment of the developments in order to allow its launch, while guaranteeing compliance with all the legislation and indicated guidelines.



Established
December 2017



Headquarters
Ílhavo, Aveiro



Offices and Countries
where operates
Portugal and EU



Target Clients
B2C Small investors interested in financial markets and investment automation. B2B2C Financial institutions interested in providing their customers with automatic investment services in financial markets using AI and a Robot-Advisor service



Website
<https://art2trading.com/>

LOMBONGO



MARCOS FERNANDO



MAURO BENEDITO



YANIK VICENTE

DESCRIPTION OF THE PROJECT

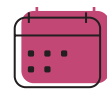
Lombongo will be the first digital financial product that bridges the Angolan kwanza and the European euro. We believe Angolans should be more included in the international financial market, as per this day and age we are all a big global community and we all should be open to the opportunities that this inclusion present.

PARTICIPATING IN PORTUGAL FINLAB

We became aware while visiting the Banco de Portugal website's Fintech+ page.

It was a no-brainer decision to participate and take the opportunity to navigate the regulatory burden. We decided to participate because we were having trouble understanding where we landed in the regulatory landscape.

We evaluate our participation in Portugal FinLab a 5 out of 5. Firstly, it brought more legitimacy to our pitch and therefore more positive feedback from the investors, and secondly, it guided us for a better raising strategy.



Established
2021



Headquarters
Porto, Portugal



Offices and Countries
where operates
Luanda, Angola



Target Clients
**Angolans' European
residents/national**



Website
www.lombongo.com

RAUVA

rauva



JON FATH



SAM MIZRAHI

DESCRIPTION OF THE PROJECT

Rauva, built by entrepreneurs for entrepreneurs, has developed the first financial super-app for Europe's Mediterranean region. On a mission to make entrepreneurship easily accessible, Rauva brings the banking and financial needs of SMEs and freelancers into one powerful, localised platform. Headquartered in Portugal and tapping into a 20 million strong market in early 2023, we aim to fuel innovation in the banking space by working closely with regulators in Portugal.

PARTICIPATING IN PORTUGAL FINLAB

Rauva is an active member of The Fintech House in Portugal. Portugal FinLab program is a renowned name in the Portuguese FinTech community.

We are embedding Rauva into the FinTech ecosystem to innovate as quickly as possible. To ensure our service is built to the highest standards, we are prioritizing complete compliancy with all regulations. This will help us optimize for longevity and help us move forward with confidence.

Rauva has onboarded onto the Portugal FinLab 4th edition and, later that year, has managed to be featured in the Portugal Fintech Report as the "Top Emerging FinTech in Portugal".

We have been able to work closely with Banco de Portugal, following all the advice on how to successfully build Rauva into a super-app that will benefit entrepreneurs across Portugal.

By building a fully regulated service with strong links to the banking and FinTech infrastructure in Portugal, we believe we can make a real change in the most defensible and robust way possible.



Established
2022



Headquarters
Lisbon, Portugal



Offices and Countries
where operates
Portugal (Spain in 2024)



Target Clients
SMEs and freelancers



Website
<https://rauva.com/>

SOMETHING LEGENDARY



GONÇALO SEVERIANO



JOÃO DIAS



JOÃO FERNANDES

DESCRIPTION OF THE PROJECT

Something Legendary is an investment platform for the purchase, renovation, and subsequent sale of classic cars, using Web 3.0 tools as a method of financial ease of use and as a gamification element. The platform intends to sell the dream of being able to belong to a community that is normally associated with an elitist group since it involves an investment of very high values and a wide range of resources, not only of time but also of knowledge.

PARTICIPATING IN PORTUGAL FINLAB

We heard about Portugal Finlab through the Law Firm Morais Leitão with whom we are working with.

We decided to participate in this initiative given the high relevance of the Authorities involved and given the regulatory difficulty that our project faces since it is developed with Crypto and Non-Fungible Tokens (NFTs).

It was a very positive participation as we were not only directed to the next steps regarding regulatory integration in Portuguese law, but we were also helped to define some technical details that could raise some kind of problem in the future of the project.

It was essential because the Authorities involved are the same ones responsible for the supervision of Something Legendary.



Established
2022



Headquarters
Lisbon, Portugal



Offices and Countries
where operates
N/A



Target Clients
**All lovers of the
automotive world
as well as enthusiasts
and investors
connected to the
Web 3.0 world**



Website
www.somethinglegendary.com

04.

