

Project Innovate – Call for Evidence

FCA Smaller Business Practitioner Panel Response

5th September 2014

The Panel was set up to provide input to the Financial Conduct Authority (FCA) from the point of view of smaller regulated firms. The SBPP provides advice to the FCA on its policies and strategic development of financial services regulation.

More information about the Panel is available on its website at <http://www.sbpp.org.uk/>

1. *Is there anything about the regulatory system that poses particular difficulties for innovator businesses?*

Problems for innovator businesses tend not to lie with the FCA as with the wider regulatory and quasi-regulatory environment. In particular the Panel has concerns that more flexible arrangements put forward by the FCA might either differ from, or be inconsistent with, principles and processes of Professional Indemnity Insurance (PII) providers, the Financial Ombudsman Service (FOS) and the Financial Services Compensation Scheme (FSCS). For the Project Innovate proposals to work, all these bodies must be aligned if innovator businesses are not to run into difficulties once established.

2. *What practical assistance do you think the Incubator could usefully provide to small innovator firms?*

The Panel supports the assistance as described in the Project Innovate proposals. However, there is a risk that existing businesses may feel at a competitive disadvantage compared to new firms if they are perceived to be receiving 'leniency' from the FCA or other regulatory bodies and this must be avoided.

3. *Do you think it would be useful to establish an Innovation Hub function?*

We agree this would be useful. A central point of contact and expertise would simplify and speed processes. Making such a Hub function available to existing businesses would to some extent reduce the danger highlighted in the answer to question 2 that existing firms may feel at a competitive disadvantage.

4. *What criteria should we use in order to focus our resources on 'genuine, ground-breaking' innovation?*

The Panel recommends that the FCA should focus on two areas:

- Innovative services that will help to deal with the advice gap created by the RDR which now needs the most urgent attention;
- Services aimed at dealing with the at-retirement 'guidance guarantee' and related ancillary services.

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After addressing these two priority areas, we would support innovations which appear to be genuinely focused on consumer needs.

5. *Do you have any other feedback or suggestions about Project Innovate?*

There are areas that would particularly benefit from innovation in products and delivery channels. This applies especially to the at-retirement market where changes in legislation have opened up a particular window of opportunity for innovation. Robust and compliant innovation in this area is much needed and should be particularly encouraged.

The Panel recommends that the FCA should consider using secondee(s) from Which? or other consumer organisations to ensure the inclusion of a consumer perspective to the innovation process.

In theory, independent advice should presently offer the option of social and environmental investments. It is important that any innovative automated processes do not deny that option to consumers.