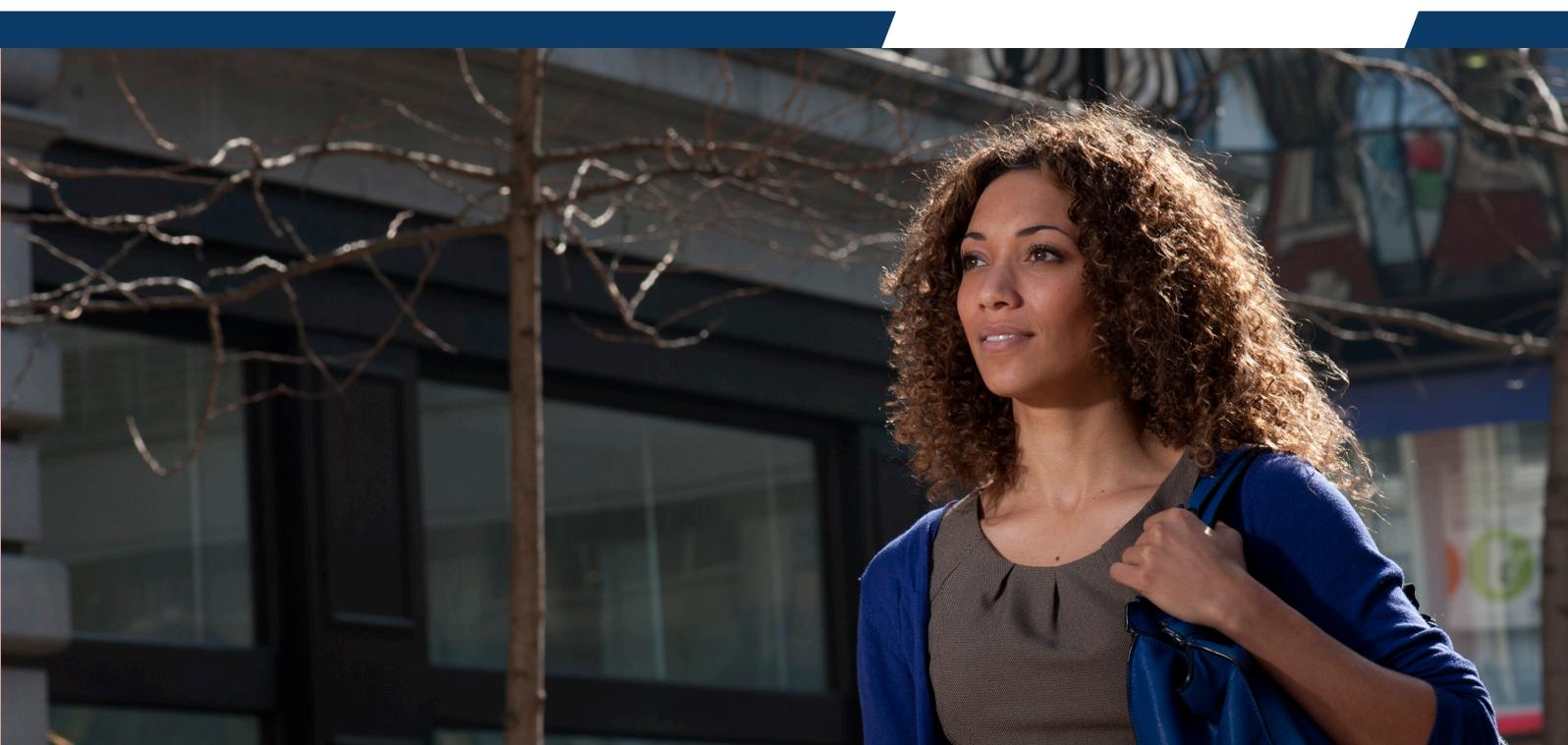

Project Innovate: Call for input Feedback Statement

October 2014



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This Feedback Statement reports on the response to our *Project Innovate: Call for input* – published on 11 July 2014 – and the next steps for Project Innovate.

Please send any comments or enquiries to:

Lukas May
Innovation Hub
Policy, Risk and Research
Financial Conduct Authority
25 The North Colonnade
Canary Wharf
London E14 5HS

Telephone: 020 7066 7616
Email: innovationhub@fca.org.uk

You can download this Feedback Statement from our website: www.fca.org.uk.

Abbreviations used in this paper

FCA Financial Conduct Authority

fintech financial technology

FSA Financial Services Authority

FSMA Financial Services and Markets Act 2000 (as amended)

PRA Prudential Regulation Authority

PSR Payments Systems Regulator

1. Overview

Introduction

- 1.1** In this paper we:
- summarise the feedback received on our *Project Innovate: Call for input*, including both written feedback and discussions held at our roundtable events
 - set out our response to this feedback
 - explain the next steps for Project Innovate

Context

- 1.2** In July 2014 we published our *Project Innovate: Call for input*. We observed that:
- a wave of innovation in financial services is taking place, which is to a large extent due to the ever increasing application of digital technology and the corresponding growth of the fintech sector
 - innovation can be a powerful driver of effective competition in the interests of consumers and so, as a regulator with a competition objective, we want to do more to support and encourage innovation in financial services
 - we would like to understand better the needs of the innovator businesses that operate in the financial services sector to enable us to keep regulation up-to-date with developments in innovation
- 1.3** We explained that we had established Project Innovate to support industry innovation by opening our doors to businesses (large and small) who are developing innovative approaches that can benefit consumers in financial services markets. We proposed to build an Incubator and an Innovation Hub. The Incubator would help innovators through our authorisations process, the Innovation Hub would engage wider FCA resources to support both regulated firms and unregulated businesses with innovative ideas.
- 1.4** We asked for written feedback on our proposals by 5 September 2014 and received 69 responses.
- 1.5** In July and August 2014, we hosted six roundtable events through which we received further feedback from 84 stakeholders, some of whom also sent written responses to our *Call for input*.

- 1.6** We would like to thank all those who responded with written feedback and/or participated in one of our roundtables. The views expressed have played an important role in shaping our decisions about which areas to address through Project Innovate.

Key points

- 1.7** The overwhelming majority of respondents reacted very positively both to the aims of Project Innovate and to our proposals. Many described it as a welcome and very important initiative that they are eager to see implemented. In order to contribute to our objective of promoting competition, we consider Project Innovate as the beginning of a longer-term commitment to fostering innovation.
- 1.8** Innovation can be a powerful driver of effective competition and the longer term benefits to be gained are not only in the interest of consumers but of the financial services industry as a whole. We are confident that the support we will make available to innovators will not result in the lowering of the applicable conduct standards.
- a. Difficulties with the regulatory system**
- 1.9** We asked whether any aspects of the regulatory system pose difficulties for innovators. Most stakeholders were concerned that the regulatory regime does not provide innovators with sufficient legal certainty. They referred to a number of difficulties that we aim to address:
- 1.10 Lack of legal certainty:** Respondents raised several specific issues, including the complexity of financial regulation, difficulties in interpreting individual provisions, and problems in identifying which rules are applicable and which activities are regulated. These problems were said to substantially reduce businesses' appetite to innovate.

Our response:

While acknowledging its complexity, we do expect businesses to make a reasonable effort to understand financial regulation, including the relevant parts of our Handbook, and how it applies to their activities. However, we consider that there is more we can do to help innovators in this regard. Where appropriate, we will provide those in need of most support with more clarity through the use of individual guidance and informal steers. We will identify themes emerging from the individual guidance and informal steers we provide, and comment on them publicly as appropriate. This may include clarifying certain rules as we have sought to do in our recent Guidance Consultation on retail investment advice.¹

- 1.11 Digital currencies:** Uncertainty as to whether or not digital currencies such as Bitcoin will be regulated in the UK was repeatedly said to prevent businesses from experimenting with related technologies that could benefit consumers.

