



# Report on Public Consultation of the Banco de Portugal No 8/2022

The Banco de Portugal's strategic approach to innovation  
facilitators

## 1. Background

The Banco de Portugal launched a public consultation that ran from 21 October until 21 November 2022 – [Public consultation No 8/2022](#) – to gather the market’s input on the approach to be taken by the Bank in its interaction with innovation facilitators.

During the public consultation period, the Banco de Portugal received valid contributions from eleven entities (hereinafter referred to as entities or respondents). Two other replies were disregarded because they did not include the excel response form, one of the requirements of the consultation.

The Banco de Portugal would like to thank the entities that participated in this public consultation, which included sectoral associations, payment service providers, fintech firms and natural persons.

Section 2 of this report provides a summary of the contributions received. The Banco de Portugal will take these contributions into consideration in the ongoing reflection on its strategic positioning towards the fintech market, for purposes of fulfilling its tasks in the field of financial regulation and supervision and addressing the need to respond rapidly to the emergence of new products, services and business models.

## 2. Summary of the contributions received under Public Consultation No 8/2022

Public Consultation No 8/2022 aimed to gather the market’s vision of the Banco de Portugal’s interaction with the fintech market and to assess possible initiatives for the Bank to take to better communicate and collaborate with that market.

For this purpose, and in addition to an initial section on the identification of respondents, the consultation included sections with a view to:

- i) assessing the respondents’ knowledge of the subject;
- ii) receiving their assessment of existing initiatives;
- iii) collecting their views on the different approaches that the Banco de Portugal may adopt in its interaction with innovation facilitators.

### Knowledge of the subject

Figure 1 presents, in an aggregated manner, the respondents’ self-assessment of their level of knowledge of financial services in general, the fintech market, relevant regulatory initiatives, as well as specific initiatives carried out by the Banco de Portugal, and/or jointly with the financial sector authorities, for the fintech market.

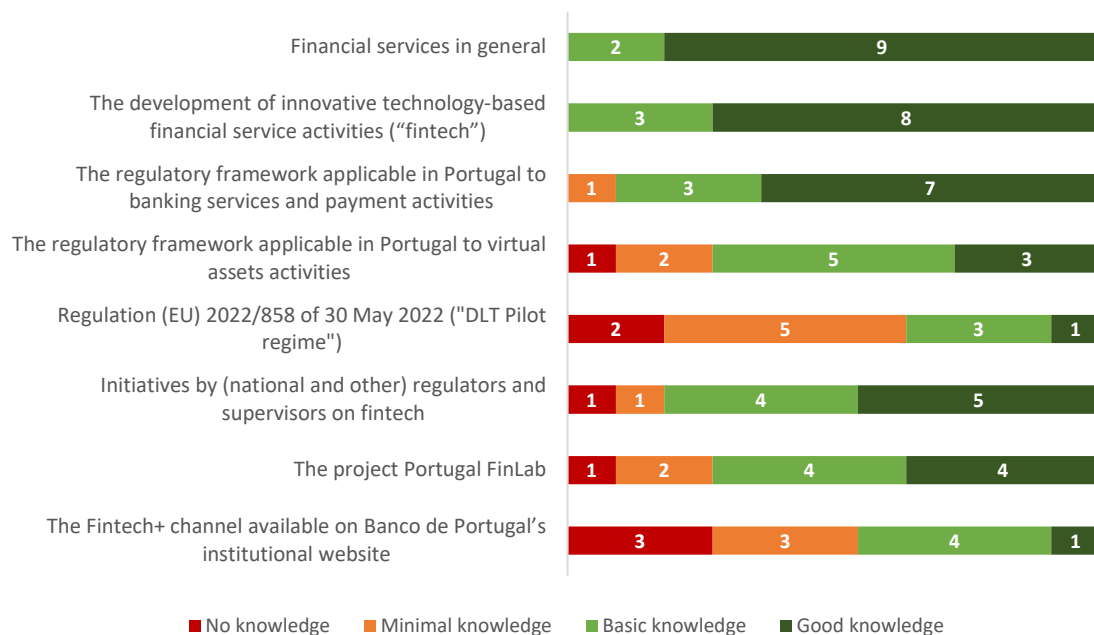


Figure 1 – Analysis of the respondents’ knowledge of the subject

To sum up, all respondents say that they **are familiar with financial services in general and with the development of fintech activities**, and most feel that they have a good knowledge of these activities (nine and eight respondents respectively).

