# "Fintech and the Public Sector of the Future” - speech by Kalin Anev Janse

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**“Fintech and the Public Sector of the Future”**
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*(Please check against delivery)*

Ladies and gentlemen,

It is a true pleasure for me to be here. Both as a representative of the ESM. And as somebody who is a real Finance and Technology enthusiast.

At the start of the crisis, I was asked to help set up the ESM. I was involved from day one, in 2010. I was employee number 9. It still shows on my badge.

We did not want to be the next big bureaucracy. We wanted to be a lean and modern organisation. To set an example for a 21st century public sector institution. Of course that meant making full use of new technology. As a millennial, that was a natural thing for me. I have used a computer ever since I was a young boy.

I see a parallel with Lithuania here. Your country is the 19th member of the ESM, so the most recent. Lithuania joined the ESM only three years ago, after it adopted the euro. Since then, your country has become a trustworthy and reliable partner in the Board of Governors and the Board of Directors of the ESM.

At the same time, Lithuania is also a very tech-savvy country. Lithuania's ranking in the Digital Economy and Society Index of the European Commission was above the EU average in all but one aspect last year. The fact that we have come to Vilnius from all over Europe to discuss Fintech, is testimony to that.

Before I begin, let me briefly introduce the ESM, in case you are unfamiliar with my institution. The ESM is the crisis resolution mechanism of the euro area. During the crisis, we provided financial assistance to five countries: Ireland, Greece, Portugal, Spain and Cyprus. In total, we have disbursed €280 billion in loans, more than three times as much as the IMF. And still, our available lending capacity at the moment is almost €400 billion. We raise our money from investors, by issuing bonds and bills. The ESM has a high paid-in capital of more than €80 billion, provided by the 19 countries of the euro area. But we do not use this capital to disburse loans. The work of the ESM comes at no cost to European taxpayers.

We do all this from Luxembourg, with only 170 people. So the ESM needs to be very efficient. How do we do that? We are the first financial institution worldwide to use a fully cloud-based trading system. Our offices have the look and feel of a start-up, with a creative meeting room and reflection areas. We allow staff to freely post their thoughts on an internal social network. Working from home is easy through mobile technology and video conferencing.

Secondly, we keep a very close eye on Fintech. We were the first public institution to join the London-based FinTech circle 5 years ago, where we follow 50 to 80 companies with the greatest potential to disrupt the financial services industry. We have our own *sandbox*, the so-called “ESM 4.0 group”. Some 40 staff members take part, to think about how we could apply Fintech solutions in different areas.

We are also developing our own market intelligence tool, using deep data analytics. We have a database of some 180,000 market trades, tracing every single one of our bonds. This allows us to monitor trading by investors of a certain type or in a region and to quantify what you could otherwise only vaguely describe as “sentiment”.

Keeping track of financial innovation is not something we do just for internal ESM purposes. It can also help us achieve important policy goals. Financial fragmentation in Europe remains high, even a decade after the crisis. Banks have a strong home bias. They do business largely within the national borders of their countries. This makes Europe vulnerable to economic shocks, so we need to take several steps to improve this situation. The first step is to complete the Banking Union. We need a common backstop for the Single Resolution Fund (SRF) and a European deposit guarantee insurance, though this second topic is more controversial. Both will make the banking sector stronger.

Secondly, we need to boost European capital markets by putting in place the Capital Markets Union. This is an ambitious policy drive to harmonise corporate, tax and bankruptcy law across the countries of Europe. It aims to help much stronger capital flows from venture capital and private equity across borders, and therefore IPOs. This will reduce the reliance on bank funding, and that will in turn help Europe’s many innovative small and mid-size companies.

But to change the big picture, you need to work on a granular level. Like in a Formula 1 car, where changing one bolt can make the difference between winning or losing. Let me zoom in on one area that is very important for us.  Innovation in the fixed income market has largely been absent since the early 1990s. We work with 20th century methods in the technology-rich 21st century. This is especially true with respect to operational and syndication processes. A better use of digitalisation would make these markets more efficient. The standardisation of debt instruments, and the way they are traded and settled, and a well-informed regulatory framework that can react fast, will help to that purpose. Of course, technology alone cannot fix financial fragmentation in Europe, which remains high after the crisis. But it can push in the right direction.

I am saying this also because the ESM is itself very active in the fixed income market. This year, our funding needs amount to more than €40 billion. Last year, we sold €61 billion in bonds. We rank as a top issuer by volume among our sector peers in the so-called Sovereign, Supranational and Agency, or SSA market. In short, the ESM is a prominent bond issuer, and we need to be close to our investors. Therefore, we want to be prepared for the changes technology will bring. In the future, execution in the primary and secondary markets might be different and could mean changing roles for banks, issuers and investors. Competition from non-bank providers - with high digital capacities - will become stronger. We can already see banks experimenting with electronic platforms and distributed ledger technologies to distribute debt. The way public issuers sell debt to investors is bound to look very different in a number of years' time. The ESM wants to be prepared for that new situation, whatever it may be. This is in the interest of our investors and shareholders. The ESM doesn't want to be forced into accepting a new status quo that is sub-optimal. We want to have a say in how our bonds are issued in the future. As a public sector institution, that is a duty towards taxpayers. Achieving the lowest cost in execution is good for our shareholders, as well as for our programme countries.

Some steps are being taken to steer this process of market innovation, most notably with true European cross-border settlement for primary and secondary market trades. In the future, it would be worth considering a European public sector issuance platform. This would be fully in sync with the Fintech evolution. A common European platform for sovereign debt issuance would suit the many policy goals I mentioned above. It would contribute to the stability of the euro area. It would fit right in with the ESM's mandate. And it would be true to our nature as an organisation born in the digital age.

Let me round up by saying that I firmly believe that our society has only just begun to explore the possibilities opened up by digitalisation. The next industrial revolution is on the brink of making its impact fully felt. The operating models of businesses and public institutions will modernise fundamentally. In banking, the changes will be especially deep. Fintech has the potential to further disrupt capital markets and the way investors behave for good. Like the Internet did in the 1990s. Now we must look at Artificial Intelligence, Robotics and innovations like Distributed Ledger Technologies.

At the ESM – and elsewhere in the public sector - we will monitor this process. Where needed, we will try to steer it. I believe it is an evolution – or a revolution – that we should not be afraid of. What I wanted to show to you today is that public sector institutions like the ESM don't need to be behind the curve, but can also be leading in certain aspects. The public sector can benefit from Finance Technology. Not only

for our own purposes, but also for those of our shareholders and our programme countries. So ultimately for the euro area citizens for whose benefit we work.
Thank you for your attention.

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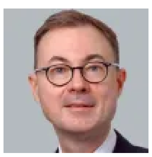

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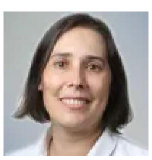

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