¹ www.fca.org.uk/static/documents/guidance-consultations/gc14-03.pdf

Our response

The Treasury is currently carrying out a major programme of work to explore the risks and benefits of digital currencies. We are engaging with the Treasury on this review and the potential regulation of digital currencies. We will work with the Treasury to understand whether and which form of regulation could promote innovation in digital currencies.

- 1.12 Access to business bank accounts:** Smaller businesses noted that they are having difficulties in gaining access to bank accounts because some financial institutions are no longer providing accounts to certain broad categories of businesses.

Our response

We are concerned about these difficulties and are considering what more we could do in this field. We realise that this is a pressing matter and will continue to provide regular updates on our progress.

- 1.13 FCA website:** For many innovator businesses, our website is the only direct source of information about the regulatory regime and the authorisations process. However, the website was widely thought to be inadequate.

Our response

Drawing on the suggestions of stakeholders, we have created an innovation section of our website. These webpages will be further developed in the coming months with new functions added. We are currently also planning some changes to the section of the website on the authorisations process to make the information more accessible and easier to navigate.

b. Supporting innovators through authorisation

- 1.14** In our *Call for input*, we proposed to help innovator businesses in need of additional support to prepare for the authorisations process. We asked stakeholders what practical assistance they thought would be useful. Our proposal was received positively by the majority of respondents who considered such a function to be a very valuable service, particularly due to their concerns about the complexity and potential length of our authorisations process.
- 1.15** There was some confusion among stakeholders about the distinction between the Incubator and the Hub. We will dispense with the term 'Incubator'. All Project Innovate activities will be delivered by the Innovation Hub.
- 1.16** Both new market entrants and existing innovator businesses will be eligible for the specialist support of the Innovation Hub when preparing for the authorisations process. This Innovation Hub support can be used by businesses seeking authorisation for the first time as well as regulated firms requiring a Variation of Permission. A business entering this pre-application

phase will be assigned a named Case Officer who will work with the business to ensure it submits a high quality application. In particular, this will involve organising and participating in pre-application meetings, ensuring the business understands the authorisations process and our expectations, and acting as the primary point of contact when queries arise.

c. Innovation Hub

1.17 We asked stakeholders whether they considered that we should establish an Innovation Hub and what functions it should perform. Almost without exception, stakeholders responded positively to our proposal and cited Project Innovate as an example of a regulator seeking to communicate more with businesses.

1.18 By creating the Innovation Hub, we aim to provide unregulated and regulated, new and established innovator businesses with new opportunities to engage with us. Building on the proposals outlined in our *Call for input* and the suggestions made by stakeholders, the Innovation Hub will provide businesses who qualify for help with access to the following services:

- a dedicated contact person for innovation-related queries, including provision of individual guidance and informal steers, as appropriate
- continuation of additional support for up to a year after authorisation (for those firms who have been supported through the authorisations process)
- help to understand the regulatory framework and how it applies
- an ongoing programme of external engagement with innovators and other relevant entities

1.19 In support of these services, the Hub will also:

- engage with firms on consumer research and trials of innovative tools
- identify areas where the regulatory regime needs to adapt to facilitate innovation
- champion innovation within the FCA and use the expertise gained to inform our policy in an innovation-friendly way

d. Criteria for defining innovation

1.20 We asked stakeholders to provide us with suggestions for criteria that we could use to decide how to focus our resources on genuine, 'ground-breaking' innovation that is in the interests of consumers. By setting out generally applicable criteria, we believe all businesses will have a reasonable chance of making a case for support from us.

1.21 We are committed to adopting an inclusive approach to innovation in order to ensure that as many businesses as possible can be considered for support. The scope of Project Innovate includes product, process, marketing and organisational innovations. It is not limited to brand new concepts but also extends to ideas that represent *significant* improvements to existing concepts.

1.22 As proposed by a large majority of respondents, we will use the criterion of consumer benefit to help us select which businesses or innovations we support. We will not be defining any specific types of consumer benefit but will instead consider the relevant aspects as appropriate in individual cases.

- 1.23** We will also expect all businesses to have made a reasonable effort to understand the issue on which they are requesting our support. What this means in practice will depend in part on the size, resources and experience of the business in question.
- 1.24** The full list of criteria which we will use when making decisions about requests for support can be found in Annex 1. We will keep these criteria under review to ensure they remain appropriate and will make any changes we consider necessary. In doing so, we will continue to ensure that the criteria advance our operational objectives.

2. Summary of feedback and our response

2.1 In this chapter we:

- summarise the feedback received on our *Project Innovate: Call for input*, including both written feedback and discussions held at our roundtable events
- set out our response to this feedback

2.2 We received written responses to our *Call for input* from 69 stakeholders. These included a wide range of businesses (large and small, established and start-ups), trade bodies and individuals with entrepreneurial experience.

2.3 In parallel, we hosted six roundtable events during July and August 2014, through which we received further feedback from a total of 84 stakeholders, some of whom also sent written responses to our *Call for input*. Representatives of the following three stakeholder groups took part in the roundtables:

- Small innovators who are seeking FCA authorisation or have recently become authorised.
- Non-regulated businesses that engage with the financial services sector but will not be seeking authorisation.
- Existing regulated firms who have a strong interest in engaging with an Innovation Hub.

Two events were dedicated to each of the three types of stakeholders.

General issues

2.4 Many respondents made some comments of a general nature in their responses to our *Call for input*.

a. Fostering innovation

2.5 Stakeholders noted that we have been more open and willing to engage with firms since the transition from the FSA, and they perceived Project Innovate and the consultation process as further evidence of this. Non-financial businesses and start-ups in particular remarked that awareness of the FCA is generally relatively low outside of the financial sector and welcomed Project Innovate as an initiative to increase understanding of the role of the FCA and enhance its reputation.

2.6 The fundamental aim of Project Innovate is to ensure that the FCA fosters innovation that is in the interests of consumers of financial services. The overwhelming majority of respondents reacted very positively both to the aims of Project Innovate and to our proposals for achieving these. Many described Project Innovate as a welcome and very important initiative. Some referred in this context to its role in ensuring that both businesses and regulators are at the forefront of technological change. Others considered it to be important in helping to retain the UK's strong position in both fintech and financial services.

2.7 Accordingly, most stakeholders were eager to see our proposals implemented and many expressed a wish to become more involved with Project Innovate. Many also mentioned the need to maintain momentum on Project Innovate and for the FCA to make a long-term commitment to fostering innovation.

b. Eligible businesses

2.8 Some respondents criticised what they perceived to be an underlying assumption of Project Innovate that new market entrants are the main source of innovation in financial services. Many respondents thought it important that access to the Incubator and Hub be afforded to new and existing businesses alike, as innovation by all types of businesses should be encouraged.

c. Implications for competition

2.9 A number of respondents expressed concern that businesses might be able to gain a competitive advantage via the Incubator and the Hub and that this would be financed through an implicit cross-subsidy from authorised firms that are FCA levy payers. A few respondents went on to request details of these costs.

