Innovate Finance – Written evidence (SCG0049)

Table of Contents

About Innovate Finance 1
Executive Summary 2
Response to supplementary questions from the Committee 6
Outdated regulation and barriers to growth 6
International Competitiveness of UK financial services 15
Role of Government 21
Metrics for a world-class, forward-thinking and future-proof regulator 23
Delivery of Open Banking 32
Fraud 33
Payment Systems Regulator 37
Capacity and culture at the regulators 39
FCA’s innovation hub 42
Listings reforms 44
Compliance burdens 45
Annex: Full list of Innovate Finance proposals for the FCA and PRA to advance delivery of the secondary objective on competitiveness and growth 47

About Innovate Finance

Innovate Finance is the independent industry body that represents and advances the global FinTech community in the UK. Our mission is to accelerate the UK's leading role in the financial services sector by directly supporting the next generation of technology-led innovators.

The UK FinTech sector encompasses businesses from seed-stage start-ups to global financial institutions, illustrating the change that is occurring across the financial services industry. Since its inception in the era following the Global Financial Crisis of 2008, FinTech has been synonymous with delivering transparency, innovation and inclusivity to financial services. As well as creating new businesses and new jobs, it has fundamentally changed the way in which consumers and businesses are able to access finance. At Innovate Fiance we cover all financial services

sectors and therefore have an unparalleled perspective across all areas of UK financial services regulation and regulators.

When engaging the Parliament, we aim to reflect the UK FinTech ecosystem and specifically the needs of start-ups, scale-ups and high growth enterprises.

In addition to this written response, we have also provided oral evidence to the Committee. Our CEO, Janine Hirt, attended an evidence session on Wednesday 23rd October. The video and transcript of this session can be found here. We have set out in this paper additional evidence and responses to specific supplementary questions (in red font) asked by the Committee as follow up to the oral evidence session.

Executive Summary

Over the past 15 years FinTech has become a UK success story. New entrants have transformed the financial services sector for the better, making it more effective, more accessible, and more transparent. Today, 8 out of every 10 adults in the UK are regularly using at least one FinTech tool, and 59% of all SME lending across the UK is being done by FinTechs, Challenger Banks and other non-bank lenders.

The UK plays a global leadership role when it comes to financial innovation and technology. In 2023, despite economic turbulence, UK FinTech received more than $5 bn of investment, second only to the United States and ahead of the next 10 countries in Europe combined. FinTech is also the crown jewel of our thriving tech sector, boasting 21 of the UK’s 40 unicorns.

Innovate Finance strongly supported the Financial Services and Markets Act 2023 and the introduction of a secondary objective for the regulators. The view of the FinTech sector is that having a secondary competitiveness and growth objective for the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) should unlock the potential of FinTech and support further innovation. Now that this objective is in place, it is imperative that the FCA and PRA meet their obligations as set out in the Act.

Our members are facing a number of challenges in today's regulatory environment from diverging approaches between the FCA and the Bank of England on the regulation of stablecoins to, the "Valley of Death" faced by high growth FinTechs as they move from the handholding of a sandbox to subsequently have to deal with multiple FCA teams and no dedicated regulatory contacts. The regulators need to adopt a FinTech positive mindset in order to deliver on their secondary objectives. This will require a step change in regulatory approaches, a point which we expand upon throughout our evidence below.

As FinTech becomes the norm in financial services, we need a step change in regulatory approaches. There are three pillars to a new approach from the regulators, which would eliminate barriers to growth and supercharge our FinTech sector in the United Kingdom.

1. **Be 'tech positive' - think FinTech first:** The FCA must improve how it regulates: faster, better, more efficiently. This can be delivered by a better understanding of, and support for, scale up firms – through dedicated supervisory teams or Scale Up Units – and through more secondments and interchange with industry. Cost-benefit analysis must include consideration of impact of smaller firms and FinTechs and regulatory policy must take into account how technology may deliver better outcomes. A shift in mindset to treat technology as an opportunity rather than a risk is required. Singapore and Jersey are way ahead of the UK in promoting RegTech and in being 'Tech Positive'. Too many regulatory proposals do not take the specific circumstances of our growing FinTechs into account (for example the FCA enforcement publicity proposals earlier this year).
2. **Do things faster and more strategically:** Regulators must prioritise regulation that will open up innovation and growth. A joined up strategy and accountability for delivering on areas that matter to growth and competitiveness is essential. Key areas where FinTech needs faster progress and a strategic drive include open banking payments, extending that to open finance, digital assets regulation including stablecoin and custody, identity verification, and tackling fraud at source. This needs Government and regulators to act together - a whole systems approach from Government and regulators with HM Treasury also acting faster and setting clear direction and responsibilities. FinTech needs joined up regulators, with clear leadership and responsibility, especially on opportunities and challenges such as, fraud, open banking, crypto, payments. Too

often there is no single strategy and no one in the driving seat, leaving the pace slow and ad hoc. The sector wants to see speed, ease and clarity from regulators when developing and implementing regulation. Faster and better authorisation and approval is also high on the list of FinTech asks, starting with more detailed metrics so we can assess performance for scale ups.

3. **Removing outdated regulation and barriers to growth:** The regulators must scrap reporting requirements that are no longer relevant or duplicate other activity. This includes Covid reporting and providing credit information that duplicates what firms provide to credit bureaus. The current review of legislation that duplicates or contradicts the Consumer Duty provides a welcome opportunity for the streamlining of the consumer rule book. This approach can also be applied more broadly to steer us towards more outcome based regulation, which (if done well) can better enable innovation.

A full list of proposals that we believe the regulators should take forward can be found in the annex of this response.

In the last six months (H2 2024) we have seen an increased engagement and interest from regulators, particularly the FCA, around growth and competitiveness. It is an increasing topic of discussions with teams across the FCA. **We now need to see these promising green shoots translate into more action and become integrated into their strategy and plans, systems and culture.**

<u>International competitiveness</u>

In terms of international competitiveness, there are examples where government could have taken measures to introduce regulation more swiftly. This includes encouraging the regulators to take further action to encourage the adoption of RegTech, considering ways to tackle fraud more holistically through shared liability with tech and telecommunications platforms, as well as expediting Open Banking, Open Finance, Smart Data as well as crypto and stablecoin.

In terms of where we have fallen behind international comparators, some examples include the Nordics in relation to establishing digital ID schemes, the EU in terms of taking forward listings reform, Singapore in advancing RegTech solutions, and Brazil, India and Australia in expanding open finance.

However, the UK remains the biggest market in Europe, and the second largest in the world after the USA, for FinTech investment. As long as our

regulators keep in mind their obligations under the competitiveness and growth objective, act proportionality, and remain agile, we can catch up with other jurisdictions as well as maintain our competitive edge.

We recognise that there are many examples where regulators and government could have and can do more. In our FinTech Plan for Government we identified three big game changing areas to extend UK competitiveness:

1. Build the world's first smart data economy - which should include promoting public sector adoption of Open Banking and setting out a clear vision for Open Finance, and lining blockchain and AI.
    - Delivering a smart data economy alone will add £215 billion to the UK economy over five years.

2. Make the UK the most secure place in the world for consumers and businesses to use digital finance - which should include introducing shared responsibility and liability for social media and telecommunications firms, especially for APP fraud, so that FinTechs can have the capacity to continue innovating in payments.
    - Tackling payments fraud alone in a holistic manner can add £6 billion to the UK economy over five years.

3. Make the UK the world leader in adopting new technology in financial services - which will include building a regulatory framework for the future of digital financial services (e.g. encouraging 'Tech Positive' regulators via a Regulatory Innovation Office) and supporting homegrown FinTech companies with their funding needs.
    - Establishing the conditions for new technologies to be adopted in financial services is critical to maximise the contribution of FinTech to economic growth.
    - FinTech can then become an international champion that generates export revenues and as an enabler of productivity and growth in the everyday economy and industries of the future.
    - There is a tremendous potential to achieve much more if the UK remains the leading location for innovation in financial services, and it will also deliver increased growth.
    - This requires a multipronged approach that reflects the different factors involved in helping innovative firms grow and bring their ideas to market, from a forward

looking regulatory model to access to funding for innovative firms.

Response to supplementary questions from the Committee

Outdated regulation and barriers to growth

A list of perceived unnecessary regulations/constraints, including specific rules and duplication in process.