ORGANISERS INSIGHTS



MANUEL CALDEIRA CABRAL

Board Member at ASF

AI APPLIED TO INSURANCE: OPPORTUNITIES AND EMERGING RISKS

The first two decades of the new millennium were marked by the massive use of the internet and the “digitalisation” of production, decision-making processes and contact with customers and, more recently, by the Covid-19 pandemic, which has accelerated the use of digital technology, intensified in areas where it already dominated and has asserted itself in new realities such as remote working. Throughout the financial industry and particularly in the insurance industry, AI solutions have made their way, being present in marketing, risk assessment, financial management and even in claims and claims management.

The enormous availability of data and the exponential increase in analysis capacity mean that AI is already playing a decisive role. More sophisticated learning and interaction systems allow AI systems to go ever further in processing the data they can massively access. Related to this point, I would like to mention the simultaneous development of the so-called Internet of Things (IoT). Sensors, cameras, and other devices that are being placed everywhere, allow the collection of an even greater amount of data, relate them and study patterns, providing the design of real-time solutions between a comprehensive number of connections.

The ASF is aware of the need to address the challenges posed by the digitalisation of the insurance and pensions sector, while enabling stakeholders to harness the benefits that arise from new technologies and business models.

All this evolution has had a transversal impact on societies and economies, particularly in the financial sector, where its original strong dematerialisation has made it especially suited to digitalisation. The insurance sector was no exception and InsurTech (the application of technology to insurance) has been making its rapid way.

AI, working on the huge amount of data being produced and made available (big data), has a very relevant role in insurance. The core of insurance is risk, the uncertainty about the future, the possibility of occurrence, or not, of claims covered by contracts. The development of more powerful and refined AI systems may allow, for instance, a more granular assessment of the specific risk, a more effective prevention and mitigation of claims and the streamlining of its management. It can also enable a reduction in fraud and more personalised marketing in relation to the needs of potential customers. There are a multitude of benefits and corresponding drawbacks.

The growing use of technology, and specifically of AI, has raised some concerns also in relation to the more classical and conservative market participants. InsurTech includes and affects more than small companies and start-ups. The large operators in the market, even if their business model is not very open to innovation, often adopt along their value chain technological solutions which may prove to be disruptive. Take for example the cloud services. With the amount of data available, the computing and connectivity capacity required, the use of third-party providers of these services is becoming more frequent and, alongside the advantages it presents, such as greater speed and lower cost, it entails a series of risks in various aspects of the business. Other examples, especially relevant in the insurance sector, are the use of

automated and “intelligent” systems for customer service (chatbots) and the use of the IoT to personalise products and services. Each of these technologies, usually powered by AI, represents a benefit for consumers, but carries a number of risks that must be considered.

These are the main reasons why cyber risk is a new field under development in the insurance sector. Any digital system is vulnerable to attack and can suffer, and cause, losses that can be very high. New risks call for new insurances and the market has been responding, creating covers for these new cyber risks.

The national, European, and international Supervisory Authorities are aware of the developments in the market and are seeking to follow them, cooperating with each other so that the work of each one can be known by their counterparts, avoiding repeating something that is already done. The algorithms and the results they produce will also have to be subject to supervision, and AI offers interesting tools for regulators that we will have to know how to take advantage of.

Innovation facilitators, namely innovation hubs and sandboxes, are instruments especially suited to promote the contact between the regulation and supervision Authorities and the entities which operate or intend to operate in the markets during the conception and development of their projects. This interaction spaces are expected to bring up questions and to ensure the clarification of regulatory uncertainties, contributing to the reduction of the time-to-market of innovative products and the compliance of the innovative entities’ operations with the applicable regulation.

Initiatives such as Portugal FinLab, which has the participation of the three Portuguese financial Authorities (ASF, Banco de Portugal and CMVM), are tools of great value and importance to promote innovation, ensuring consumer protection. The main goal is to contribute to the development of a more innovation-friendly, safe, and sustainable market for all. 

A black and white portrait of Hélder Rosalino, a middle-aged man with short, dark hair, wearing a dark suit jacket, a white shirt, and a patterned tie. He is looking slightly to the right of the camera with a neutral expression. His arms are crossed.

HÉLDER ROSALINO

Board Member at Banco de Portugal

THE USE OF AI AND ML IN THE BANKING SYSTEM: BALANCING CHALLENGES AND OPPORTUNITIES

Over the past few decades, the banking system has undergone structural changes that fostered the use of various types of methodologies in the collection, processing, analysis, and reporting of information. Prudential and accounting requirements have increased the need to assess risk developments more rigorously and report wide ranges of information to supervisory authorities. In parallel, information systems have evolved, allowing for a greater analytical capacity of the information at the managers disposal.

