

Call for Input: Regulatory barriers to innovation in digital and mobile solutions

Context

One of the FCA's operational objectives is to promote effective competition in the interests of consumers. Innovations often drive effective competition.

Through this Call for Input, we are seeking your views about specific rules and policies that are restricting innovation or that should be introduced to facilitate innovation in digital and mobile solutions.

In 2014 we launched Project Innovate to ensure that our regulatory regime supports the development of innovative products and services that can improve the lives of consumers. Regulatory barriers, both in the UK and at EU level, can distort competition and discourage new entrants to the market denying consumers the benefits of both new services or improved services from current providers. Project Innovate seeks to identify barriers to innovation and work to resolve these without compromising the standards of consumer protection.

We are also working closely with the new Payment Systems Regulator (PSR), which has a statutory objective to promote innovation in payment systems. The PSR is currently in the process of setting up a Payments Strategy Forum. The Forum will deliver strategies for industry collaboration to promote innovation for the benefit of service users. In its spring policy statement, the PSR also outlined measures to improve both direct and indirect access to payment systems, which should benefit smaller, innovative payment service providers.

Digital and mobile solutions for financial services

Digital solutions

The global economy is becoming increasingly digital.¹ Digital solutions can be more convenient for many consumers; they offer efficiency and cost benefits to providers and, as a result, digital technology is becoming integrated in all sectors of the economy.

Applying digital solutions has become a top priority in the public sector in the UK and in the EU. The UK Government has launched a number of digital services and is still building others in the context of its Digital Transformation Project. HM Treasury is working on developing an

¹ Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions 'A Digital Single Market Strategy for Europe', European Commission, May 2015, p. 3, available at: http://ec.europa.eu/priorities/digital-single-market/docs/dsm-communication_en.pdf

open standard API for banks. In May 2015, the European Commission launched a Digital Single Market Strategy.²

Following a proposal from the Tax Incentivised Savings Association (TISA), a number of firms have signed up to developing an identity verification mechanism (digital passport).

In the Innovation Hub and across the wider FCA, we have seen firms planning to use, for example, distributed ledgers and digital currencies, aggregator services³, cloud-based services, big data analytics, biometric banking, and cognitive computing. There are developments already on the market or about to be introduced that take advantage of digital technologies, for example:

- biometric readers for banking authentication
- automated advice services
- payment protocols based on decentralised ledgers to enable global financial transactions and other alternatives for making international payments
- a box in a car transmitting driving data to help reduce car insurance renewal premiums

New digital technologies can create opportunities for the financial industry and consumers, and break current financial services structures (e.g. disintermediation through use of distributed ledgers). We are interested in learning if there are any regulatory barriers, either in the UK or at EU level, preventing the development of digital solutions.

Mobile solutions

Mobile solutions are a subset of digital solutions, which for example in banking have dramatically accelerated the pace of change. The use of mobile UK banking services has more than tripled with monthly usage levels of 8% in 2010 jumping to 27% by 2014. Millions of people are now using their apps to check their accounts and make payments every day.⁴ This demonstrates that there is a demand for mobile solutions for financial services.

In sub-saharan Africa, mobile money accounts from network providers are helping to rapidly expand and scale up access to financial services. For example, M-Pesa mobile money transfer service allows people to send and receive payments using their mobile phone. M-Shwari allows M-Pesa customers to save as little as 1 shilling (equivalent to around a tenth of a US cent), earn interest on their savings and take out small loans on their mobile phones.⁵ According to the Financial Inclusion Commission, nearly two million adults in the UK do not have a bank account⁶ and 13 million people do not have enough savings to support them for a month if they experienced a 25% cut in income.⁷ At the same time, 93% of adults personally own/use a mobile phone in the UK compared to 77% of adults with broadband in the UK (fixed & mobile).⁸ Mobile solutions for financial services could be a tool to help reduce financial exclusion in the UK.

² European Commission, press release, May 2015, available at: http://europa.eu/rapid/press-release_IP-15-4919_en.htm

³ Aggregator services collate information from users' multiple account providers and display it in one place.

⁴ Digital Disruption: UK Banking Report, BBA, March 2015, p. 4 and p. 10, available at: <https://www.bba.org.uk/news/reports/digital-disruption-uk-banking-report/>

⁵ Information available at:

http://www.vodafone.com/content/index/about/sustainability/mobilising_development/financial_services.html

⁶ We note that by September 2016 the UK must implement Directive 2014/92/EU of the European Parliament and of the Council of 23 July 2014 on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features. The implementation of this directive and following developments on the market might reduce the number of individuals with no bank accounts.

⁷ Financial Inclusion, Improving the Financial Health of the Nation, Financial Inclusion Commission, March 2015, p. 3, available at: http://www.financialinclusioncommission.org.uk/pdfs/fic_report_2015.pdf

⁸ Data for Q1 2014, Facts & Figures, Ofcom, available at: <http://media.ofcom.org.uk/facts/>

There is demand and benefits for consumers from mobile solutions for financial services. We are interested in learning about any regulatory barriers, either in the UK or at EU level, preventing development of mobile solutions.