2.10 Some respondents suggested that, to mitigate these perceived imbalances, we should publish regular updates of the activities of the Incubator and Hub, including the businesses with which they are working, as well as details of any guidance offered in relation to interpreting or complying with our regulatory framework.

d. Confidentiality

2.11 Respondents highlighted the importance of confidentiality when dealing with businesses' innovations and the need for tight controls and monitoring in this regard.

e. Engagement with other bodies

2.12 A number of stakeholders suggested that we should engage with other relevant bodies, such as trade bodies and innovation accelerators, with a view to ensuring a joined-up approach to the promotion of innovation. In particular, respondents referred to the Financial Ombudsman Service (ombudsman service) and asked that we ensure its objectives are consistent with those of Project Innovate. This was said to be important in the context of ensuring regulatory certainty.

f. Project Innovate within the FCA

2.13 Many respondents focused on practical issues in relation to the profile of Project Innovate within the FCA and the resourcing of the Incubator and Hub, primarily that:

- the Incubator and Hub should be properly resourced and have staff who both understand why businesses can be apprehensive about innovating and have technical knowledge of financial services regulation and innovative products and services

- Project Innovate should be able to promote innovation and effect change across the FCA

g. Respective roles of the Incubator and the Innovation Hub

- 2.14** Many respondents felt that the distinction between the Incubator and the Hub was not clear. This may be partly due to the connotations that these terms have in the wider technology domain. A number of respondents also requested clarification about the respective roles of the Incubator and the Hub, particularly regarding their objectives and how these will be measured, and how they will interact with stakeholders.

h. Geographical reach

- 2.15** Some respondents noted that there are communities of innovators across the UK and requested that Project Innovate avoid taking a London-centric approach to its engagement.

Our response

a. Fostering innovation

The feedback on the fundamental objectives of Project Innovate confirms our view that taking steps to foster innovation can play an important part in enhancing both competition and consumer benefit in financial services. As these positive effects will not be felt immediately but will emerge gradually over time, we consider Project Innovate as the beginning of a longer-term commitment to fostering innovation in financial services. Our commitment will contribute to our objectives of promoting effective competition in the interests of consumers and making the relevant markets function well.

b. Eligible businesses

We share the view expressed by many respondents that both new market entrants and existing businesses can be innovators in financial services. We aim to encourage all genuine innovation in the interests of consumers and will provide both new and existing businesses with access to the Hub, subject to their meeting the criteria for innovation set out in Annex 1.

c. Implications for competition

As set out in our *Call for input*, innovation can be a powerful driver of effective competition in the interests of consumers. As a regulator with a competition objective, we are keen to do more to support and encourage innovation in financial services. We consider that the longer term benefits to be gained from this are not only in the interest of consumers but also of the financial services industry as a whole. The support that we intend to make available to innovator businesses will not result in the lowering or dilution of the applicable conduct standards.

Regarding the financing of Project Innovate, we always attempt to use our resources in the most efficient way in the pursuit of our statutory objectives. This sometimes means that individual firms, or groups of firms, will command more of these resources than others, both in completing our authorisations process and fulfilling other functions. How we raise our fees takes account of

these differences where it is proportionate to do so. We do not believe that it is unfair or that any new precedent is being set if we finance the Innovation Hub in the same manner.

d. Confidentiality

We are sensitive to respondents' concerns about confidentiality and are fully aware of the necessity to maintain high standards. At the same time, we are also committed to being as transparent as we can about the activities of the Innovation Hub. The need to balance transparency with ensuring the confidentiality of commercially sensitive information means that, in practice, we will not publish information relating to individual situations. Instead, we will identify themes emerging from the individual guidance and informal steers we provide, and comment on them publicly as appropriate.

e. Engagement with other bodies

We have been engaging and will continue to engage with other relevant bodies to promote the role of innovation in enhancing competition in financial services. We have built relationships with fintech platforms and facilitators such as Innovate Finance, NewFinance, TechCityUK and TechUK. As part of a wider Project Innovate communications programme, we intend to further develop existing relationships while also extending our reach and engaging with further relevant organisations.

Regarding the specific concern of respondents that the objectives of the ombudsman service should be consistent with those of Project Innovate, it is important to note that the ombudsman service must determine disputes on the basis of what the Ombudsman believes to be fair and reasonable in all the circumstances of the case, taking into account the relevant law, regulations, regulator's rules (including rules as modified by waivers), guidance and standards, relevant codes of practice and good industry practice. The ombudsman service is operationally independent from the FCA. Therefore, we have no remit to influence or intervene in the decisions the ombudsman service makes on individual complaints.

f. Project Innovate within the FCA

Regarding the staffing of Project Innovate we are committed to providing the Innovation Hub with the resources it needs in order to succeed. This will include drawing on expertise from across the FCA and beyond, as required.

One of the tasks of the Hub will be to identify areas where our regulatory regime needs to adapt to facilitate innovation. In line with the wishes expressed by stakeholders, the Hub will have a profile across the FCA that will ensure that these findings appropriately inform our policy and rule-making functions and so, in the longer term, lead to real changes to our regime in the interests of innovation.

g. Respective roles of the Incubator and the Innovation Hub

To address the confusion about the distinction between the Incubator and the Hub we will dispense with the term 'Incubator'. All Project Innovate activities will therefore be delivered by the Innovation Hub. We hope to meet respondents' requests for more clarity by setting out the various activities and objectives of the Hub, both in the relevant sections of this paper and in the new innovation section of our website.

h. Geographical reach

We are very aware that while there is a cluster of fintech innovators in London, these are by no means the only types of innovators in financial services. As highlighted by a number of stakeholders, there are also innovators located throughout the UK. Our ongoing programme of external engagement will reflect this and will, for example, ensure that innovators across the regions are aware of Project Innovate and the support we may be able to offer them.

Difficulties with the regulatory system

2.16 We noted in our *Call for input* that we are keen to find ways of keeping financial services regulation up-to-date with innovation and that this could be done by changing requirements where this would foster innovation in the interests of consumers. We expressed an interest in engaging more proactively with innovators to help us identify possible barriers to innovator businesses in the regulatory system. We asked stakeholders whether there is anything about the current regulatory system that poses particular difficulties for innovator businesses.

a. Lack of legal certainty

2.17 Most respondents – regardless of their size – were concerned that the regulatory system does not provide innovator businesses with sufficient legal certainty. Respondents highlighted many different aspects of this, including:

- the volume and complexity of regulation, including the FCA Handbook and guidance
- problems understanding the aims and core drivers of specific rules
- difficulties in interpreting what individual rules mean
- difficulties in identifying applicable rules due to regulation being designed with traditional financial products and distribution channels in mind and/or innovations straddling the boundaries of more traditional categories and definitions
- the belief that the regulatory framework includes a number of conflicting demands
- concerns that regulators may change their interpretation of specific rules or amend rules in ways that cannot be foreseen and can necessitate changes to business models, operating systems or permissions
- fear of the consequences of being found non-compliant

- 2.18** Many stakeholders felt that addressing these concerns often means having to pay considerable sums for legal advice and/or consultancy services to attain a level of certainty that allows them to participate in the market. For start-ups, this certainty is often a prerequisite of securing funding from investors. For non-financial sector innovators, it is necessary in order to sell the innovation to a regulated firm.
- 2.19** A significant number of respondents noted that EU regulation provides an additional layer of complexity. The perceived lack of transparency around EU negotiations was also said to contribute to the overall lack of regulatory certainty. A few respondents suggested that we could help to mitigate this by communicating our intentions regarding implementation at an earlier stage.
- 2.20** There was a significant consensus among most stakeholders about how Project Innovate could most usefully address the majority of their concerns around regulatory uncertainty. They thought that guidance should be offered to individual businesses, whether regulated or unregulated, about which rules are applicable in given situations, how specific rules should be interpreted and whether a proposed approach is compliant with these rules. Many stakeholders argued that certainty about compliance before the launch of an innovation would greatly increase businesses' appetite to innovate because of the substantial reduction in risk it would represent. They noted that even an informal indication of how we view a particular innovation could be very valuable. A large number of respondents stated that the availability of individual guidance would be central to the success of Project Innovate.