These methodologies can be particularly beneficial for the banking system when, based on AI techniques, are used to comply with regulatory requirements more effectively, more efficiently, and usually less costly – applications commonly referred as RegTech. Machine Learning (ML) is a subfield of AI that develops algorithms to be applied to databases, focusing primarily on areas such as forecasting, classification and clustering. A greater ability to process and analyse information may, for example, result in improved credit risk forecasts (forecasts for indicators such as the probability of default and loss given default), with

gains for the individual institutions and the banking system as a whole.

In the forecasting field, ML techniques have been challenging econometric methodologies. A growing number of studies have concluded that the performance of ML models is superior to that of econometric methodologies. In general, relationships apprehended by the ML algorithm are determined endogenously by data, allowing greater flexibility in the model's functional form and/or in the variables to consider.

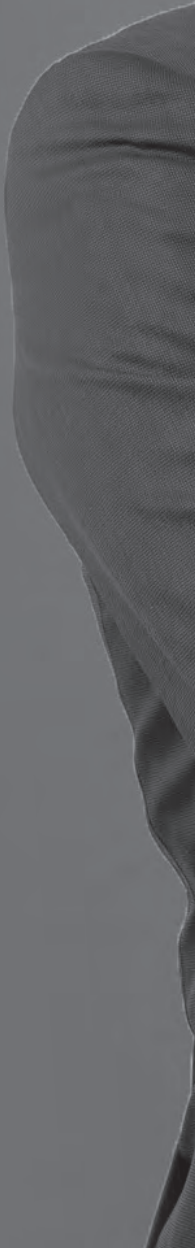
Usually, algorithms can be divided between supervised and unsupervised learning. Supervised learning aims to adjust an output variable in accordance with other explanatory variables. The use of this type of algorithms in the banking system can be found, for example, in forecasting the probability of default. Unsupervised learning does not require an output variable, instead it consists of identifying patterns in the variables available in the analysis, being used, for example, in the definition of new variables/composite indexes or detecting outliers.

The autonomy and flexibility of ML can produce better forecasts when compared with conventional econometrics, but its use implies greater difficulty in interpreting the results and the economic phenomena that might influence them.

The difficulty in interpreting results may pose risks to institutions, namely if their decision-making is based solely on ML methodologies. In this regard, the European Commission is working on regulating AI so that its use respects the values, fundamental rights, and principles of the EU.

Recent literature has developed mechanisms for interpreting results derived from ML models, contributing to a new field of investigation named eXplainable AI. This will

ensure greater security and transparency, translating into increased trust in the results and in its easier transmission to all stakeholders. Despite the progress made so far, still there are not widely accepted nor easy to implement techniques that make it possible to obtain the interpretation and inference available in conventional econometrics.

In short, the use of ML is a challenge and an opportunity for the banking system. An opportunity because the banking system may thus improve the analytical tools that support decision-making. A challenge because institutions should prevent that the use of ML impairs the transparency behind their decisions. In tandem to what was identified for other AI techniques, a number of elements of trust need to be properly and sufficiently addressed to support the rollout of ML including, but not limited to, explainability and interpretability, fairness and avoidance of bias, traceability and auditability, and security. 

A black and white portrait of José Miguel Almeida, a middle-aged man with short hair and glasses, wearing a dark suit, white shirt, and patterned tie. He is standing with his arms crossed, looking directly at the camera. The background is a dark, textured wall with geometric patterns.

JOSÉ MIGUEL ALMEIDA

Board Member at CMVM

AI APPLIED TO THE CAPITAL MARKETS

Innovation in finance is nothing new. From the introduction of coins around the 7th century BC or the first known derivatives contract conceived by the Greek philosopher Thales on olive presses, to the development of paper notes in the 7th century, to the proliferation of letters of credit in the 15th century, to the rise of joint stock companies in the 17th century, or to the creation of the first ATM in the 20th century, we see that financial innovation has changed the way we and our predecessors acted as economic agents. The 20th and the beginning of 21st centuries also brought about huge technological developments that have fundamentally shaped the way we interact. The computer, the mobile phone, the internet, or even virtual reality, brought about profound transformations. Today, we are all amazed by powerful tools that employ AI and ML techniques to respond to our needs or questions.

This last wave of technological change, interlinked with increasing digitalisation and data availability, has also enabled a new wave of financial innovation. In this regard, AI is among the technological developments with the greatest potential to transform the capital markets. Its application is likely to trigger the emergence of new products and services that are more personalised and competitive and which are also likely to contribute to greater financial inclusion for the benefit of both individuals and businesses. From robo-advising to robo-voting and algorithmic

trading, in addition to helping firms with monitoring, reporting and information duties, as well as to perform auditing tasks and to meet regulatory requirements (RegTech) or in the case of supervisors, to carry supervisory tasks (SupTech), the practical applications of AI are multiple and diverse.