As regards the **regulatory framework applicable in Portugal** to banking services and payment activities, virtual assets activities and [Regulation \(EU\) 2022/858](#) on a pilot regime for market infrastructures based on distributed ledger technology (DLT pilot regime), there were significant differences in the level of knowledge reported for these three frameworks.

Most respondents say that they are aware of the regulatory framework applicable in Portugal to banking services and payment activities: three indicate that they have basic knowledge of this framework and seven say that they know it well.

This is not the case for the framework for virtual assets activities and for the DLT pilot regime. In fact, the respondents are aware that they are less knowledgeable about the latter two frameworks, particularly about the DLT pilot regime: only one entity stated that they know it well, three have basic knowledge and the others have minimal knowledge or no knowledge (five and two respectively) of this framework.

Finally, as regards the **level of respondents' knowledge of the Banco de Portugal's initiatives**, Portugal FinLab appears to have reached a good level of recognition, with only one respondent admitting no knowledge of this initiative and two reporting only minimal knowledge. The Fintech+ channel is less well known: three respondents said they did not know this channel of communication, and three others stated that they had only minimal knowledge of it.

### Assessment of existing initiatives

The public consultation also aimed to gather market views on the Banco de Portugal's communication on fintech activities, on the interaction with this market and on existing initiatives such as Portugal FinLab and the Fintech+ channel (see Figure 2).

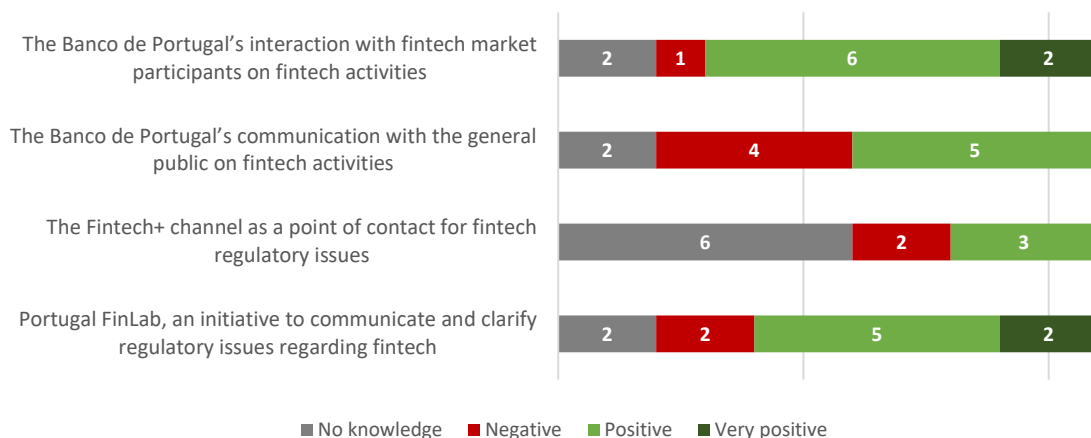


Figure 2 – Assessment of existing initiatives

Most respondents consider the **Banco de Portugal's interaction with market participants on fintech activities** to be positive: six consider this interaction to be positive and two very positive. It should be noted, however, that one respondent assesses this interaction as negative and two claim that they have no knowledge of this interaction.

As regards the **Banco de Portugal's communication with the public on fintech activities**, the respondents' perception is not as favourable: five assess this communication as positive, four as negative. In line with the previous indicator, two respondents claim that they have no knowledge of this initiative.

Most respondents stated that they do not know the **Fintech+** channel as a point of contact for fintech regulatory issues, which corroborates the results from the analysis of the respondents' knowledge of the subject. For the remaining entities, two score this channel negatively and a further three positively.