b. Digital currencies

- 2.21** A number of stakeholders cited digital currencies (e.g. Bitcoin) as a specific example of regulatory uncertainty creating a barrier to innovation. Specifically, it was noted that the uncertainty surrounding the issue of whether or not digital currencies will be regulated in the UK is preventing businesses from experimenting with related technologies, such as block chain. Innovation of this kind could have wider uses that could be employed to directly benefit consumers.

c. Access to business bank accounts

- 2.22** A considerable number of small innovator businesses noted that some banks' interpretation of the anti-money laundering and sanctions requirements is making it very difficult for start-ups to gain access to a business bank account. They told us that some financial institutions no longer provide bank accounts to certain broad categories of businesses because they are seeking to reduce the risk of incurring sanctions for non-compliance with anti-money laundering and sanctions legislation. Small innovators were concerned that this broad-brush approach is making it very difficult for them to open an account even if they perceive their business to present a low money-laundering risk.

d. FCA website as important source of information

- 2.23** Unregulated respondents emphasised the lack of any kind of forum to engage with us on regulatory issues. Small, regulated firms felt at a disadvantage compared to larger firms in that they have no dedicated supervisor and so no FCA contact with specific knowledge of their business. Many businesses with very little access to the FCA noted that their only direct source of information about the regulatory regime, including the authorisations process, is our website. In this context, stakeholders suggested various improvements to the website, including:

- increasing the number of examples of good and bad practice to illustrate the spirit of individual policies
- improving the authorisations section, in particular its structure and the lack of clarity around who requires authorisation and which permissions they need
- creating a user-friendly innovation section with a clear online guide to regulation, frequently asked questions and interactive elements such as a forum and a 'drop-in' channel

e. Authorisations process

- 2.24** A number of authorised innovator businesses were concerned about our authorisations process. In particular, it was said to be too complex, too costly and to take too long. Some went on to say that these problems represent a significant risk to their getting innovative products quickly to market and discourage many businesses from attempting to enter the financial sector at all.
- 2.25** Smaller businesses perceived the authorisations process as lacking in transparency with little explanation in advance and little opportunity to discuss aspects of the application during the process itself.
- 2.26** The paper-based nature of the authorisations process was also described as a barrier to innovation given that many innovator businesses operate on a purely digital basis.

f. Issues covered by other work streams

- 2.27** Many stakeholders raised further issues that are already being addressed via other work streams. The main issues relate to:
- different types of sales models and a desire for absolute clarity on our view about whether or not they generate personal recommendations
 - social media and customer communications
- 2.28** Some smaller innovators mentioned difficulties in accessing payment systems as a result of being only indirect participants. In particular, they highlighted that they are dependent for access on agency agreements with direct members who are mainly large banks. They considered this indirect access to constitute a barrier to innovation.

Our response

a. Lack of legal certainty

Stakeholders have explained their concerns about legal certainty in some detail. While acknowledging its complexity, we do expect businesses to make a reasonable effort to understand financial regulation, including the relevant parts of our Handbook, and how it applies to their activities. However, we think that there is more we can do to help innovators in this regard. The Innovation Hub will provide those innovator businesses most in need of support with greater clarity about how we apply financial services rules. This will be done in two ways:

- **Individual guidance:** Where appropriate and where a request has a clear link to innovation, the Innovation Hub will provide individual guidance requested by businesses on how our rules or other regulatory requirements apply to their own particular circumstances or plans. The Hub will provide individual guidance in line with SUP 9 of the FCA Handbook.² This includes the expectation set out in SUP 9.2.5 that reasonable steps must have been taken to research and analyse the topic concerned before approaching the FCA for individual guidance.
- **Informal steers:** Where appropriate, the Innovation Hub will provide innovator businesses with an informal steer on how the FCA would apply its rules and other regulatory requirements to their own particular circumstances or plans. An informal steer only represents the FCA's initial view, based on an analysis of incomplete, limited and not necessarily all available information. Accordingly, the business concerned relies on the informal steer *at its own risk* and we reserve the right to change our position. We will keep the use of the informal steer as a means of fostering innovation under review.

By making both individual guidance and informal steers available to innovator businesses, we aim to provide tools to suit a range of situations and needs. Depending on the circumstances in which it is provided, individual guidance enables recipients to rely on the interpretation given in relation to the particular set of circumstances. However, the formal nature of the procedure by which individual guidance must be requested and given often precludes us from providing responses within short periods of time. Informal steers, on the other hand, can be provided more quickly but recipients rely on them *at their own risk*.

Innovator businesses will not have a right to receive either individual guidance or an informal steer. The Innovation Hub will take into account all relevant circumstances when deciding whether individual guidance, an informal steer or neither is the appropriate response to a specific request. As is current FCA practice, we will not publish individual guidance that has been provided to eligible businesses. The same will apply to informal steers. Instead, we will identify themes emerging from the individual guidance and informal steers we provide, and comment on them publicly as appropriate. This may include clarifying certain rules as we have sought to do in our recent Guidance Consultation on retail investment advice.³

Regarding EU legislative negotiations, we provide an overview of the expected timelines of current and anticipated EU initiatives in Annex 2 of our Business Plan 2014/15, including transposition periods.⁴ The overview includes all legislation that is relevant to FCA-regulated activities and in which we are actively engaged. As concerns the transposition of EU regulation by means of FCA rules, we remain committed, as required under FSMA, to consulting in a timely manner on draft Handbook changes.

² Available at: <http://fshandbook.info/FS/html/FCA/SUP/9>

³ www.fca.org.uk/static/documents/guidance-consultations/gc14-03.pdf

⁴ www.fca.org.uk/static/documents/corporate/business-plan-2014-15-annex-2.pdf

b. Digital currencies

In August 2014, the Chancellor of the Exchequer announced that the Treasury will carry out a major programme of work to explore the risks and benefits of digital currencies.

We are engaging with the Treasury on this Treasury-led review, in particular to understand how regulation could promote and encourage innovation in digital currencies. We are also interested, as part of this review, in exploring how regulation could support the application of block chain technology more generally in financial services.

c. Access to business bank accounts

We are aware that innovator businesses are experiencing difficulties in obtaining access to bank accounts. Financial institutions' interpretation of the anti-money laundering regime and perception of regulatory expectations may be a factor in this. We encourage financial institutions to take a risk-based approach to anti-money laundering requirements. While each instance will be fact-specific, and while the decision is ultimately a commercial one for the bank, we think that there should be relatively few cases where it is necessary to decline innovator businesses solely because of anti-money laundering requirements. We are considering what more we could do in this field. We realise that this is a pressing matter and will continue to provide regular updates on our progress.

d. FCA website as important source of information

By way of response to suggestions made by many stakeholders, we have created an innovation section of our website. This includes details of how the Innovation Hub operates, which types of businesses may be eligible for support, frequently asked questions and an initiator form through which interested parties can contact the Hub. Over the coming months, we intend to further develop these webpages and add new functions, potentially including interactive tools.

e. Authorisations process

Although the launch of Project Innovate will not result in any changes to the authorisations process itself, we believe that the main concerns expressed by respondents are being addressed by the establishment of our Innovation Hub. By helping innovator businesses to prepare their applications, we aim to prevent and reduce delays in the authorisations process and ensure that businesses have a better understanding of the process and our expectations. We hope that this will enable innovators to bring their products more quickly to market, without resulting in the lowering or dilution of the applicable threshold conditions and conduct standards.

In addition to the new innovation section of our website, we are currently planning some changes to the authorisations section with the aim of making the information about the authorisations process more accessible and easier to navigate.