In this context, the CMVM launched in June 2022, a reflection and consultation document on the potential impacts and applications of AI in the financial sector, particularly in the capital markets. The main objective of this consultation was to deepen the knowledge on the Portuguese market and foster the debate on the potential impact on investors and entities under the CMVM's supervision with the goal of achieving the responsible use of AI. The process ended in December 2022 with the publication of the consultation's final report containing valuable feedback from respondents.

Aligned with our expectations, the consultation exercise made clear that domestic market players are increasingly using AI tools. In fact, the adoption of AI may be a determining factor for certain companies to remain competitive. Still, this path and the necessary adaptations will bring many challenges to market participants. For instance, the scale of our national market – but not the EU market – may lead to a non-optimal quantity and quality of the data obtained, making it harder to maximise the return on the investment required. On the other hand and at a global scale, financial regulators are also concerned with the excessive concentration on a few big players, such as cloud providers which potentiate systemic risk. Nevertheless, if such risks are properly understood and addressed, the use of AI may contribute significantly to the development of the market by enabling new business opportunities which would benefit the real economy, while also increasing efficiency gains and cost reductions for companies.

From an investor perspective, the adoption of AI can bring significant improvements to the quality and diversity of products and services offered. Yet, the CMVM as a supervisor, also considers the risks. Indeed, decisions taken by machines are not always transparent to the investor, neither fully explainable. Additionally, the collection, storage and extensive use of data may raise privacy and data protection issues. Therefore, greater awareness of AI opportunities and risks is essential for achieving both market development and investor protection.

As stated in the beginning of this article, financial innovation is nothing new. In this fast-evolving environment, regulators and supervisors also need to closely follow new market trends. And from this perspective, Portugal FinLab is a valuable tool to get closer to the market and better understand new emerging regulatory challenges. Moreover, this initiative fosters cooperation among Portuguese financial authorities, allowing us to be better prepared to deal with cross-cutting issues from an increasingly interconnected financial system locally and globally, on the one hand, while promoting competitive and fair markets, on the other hand.

05.

EFIF

THE STATE OF THE ART OF INNOVATION FACILITATORS IN EUROPE



RUTA
MERKEVICIUTE

Chair of EFIF
Head of Digital Finance, EBA



ALAIN
OTAEGUI

Coordinator of EFIF
Policy expert, EBA

As innovation keeps putting pressure on the incumbent players and traditional business models in the financial sector, policymakers also need to keep pace of market developments and assess whenever regulatory or supervisory actions are needed. To do that properly, at the European Banking Authority (EBA) we advocate the need to maintain a continuous dialogue and close engagement between industry, supervisors, regulators and other stakeholders. This is essential if we all wish to maximise the benefits of innovative

applications in the EU financial sector, at the same time we mitigate risks for consumers and investors effectively. As a consequence, for some years already policymakers in Europe have realised that we need to adopt a forward-looking response to regulatory and supervisory gaps in FinTech, and a greater cross-disciplinary coordination, knowledge-sharing and collaboration in our work.

In that context, in coordination with the European Commission, in 2019, the three

European Supervisory Authorities (EBA, EIOPA and ESMA – ESAs) established a European Forum for Innovation Facilitators (EFIF), of which the three Portuguese financial supervisory authorities are members (ASF, Banco de Portugal and CMVM). The EFIF provides a platform for supervisors to meet regularly, to share experiences from engagement with firms through innovation facilitators and to reach common views on the regulatory treatment of innovative products, services and business models, boosting coordination between the supervisors on FinTech topics.

The EFIF was created as a follow-up to a joint ESAs report on innovation facilitators, that provided a comparative analysis of innovation facilitators set up to date in the EU, which were few in that moment. The report also set out 'best practices' regarding the design and operation of innovation facilitators and the experiences of the authorities in running the facilitators. The best practices promoted convergence in the design and operation of facilitators. But, again, in 2019 only very few innovation facilitators existed.

Since then, however, a lot of activity has been ongoing at the national and EU level regarding innovation facilitators, with many supervisory authorities setting up facilitators within their jurisdiction. As of 2023, in the European financial sector we currently account for 36 innovation hubs and 13 regulatory sandboxes, in addition to sandboxes hubs in the UK and Switzerland. According to a World Bank study, and based on our analysis, more than 50 countries worldwide are currently experimenting with FinTech sandboxes, hence this has been a global phenomenon going on during the last years.