Lastly, **Portugal FinLab** received a mostly positive assessment, with two entities assessing this initiative as very positive and five as positive. Only one respondent assessed this initiative negatively and another claimed no knowledge.

Respondents were also invited to provide **comments and suggestions for improvement** for each of these initiatives, and the most relevant contributions are presented briefly below.

In general, the entities consider that the Banco de Portugal should take a more proactive and dynamic stance in its interaction and communication with fintech market participants and the general public on fintech activities.

They also consider that the Banco de Portugal should carry out communication initiatives more often and with the participation of various stakeholders, fostering greater market involvement and collaboration, e.g. through meetings and/or conferences with innovation experts from all backgrounds.

Respondents also pointed to the need for the Banco de Portugal to improve the information content available on its channels on this topic, thereby ensuring that the market has easier access to information. They also stressed that the Banco de Portugal should take on a more important role in the production of knowledge. Respondents also suggested disseminating the main issues raised through the Fintech+ channel and/or other interactions with market players, to further clarify the market, e.g. through regular reports and/or newsletters, or through a database designed to aggregate this information.

As regards the **Fintech+**<sup>1</sup> channel, as mentioned above, most of the entities were not aware that the Banco de Portugal offered this channel to clarify regulatory issues. Indeed, all respondents indicated that they had never used it.

In this context, the entities suggest that Fintech+ include more diverse content, for example relevant legislation, relevant fintech market trends and future communication initiatives taken by the Banco de Portugal.

Another respondent suggests that Fintech+ could also be used to share examples of services that have benefited from the supervisor's proximity and flexibility, disclose metrics of the supervisor's interactions in this respect – to help set market expectations – and clearly explain which types of services and innovations it is intended to boost.

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<sup>1</sup> The Fintech+ channel is currently down for security reasons.

Regarding **Portugal FinLab**, as already mentioned, most of the entities consider it to be a positive initiative. Respondents underlined the opportunity to interact with the authorities and obtain clarifications enabling them to observe the regulatory framework when they design a product/service. Nevertheless, respondents put forward several suggestions for improvement, namely that the process should be more interactive, allowing for a more in-depth dialogue between authorities and participants. It was also pointed out that, in the current model, Portugal FinLab does not address the need for participants to find a “solution for business” and therefore the identification of solutions should be enhanced.

One entity stressed the need for shared content, in another iteration of the Fintech+ channel or in Portugal FinLab, to also be provided in Portuguese.

### Approaches to be taken by the Banco de Portugal

In the public consultation, entities were asked about the need to create a ZLT for the financial sector and to provide evidence and motivations in favour of this option.

Respondents considered that the **creation of a ZLT for the financial sector is necessary** to promote innovation, either because it would allow flexibility in the applicable regulatory framework or because it would facilitate the creation of compliant-by-design projects. Respondents also considered that greater proximity to and interaction with innovative entities would attract foreign investment and resources and help players share knowledge and experience and test new products, services and processes in a controlled environment.

One respondent stressed that such an approach would be more useful for onboarding new technologies into the national market. On the other hand, this respondent pointed out that such a ZLT might even be of no use if it does not imply a derogation and because, as it currently stands, it is a bureaucratic, complex and time-consuming process with many actors.

On the **existence of evidence of the need to establish a ZLT** for the financial sector in Portugal, the vast majority of entities replied affirmatively, mentioning: (i) the absence of licences for account information service providers (AISPs) and/or payment initiation service providers (PISPs) granted in Portugal, (ii) that Portuguese fintech firms seek other markets to obtain licences, (iii) the time-consuming and complex authorisation process, (iv) the volume of applications to Portugal FinLab, and (v) the authorities’ lack of capacity to keep abreast of rapid technological developments.

Compared to existing initiatives, such as Portugal FinLab, the ZLT is presented as more advantageous because it allows, on the one hand, for monitoring and testing projects, including in areas somewhat undefined in terms of regulatory provisions, and, on the other hand, for attracting other participants (other than only fintech).

On the **risks and benefits of a ZLT** for the financial sector, respondents unanimously agreed that the benefits outweigh the risks.