We also recognise the need to keep our procedures up-to-date. We have recently launched a new online submission website called 'Connect'. This new capability enables FCA-authorized firms to submit a number of applications electronically. During 2015 we will continue to move further authorisation processes online to provide a better experience for firms.

f. Issues covered by other work streams

We are currently addressing the issues raised by stakeholders in relation to the provision of advice by means of a Guidance Consultation published in July 2014.⁵ We aim to clarify the boundaries of retail investment advice and explore the barriers to market development.

We have been tracking firms' use of social media for customer communications for a number of years and first published guidance on this in June 2010.⁶ We are aware that an increasing number of firms are now using, or wanting to use, social media for their customer communications, and engaged extensively with the industry and other stakeholders in the 18 months leading up to the Guidance Consultation that we launched in August 2014. This intends to clarify our approach to the supervision of financial promotions in social media, including its character-limited forms.⁷ We will finalise this guidance and also commission exploratory research to gain a better understanding of how consumers receive, use and contextualise financial promotions they receive through social media communications, which are continually evolving.

In each of these instances, it is our intention that the solutions we arrive at should clarify the relevant part of our regulatory framework, while at the same time fostering innovation.

With regard to payment systems, the Payment Systems Regulator (PSR) has objectives in relation to competition, innovation and service-users. The PSR will be publishing a consultation on its proposed approach to a range of issues, including indirect access, in November 2014. We will continue to pass on any relevant concerns and evidence from innovators to the PSR, wherever appropriate.

Because these issues are already the subject of more specific work streams, we will not be addressing them any further in the context of Project Innovate.

Supporting innovators through authorisation

- 2.29** We stated in our *Call for input* that we would like to provide innovators seeking FCA authorisation with more support. We proposed to build an Incubator to help innovator businesses in need of such additional support to prepare for the authorisations process and beyond. We asked stakeholders what practical assistance they thought the Incubator could usefully provide.

⁵ www.fca.org.uk/static/documents/guidance-consultations/gc14-03.pdf

⁶ www.fsa.gov.uk/pages/doing/regulated/promo/pdf/new_media.pdf

⁷ www.fca.org.uk/static/documents/guidance-consultations/gc14-06.pdf

a. Concept

2.30 Our proposal to establish an Incubator was received positively by the majority of respondents. Many considered that such additional support would lead to businesses feeling more confident about their applications for authorisation. Respondents also expressed the hope that the total costs of authorisation would be lower for businesses, for example because less advice would have to be paid for.

2.31 A few respondents were more sceptical about the proposed Incubator. They suggested that it might be more appropriate to review the current authorisations process with a view to identifying simpler procedures that better meet the needs not only of innovator businesses but of all FCA applicants. They argued that this was preferable to offering additional help to only some businesses despite, as they suggested, all applicants experiencing the same difficulties with the authorisations process.

b. Functions

2.32 With regard to the specific functions of the proposed Incubator, there was a clear divide in the approach adopted by respondents. While many made specific suggestions about what help the Incubator could usefully provide, others requested further clarification about its objectives and processes. Those in the latter group considered it to be particularly important that we define which businesses are eligible for the Incubator, how it will select businesses and how it intends to work with firms on an individual basis.

2.33 A large number of respondents agreed that the core function of the Incubator should be to provide help and support before an innovator business submits its formal application for authorisation or Variation of Permission. This was considered by many to potentially be a very valuable service.

2.34 Specific ideas for additional functions included:

- having a named FCA liaison officer to provide a more personalised service with a greater awareness of individual applicants' situations and the ability to answer specific queries quickly
- directing applicants to the precise permissions required to carry out the proposed activity
- helping with the business strategy, identifying potentially bad business decisions, providing help with funding and facilitating product testing
- providing introductions to firms who have already been successfully authorised through the Incubator so that they might share their experiences with current applicants and so leverage the FCA Incubator resource already invested
- publishing case studies of firms authorised following help from the Incubator
- publishing statistics about how many businesses are in the Incubator and what the successful authorisations rate is

c. Concerns

2.35 A number of respondents raised concerns around aspects of the Incubator, including:

- Possible competition issues around the Incubator using the levies of FCA-regulated firms to finance the provision of additional support to only selected businesses. In particular, authorised firms were concerned that the businesses receiving Incubator assistance could be perceived as operating in a 'safe harbour', potentially resulting in the creation of a two-tier regulatory system. To partially mitigate any such perception, respondents proposed that the Incubator be available to both businesses seeking authorisation and regulated firms requiring Variations of Permissions.
- Any pre-application support procedure would have to avoid becoming an additional step in an already lengthy authorisations process. It was suggested that Incubator procedures should be lean and unbureaucratic.
- Concern that businesses may be reluctant to engage informally with the FCA before the formal authorisations process for fear that they do not create the desired impression and are somehow 'blacklisted' if their products/services do not meet our expectations.

Our response

a. Concept

As a result of the strong support expressed by most respondents, we will be offering practical help to businesses in need of support in preparing for our authorisations process. For the reasons set out in our response to the general issues raised, we will no longer be using the term 'Incubator' to describe this function.

Regarding the view of some respondents that it would be preferable for us to review and simplify the existing authorisations process, it is important to note that establishing this support function will not result in any changes to the authorisations process. Instead, we will be providing additional support to innovator businesses while they prepare their application for FCA authorisation. While this is intended to help prevent and reduce delays in the authorisations process, it is not a part of the formal authorisations process itself. We do not believe that there is any real risk of a two-tier regulatory system emerging but will be mindful of this in the coming months.

b. Functions

The core element of this pre-application support function will be the provision of help to innovator businesses before they formally submit their application for authorisation or Variation of Permission. As suggested by stakeholders, a business entering this pre-application phase will be assigned a named Case Officer from the Innovation Hub.

The role of the Case Officer includes understanding the nature of the individual business and being the primary point of contact when queries arise. The Case Officer will be in a position to access and mobilise the required expertise from across the FCA, enabling questions to be resolved efficiently and the pre-application process to be advanced. In particular, the Case Officer will liaise with the business and organise and participate in pre-application meetings to help them understand the authorisations process and our expectations. The

focus will be on working with the business to ensure it submits a high quality application. Where appropriate in the individual case, this could include help in identifying:

- which permissions are required to carry out the activities in question
- which forms and other documentation are required
- likely challenges, for example in demonstrating that the business meets the threshold conditions

To make the best possible use of regulatory resources by focusing on individual needs in the pre-application process, Case Officers will not provide more direct commercial support, for example by helping with business strategy, funding or introducing businesses to successfully authorised firms. Involvement in the commercial aspects of a business would also be incompatible with our role as a regulator and would give rise to a conflict of interest.

In addition to the clarifications provided in this Feedback Statement, we aim to meet respondents' requests for more information about the process of supporting innovators seeking authorisation via the new innovation section of our website. This channel will also be used to fulfil our further commitments to transparency around the work of the Innovation Hub. We will be publishing regular updates about our activities with regard to support for innovators seeking authorisation. This will include both quantitative and qualitative information. We will also make use of other formats, including the FCA Data Bulletin. As suggested by some stakeholders, we also intend to make case studies of successfully authorised innovators available on our website.

c. Concerns

As highlighted in our response to the general issues above, we believe that financing the Innovation Hub with regulated firms' levies is not an inappropriate use of our resources. Pre-application support will be available not only to businesses seeking authorisation but also to regulated firms requiring a Variation of Permission in connection with genuine innovations.

We agree with the view that the processes must be as simple and lean as possible. Businesses who meet our innovation criteria and who require authorisation or a Variation of Permission will be transferred to the Hub and allocated a Case Officer as quickly as possible. By helping businesses with the preparation of applications, we aim to prevent and reduce delays in the authorisations process to enable innovators to bring their products more quickly to market.

We understand that some innovator businesses may have initial reservations about approaching us but, given the level of interest expressed by innovators seeking authorisation, we do not consider this will prove to be a major obstacle. By tailoring the support to the needs of the individual business, we aim to create a climate of mutual trust in which businesses feel that they are able to speak openly with their Case Officer.