Among the main benefits that these innovation facilitators are providing competent authorities, and national financial sectors, we find that they allow the authorities to gain a better understanding of innovation in financial services and help them develop a good understanding of potentially undue regulatory barriers to financial innovation.

For example, during 2022 they were very successful in helping authorities improve their understanding of innovations related to so-called Decentralised Finance (DeFi), NFTs or tokenisation. Innovation facilitators also allow firms to better understand the regulatory and supervisory expectations against the backdrop of rapid technological advancement, as facilitators help improve the accessibility of authorities for firms, particularly for new entrants and technology providers, enabling them to get clarifications regarding regulatory and supervisory issues at an early stage in their innovation development and testing timeframes.

However, deploying innovation facilitators also introduces some challenges for authorities, in particular in a context in which they face difficulties in finding and retaining staff with the appropriate knowledge and experience of FinTech-related issues. Additionally, the existing interactions between authorities on issues giving rise to cross-border considerations might not be fully adapted to financial innovations and sometimes give rise to delays in providing coordinated responses, which is not ideal. In the case of regulatory sandboxes, a key challenge for authorities has been that some innovations tested in sandboxes may have been perceived by consumers and/or the market as 'endorsed' by the authority, resulting in either a potential preferential access to financing and/or preferential market positioning. There are also the legal and reputational risks to the authority if consumers suffer detriments as result of services provided in the course of sandbox participation.

In order to overcome those challenges and find the best possible set up for facilitating innovation in the financial sector, European authorities have been innovative themselves, and we are increasingly observing certain new activities undertaken by facilitators. For instance, some have set up digital or virtual sandboxes that support testing with a fully digital platform and in some cases with providing access to synthetic and publicly available datasets, and to Application



Programming Interfaces (APIs) that may be crucial for testing of innovations that require access to data that is otherwise unavailable to them. Other European authorities have organised TechSprints, as those organised by the G20 with the Bank for International Settlements (BIS) or by the Autorité de Contrôle Prudentiel et de Résolution (ACPR) in France, that bring together participants from across and outside of financial services to develop technology-based ideas or proof of concepts to address specific challenges faced by regulators in very short but intensive events. Finally, we observe a trend towards organising cohorts of regulatory sandboxes organised by thematic areas, such as sustainable finance or DeFi, typically in line with priority innovation areas for the national financial sector or authorities. We see all these new activities as very positive initiatives that show that European authorities are staying true to the forward-looking approach that innovation facilitators should follow.

To end, in addition to innovation hubs and regulatory sandboxes, during the last couple of years new types of innovation facilitators have emerged in the EU, covering specific use cases. For example, the AI Act proposal included a provision promoting the creation of AI regulatory sandboxes for the testing of AI systems in one or more EU Member States and provided the basis for the creation of national regulatory sandboxes for experimenting the use of Distributed Ledger Technology (DLT) for market infrastructures for trading and settling transactions of financial instruments.

We are eager to see these initiatives implemented, as we anticipate they will help firms experiment and get clear expectations in those and additional innovation fields. 🚩

06.

PORTUGAL FINLAB

5th EDITION

Since its launch in September 2018, Portugal FinLab has emerged as a crucial platform for facilitating effective communication between regulatory authorities and entities engaged in technology-based financial innovation. This platform provides invaluable guidance to participants, helping to clarify regulatory uncertainties and ensuring compliance with existing frameworks.

The success of Portugal FinLab's 4th edition follows in the footsteps of previous ones and can be evidenced by the testimonials that participants have left throughout this report. The direct communication with the Authorities and the provision of regulatory guidance are highlighted as significant contributions, enabling projects to be adjusted and instilling greater confidence and certainty during the launch of innovative projects.

Therefore, the initiative's positive evaluation and recognition by the FinTech market, along with the preference to maintain it as a joint approach by the three financial supervisors, demonstrate its significant value and justify its continuation.

Effectively, the importance of this joint approach of the Authorities is reflected in the preponderance of cross-sectorial projects applying to Portugal FinLab, which pose challenges of increased complexity and require collaboration and consistency between financial supervisors when addressing financial and technological innovation.

Despite the success of Portugal FinLab, the Authorities will continue to reinforce the continuous improvement of this Innovation Hub in order to keep up with the dynamic and challenging scenario of the FinTech ecosystem.

In this sense, it was decided to launch a new edition of Portugal FinLab in 2023, again with one batch, seeking to meet the needs of the financial technological innovators.