On the one hand, they identify as risks (i) a greater need for supervisors to allocate human and financial resources, (ii) the possible compromise of data privacy, and (iii) weaknesses in knowledge sharing among players if there is not a fair incentive for all. They also identify as risks (iv) the inability to create relevant and attractive regulatory exemptions for projects, (v) the inability to transform projects to being fully compliant due to clauses unattainable by Portuguese projects (for example the insurances required by certain licences), and (vi) an increase in supervisory costs over the duration of a given test.

On the other hand, they consider that these risks can be mitigated during the design stage of the ZLT and by clearly defining the obligations and duties, for both supervisors and participants in the ZLT, as well as by imposing appropriate protection mechanisms for carrying out the activities (for instance, insurances).

With regard to the benefits, they include (i) attracting more investment and critical capacity to Portugal, (ii) developing and accelerating innovation in financial processes, products and services by different players in a protected environment, (iii) greater adaptation to consumers' needs and experiences, (iv) the existence of a standard platform, while allowing open and transparent communication between supervisors and service providers, (v) the signal to the market that innovation in financial services is on the supervisors' agenda, (vi) less time-to-market by enabling the testing of new innovative products and services with real consumers in a controlled environment, rationalising waiting times, (vii) cost reduction, and (viii) possible easier access to financing due to less regulatory uncertainty.

The public consultation also asked respondents to state **how the ZLT should be created**, as well as provide specific examples.

In this respect, one of the respondents considers the Spanish model to be the most appropriate, "both from the point of view of its legal compatibility with the EU framework and from the point of view of its effectiveness in terms of promoting innovation and enabling regulators and participants to benefit from new knowledge". Respondents are also of the opinion that a ZLT should establish a testing zone for the offering and development of products in a pre-determined manner, such as a small number of customers and transactions, regular reporting of business developments, meetings with the supervisor on difficulties encountered and the creation of insurance and transparency obligations. Only in this context, and after the testing stage, could the fintech entity apply to the supervisor for a licence allowing it to operate.

Among the examples provided were Dubai's [Free Zones](#), which offer tax benefits to attract talent/business to the country, Switzerland's Crypto Valley in Zug, which includes several blockchain companies,<sup>2</sup> and the UK's Financial Conduct Authority (FCA),<sup>3</sup> which implements one of the most comprehensive approaches.

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<sup>2</sup> In 2021, there were about 1,128 blockchain companies in Crypto Valley, including 14 unicorns, which, according to some experts, shows the importance of Switzerland as "[the most mature blockchain hub](#)".

<sup>3</sup> The [FCA's Innovation Hub](#) provides three types of support services: regulatory sandbox, innovation pathways and digital sandbox.

In particular with regard to the **assessment criteria for accepting projects in the ZLT**, respondents argued that criteria should be clear and should consider: (i) whether the project represents innovation for the market, either by applying a new technology or by applying existing technology in an innovative way; (ii) whether the project addresses a problem or benefits consumers or the industry; (iii) whether the applicant is able to start the testing stage within a short period of time and to comply with the requirements agreed with the competent authority.

In short, they consider that the ZLT’s requirements for acceptance and use should be simple, expeditious and unbureaucratic, since excessive requirements, documentation, prior approvals and intensive follow-up reports, with time-consuming processes, would render a ZLT solution ineffective.

As to **the most appropriate approach to be pursued by the Banco de Portugal**, it is important to analyse the results at two levels: existing initiatives and new initiatives.

With regard to **existing initiatives** and in particular with regard to the Fintech+ channel, while most respondents (six) believe that this initiative should “continue”, quite a few answered “no opinion”, justified by their lack of awareness of the initiative. One respondent deems that this initiative should be more diversified and operate on a multi-channel basis (e.g. LinkedIn, Twitter and other social media).

Portugal FinLab received more positive feedback with eight respondents choosing “continue”, only two “no opinion” and one “discontinue”. The preference for keeping Portugal FinLab is generally justified with the fact that it is a joint approach by the three financial supervisors and provides the necessary regulatory support and help at the crucial stage of project development. Respondents also stressed the need for continuous improvement of the programme.