Innovation Hub

- 2.36** We proposed in our *Call for input* to also establish an Innovation Hub, which would:
- provide an additional level of post-authorisation support to firms that were supported by the Incubator before authorisation
 - engage proactively with innovators, facilitators and fintech platforms to better understand the issues and opportunities linked to innovation and to identify areas where our rules could be changed to support innovation
 - help non-financial sector businesses that design products for regulated firms to understand the regulatory regime
- 2.37** We asked stakeholders whether they considered it useful to establish an Innovation Hub and what functions it should perform.
- a. Concept**
- 2.38** Almost without exception, stakeholders thought that it would be useful if we were to establish an Innovation Hub. A large number of businesses emphasised the importance of promoting communication between businesses and regulators, and cited Project Innovate as an excellent example of a regulator taking positive action to engage more with innovators.
- 2.39** Most respondents indicated what they thought the objectives of the Hub should be and the services it could most usefully offer. In this context, some suggested that it should seek to complement and not to compete with existing innovation platforms, accelerators and innovation hubs.
- 2.40** Many stakeholders felt that innovator businesses should be allocated a dedicated contact person in the Hub. Some also acknowledged that the demand on FCA resources would be high.
- b. Navigating the regulatory framework**
- 2.41** A clear consensus among respondents emerged regarding the key function of the Hub. It should help businesses to understand and navigate the regulatory framework.
- 2.42** Respondents considered that this function should include both general education about financial services regulation and answering specific compliance queries about a particular innovation. Many referred to the importance of an ongoing dialogue between innovator and regulator.
- c. Effecting rule changes**
- 2.43** Respondents were equally clear that the success of the Hub would, to a large extent, be dependent on its ability to not only identify necessary rule changes but also to effect such changes.
- 2.44** Specific proposals in this regard included that the Hub could issue guidelines on topics of specific concern to innovators, review the FCA Handbook or consider all new proposed FCA rules from an innovation perspective.

d. Post-authorisation support

- 2.45** A large proportion of respondents agreed with the proposal outlined in the *Call for input* for the Hub to provide an additional level of support to firms who have been prepared for authorisation by the Incubator. A continuation of the dialogue with a named contact post-authorisation was considered to be a helpful way of ensuring that newly authorised firms have access to support when they first enter the market and are still in the process of implementing rules. Some respondents suggested that the Hub could play a role in helping such firms to fully understand their responsibilities as regulated entities.
- 2.46** However, a small number were concerned that the fact additional support is required may be indicative of a wider problem with the post-authorisations phase.

e. Additional functions

- 2.47** Many respondents also suggested further functions and services that the Innovation Hub could provide. These included:
- operating a kite mark or badge (perhaps as a first step towards gaining authorisation) to recognise businesses that are engaging with the FCA and have a product or service that meets defined FCA criteria
 - providing regular updates (newsletters etc.) on UK and EU regulatory developments and relevant FCA research
- 2.48** Some respondents went further and suggested that the Hub might provide a broader range of services that also support the establishing and running of small businesses, for example through mentoring, help with marketing, access to finance, improving presentation skills, and accountancy and taxation matters.
- 2.49** Many of these respondents also expanded on activities that they thought the Hub could usefully undertake regarding external engagement. However, a number of respondents noted that there are also risks associated with these activities, as set out below.

Activity	Risk
organising discussion sessions bringing together all relevant stakeholders, e.g. innovators, regulators, government, consumer organisations	discussions and exchange of information likely to be only superficial as innovators will not be prepared to share details of their business or innovative ideas with competitors
bringing innovators together to share ideas, discuss challenges and engage in problem-solving	
offering networking opportunities for start-ups with potential partners and suppliers	
commissioning joint programmes with specific businesses, e.g. joint consumer research	may be perceived as FCA sponsorship or endorsement of product/service; potential for conflicts of interests and regulatory capture
sponsoring exhibitions showcasing financial services innovations	inappropriate for regulator to spend levy payers' contributions promoting products/services of 'competitors'; could also be perceived as endorsement

f. Informing policy of the wider FCA

2.50 Finally, a number of respondents highlighted that establishing the Hub would also benefit the wider FCA by enabling it to gain a better understanding of:

- current innovation developments and their drivers
- fintech
- the cumulative effect of regulation and other barriers to market entry for innovators

2.51 They felt that these benefits should help inform the FCA's policy thinking to ensure that the regulatory regime becomes progressively more innovation-friendly.

Our response**a. Concept**

The feedback we have received from stakeholders confirms our view that it would be useful to establish an Innovation Hub. With the creation of the Hub, we aim to provide both unregulated and regulated innovators with new opportunities to engage with the FCA on regulatory issues.

We will provide businesses who qualify for assistance from the Innovation Hub with a dedicated contact person. We are aware that the demand for this service may be high and so will deal with complex regulatory queries to the Hub by operating a 'hub and spoke model'. Accordingly, the Hub contact persons will utilise the expertise of FCA staff from across the organisation to provide innovator businesses with an efficient service.

It is not our intention that the Innovation Hub should compete with existing innovation platforms, accelerators and hubs. Instead, it will focus specifically on regulatory matters relevant to innovation in financial services. This provides the best use of our resources and will also help to ensure that our services are not merely a duplication of existing offerings.

b. Navigating the regulatory framework

In line with the wishes expressed by stakeholders, a key function of the Innovation Hub will be to help businesses of all types to understand and navigate the regulatory framework for financial services. The Hub will have the ability to answer complex queries about innovation and financial services regulation. Where appropriate, this may include the provision of individual guidance and informal steers, as set out above. The Hub will also provide general, publicly available information about innovation and the regulatory regime, for example via our website and events.

c. Effecting rule changes

A further role of the Hub will be to identify areas in which the regulatory regime could be adapted to facilitate innovation. The Hub will also champion innovation within the FCA and, in so doing, will work closely with the relevant policy areas.

d. Post-authorisation support

In accordance with the views of a large proportion of respondents, the Innovation Hub will provide continued support to those firms that it has prepared for authorisation for a period of up to one year following authorisation.

The Hub will provide such firms with pointers on the completion of regulatory returns and will answer queries they may have about the regulatory framework and their obligations in this regard. The largest firms (C1 and C2) will not be eligible for this continued support as they already benefit from a dedicated FCA supervisor. While we appreciate that additional post-authorisations support could benefit a wider range of firms, Project Innovate can only look to help innovative firms; other types of firms fall outside of its scope.

e. Additional functions

As set out in our *Call for input*, genuine collaboration between the FCA and innovator businesses is a key aim of Project Innovate. The Innovation Hub will develop and implement a programme of external engagement with innovators. Roundtables and other events will play an important role in ensuring that the Hub is constantly developing its knowledge and improving its understanding of innovation and the issues faced by innovators, not least with regard to regulatory barriers. This will put us in a better position to fulfil our role as a regulator with a competition objective. Details of upcoming events and how to register can be found in the new [innovation section of our website](#).

Another way of working together will be to engage with firms on specific pieces of consumer research or trials of innovative tools. By way of example, we are aware that some financial institutions are using behavioural economics to develop innovative approaches to the disclosure of information to consumers. We are keen to facilitate experiments with innovative approaches that have the core objective of benefiting – or potentially benefiting – consumers, and to be involved in evaluating their results. We will not, however, be providing businesses or any other bodies with sponsorship.

