Insideview

FinTech as Enabler of Entrepreneurship and Growth in the EU

INTERVIEW WITH JOACHIM SCHWERIN

Dr. Joachim Schwerin
Principal Economist
European Commission
DG Internal Market, Industry, Entrepreneurship and SMEs

The European Commission has in recent years increasingly focused on policies to support small and medium-sized enterprises (SMEs). In the aftermath of the financial crisis, SME access to finance has regularly been discussed at highest political level. Why is it so important?

SMEs are the backbone of our economy. 99% of all European firms are SMEs. They employ two thirds of the workforce and create 58% of added value. Banks still account for 75% of SME financing in the EU, but in most countries they become ever more reluctant to provide loans to SMEs, especially to small firms.

The problem you describe is even more aggravated for start-ups. Is that right?

Yes. Start-ups are SMEs without a track record – the worst in terms of financial risk management. We have no shortage of innovative companies in Europe, but they face severe access-to-finance problems when scaling up. This blocks entrepreneurship. 4% of all EU firms create 70% of all new jobs. These high-growth companies need more capital.

What is the European Commission doing to address this problem?

Our top priority is to reduce SMEs' dependence on bank lending by promoting alternative forms of finance and by creating an ecosystem that fosters equity. Our flagship initiatives – the Capital Markets Union (CMU) in 2015, the Start-up and Scale-up Initiative in 2016, and our upcoming policy focus on FinTech – clearly address this priority.

Why will there now be such a strong focus on FinTech also for SMEs?

We noted five years ago, when we started our policy work on crowdfunding, that we need to think outside the box of legacy systems. We need to create more disruptive dynamics by bringing the demand and supply sides of financial markets much closer together without an abundance of intermediaries, by empowering retail investors and by allowing markets to test new business models that combine finance, innovation, and crowdsourcing of new ideas.

So you see FinTech as a disruptive process beyond finance?

Absolutely. I distinguish between non-disruptive and disruptive FinTech. Non-disruptive FinTech triggers incremental efficiency gains, which is good for mature markets, e.g., in banking. Disruptive FinTech creates its own markets and empowers asset owners to allocate their resources without recourse to third parties that follow their own interests. This revolution returns power to where it belongs: economic agents and their decentralized interaction.

Which part of FinTech has the greatest potential in your opinion?

Distributed-ledger technology (DLT). Blockchain emerged as a cryptocurrency (we now have more than 700 of them) but has rapidly grown into a fast, cheap, safe, and inclusive technology that empowers many types of transactions, also – combined with smart contracts – in the real economy. In 2016, Jean-Claude Juncker, President of the European Commission, asked us to identify the EU's top innovation priorities. I proposed DLT, which secured its place on the final list. We are certain that DLT will soon boost competitiveness in many areas.

What will the European Commission do to facilitate the take-up of FinTech?

We engage with market players to fully grasp FinTech opportunities, we promote best practices across the EU, and we seek advice from the public (https://ec.europa.eu/info/finance-consultations-2017-fintech_en) on how to best promote FinTech. We must give new business models the chance to compete with each other, so I favour mirroring our successful approach on crowdfunding, where we encouraged EU countries to adopt an open, opportunity-driven approach. Those who have done so are already reaping the benefits.

Thank you for this interesting conversation.