In 2021, in response to a FCA consultation on proposals for the Consumer Duty we recommended that "alongside the consumer duty we need a thorough (post Brexit) review of FCA consumer regulation to identify existing prescriptive rules which will be dropped when the consumer duty is introduced." As we said then, outcomes-based rules will not promote innovation if they are superimposed on top of existing prescriptive rules. With the introduction of the consumer duty, the FCA dropped two existing handbook principles but aside from that no other regulatory requirements were removed in favour of outcomes-based requirements. We were therefore delighted when the FCA launched its consultation in July 2024 to review what existing prescriptive consumer rules to identify where old requirements in the rulebook duplicate or are even at odds with the 'outcomes based' requirements of the Consumer Duty.

In our response we set out an extensive list of unnecessary regulations, constraints and duplication. These include:

- Product governance with regards to products meeting the needs of customers
- Financial promotions in terms of information provided to a customer
- Financial Advice in terms of acting in the best interests of a customer
- Providing fair and clear information in terms of disclosures
- Conflicts of interest in terms of avoiding foreseeable harm
- Vulnerable customers in terms of providing good outcomes
- Complaints handling, also in the context of providing good outcomes
- Senor Managers & Certification Regime, in the context of new responsibilities on all staff within a firm to provide good outcomes

  - Consumer Credit Act in terms of consumer information and disclosure requirements and customer understanding as well as prescriptive rules on handling arrears - all of which have been identified by consumer groups as providing poor consumer outcomes.
  - Fifth Money Laundering Directive (5MLD) and cryptoasset registration scheme
  - Reporting requirements, including Covid Reporting and requests for information the FCA already holds

Our full response is here.

Reflections on other examples where innovation has been held back by regulation or government policy.

There are numerous examples in consumer credit where tick box compliance requirements and regulatory approaches to risk hinder innovation and deliver worse outcomes for consumers.

The subprime credit market is one example where the approach of regulators has certainly led to firms leaving the market and, more relevant to FinTech, being reluctant to introduce innovative new products and services. FinTechs have by and large struggled to fill that gap in the market, for several reasons:

- The Financial Ombudsman Services (FOS) case fees have killed off various sub prime lending markets, deterring new models coming onto the market.
- The Consumer Credit Act (CCA) which has such prescriptive, analogue based requirements that it is near impossible to build a compliant digital journey; the CCA is universally seen as providing poor consumer outcomes and potentially a conflict with the Consumer Duty.
- FCA affordability tests which have created uncertainty in the market about how use of data and technology may affect the regulators' view of whether affordability was properly assessed.
- Regulatory uncertainty as a whole means investors - and critically wholesale funders for lending – are nervous about the market and access to wholesale finance is therefore expensive.

Government and regulators are taking some action on these areas - the Consumer Credit Act is being reviewed, FOS has changed its approach to CMCs. But this remains slow. We do not have the counterfactual data, but a recent report by EY and Clearscore titled *Building a non-prime lending*

market that delivers for UK consumers does provide compelling evidence of the nature of the problem. This is also an example of failure of a joined up approach by government and regulators – the Woolard Review in January 2021 identified the need for action to grow the availability of credit for the subprime market but we still do not have a concerted strategy for this.

Consumer Credit Information Market is an example where the FCA has been timid in applying its competition powers to open up innovation and better consumer outcomes, and has taken a cautious approach to reform. The presence of third party providers of high-quality, trustworthy and predictive credit information is a critical part of a modern credit market. Unfortunately, the current UK credit market is not working in a way that achieves the best outcomes for consumers, innovative credit providers and continuous innovation in credit information.

An FCA market study in 2023 has led to a limited FCA programme of reform in the credit information market, which is currently dominated by an oligopoly of three main CRAs. The governance model for the CRAs (Steering Committee on Reciprocity ('SCOR')) has proved relatively unresponsive to the needs of innovative products, and the FCA has set up an independent working group to develop a new governance model to address concerns about the lack of transparency, inclusiveness and openness to consumer interests, innovators and competition.

Alongside this, the FCA has proposed mandatory reporting of credit information by credit providers to 'designated' Credit Reference Agencies - with an indication that this may be only the three largest Credit Reference Agencies. This approach is potentially anti-competitive and detrimental to innovation, in effect bestowing a regulatory advantage that further entrenches existing market power by those largest firms. In our view, governance reforms need to be firmly embedded and seen to be working first; and more widespread reform of the market is needed to support technology-enabled innovation, different models of data sharing and credit information, and greater competition. Without this, any requirement to report to the three big CRAs risks entrenching an already established oligopoly.

Furthermore, there are other market failures that the FCA is not addressing, despite issues raised in the Woolard Review, published by the FCA itself in 2021 (*The Woolard Review - A review of change and innovation in the unsecured credit market*, published on 2 February 2021). Recommendation 14 of the Woolard Review stated that:

"Through the Credit Information Market Study or as part of a wider strategy, the FCA should:

- *make clear the outcomes which the market needs to achieve for consumers and lenders, and how these will support a healthy credit market, including where consumers interact directly with Credit Reference Agencies (CRAs) and Credit Information Services (CISs)*
- *assess whether the credit information market is operating is a way which enables consumers who use credit responsibly to build their credit file and access more credit options*
- *consider whether a mandatory reporting requirement would drive better outcomes for consumers*
- *consider the case for introducing rules to require creditors to report to courts when a County Court Judgement (CCJ) has been satisfied or partially satisfied, to drive up the quality of existing credit information*
- *identify and address barriers to widespread use of Open Banking data, with particular attention to alternative credit providers"*

The FCA has not taken action on most of these questions (except the third and fourth), yet these are areas which could open up further innovation.

For more details, see our response to the original FCA market study here.

It is not clear why the FCA has taken such a limited approach to reform of the Credit Information market, despite a clear steer from the Woolard Review it commissioned. It does seem likely that they had limited capacity and it also appears that they had a limited view of innovation in the market and the solutions which open banking other alternative data can now enable.

As the FCA begins work now on developing a regulatory approach to Buy Now Pay Later, it is important that they do not apply an overly prescriptive approach to related issues such as affordability tests and that they allow for a wider range of innovative solutions that can achieve the same outcomes.

Sustainability disclosure rules:

Another area where FCA rules have held back innovation is their Sustainability Disclosure Requirements (SDR). In developing these rules, the FCA expressly ruled out any requirement for individual firms' sustainability disclosure to be in a machine readable form. Requiring machine readability ('XBRL tagging') would have promoted

interoperability between different software applications; allowed the FCA to achieve greater automation and scale; and support greater product development, consumer product comparisons, more effective auditing and cheaper and better RegTech solutions to compliance. Furthermore, given the Securities and Exchange Commission (SEC) in the USA does require XBRL tagging, failure by the UK to do so risks UK competitiveness in developing more advanced technology based systems and solutions. This was an opportunity for the regulator to support and enable UK compliance technology solutions - but the opportunity has been missed. Further details here.

Are there any 'cliff-edges' that discourage firms from growing, for example the 'death valley' that Innovate Finance mentioned. Are there other examples of glass-ceilings?

Too many regulatory proposals do not take specific circumstances of our growing FinTechs into account. We have examples of FinTech firms battling the odds; facing greater costs than incumbents, but navigating these through innovation and determination. This raises the question of whether it is right that they face such drags on their competitiveness.

PRA capital requirements

In the case of the PRA and minimum requirements on own funds and eligible liabilities (MREL) and Basel 3.1, smaller bankers face additional costs of lending to SMEs; this is because large banks are allowed to develop their own bespoke risk models, but smaller banks have to stick to rigid standard formulas that are not suitable for scalable digital business models. Not only is this negatively impacting the growth of UK challenger banks, who (together with other FinTech finance providers) now provide c. 60% of all SME lending nationwide, but it is also hindering the growth of our SME economy, which relies on these impacted firms for funding.