We are keen to avoid creating too much formality around the offerings of the Innovation Hub, as this tends to produce inflexible processes. The nature of the dialogue between the Hub and innovator businesses is intended – in accordance with the wishes of most stakeholders - to be largely informal. In particular, it would not be consistent with this approach for us to operate a kite mark or other system of accreditation or endorsement for particular innovations or businesses that are engaging with us. As set out in previous documents⁸, the

⁸ See, for example, the FSA paper *The Financial Conduct Authority: Approach to Regulation*, June 2011, para 3.25: 'It would also be impractical, if not impossible, for the FCA to intervene in other areas where it does not have a statutory responsibility. For example, the FCA [...] does not intend to provide kite-marking or product approval.' www.fsa.gov.uk/pubs/events/fca_approach.pdf

FCA will not intervene in areas where it does not have a statutory responsibility. Such areas include kite-marking and product approval.

Similarly, we do not believe that providing general updates on UK and EU regulatory developments would best meet the diverse needs of innovator businesses. We consider that we can better meet their specific needs by engaging with them on a more individual basis. An overview of the expected timelines of current and anticipated EU initiatives relevant to FCA-regulated activities can be found in Annex 2 of our Business Plan 2014/15.⁹

The Innovation Hub will not offer the broader range of more commercially-oriented support services suggested by some respondents, such as help with marketing, access to finance or taxation issues. The role of a regulator does not extend to the provision of such services. By the same token, the Innovation Hub will not be organising or sponsoring events intending to showcase specific innovations.

f. Informing policy of the wider FCA

The Innovation Hub will act as a centre of understanding and expertise on innovation. In particular, it will champion innovation within the FCA and ensure that the wider organisation profits from the knowledge and experience gained from working closely with innovators. In the medium term, the Hub aims to inform FCA policy in a way that supports a more innovation-friendly regulatory regime.

Criteria for defining innovation

2.52 We noted in our *Call for input* that we would seek to use our resources as efficiently as possible by focusing them on genuine, ground-breaking innovation that is in the interests of consumers, and would be seeking to develop criteria to guide our judgements in this regard. As a starting point, we indicated that we would not be able to support innovations that are not in the consumer or the public interest, or that are designed to circumvent fiscal or regulatory responsibilities.

2.53 We asked stakeholders to provide us with their ideas for criteria that we should use to focus our resources. Different respondents chose to highlight different aspects of this question and suggested numerous criteria.

a. Approach

2.54 Some respondents favoured defining innovation in the broadest terms possible to take an inclusive approach. Similarly, others suggested that we adopt an open and flexible attitude to innovation. Nevertheless, it was regularly acknowledged that FCA resources are finite and that there are limits to the amount of support we can provide. Accordingly, there was broad support for the development of criteria to focus the available resources.

⁹ www.fca.org.uk/static/documents/corporate/business-plan-2014-15-annex-2.pdf

2.55 A number of respondents referred to the inherently difficult nature of any attempt to define innovation. This was considered to result at least in part from the extreme difficulty of predicting which innovations would ultimately be successful. This led some stakeholders to conclude that it is not possible to develop generally applicable criteria for identifying ‘genuine, ground-breaking’ innovation.

b. Types of innovations or businesses

2.56 Some respondents suggested that we focus our resources on innovations that address barriers resulting from specific regulations. One respondent proposed that we identify the functional types of innovation that we would like to support, for example payments or peer-to-peer lending. Similarly, a significant number of respondents put forward criteria which were very specific and so only relevant to certain types of innovation. Examples include innovations seeking to provide automated advice or alternatives to traditional financial institutions.

2.57 Some non-regulated respondents proposed that we focus our resources on smaller businesses on the grounds that large firms have substantial resources of their own and do not require additional support. This was thought to be particularly relevant in the context of assistance to be provided in the run-up to the submission of an application for authorisation.

c. ‘Ground-breaking’

2.58 A substantial number of respondents examined the concept of ‘ground-breaking’ innovation. Many pointed out that most innovations represent evolutionary or incremental change, and challenged the appropriateness of the term ‘ground-breaking’. There was consensus about the need for Project Innovate to include evolutionary change in its scope, and that the extent to which a product or service differs from those already available on the market should be a criterion used to define innovation.

2.59 Similarly, many stakeholders referred to ‘disruption’ and suggested that an innovation that disrupts existing processes or the marketplace as a whole should be deemed sufficiently ‘ground-breaking’.

d. Consumer benefit

2.60 A large majority of respondents of all types considered that the central criterion should be the benefit of the innovation to consumers. Some described this benefit in terms of meeting a customer need. Many different aspects of consumer benefit were mentioned. These fall into the following six categories:

- improving accessibility
- enhancing financial literacy
- reducing costs
- speed and efficiency of service provision
- improving choice
- simplifying the consumer decision-making process, e.g. through increased transparency

e. Commercial viability and management

- 2.61** A significant number of respondents suggested that not only the innovation itself but also factors related to the business should be taken into account. In particular, they proposed that we consider the commercial viability of an innovation when prioritising our resources. Factors deemed important included the likelihood of success, the credibility of the business plan, the sustainability of the business model and whether a gap in the market is being addressed.
- 2.62** Many stakeholders considered the experience of innovative businesses' management and whether they have the knowledge and skills to bring the product or process to market to be relevant. The overall credibility of the management team and the likelihood of them making the most of the support they receive from the FCA were also mentioned frequently.

Our response

a. Approach

Stakeholders' responses underline that it is very difficult to define innovation in a generic way. Nevertheless, we consider it to be important to develop generally applicable criteria that will guide our decisions about which innovations and which innovator businesses we will support. These criteria will ensure transparency.

While we aim to take an inclusive approach to defining innovation, the application of criteria will result in our needing to take decisions that are consistent with our resources. This may result in disappointment on the part of some businesses. Nevertheless, we believe that by setting out generally applicable criteria, all businesses will have a reasonable chance of making a case for support from us. We will keep the criteria we have developed under review and make any changes we consider necessary if the level of demand and the experiences of the Innovation Hub indicate that this is appropriate. In doing so, we will continue to ensure that the criteria advance our operational objectives.

As already outlined in our *Call for input*, the starting point for our criteria is that we will not offer support to innovations that are not in the consumer or public interest. This includes innovations that are designed to avoid fiscal or regulatory responsibilities. The full list of criteria which we will use when making decisions about requests for support can be found in Annex 1.

b. Types of innovations or businesses

We are committed to adopting an inclusive approach to innovation to ensure that as many businesses as possible can be considered for support. We have considered the suggestions made by respondents to limit the scope of Project Innovate to specific types of innovation or innovations seeking to remedy a specific problem. However, we believe that a larger and more diverse group of businesses should be able to benefit from Project Innovate.

We will consider supporting initiatives that represent product, process, marketing or organisational innovations. We will also consider both innovations that are marketed directly to the consumer and innovations designed for the business-to-business market from which consumers may derive an indirect benefit.

It would not be consistent with this inclusive approach to define the scope of eligible businesses with reference to their size as this would exclude some innovations from the very outset. As set out in our *Call for input*, we do expect all businesses to have made a reasonable effort to understand the issue on which they are requesting our support. This is in line with SUP 9.2.5 of our Handbook in which we state that whether or not a request for individual guidance is deemed reasonable will depend both on the nature of the request and on the resources of the firm or person making it. Specifically, we expect the business or person 'to have taken reasonable steps to research and analyse a topic before approaching the FCA'.

What this means in practice will depend in part on the size, resources and experience of the business in question. In this way, we will prioritise businesses that need our support most. We do not believe that this prioritisation will result in distortions of competition. It is instead intended to help bridge the substantial resourcing gap that exists between small innovator businesses and large, established ones.

c. 'Ground-breaking'

We agree with respondents that the term 'ground-breaking' is too narrow to encompass the vast majority of innovations in the context of financial services. We will consider both brand new concepts and ideas that represent significant improvements for support from Project Innovate. Innovations that represent new applications of previously existing products or processes, as well as new or significantly improved practices initially developed in the context of markets other than financial services but employed for the first time in financial services, will also be eligible. When requesting the support of Project Innovate, we will ask businesses to explain how their innovation is ground-breaking or *significantly* different from products or services already available in the financial services market.