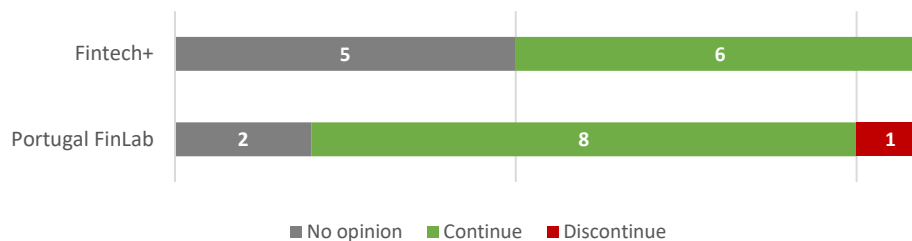


Figure 3 – Approach to be developed by the Banco de Portugal: existing initiatives

With regard to the **development of new initiatives**, there is no strong appetite for the creation of a new innovation hub, given that most entities (eight) report having no opinion or consider that it would not add value to the market.

On the contrary, respondents show a clear preference (nine) for the creation of a financial sector ZLT, followed by the option of combining different approaches (six).



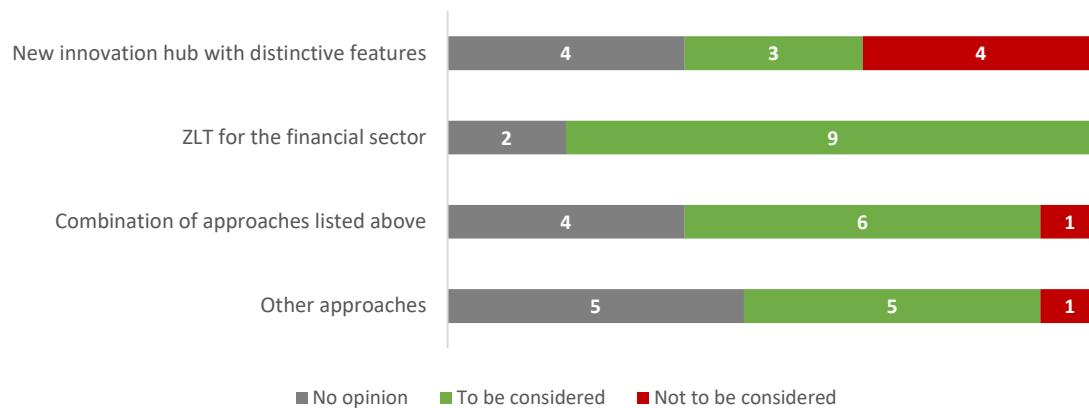


Figure 4 – Approach to be developed by the Banco de Portugal: new initiatives

With regard to the option of establishing a ZLT for the financial sector, and in addition to the benefits already mentioned in the answer to other questions, respondents also expressed preference for a derogatory type.

In terms of combination of approaches, all the proposals put forward included, in addition to the existing initiatives, the creation of a ZLT. One of these proposals referred to the ZLT as an extension of Portugal FinLab, by adding a testing and experimentation layer for the projects considered most relevant by supervisors. Another suggestion concerned the creation of a protected innovation ecosystem for exploring less mature technologies and for specific cross-cutting topics of the Portuguese financial sector, integrating Portugal FinLab, the Fintech+ channel and a ZLT.

To sum up, respondents consider that the Banco de Portugal should have a mixed approach, continuing to pursue existing initiatives (Portugal FinLab and Fintech+) and scaling up some projects for a ZLT created for the financial sector in Portugal. They believe that, in this way, the Banco de Portugal would be able to meet the needs of all market players. For respondents, the mixed approach can build more confidence and certainty for fintech firms as well as for consumers and investors.

Answers concerning other approaches focused on the need to ensure a level playing field among the various entities operating in the financial sector and to take into account initiatives, legislation and results from other European countries. An open forum for local/international fintech firms to communicate with the Banco de Portugal was also among the suggestions.