PRA recently consulted on proposals for the simplified capital regime for Small Domestic Deposit Takers (SDDTs), under its 'strong and simple framework' (PRA consultation (CP7/24)). We have raised concerns that some of these proposals may materially increase capital requirements compared to current rules, in particular, for firms focused on lending to small and medium sized enterprises (SMEs). This lack of focus on SMEs does not seem in line with the PRA's secondary objectives and seems to result from a similar lack of focus to that seen with the original PRA CP16/22 (consultation on the Implementation of the Basel 3.1 standards) proposal. This is likely to lead to challenger banks staying in the current regime with higher operational costs, potentially hindering their ability to support the UK's economic growth. Our concerns relate to Pillar 2A (P2A)

and Pillar 2B (P2B) (rather than the Pillar 1 rules where we believe it is sensible to adopt the Basel 3.1 rules).

Furthermore, to ensure that the UK remains competitive internationally, we have called on the PRA to compare its proposals to the regulatory regimes that apply to non-systemic firms in other jurisdictions. This should include but not be limited to the US, EU and Switzerland given that they are examples of jurisdictions that the PRA pointed to when discussing the Strong and Simple framework.[1]

More detail is set out in our full response to the PRA here.

We are currently responding to a live consultation from the Bank of England on *Amendments to the Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL)*. We are supportive of the proposals outlined in the consultation and welcome a move to simplify the approach taken towards MREL. But we are concerned that the proposals do not go far enough to alleviate the regulatory burden and uncertainty challenger banks face, which could impede these banks in supporting the UK economy's growth. As the government has made clear in the Chancellor of the Exchequer's recent Mansion House speech and its letter to the Bank of England, the UK regulator's focus on risk in its approach to regulation has been at the expense of opportunities for growth in the UK economy.

Given the importance of the challenger bank sector to the UK and the SME sector in particular, the proposals need to be considered in this light and the extent to which the measures could serve as an unwarranted brake on these banks' ability to boost the economy. For example, the proposals do not factor in other recent changes in the regulatory environment, which together will lead to a more resilient sector and should mitigate further the need for MREL. Other aspects of the regulatory regime already address the same issues that MREL is intended to mitigate.

This continues to create a 'cliff edge' effect where banks either need to be very big or very small, which cannot be a good market competitive outcome as it will tend to act to maintain an overall retail banking oligopoly. Nor does it seem wise to incentivise banks that are crossing the threshold to seek to get a lot bigger quickly via mergers and acquisitions (M&A) (witness various M&A activity in 2024 in second tier size lenders), as that creates prudential risk - so it is not clear the threshold is aligned to either the primary or secondary objectives of the PRA. We are currently finalising our detailed response to this Bank of England consultation and will share further details in January 2025 when this is complete.

[1] Bank of England, *Strong and simple - speech by Sam Woods*

We remain concerned that across capital requirements, the PRA and Bank of England are not yet fully applying their competitiveness and growth secondary objective - to the detriment of both UK digital challenger banks and also the SMEs and customers they serve.

Cliff edge in supervisory support

Big financial institutions have dedicated supervisory teams, high growth FinTechs do not. The support for firms when they are starting, even all the way at ideation stage, is pretty good with the FCA's Innovation Pathways and Permanent Digital Sandboxes available. The issue comes during a firms' scaling phase. In between the handholding of sandbox and becoming systemically important enough to have dedicated supervisory account managers, firms face a cliff fall which we term "valley of death". Typically, where support is available from the FCA at start up, this often tapers off during the scale up phase and a FinTech can go from having regular engagement and hand-holding helping them to get to scale-up phase, to very little support during the stage where they're trying to reach profitability. In contrast, if you are a large financial institution, you have dedicated case workers.

FinTechs have to navigate multiple FCA teams, starting from scratch every time they speak to the regulator. We understand that there is no fixed metric in determining whether a firm should have dedicated supervisory account managers, instead it is based on riskiness and impact on UK customers. This suggests a lack of clarity within industry about the level of growth and reach that will entitle firms to receive dedicated supervisory account managers. This is a significant barrier to growth, draining resources within FinTech firms, but also deterring firms from innovating.

Our largest FinTechs do have a named supervisory team. Even this could be improved. Their named team tends to serve a large number of firms - particularly in the FCA - and we are aware that whilst the PRA supervisory team may meet the regulated firm on a monthly or quarterly basis, communication with FCA teams can be less frequent and can be email based.

We would like to see scale ups and high growth firms with dedicated and more proactive supervisory teams in the regulators. The Bank and FCA set up a successful bank Start Up unit - what we now need is a Bank Scale Up unit and this approach replicated in other FinTech sectors. This would also have the benefit of increasing supervisory teams' knowledge

and understanding of innovative firms and enable more informed input to policy making.

On balance, do the regulators (and Government where appropriate) consult industry on new rules in a timely manner, and enable firms to take advantage of new opportunities? If not, what could change and what are the obstacles?

Unfortunately, it has not always been the case that the regulators and government have consulted industry on new rules in a timely manner. A key example would be the PSR, who we recognise is not bound by the secondary competitiveness and growth objective, but does not negate the wider point about the regulators.

We track all the consultations we respond to (52 last year and 40 so far this year). The timescales vary enormously from three months to three weeks. In recent years the PSR in particular has had a fondness for publishing consultations in August or the week before Christmas - with six weeks or less including holiday period.

We have experienced instances with the PSR, particularly on APP fraud mandatory reimbursement, where industry were given as short as 10 working days to respond to consultations or industry questionnaires. The problem is especially amplified when multiple consultations with similarly close deadlines are published at the same time.

In April and May 2024 we faced a situation where we had the following short consultations from PSR running in parallel:

1. JROC (FCA, PSR, CMA, HMT) JROC's proposals for the design of the Future Entity for UK open banking
   - Publication date: 19 April 2024
   - Deadline: 20 May 2024
   - Working days: 21

2. PSR voluntary industry questionnaire on industry's readiness - for trade associations to compile feedback and aggregate response
   - Publication date: 3 May 2024
   - Deadline: 17 May 2024
   - Working days: 10

3. PSR CP 24/3: The FPS APP scams reimbursement requirement: compliance and monitoring

- Publication date: 17 April 2024
- Deadline: 28 May 2024
- Working days: 28

4. PSR CP24/7: APP scams publication guidance: Cycle 2
    - Publication date: 7 May 2024
    - Deadline: 30 May 2024
    - Working days: 17

5. PSR CP24/8: CHAPS APP scam reimbursement requirement
    - Publication date: 8 May 2024
    - Deadline: 31 May 2024
    - Working days: 17

Following our feedback, they have now put in place a process to ensure better scheduling in future.

Additionally, the FCA has also on occasion fallen short in giving industry adequate time. For example, the FCA consultation (CP22/27) on *Introducing a gateway for firms who approve financial promotions* was published in early December 2022, with the deadline in early February. This was a significantly important consultation for FinTech which did not account for the festive period, in effect giving industry just about 6 weeks to respond.

Another example can be found in CP23/21 on Listings Reforms - an important topic with regards to our international competitiveness. The consultation was launched one working day before Christmas with a deadline of 16 February, and assuming many offices close over the holiday period and re-open on 2 January, left just 34 working days to deliver a measured response to a vital subject.

Whilst this may seem like ample time, consultations do not happen in silos and it is very often that several consultations on varying topics will be happening in tandem. This creates pressure in ascertaining the industry's view - often when members, particularly from smaller firms, have to run their businesses at the same time. Where roundtables are required to discuss with members and stakeholders, previous diary commitments are a greater factor when the timescale is short and the process of drafting responses and achieving sign-off is also compressed. This significantly impacts the quality of feedback and detail of answers that can be given and undermines the very reason for consultation.

This is a challenge for small trade associations like ourselves but even more of a challenge for FinTechs, who are already stretched and do not have the resources and capacity of large incumbent institutions. This is because short deadlines, especially when they are not flagged up in the regulatory initiatives grid, diminishes the sector's ability to provide measured and well-thought out responses as well as seize new opportunities.

We note that there are instances where the regulators are unable to act with advanced notice and also where short deadlines are inevitable. However, whenever possible, this needs to be avoided to ensure that all stakeholders are appropriately consulted.

Regulators should also be more willing to consult with industry through other mechanisms, such as industry workshops and one to one sessions with firms when there is a short deadline (something which the PSR offered industry during the later stages of finalising the APP fraud reimbursement regime).

International Competitiveness of UK financial services

Reflections on perceived stasis in regulation, where the UK risked lagging behind international competitors.

The speed at which policy and regulation is developed and implemented is continually flagged as a concern by our members. There are a number of reasons behind this stasis.