The FCA and innovation

In July 2014, we published a Call for Input⁹ asking questions about the difficulties the regulatory system poses for innovator businesses. The main issues identified were:

- lack of certainty about the purview of the regulatory system
- regulation for digital currencies
- access to bank accounts
- complexity of the FCA website

In response we:

- Set up the Innovation Hub to help innovative firms understand the regulatory framework and how it applies to them, including through providing informal steers on potential regulatory implications or specific concerns or issues¹⁰.
- Supported HM Treasury's call for evidence on the potential benefits that digital currencies could bring to consumers, businesses and the wider economy, and potential barriers to development of these currencies including regulation. The Government will consult shortly on applying an anti-money laundering regime to digital currency exchanges.
- Published a [statement about de-risking](#). We are aware that access to bank accounts is still a concern and it is still on our agenda.
- Launched a [microsite for Project Innovate](#) that is clearer for firms to use. We are also currently trialling a [new firms section on the FCA website](#) that is task-based and directs users to the content that is relevant to them.

The Innovation Hub started work at the end of October 2014. It supports innovators and identifies areas where the regulatory system needs to adapt to foster innovation. In the first seven months, the Innovation Hub has provided or is in the process of providing on-going assistance to 91 firms as their requests for support met the [eligibility criteria](#). We have provided informal steers in 34 cases. We have also received 137 requests for support that did not meet the eligibility criteria. These firms either received limited support or an explanation why we could not help in that instance.

We also asked for feedback from all the firms that approached us. From the feedback we have received:

- 83% rated their overall experience of Innovation Hub as excellent (39%) or good (44%)
- 87% rated the promptness of our response as excellent (59%) or good (28%)
- 92% rated the effectiveness of our communication as excellent (64%) or good (28%)

Although we are still working on some of the barriers that have been identified through previous work at the FCA, we have published this Call for Input to ensure that our understanding of regulatory barriers is up to date. We are focusing on innovation in digital and mobile solutions for financial services.

⁹ Call for Input, July 2014, available at: <https://www.fca.org.uk/static/documents/project-innovate-call-for-input.pdf>
Feedback Statement, October 2014, available at: <https://www.fca.org.uk/static/documents/feedback-statements/fs-14-2.pdf>

¹⁰ Please see what it means when we give an informal steer: <http://www.fca.org.uk/static/documents/project-innovate-disclaimer-2.pdf>

FCA work in the digital and mobile space

We undertook a thematic review of mobile banking and payments. We published a [report](#) in September 2014 highlighting key areas for firms to consider when developing products and services to deliver good outcomes for consumers.

In January 2015, we published [guidance](#) on retail investment advice clarifying the boundaries between services that provide a personal recommendation and those that do not, to help firms interested in providing automated advice services.

Due to concerns about how the use of cloud-based solutions complies with the FCA Handbook (including SYSC 8 and 13), we have engaged with external stakeholders to discuss any barriers to outsourcing third-party technology solutions, including the cloud. We are now considering our next steps.

We have heard concerns that regulatory requirements for customer communications cause lengthy terms and conditions that are not appropriate for digital and mobile solutions. To explore options for smarter customer communications, we are publishing a discussion paper this summer.

We are also considering the use of account aggregation facilities in the UK and the benefits and risks of the associated technology.

We are also aware from our contact with firms that there is demand for regulation for digital currencies. HM Treasury is currently leading on the development of an anti-money laundering regime for digital currency exchanges and will consult shortly. In the Budget for 2015 the Government committed to working with the British Standards Institution and the digital currency industry to develop voluntary standards for consumer protection.

Through this Call for Input, we are seeking to learn about any other regulatory barriers, either in the UK or at EU level, that are preventing development of digital and mobile solutions. We would encourage respondents to give specific examples where possible, but not to be too concerned about whether they believe this is a matter for the FCA, PSR, EU or some other form of regulation. We are much more interested in the strategic barriers or enablers to innovation.

Questions

Question 1: What are the specific rules or policies that cause barriers to innovation in digital and mobile solutions for financial services (products or processes)? Please provide examples of when these rules or policies have stifled development and what was the impact (e.g. delay, abandonment of project, economic impact).

Question 2: Are there any rules or policies that should be introduced to facilitate innovation in digital and mobile solutions for financial services (products or processes)? Please provide examples of when the absence of these rules or policies has stifled development and what was the impact (e.g. delay, abandonment of project, economic impact).

Please consider both domestic regulatory barriers and barriers from EU law. Although we do not have direct control over EU law, UK legislation or the PRA Handbook, with sufficient evidence we can seek to inform and influence decision-making in relevant organisations.

Next steps

Over the next few months, we will proactively engage with participants in the digital and mobile ecosystem who are interested in financial services to seek their views directly on regulatory barriers. We will consider the responses received to the questions in this paper as well as the feedback we obtain through our proactive engagement.

We will make a public statement in the autumn about the steps we will be taking.

Sending us your input

We will be reviewing your input as we go along, so please do feel free to send it through at any time up to 7 September 2015. Submissions received after that date may not be reviewed.

Please submit your answers through the [online form](#). If you are unable to use the form, either email callforinput@fca.org.uk with the subject title 'Call for Input: Regulatory barriers to innovation in digital and mobile solutions' or write to the address below.

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Please structure your input to match the two questions above and include your name and contact details.

We will treat all responses as available for public inspection unless the respondent requests otherwise. We will not regard a standard confidentiality statement in an email message as a request for non-disclosure. We may be asked to disclose a confidential response under the Freedom of Information Act 2000. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the Information Commissioner and the Information Rights Tribunal.