We agree with those stakeholders who suggested that potential market disruption (in the economists' sense) can be a useful indicator of innovation. However, the level of disruption to a market can only be determined by observing the effects after the launch of the innovation in question. As many respondents pointed out, the very nature of innovation makes it almost impossible to predict consumer and market reactions to its introduction. As a result, the level of disruption is not a suitable criterion for Project Innovate to take into account.

d. Consumer benefit

As proposed by a large majority of respondents, we will use the criterion of potential consumer benefit (either direct or through heightened competition) to help us select which businesses or innovations we support. We will not be defining any specific types of consumer benefit but will instead consider the relevant aspects as appropriate in individual cases. When requesting our support, we will ask businesses to identify the prospective benefits of their innovation for consumers. In time, it may prove possible to further refine our expectations of innovator businesses with regard to consumer benefit.

e. Commercial viability and management

It would not be appropriate for us to attempt to make judgements about the commercial viability or chances of success of a specific product or process. We are aware that the failure rate for start-ups is high, especially in the fintech sector, but we do not intend to substitute our own judgement for that of the market. We will only consider the potential failure of a business insofar as it would be likely to cause consumer detriment and/or to pose a risk to the integrity of the UK financial system.

In operating the Hub, we do not intend to assess the business experience or overall 'credibility' of the management of an innovator business when making decisions about requests for support. In the context of the authorisations process, any such consideration will be limited to what is required for the application of our threshold conditions, in particular with regard to suitability. Any attempt to go beyond this would risk erecting new barriers to innovation. This would be inconsistent with the overall objectives of Project Innovate.

3. Next steps

3.1 Today, 28 October 2014, Martin Wheatley, Chief Executive of the FCA, formally launched the Innovation Hub in a [speech](#). Our Innovation Hub is now open for business. We have also launched the new [innovation section of our website](#).

3.2 The key next steps are:

- **Difficulties with the regulatory framework**

- We will consider what more we could do to help alleviate smaller innovators' difficulties in obtaining access to bank accounts; we will continue to provide regular updates on our progress.
- We will continue to engage with the Treasury with regard to its review of digital currencies and whether they could or should be regulated in the UK.
- We will continue to assess and prioritise which changes could be made to FCA policies and processes in order to foster innovation in financial services.

- **Events**

In the context of our ongoing plan of engagement with innovators, we will organise a series of events around the UK. Details of upcoming events and how to register can be found in the new [innovation section of our website](#).

- **Innovation section of the FCA website**

Over the next six months, we will assess how we can best develop the innovation section of the FCA website further, in particular with a view to adding new functions.

- **Reviewing the Innovation Hub**

Project Innovate and the services provided by the Innovation Hub have been designed with flexibility in mind and are intended to be dynamic. We will be continually learning from our experiences and our contacts with innovators and other stakeholders. The design, functions and processes of the Innovation Hub will be subject to review and improvement, especially during the first six months. As part of our collaborative approach to supporting innovation, we will be seeking the comments and suggestions of innovator businesses who are engaging with us. Furthermore, should we identify ways in which the Innovation Hub is helping innovator businesses which could potentially be extended to operations across the wider FCA for the benefit of regulated firms more generally, we would assess the feasibility of doing so.

Annex 1

Criteria for innovation

Criteria	Key question	Positive indicators	Negative indicators
Genuine innovation	<ul style="list-style-type: none"> Is the innovation groundbreaking or significantly different? 	<ul style="list-style-type: none"> Desk research produces few or no comparable examples of innovation Independent expertise believes that it is genuinely innovative Step-change in scale 	<ul style="list-style-type: none"> There are numerous examples of similar innovations Independent expertise believes it is not particularly innovative It looks like artificial product differentiation
Consumer benefit	<ul style="list-style-type: none"> Does the innovation offer a good prospect of identifiable benefit to consumers (either directly or via heightened competition)? 	<ul style="list-style-type: none"> The innovation is likely to lead to a better deal for consumers e.g. through lower price or higher quality The business has identified any possible consumer risks and proposed mitigation The innovation will promote effective competition 	<ul style="list-style-type: none"> Likely detrimental impact on consumers, markets or the financial system It looks designed to circumvent regulatory or fiscal obligations
Background research	<ul style="list-style-type: none"> Has the business invested appropriate resources in understanding the regulations in relation to its own position? 	<ul style="list-style-type: none"> The business has sought to understand their obligations as far as appropriate 	<ul style="list-style-type: none"> Little effort made to understand relevant regulations Unclear what additional support the business would require outside of usual process
Need for support	<ul style="list-style-type: none"> Does the business have a genuine need for support through the Innovation Hub? 	<ul style="list-style-type: none"> The business has no alternative means of engaging with the FCA The innovation does not easily fit the existing regulatory framework 	<ul style="list-style-type: none"> Firm has a dedicated supervisor who could answer the query Business has significant regulatory compliance resource The innovation easily fits the existing regulatory framework

Annex 2

List of non-confidential respondents

Association of British Insurers

ACE Consensus Ltd.

Alexander House Financial Services Ltd.

Alps FS Ltd.

Amazon UK

Association of Professional Financial Advisers

Barclays Bank plc

Bi-Different Srl

Black Swan Partners

Boldrocket

Bovill

British Private Equity and Venture Capital Association

Building Societies Association

Charles Stanley & Co Ltd.

CoinJar

Crowdestates

The Crowdfunding Centre

Desmond Chin

Decura LLP

Direct Line Group

Dunne Capital Ltd. (Mimex)

Echelon Wealthcare

eCo Financial Technology
Elston Consulting Ltd.
Erudine
eToro (UK) Ltd.
FCA Practitioner Panel
FCA Smaller Business Practitioner Panel
Financial Services Consumer Panel
Fleet Street Publications/MoneyWeek Ltd.
Friends Life
Global Relay Communications
Gx
Hitachi Capital
Ignitr
Investment and Life Assurance Group Ltd.
Lloyds Banking Group
Lorica Advisory Services Ltd.
Millennium
MiraBlue Ltd.
Morningstar
Novastone / WealthChat / ShopChat
Octopus Investments
Payfriendz Ltd.
PaymentsCompliance
peerTransfer Ltd.
Phoenix Edge Ltd.
Prepaid International Forum
Rain Innovation Partners

RateSetter.com

Royal & Sun Alliance Insurance plc

Seedrs Ltd.

Selectapension Ltd.

ShareIn

Smarter Financial Services LLP

Stephen Clowes

Steve Paramor

Thistle Initiatives Ltd.

Uday Goel

UK Shareholders Association

Vivek Madlani

Wealth Management Association

Willis Owen

Wise Funds Ltd.

Wonga Group

WPS Financial Group

Yoyo Data Ltd.

Annex 3

List of roundtable events

31 July 2014	Getting authorised: Designing an incubator for small innovators
5 August 2014	Non-regulated businesses: How an Innovation Hub could support innovation by unregulated businesses
14 August 2014	Getting authorised: Designing an incubator for small innovators
19 August 2014	Non-regulated businesses: How an Innovation Hub could support innovation by unregulated businesses
20 August 2014	Regulated firms: How existing players could engage with an Innovation Hub
27 August 2014	Regulated firms: How existing players could engage with an Innovation Hub



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25 The North Colonnade Canary Wharf
London E14 5HS
Telephone: +44 (0)20 7066 1000
Website: www.fca.org.uk
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