In our regulators, technology is not seen as an opportunity, but rather as a risk, leading to a tech averse culture. Across a number of areas, there is a clear lack of active leadership and joined up delivery. Greater clarity on responsibilities is required. A particular example of where the UK might benefit from leadership and joined up delivery is payments, where there is a particular weave of different regulators: PSR, Bank of England, FCA and CMA. Arguably, in countries where payments are more firmly led by the central bank we have seen a clearer and faster drive on innovation. This has now been recognised in the Government's National Payments Vision.

The FinTech sector in the UK requires joined up regulators, with clear leadership and responsibilities. Too many opportunities for the sector are yet to be realised due to diverging approaches from regulators, including open banking, cryptoassets and payments; whilst challenges such as

tackling fraud have also been left untouched. Too often there is no single strategy and no one driving the momentum. This has led to a slow and ad hoc approach, and has ultimately, disadvantaged innovation and growth in UK FinTech and allowed other jurisdictions to catch up.

We are awaiting regulatory progress in a number of areas, some of which are described below. Delays in policy development regarding the below areas are causing investment to be lost, running counter to the regulators' secondary objective on growth and competitiveness and the government's mission to deliver growth in our economy.

1. Digital assets and blockchain

   Digital assets and digital money is an area where we need a more joined up approach and clarity of vision and purpose. We do not get a sense that across all regulators and Government the adoption of digital assets as the future plumbing of financial markets is seen as critical to UK competitiveness and maintaining our position as a global leader in financial services. We are maybe edging there, and the digital securities sandbox set up jointly by the Bank and FCA is a good example of excellent pro-innovation joined up approach, but there is not a singleness of purpose across the piece. On stablecoins we had two rather different approaches to regulatory proposals from the FCA and Bank of England, where the Bank's proposals for systemic stablecoin would create a huge disincentive for growth and treat stablecoin as of higher risk and with more rigid capital requirements and none of the interest bearing benefits than bank deposits. HM Treasury has a part to play - we are still waiting for secondary legislation to be laid to give the FCA the power to develop the stablecoin regime. A year ago Ministers promised this would be introduced by January this year; they then failed to do so before the May General Election and we are still waiting.

2. Stablecoins

   More specifically on stablecoins, dual consultations in November 2023 set out differing approaches on stablecoin regulation between the FCA and Bank of England; both regulators consider stablecoins to potentially be within their regulatory purview, but the fragmented and divergent approach can lead to a lack of clarity and certainty for firms involved in this area. This also has the potential to create a

cliff edge in future, for firms who transition from the FCA's regime to the PRA regime. Taken together, the FCA and BoE proposals did not provide the basis for enabling stablecoin providers to scale up in the UK. The Bank's systemic proposals had capital requirements that are more onerous than a banking licence and would create a cliff edge for businesses looking to grow from the proposed FCA regime to the Bank of England;s regime. This does not create a viable commercial model for fintech stablecoin providers and risks stifling the growth of innovators and creating a model that only large banks, incumbent global payment providers and Big Tech can exploit. If we can get this right however then there is an opportunity for the UK to be a global centre for stablecoin and significant benefits for consumers, businesses and merchants. Further details on our views relating to this issue can be found here.

In the last month the Treasury has set out its revised approach to stablecoin regulation, which does seem to involve delaying a regime for 'systemic stablecoin'. Whilst this delays the issue, it remains to be seen whether the Bank of England will return with similar proposals that still create a 'cliff edge'.

3. Open Banking and Open Finance

There continues to be a lack of clear direction and strategy from HM Treasury on Open Banking and the rest of the world has caught up to the UK's once leading position in this area. Open Banking is a great example of where too often in financial regulation in the UK, there is no single strategy and no sole organisation driving the pace or momentum. The European Union has begun to build upon the work of Open Banking and deliver Open Finance, having brought forward legislative proposals and published a Digital Finance strategy in 2020. Meanwhile in the UK, we are arguably back to where the EU was in 2020, with Open Finance clauses only just being tabled in the Digital Information and Smart Data Bill.

4. Listings Reform

Whilst we believe the recent listings reform from the FCA to be one area where the regulator has made a significant contribution towards our international competitiveness, FinTech firms have

raised concerns about the speed and cadence upon which the reforms are being undertaken. For example, the FCA initiated a consultation on the UK's listing reforms as far back as 2021, following the recommendations of the UK Listing Review. While this set the foundation for subsequent consultations in 2023 and 2024, things could have moved a lot quicker. The EU published its proposal for the EU Listing Act in late 2022 and it will largely be enacted by the end 2024. The EU’s new rules are similar to the UK’s, but processed all in one package and much more quickly than the UK. As a result of our slower pace, the EU is now ahead of us in this area.

5. Consumer Credit Act 1974 (CCA) Reform

   There is broad agreement that the 50-year old CCA is no longer fit for purpose. Its long, rigid and legalese nature is not fit for consumer credit in the digital age. Next steps for CCA reform are long overdue and plans for reform appear to have been halted since the general election in May 2024.

   In its current state, the CCA sets out requirements for a very long and disproportionate amount of legalese and rigid form of pre-contractual information and contract agreement. It requires pages of text which consumers are asked to read and sign. In most cases, consumers neither read them nor understand their contents. The impact of such archaic regulation is clear in repeated attempts to regulate the Buy Now, Pay Later sector. The challenges of the CCA outlined above have stifled competition in consumer credit by creating challenges for firms developing new and innovative credit products.

6. The advice/guidance boundary review

   The advice/guidance boundary review should help to enable more AI solutions and widen access to financial advice, helping to increase financial inclusion and well being. This was announced in December 2022 as part of the Edinburgh reforms. It is not complete yet.

In examples above like Listings Reform, and regulation of crypto is another, the UK should be more nimble than a 27 state European Union. We are clearly not exploiting a Brexit dividend. It is not entirely the regulators' fault; often we need action and consultation from HM Treasury first before the regulator can then develop more detailed rules. We have a protracted and formal process, with no timetables for any of the components . This differs from the EU, which has an even more convoluted process, but generally has a clear timetable for each part. The EU tortoise always seems to beat the UK hare. Moreover, we fail to have any parallel running between Government and regulator (as the regulator always waits for full legal powers before starting the process of developing a new regime to use those powers) or more informal engagement and consensus building outside the formal consultation process to test ideas and identify potential issues and solutions.

Our FnTech Plan for Government recommended a review of how the Government and regulators can collectively adopt a policy making process for the digital economy, including proposals for a digital finance plan for each Parliament and enabling regulators to start developing new rules before they formally acquire the statutory powers.

In summary, these examples of stagnation boil down to a few causes that can also be applied to other issues, and we encourage the Committee to focus its attention and recommendations on remedying these issues.

1. Diverging approaches from regulators
2. Lack of strategy and momentum from government and regulators
3. Lack of ownership and leadership by an accountable entity

It is notable that in recent months HM Treasury has started to address some of these issues; with its National Payments Vision and proposal for a Financial Services Growth and Competitiveness Strategy, as well as creating stronger and clearer accountability for fraud, open finance (both now within FCA lead) and development of requirements for payments infrastructure (Bank of England lead). This is welcome and needs to be maintained, extended, strengthened and acted upon.

Reflections on whether the UK would benefit from a single voice championing the benefits of locating in the UK, and the advantages of the UK's regulatory regime, as well as whether this would sit better in a single body separate to the regulators.

There are currently a myriad of regulators in UK financial services - often with cross-cutting remits as far as firms are concerned. For example, payments may involve the Payment Systems Regulator, the Bank of England and the FCA - with the regulatory perimeter not entirely clear - especially to new market entrants or firms locating to the UK from overseas. Regulators also provide updates via speeches, 'Dear CEO' letters or blogs which provide views on the expectations of firms, but these are delivered in a piecemeal way with no way to clearly search the content as you may in a rule book. Additionally, there can often be the perception that the Financial Ombudsman Service pseudo-regulates after the event, bringing in additional complications for firms in terms of expectations.

Now, imagine you are a FinTech founder, perhaps new to financial services, or someone looking to bring your firm to the UK. This picture is a confusing jigsaw where what is expected of you as a firm is unclear and the support you need when in the scaling phase disappears. It is clear we can do better here and the result would be a more welcoming business environment where companies would have to invest less time understanding what is expected of them, allowing them to deliver great customer outcomes whilst also growing their firms.

