

# Financial Services Consumer Panel

AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

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7 September 2015

Dear Helen,

## **Call for input: Regulatory barriers to innovation in digital and mobile solutions**

This is the Financial Services Consumer Panel's response to the call for input.

### **The FCA's approach to innovation**

This call for input assumes that regulation is standing in the way of innovation. That may not be the case. Necessity is the mother of invention. For example, severe restrictions on smoking have forced the tobacco industry to innovate and get new products to market quickly.

The Panel has recently exposed the hidden costs in investment management and pressed for a single charge<sup>1</sup>. This kind of bold action by the regulator could move a static asset management industry to innovate and improve efficiency and transparency, realising benefits for individual investors, and the economy, which would benefit from more funds flowing through it than being eaten up in excessive and obscure charges.

So, our first point is, what does the FCA want to achieve here? Simply removing regulation the industry finds burdensome may not help at all. Does the FCA want to go beyond this, to smooth the path for new entrants, or even to help shape or lead innovation?

### **Consumer-focused innovation**

Commercial viability is likely to be the primary issue for incumbents, rather than regulatory barriers. Where the status quo is profitable, and there is limited threat from new entrants, there is little incentive for firms to innovate. Incumbent firms may nevertheless argue particular rules they don't like are stifling innovation. The FCA needs to test these claims rigorously, and look at the position of potential new entrants in this context.

A lot of the focus of innovation has been on the customer interface or on back office functions, which enable firms to deliver services more cheaply. There is nothing wrong with increasing efficiency if the benefits are passed on to consumers in lower prices, but

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<sup>1</sup> [https://www.fs-cp.org.uk/sites/default/files/investment\\_discussion\\_paper\\_investment\\_cost\\_and\\_charges.pdf](https://www.fs-cp.org.uk/sites/default/files/investment_discussion_paper_investment_cost_and_charges.pdf)

is there any evidence this happens? We would like to see innovation assessed against the benefit to the consumer and the real economy; and market efficiency.

There is a danger that regulatory protections become progressively weakened if the received wisdom is that regulation both inhibits growth and reduces choice for consumers. The UK has one of the most admired regulatory systems in the world. It is the reason financial services firms want to do business in London. This contributes to growth directly, and through the associated ancillary services. The sabre rattling of large firms has had little to do with conduct regulation, and more to do with taxation and long overdue moves to make their directors more accountable. The fact that sectors (eg crowdfunding platforms) actually want to be regulated is testament that they believe the benefits will outweigh the costs.

This is not to argue for more regulation, quite the reverse. We are in favour of removing requirements which add little to consumer understanding or do not address asymmetric market power (for instance where insurers are required to publish the 'Consumer Friendly Principles and Practices of Financial Management' which have generally been difficult for consumers to interpret).

We are also in favour of changing rules so they work better for consumers. A detailed study of the regulatory barriers to the development of automated advice services, the consumer protection risks created by the adoption of new models and a deeper analysis of how these have worked in other countries would provide useful insight. Regulatory scrutiny and assessment of the risk and suitability tools used by automated or 'robo-advice' services will be essential as those services become more widely used by consumers. Tools that are poorly developed and/or monitored have the potential to give rise to widespread systemic mis-selling and therefore further undermine confidence in the sector.

We would like to see innovation focus on accessibility, complexity, transparency and asymmetries of power. It would be useful to see metrics on how consumers' needs could be met more effectively in these areas through innovation. We would also like to see research into consumer expectations, which in turn could lead to Project Innovate providing more direction, setting the industry specific challenges and working with them to explore possible solutions.

The Panel believes the Innovation Hub should be both supporting and actively searching for digital and mobile solutions which provide good consumer outcomes. In America, the Financial Solutions Lab, run by the Center for Financial Services Innovation (CFSI) and JPMorgan Chase & Co<sup>2</sup>, recently launched an initiative to identify innovative solutions to specific financial challenges for consumers in the areas of increasing savings, improving credit, and building assets. The CFSI has also produced a number of 'thought leadership' papers, including, for example, on Big Data.

The Panel has identified the following areas where innovation could benefit consumers. We would encourage the FCA to make greater use of its own research and analysis to identify further issues facing consumers, where innovation could make a difference.

- Metrics to help consumers assess firms' reputation and post-sale quality of service before they buy.
- Standardised language and simple terms which consumers understand;
- Using 'big data' to improve access, particularly to banking and credit, and to develop new products and services;

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<sup>2</sup> <http://www.bloomberg.com/article/2015-06-11/apQBpNCmKMFI.html>

- Safe and fair ways of filling the credit vacuum left by tighter credit regulation;
- Alternatives to continuous payment authorities (CPAs) that allow lenders to mitigate risks, but are fairer, more transparent and easier for consumers to control.
- Helping the digitally excluded to receive the same benefits as others, eg contactless prepaid cards
- Data Protection: much more could be done both to prevent data security risks and to improve consumer confidence;
- Portable investor profiles would remove the need for advisers and providers to carry out multiple suitability assessments and be potentially useful for the provision of simplified advice. The FCA could develop a kite mark for portable investor profiles and robo-advice, to reassure firms that they would be compliant with rules on suitability testing, if they used an 'approved' service; and
- Asset management: incentives are needed to make asset management firms innovate and ensure more transparent fees and charges.

There is also the potential for cross-industry (and pan-European) collaboration and learning in areas where there is little or no regulatory precedent, for example the use of 'Big Data' and its impact on and data protection and firms' behaviour. We would like to see both industry and regulators exploring this.

Above all, however, what the Panel would like to see is safe and secure product design and delivery where unreasonable and unfair risk is eliminated and which promotes effective competition as well as providing effective redress when things go wrong.

Yours sincerely

A handwritten signature in black ink, appearing to read 'S. Lewis', written in a cursive style.

Sue Lewis  
Chair  
Financial Services Consumer Panel