

## **Additional answers**

Due to technical issues with the consultation document, the Danish government has not been able to access the comments section of some of the questions in the survey. This document provides those additional comments to the consultation on a new digital finance strategy for Europe / FinTech action plan.

### **Question 7. Building on your experience, what are the best ways (regulatory and non-regulatory measures) for the EU to support the uptake of nascent technologies and business models relying on them while also mitigating the risks they may pose?**

**Comment:** In Denmark, we have implemented an innovation hub and a regulatory sandbox. We have received very positive feedback from the industry, especially regarding guidance, handheld supervision and our regulatory sandbox. Many companies have expressed that it is very positive that the financial supervisory authority is visible, easily accessible and willing to engage in dialogue regarding fintech.

We suggest more inclusion of academia in European expert groups.

### **Question 24. In your opinion, what should be done at EU level to achieve improved financial education and literacy in the digital context?**

**Comment:** Regulation should ensure that information documents can be made available digitally. It is not sufficient to put a pdf on a webpage, since that works poorly on many devices. Thus, information documents such as the Key Information Document (under PRIIPs) should be made "fintech mature".

### **Question 27. Considering the potential that the use of publicly available data brings in finance, in which areas would you see the need to facilitate integrated access to these data in the EU?**

**Comment:** We believe this question is for financial companies to answer. However, it is our impression that assuring access to and increasing the quality of publicly held data could have great value for both consumers and companies, and should be a focus of attention when discussing the digital transformation of the sector. For example, access to tax returns and company accounts could help increase the quality of banks credit assessments and CDD processes. Having access to passport registries would allow FIs to improve the quality of customer onboarding and ongoing due diligence. Thus, considerations regarding the availability and quality of public data are key when discussing the development of more data-enabled and digitally founded financial service offerings, both in regards of updating regulation and sectoral policies to reflect the opportunities provided by data and by ensuring that they are harmonised and standardised across EU Member States. It is however also important that the discussion includes the potential risks in increasing access to publicly held data, such as data privacy issues and the risk of financial exclusion.

### **Question 28. In your opinion, what would be needed to make these data easily usable across the EU?**

**Comment:** Same as above.

**Question 33. In your opinion, for which specific financial products would an open finance policy offer more benefits and opportunities?**

**Comment:** European crowdfunding service providers that will have to provide information on projects and carry out suitability tests etc., according to the new Regulation on European crowdfunding service providers, could also benefit from the opportunities that an open finance policy can offer.

**Question 35. Which elements should be considered to implement an open finance policy?**

**Comment:** All the elements are relevant. Regarding APIs, we believe they are beneficial, but we should be mindful that they are difficult to implement in practice, considering the experiences from PSD2.

Focus on consumers and an ethical approach to using the large amount of data that is accumulated is especially important. As an example, the insurance and pension industry in Denmark has developed a set of data-based principles to help support the industry's journey towards increasing digitalisation. See also answer to question 29.

**Question 39. In your opinion, what are the main challenges or risks that the increased use of AI based models is likely to raise for the financial industry, for customers/investors, for businesses and for the supervisory authorities?**

**Comment (other for investors/consumers):** Increased and/or more widespread use of AI for providing investment advice to customers raises several risks for consumers/investors. Firstly, there is a risk of consumers receiving unsuitable advice because of biases, errors and/or functional limitations in the model. This could be because of limitations or assumptions within the model and because of poor quality and/or incompleteness of the information required from the consumer as input in the model. It could also be because of human errors made when programming the model, because the underlying algorithm is biased due to conflicts of interests or because it is manipulated, e.g. due to hacking.

**Comment (other for supervisory authorities):** Increased and/or more widespread use of AI for e.g. providing investment advice to customers raises several challenges for supervisory authorities. It raises the importance of supervisory activities ensuring that providers of AI models have mechanisms in place to ensure that an algorithm delivering financial advice is well calibrated and to ensure that appropriate controls and testing are made when developing and maintaining automated advice tools. It also raises the importance of ensuring the involvement of control functions such as risk, compliance and internal audit when developing and monitoring algorithms.

Lack of clarity on rules also creates uncertainty for supervisory authorities. In Denmark, the FSA has published a paper on good practice when using supervised machine learning. Overall, the paper sets out requirements for regulated financial companies, when they use machine learning. E.g. the model should be explainable and have good governance etc. Further to this in the answer to question 40 below.

**Question 40. In your opinion, what are the best ways to address these new issues?**

**Comment:** A common good practice paper and standard requirements for models could be beneficial. In general, we believe that soft law and guidance would be preferable rather than AI specific new regulation, as this could potentially hinder innovation. It is important that guidance is to be given at EU level, because we tend to see national authorities interpreting soft law differently.

Also, we believe there is a need for clarity on the interplay between GDPR and AI. It is also essential that supervisory authorities obtain the necessary skills and understanding of AI in order to understand business models and provide sufficient supervisory of financial institutions engaging with AI.

**Question 41. In your opinion, what are the main barriers for new RegTech solutions to scale up in the Single Market?**

**Comment:** See our answer to question 15.