The benefits of the UK regulatory regime and developments in creating opportunity for innovators do not tend to be communicated consistently to international audiences. As a small trade body, we aim to help tell the story to international audiences, but this should be done more systematically by the regulators or by the Government. A joined up communications strategy on financial services regulatory regime, across HM Treasury, the Department for Business and Trade, FCA, PRA/Bank of England, and PSR would create significant value. It could either sit separately from the regulators or be the responsibility of one of the regulators - either way, a single entity should have responsibility for producing joined up communication and promotion across the UK regulatory landscape.

Are there examples of where the FCA has taken a particularly effective approach to engagement which has materially improved a decision or enable industry to take advantage of a new innovation, which could be made standard practice?

The FCA has responded to industry and HM Treasury pressure and launched a consultation which seeks to identify regulations that are duplicated and therefore surplus to requirements following the implementation of the Consumer Duty. This should result in streamlining

regulation, removing unnecessary rules and making it easier for firms to comply.

The current advice / guidance boundary review is another good example of doing the right thing. This should help to enable more AI solutions and widen access to financial advice, helping to increase financial inclusion and well being. This was announced in December 2022 as part of the Edinburgh reforms. It is not complete yet, which does say something about pace.

Similarly the FCA has led an excellent set of reforms on listings, making the UK a more attractive and vibrant market which will help attract and retain FinTechs. This follows recommendations set out in the Kalifa Review in spring 2021, and reviews by Lord Hill, Mark Austin and most recently by Rachel Kent. As one of our founders said last year, this was a cutting edge set of reforms containing the right policies, but delivery has been slow and the EU has actually caught and overtaken the UK.

Additionally, the FCA has changed course on a few occasions after engaging industry. Examples include their approach to listed securities of Exchange Traded Notes whereby they had originally opted for a blanket ban on crypto-related derivatives but are now permissive to ETNs.

Role of Government

Your reflections on the Government's use of its remit letter in light of the Mansion House reforms, in particular how it sees regulation supporting its economic policy, and how it defines competitiveness and growth;

Recently, we have been encouraged by noises coming from the government regarding competitiveness, a renewed risk appetite and the need to 'regulate for growth'. We welcome the forward progress and momentum which will be delivered through the growth-focused remit letters recently issued by HM Treasury. However, we would like to see the remit letters used to ensure regulators have regard for designing world leading digital regulatory environments that support economic policy.

Our FinTech Plan for Government recommends HM Treasury should use its various remit letters to the different financial services regulators (e.g. the FCA and PSR) in accordance with the relevant statutes to drive greater alignment between economic policy goals of the UK building on its status as a leading digital economy to ensure financial services regulators

have regard to the importance of their own digital transformation agendas, a clear strategy in place that modernises regulatory bodies to be more effective in responding to developments in technology and innovation. This should also contain a strategy for unlocking the potential of RegTech, as covered in our recent report in partnership with the City of London Corporation.

Regulators should report on their progress and the FCA and Prudential Regulation Authority (PRA) should include this in their annual reporting on how they are facilitating the medium-to-long term growth and international competitiveness of the UK economy as part of their new secondary objectives. This would ensure that these regulators are actively considering the impact of their institutional design to support and respond to digital innovation in a transparent and accountable manner.

Whether you consider the UK Government has taken appropriate decision-making responsibility for certain trade-offs that increase risk on consumers or businesses; and your reflections on whether the Government has sufficiently done enough to encourage the regulators to carve out a space for firms to innovate and experiment.

The Prime Minister, Chancellor and HM Treasury have recently given welcome and clear statements on the need to rebalance risk versus opportunity and that the regulatory approach has become too risk averse. More specifically, there are certainly a number of areas where the Government needs to set public policy priorities and decisions which the regulators can then implement.

On digital assets, use of blockchain and regulation of crypto currency services, the Government needs to set out clearly the UK's risk/opportunity approach. The EU has a very clear approach implemented through MICA; the incoming US administration has also given a clear signal to the market of its support for crypto currencies and digital assets and this is already affecting investment decisions. The UK meanwhile has yet to give a comprehensive statement of direction or position that stands out internationally and provides clarity and confidence for investors. Here we would argue strongly that this should be less risk averse and less prescriptive than the EU regime, whilst providing consumers and investors and innovators (across the globe) with certainty and confidence to invest in and attract talent to the UK. The tokenised securities sandbox is very

welcome in allowing regulators to vary rules; this enabling of innovation needs to be applied more widely and the Government needs to give a stronger signal that it sees blockchain in financial services as a significant opportunity for the UK and one it supports.

Similarly on Artificial Intelligence, whilst the UK regulators are taking a broadly sensible approach and the UK Government has to date taken a proportionate approach, there is still some uncertainty in the market. Again, there is an opportunity to set a clear international position, distinct from the EU's treatment of financial services as high risk and perhaps also distinct from the US approach. Again, a clear statement that provides a beacon to international investors and innovators would be welcome.

On Open Finance, we need a clear roadmap and set of priorities from HM Treasury, which can then enable the FCA to take it forward (see below). This should not only identify the next areas for smart data in finance, building on open banking, but also set the direction of how this should be introduced and the principles for implementation and trust frameworks.

In short, there is a huge opportunity for UK growth and competitiveness in the next wave of financial services innovation - which will be based around blockchain, web3, smart data and Artificial Intelligence - but to ensure the UK is at the forefront of this we need clear direction and vision from the Government which sets its risk appetite and identifies a growth and innovation oriented approach.

Equally on fraud, we need government (across HM Treasury, Home Office and DSIT) to take further action to reduce fraud originating on tech platforms and with telcos.

To prioritise regulation that will open up innovation and growth, we need government and regulators to act together, taking a whole systems approach, whereby they act faster to grasp new opportunities and technologies and set clear direction and responsibilities. In many cases, such as Open Banking, we have not had a clear direction and strategy set by the government for regulators, thus leaving little to no appetite for innovation.

Metrics for a world-class, forward-thinking and future-proof regulator

Specific details on outcomes focussed metrics which would be helpful to measure the regulators' performance, as well as reflections on how the existing operational metrics could be made more granular in a manner that would improve transparency.

We continue to advocate for clear and regular public metrics to measure performance and believe they are an important part of the transparency that is crucial for effective scrutiny and accountability of regulators. In our oral evidence to the Committee, we cited the need for metrics to be more granular, particularly on authorisations and enforcement. Data must be cut by size/stage of firm and by sub-sector so we can see if innovators are being advanced in the same way as big, established firms.

Our members continue to raise concerns about the speed of, for example, SM&CR approvals and variations of permission. Yet the FCA's published metrics show improvements in this area. The FCA's data is very high level, which means we are unable to dig into it to see whether there are variations for smaller or younger firms, for more innovative firms, or for specific services, products or technologies.

The metrics which are often used by the regulator to demonstrate progress on speeding up authorisations or cost benefit analysis when implementing a new or updated regime, are metrics that span the entire sector - not taking into account the size of firm or other key factors. The experience of firms however is not as universal as this approach demonstrates. For example, if you are a start-up with limited capital behind you, a delay in authorisation allowing you to operate and generate revenues has a much larger impact compared with an established Financial Services institution looking to launch a new product requiring a new authorisation.

Our suggested metrics set out, in response to HM Treasury's Call for Proposals on "Financial Services Regulation: Measuring Success", outline what we believe are the necessary criteria to be met by the regulatory regime if the UK is to maintain its lead as a global hub for innovation. This criteria has three pillars:

1. Fit for purpose: updating existing rules;
2. Fit for the future: enabling innovation; and
3. Innovative, agile regulators.

We have suggested a detailed set of metrics covering the key areas of regulatory activity: the rulebook, market oversight, authorisations and organisational capability and capacity.

<u>The regulatory rulebook</u>

Metrics focusing on the regulatory rulebook aim to assess the clarity, accessibility, and proportionality of regulations. By measuring the simplicity and consistency of regulatory requirements, regulators can facilitate innovation, reduce unnecessary compliance burdens, and foster a supportive regulatory environment for small and scaling innovators and disruptors.

What action is needed?	**Metric**
Updating Existing Rules to Enable Innovation	Number of new and updated rules with comparative analysis with other jurisdictions in the previous twelve months.
	Annual comparison of rulebook size or volume with key competing markets (e.g. US and Singapore).
	Report on the number of removed rules that are found to overlap unnecessarily, particularly where new 'outcomes-based' regulation is introduced (e.g. Consumer Duty).
Proportionality and cost-benefit analysis reporting and evaluation	Number of instances the regulators have changed or abandoned proposed regulation as a result of a proportionality or cost-benefit analysis. *Qualitative reporting should accompany this metric to explain how proposals were expected to impact innovation and international investment in the UK market and when policies that risked a significant negative impact on innovation and international investment (accounting for uncertainty) were abandoned or reformed.*
	Proportion of regulations enacted following a cost-benefit analysis that found the proposals to be net-beneficial for competition and innovation.
Reporting on costs and benefits to businesses	Reporting on the cost regulations create for business (as required by the Enterprise Act) aggregated by sector verticals and presented alongside the benefits they bring to provide a

	comprehensive view of a regulation's impact on innovation and competition.
Machine Readability of the Rulebook	Percentage of the rule book that is machine-readable, facilitating RegTech and SupTech applications.
	Percentage of mandatory reporting standards collected through the eXtensible Business Reporting Language (XBRL) format for improved accessibility, efficiency and implementation of RegTech and SupTech solutions.
Clear, Navigable and Accessible Guidance	Percentage of rulebook and regulator's websites in compliance with the Web Content Accessibility Guidelines, as published by the World Wide Web Consortium. FinTechs have talked about the benefits of the PRA's "plain English" guides for new banks.
Engagements with industry	Number of consultations, sprints, webinars and other events targeted at start-up, scale-up and high growth FinTechs. These engagements must be made accessible by considering the resource constraints these businesses face.
Future-proof Testing	Percentage of new rules and proposals which undergo and sufficiently withstand robust and evidence-based tests that assess the impacts of a regulatory proposal on small and scaling businesses within remit and unlock new RegTech, SupTech and Smart Data solutions. These tests are expanded on below.
	Start-up and scale-up test: the regulator should consider how proposed rules and standards demonstrate the potential to foster competition, innovation, and growth by minimising barriers to entry, promoting market access, and providing sufficient flexibility for agile start-ups and scale-ups to thrive.

	RegTech/SupTech test: number of proposed rules and standards that leverage innovative regulatory and supervisory technology solutions from the outset to streamline compliance processes, reduce costs, and facilitate competition and innovation by reducing the regulatory burden for small and scaling businesses.
	Smart data test: number of proposed rules and standards that unlock the ability to enable secure and efficient data sharing between sectors and industries to support the development of third-party applications, and foster competition, innovation, and growth in the data-driven ecosystem, subject to the end user's consent.

Market oversight and supervision

Metrics related to market oversight and supervision enable regulators to demonstrate effective monitoring and enforcement practices, especially over novel and technology-driven applications. These metrics assess the regulators' ability to identify emerging risks, promptly respond to market developments, and maintain a level playing field for all participants.

What action is needed?	**Metric**
Sandbox Engagement	Report on the number of participants accepted into the sandbox program. These figures should be disaggregated by firm size and supervision area (or 'vertical') and funding stage.
Sandbox Evaluation	Evaluation of sandbox programme through each stage after exiting, including success rates, market adoption (e.g. through commercial partnerships), time to market and funding raised. These evaluation metrics should also be disaggregated as above.

Licensing and authorisations

Metrics in this category focus on the efficiency and effectiveness of licensing and authorization processes. By measuring the time taken for licensing decisions, the clarity of requirements, and the proportionality of assessments, regulators can provide a conducive environment for new

entrants, ensuring a streamlined process without compromising regulatory standards.

In 2022 our members shared numerous stories raising concern about the AML authorisation process for crypto firms, with churn in the teams running the process, a backlog of applications and purported resetting of the clock to avoid going beyond agreed deadlines.[2] We also know from talking to the FCA that there was a mismatch in expectations on the part of some crypto firms, and in many cases, their applications showed a low level of understanding of the requirements around compliance and governance. We would encourage the FCA (and other regulators) to develop a better pre-application process and guidance to enable firms to understand better what will be expected and what they will need to demonstrate, and to provide more advance guidance for Variation of Permission applications. Key Performance Indicators (KPIs) for approval processing need to be met.

What action is needed?	Metric
Reporting on authorisation KPIs.	KPI reporting aggregated by firm size, supervision area (or 'vertical') and funding stage.
	KPIs reported by authorisation and licence type and the average time taken to authorise from the date of the application being submitted to the final authorisation; (e.g. cryptoassets: AML / CTF regime, authorised electronic money institution, Senior Management & Certification Regime, use of a full or partial internal model).
	The number and proportion of applications overdue by more than 30 days.
	Approval and rejection rates. This should include qualitative lessons learnt including case studies of where firms have failed in an application and the reasons for delay and/or refusal.
	The number and proportion of applications which were withdrawn by applicants, at what stage these were withdrawn and the reasons for withdrawing.

[2] Innovate Finance, Evidence to Treasury Committee Inquiry: The Crypto-Asset Industry, October 2022. - see page 30

<table>
<tr><td>Touchpoints with start-up, scale-up and High Growth firms</td><td>Availability and frequency of use of communication channels dedicated to supporting start-up, scale-up and high growth firms in their licencing and authorisation journeys.</td></tr>
<tr><td></td><td></td></tr>
<tr><td rowspan="3">Speed and timeliness of authorisations</td><td>Assign a new application to a case handler within 5 days of the application being made and measure the average time it takes to do this.</td></tr>
<tr><td>Complete an initial application review within 14 days of allocation to a case handler and measure the average time it takes to complete the review.</td></tr>
<tr><td>Allow a period of no more than 21 days to allow for questions and responses and measure the average number of days it takes to complete an application in full.</td></tr>
</table>

Capacity, culture and capability

Metrics addressing capacity, culture, and capability evaluate the regulators' readiness to respond to the evolving needs of the FinTech sector. These metrics assess factors such as expertise, resourcing, training programs, and engagement with industry stakeholders to ensure regulators possess the necessary skills and knowledge to effectively regulate the dynamic FinTech landscape.

A joined-up regulatory approach should underpin all industry engagements moving forward. Piecemeal engagements by separate regulators and quasi-regulatory bodies make it hard for firms to take a holistic view of the regime, and fully understand the consequences of the various components, their dependencies and interactions. Such an approach creates unnecessary uncertainty and risks unintended consequences which make longer-term planning more difficult for smaller firms and their investors. As these firms inevitably have limited resources, it is difficult for them to consider multiple, simultaneous regulatory changes in the round.

We recognise that we have suggested more input metrics here, rather than outcomes. These metrics are intended to prompt a shift in culture as well as the capacity and capability of the regulator and at this point in time we consider that it may be helpful to specify some input measures.

What action is	Metric

needed?	
Vacancies and Turnover Reporting	Number of staff vacancies in each department broken down by seniority.
	Turnover, or 'churn', through the average time a position is held. This should be aggregated by division, team and seniority.
Industry Experience	Percentage of staff with former industry experience, broken down by time spent in industry. This should be aggregated by division, team and seniority.[3]
	Number of staff partaking in a secondment programme, with colleagues from the FCA or PRA and FinTechs spending time in each other's organisations. These can include a range of programmes from a 'week in FinTech/Regulator' to a formal six-month or two-year secondment to a specific role.
Training and Development	Number of staff completing Continuous Development Programmes focused on developing an understanding of technology in financial services.
	Biannual skills and tech audit assessing regulators' proficiency in emerging technologies and ability to apply digital skills to their roles.
Industry Engagements	Number of industry 'learning' engagements (events, workshops, sprints) specifically targeted and tailored for start-up, scale-up and high growth firms.
Joined-up Regulatory Approach	Number of collaborative engagements between regulators, such as events or consultations.

[3] We are also supportive of safeguards that are put in place to protect against regulatory capture.

The table below describes how our suggested metrics would support the three key pillars for a world-class, forward-thinking and future-proof regulator.

<table>
<tr><th>1. Fit for purpose: updating existing rules</th><th>2. Fit for the future: enabling innovation</th><th>3. Innovative, agile regulators</th></tr>
<tr><td>Updating Existing Rules to Enable Innovation.</td><td colspan="2">Machine Readability of the Rulebook.</td></tr>
<tr><td>Impact Assessments for New Rules and Standards</td><td colspan="2">Clear, Navigable and Accessible Guidance</td></tr>
<tr><td>Joined-up Regulatory Approach</td><td colspan="2">Future-proof Testing (start-up/scale-up tests, RegTech/SupTech tests, Smart Data tests.</td></tr>
<tr><td colspan="3">Engagements with industry (sprints, workshops, consultations).</td></tr>
<tr><td colspan="3">Sandbox Engagement & Evaluation</td></tr>
<tr><td></td><td colspan="2">Reporting on Key Performance Indicators (KPIs) by sector for licensing and authorisation.</td></tr>
<tr><td></td><td colspan="2">Touchpoints with start-up, scale-up and High Growth Firms for licensing and authorisation.</td></tr>
<tr><td></td><td></td><td>Vacancies and Turnover Reporting</td></tr>
<tr><td></td><td></td><td>Industry Experience</td></tr>
<tr><td></td><td></td><td>Training and Development</td></tr>
</table>

These suggested metrics are designed to provide transparency, accountability, and insights into the regulators' performance and progress in key areas, namely the regulatory rulebook, market oversight and supervision, licensing and authorizations and capacity, culture and capability. Regarding the format and frequency of publishing these metrics, our members would like to see each regulator publish sector strategies with more granular, sector-based analysis, desired outcomes and metrics to demonstrate its progress, as the FCA used to do.

More detail is set out in our paper here.

Delivery of Open Banking

Reflections on the progress in delivering Open Banking

Our overarching message on delivering Open Banking is that the government and regulators have been too slow to act and the UK has consequently fallen behind other states, having once been a global leader in the implementation of Open Banking. We still have not made the transition from open banking as a competition remedy to open banking as a catalyst for innovation and productivity. It is a key area where we need to see faster progress and a strategic drive from Government and regulators, with HM Treasury acting faster and setting clear direction and responsibilities.

There are a number of causes of this slow progress:

- A lack of clear direction and strategy from HM Treasury. This needs to cover both priority outcomes and also some principles for how to get there. A clear ministerial steer of priorities and responsibility is crucial
- Government - and regulators - have been reluctant to view data sharing schemes, drivers of the new economy, as critical national infrastructure; therefore fudging the question of the role of regulators and government in developing and supporting the rules and governance needed to oversee this.
- Lack of Government funding, leading regulators to spend months this year trying to gather £1m to fund Open Banking Limited to do the enabling work.
- Failure to pass the Data Protection and Digital information Bill in the last Parliament, which included legal powers to enable more to be done. This is a lesson on how ‘christmas tree’ legislation is not a fit vehicle for agile lawmaking. A simple two clause Smart Data bill could have given us a two year head start.
- A lack of clear accountability and responsibility of regulators to lead and drive progress. JROC is a committee of the regulators, in which they have to join up, but no single organisation has lead responsibility for delivery. We welcome the fact that in its National Payments Vision the Government has announced plans to cease JROC and instead give FCA the lead responsibility for open banking.
- The waste of good will and detailed work from industry.
    - ☐ In November 2022, FCA ran a policy sprint for two days with around 100 industry leaders, which created significant consensus on a blueprint for next steps on Open Finance.

There was no follow up, outputs have never been published, and subsequently, momentum was lost.

☐ In autumn 2022, JROC commissioned Bryan Zhang to lead a review of what was needed next for open banking. He engaged stakeholders across industry; our member firms gave time and thought to this. His report identified a good way forward, albeit he also showed where it was not consensual in industry and therefore Government and regulators needed to take decisions.

☐ In January 2023, the Chair and Trustee of Open Banking Limited (OBL) published her End of Implementation Roadmap summary report, marking the conclusion of her mandate as Implementation Trustee and setting out recommendations for next steps.

☐ In 2023, JROC more or less ignored both of these reports, kicked this back to industry and set up working groups last summer and autumn to develop more detailed proposals. We and many other firms and organisations dedicated significant resources over six months to this work. It produced an excellent blueprint in December.

Our FinTech Plan for Government advocates for a concerted effort to push forward further development on Open Banking. As an immediate priority, the government should prioritise the speed of delivery. Further to this, we make the following recommendations:

- HM Treasury should lead the publication of final proposals for the long term Future Entity, with a much shorter implementation period than the one set by JROC.
- HM Treasury needs to provide clarity on what Open Banking standards and rules need to be mandatory and by whom.
- HM Treasury needs to set out policy principles which will incentivise all players to support widespread adoption of commercial Variable Recurring Payments. We welcome the recent National Payments Vision which identifies development of open banking payments as a priority with a view to making this a 'ubiquitous' payment method.

Fraud

Whether the current strategy towards fraud prevention (i.e., compensation over enforcement) is sustainable and whether this creates a credible risk that providing certain consumer services

may become unprofitable in the long-term. What role does financial education play in this space?

Fraud prevention is one of the key areas where FinTech needs to see faster progress and a strategic drive that includes a joined up approach to tackling fraud at source. This will require Government and regulators to act together - a whole systems approach, with clear leadership and responsibility to tackle the challenge.

We know that firms across the FinTech sector, who are liable to compensate defrauded consumers, are doing fantastic work to protect the public from fraud, which is becoming ever more sophisticated. From partnering with the Home Office on issues such as voice cloning, investing heavily in their internal expertise, or running campaigns to educate consumers of new fraud techniques, FinTechs are at the forefront of tackling this issue.

However, they cannot do it alone.

We know that the majority of fraud in the UK originates via one organisation, Meta and its platforms, Facebook, Instagram and WhatsApp. A breakdown of relevant data on this is included below.

- ☐ Industry data shows that 77% of all APP fraud cases originate online, of which social media platforms like Meta are estimated to account for over 60%.
- ☐ Member data shows that Meta is the single largest source of fraud origination. Fraud originating from Meta constitutes 60.5% of all reports of fraud it received, amounting to a value of 33.2% of all scams.
  - ☐ The data shows that 61.1% of fraud cases originating from Meta relate to purchase scams, while investment scams are worth 61.3% of all scams originating from Meta.

The current strategy is not sustainable without stopping fraud at its source; we will not reduce fraud in the UK, regardless of consumer education. There is broad agreement that social media firms should be sharing liability and responsibility for fraud losses. There is also indication of agreement in the other House on this subject with the Commons Home Affairs Committee recommending a shared liability framework in May 2024. The Government should consult on this as a matter of priority.

In our Innovate Finance FinTech Plan for Government, we have outlined six recommendations on how the government can lead in partnership with

regulators to protect consumers and businesses from fraud. This includes introducing shared responsibility and liability for social media and telecommunications firms, but also consolidating economic crime and fraud policy under the FCA and creating a National Anti-Fraud Centre.

There remains serious concerns that requiring banks, e-money institutions and payment service providers (PSPs) to reimburse victims of APP fraud up to £85,000 will be a deterrent for setting up business in the UK. There are well-founded concerns that FinTech PSPs who pioneer innovative solutions such as Open Banking and digital challenger banking who are already currently based in the UK might be forced out as well.

FinTech is therefore not only at risk, but also the Government's plan to drive growth and investment into the UK. Given the data on fraud origination outlined above, the policy question that must be considered is whether it is right that homegrown UK FinTech payments firms bear all responsibility in compensating fraud that originate via US-based Big Tech platforms. The approach currently being taken of apportioning all liability for APP fraud on the financial services sector is out of step with other jurisdictions, such as Singapore. The Monetary Authority of Singapore (MAS) consulted on introducing shared liability for scam losses between financial institutions, telecommunication operators and consumers. The proposals set out by the MAS demonstrate proportionality whereby financial institutions mitigate the risk of seemingly authorised transactions, while telcos should guard against the risk of subscribers receiving text messages which facilitate such transactions.

We have set out a clear set of risks associated with the PSR's APP fraud reimbursement regime, which was introduced in October 2024. Details can be found here. Aside from the risk of a higher reimbursement threshold (which was amended in September and rightly reduced to £85k), the other risks in this report remain and are ones which need to be assessed and tracked over the coming months and should form the basis of the PSR's independent review of the regime in 2025. A recent (December 2024) roundtable organised by PSR with banks and payments firms as well as Pay.UK provided evidence of many of these including:

- extensive manual processing which is costly for firms and slow for claimants
- variable engagement across the entire payment provider chain
- examples of moral hazard and unintended consequences of the customer standard of caution (where PSR set a higher bar than common law to prove consumer negligence) - with all firms reporting a spike in cases where men are successfully claiming reimbursement for payment they made for prostitution services.

The lack of a roadmap to introduce shared responsibility and liability for social media and telecommunications firms, as well as continued issues with the mandatory reimbursement regime will continue to be a risk for existing FinTechs and a deterrent for setting up business in the UK.

The current approach to tackling fraud requires greater clarity on responsibilities; and if we take the specific example of APP fraud it does seem odd that the Payments System Regulator - responsible for payment systems not individual payment firms - is taking the lead on consumer protection and a financial conduct issue with firms who are by and large regulated by the FCA. This is an example of where it would make sense to move the policy from PSR to FCA. We welcome indications from HM Treasury and FCA that in future FCA will be the lead regulator on economic crown and fraud.

Education of consumers plays a key role in the fight against fraud, as consumers are the first line of defence against fraudulent activities. The FinTech sector is taking a proactive approach to educating its consumers and seeking collaborative partnerships with law enforcement and other stakeholders on various initiatives to raise awareness of fraud risks, promote critical thinking from consumers and empower vulnerable groups. We need to see this collaborative and holistic approach by FinTech extended action being taken to the entire ecosystem, including Big Tech platforms and telecommunications firms, to educate consumers. Social media and telecommunication firms must be incentivised through shared liability and responsibility to take action in this space, this can include supporting cross-industry data sharing initiatives, promoting digital literacy and safe online practices, providing fraud prevention tools and features on platforms and raising awareness through campaigns and alerts to consumers.

Whether the other technologies Sardine AI employs (KYB, KYC, Suspicious Activity Reports) are widely used to the best of your knowledge, and whether the FCA could do more to support firms in taking on these technologies.

Fraud is becoming increasingly sophisticated and given the FinTech sector’s ability to adapt quickly and flexibly to technological changes, our members are very well positioned to take on solutions such as those suggested by Sardine AI. We continue to support the growing adoption of technologies that prevent fraud, whilst recognising that the UK will not make a step change on this issue without tackling fraud at the source; i.e. social media sites and telecommunications channels.

There is a wide range of technological solutions to help combat fraud and data sharing schemes such as CIFAS. Government and regulators can help to enable more solutions, for example by enabling corporate digital identity as well as supporting individual digital verification (something the current Data (Use and Access) Bill will enable). The Centre for Finance, Innovation and Technology (CFIT) is currently developing further proof of concept of corporate digital identity schemes. These can be enabled by digitalisation and 'smart data' access to Companies House and HMRC data (with users' consent).

Real-time data sharing, data collection and data analysis between the public and private sectors, and between payment service providers and tech companies is pivotal to preventing fraud. The government should review and reform existing data protection laws to strengthen data collection, data sharing and data analysis. In addition, we need to develop new data sharing systems to enable law enforcement agencies, tech platforms and financial firms to share data in real time. These need to be accessible and affordable for smaller payments firms and other financial services; they need to enable consistent data sharing and not be based on bilateral arrangements between large corporations, and they need to include law enforcement data. This would enable more innovative tech solutions. This should be the focus of a new national anti-fraud centre, which should be established to enable new data sharing approaches.

The FCA must adopt a changed mindset towards technology in order to support firms in adoption. As part of a 'Tech Positive' mindset, technology must be seen as an opportunity rather than a risk at the FCA. This includes the regulator taking further action to actively promote and encourage the adoption of RegTech by firms.

Payment Systems Regulator

Other reflections on the PSR's performance, and what might be done to improve it? For example, introducing an SCGO like the FCA, or rationalising it into the FCA?

Innovate Finance has previously called for the secondary competitiveness and growth objective to apply to the PSR and we would encourage the Committee to consider the merits of applying this secondary objective to the PSR.

The PSR’s conduct in certain aspects has raised significant concern within the FinTech industry. A key example of this being the PSR’s approach to the mandatory reimbursement regime for APP fraud. The FinTech sector repeatedly warned the PSR of weaknesses in its implementation plans and the risk of not taking an economy-wide/holistic approach to stopping online scams.

The PSR’s initial decision and consultative process in setting the maximum reimbursement threshold at £415,000 raised significant concern and worry that it could force out FinTech Payment Service Providers (PSPs) who pioneer innovative solutions such as Open Banking and digital challenger banking in the financial services sector. The PSR was also taking great risk in not assessing industry readiness prior to the go-live date. Circa 1,200 PSPs across the UK were left to themselves to determine whether they are in-scope of this new regime.

We heard anecdotal evidence of investors raising concerns about the risk of investing in the UK payments sector. Investors have concerns about the scope and degree of financial risk that is being transferred to firms by the PSR, compared to other jurisdictions like the EU, Singapore and Australia. Investors may look to deploy their capital abroad rather than in the UK, thus hampering growth and competition in our payments sector.

While the PSR’s recent decision to reduce the maximum reimbursement threshold to £85,000 is much welcomed and has ameliorated concerns about competition, innovation and growth, there is a need to consider how current and future proposals do not raise such uncertainty again. It remains the case that the burden of the new regime may force PSPs out of the market, meaning less competition in the sector, fewer innovative FinTech solutions, and less growth in our economy. In creating such risk in its approach, the PSR is directly impacting the growth potential of UK FinTech.

We would therefore urge the Committee to consider whether the application of the competitiveness and growth objective could have prevented the significant degree of criticism the PSR attracted from its mandatory reimbursement proposals and consultative process.

We would also highlight two other factors:

1. Focus and aims: we have called for the PSR to return to its primary focus on payment systems - not payment services providers - and to focus on its role as an economic regulator. Conduct regulation, including fraud reimbursement, should sit with the FCA. We therefore welcome recent confirmation by HM Treasury that fraud will in future be FCA led and that PSR will focus on payments systems. We have also had very productive discussions with PSR on its mid-strategy review, where they seem receptive to a clearer focus for their work. This can also enable greater focus on the areas where they have legal powers and levers. We would welcome a PSR that focuses on innovation and competition through payment systems.
2. Capability and capacity: the PSR is a very small regulator. This is perhaps why work on APP Fraud has stretched their policy team and industry engagement capability. It may also explain some of the difficulties experienced with short consultation periods, mentioned above.

Capacity and culture at the regulators

Could Innovate Finance expand on the proposal to give the regulators direct and ongoing access to firms' information and data: what would this look like in principle, what are the merits and demerits of this approach, and what would need to change to enable this?

We would broaden this to advocate a much wider consideration and priorisation of RegTech and supervisory tech solutions. RegTech solutions are crucial because with widespread adoption, it has the potential to ease and simplify compliance burdens across financial services ranging from regulatory reporting to cracking down on money laundering and meeting ESG commitments. RegTech can also help businesses grow by reducing compliance costs.

Compliance cost is worth noting because to highlight one particular example, LexisNexis Risk Solutions found that financial crime compliance alone cost UK firms £34.2 billion in 2022 which was a 19% increase from 2020.

Despite the potential for RegTech to be a solution to this trend, there is a feeling amongst RegTechs that UK regulators have not done enough to encourage and accelerate the use of compliance technologies.

To aid the FCA and PRA's thinking in delivering this, we produced a report in partnership with the City of London Corporation proposing the introduction of a 'RegTech test' whenever new regulations are introduced to help regulators assess how technology can assist firms with regulatory compliance. We would like to see the FCA and PRA put RegTech in the forefront of their work. As part of this, there is certainly scope for regulators to explore with industry the idea of more direct data based supervisory information.

Reflections on how the FCA can improve its talent and capability in regard to technology and software development. For example, should the FCA consider secondments from the technology sector? How could it make itself attractive to talent from tech, and how can the FCA encourage firms to take advantage of new opportunities in technology?

We recognise that the pace of technological change is a constant challenge for regulators as they determine the best way to respond through a process of learning and assessing the potential and real-world impact new technologies have on business models and consumers. However, the current tech neutral stance of the FCA has, at some points, led to a tech negative approach in practice. Tech is too often seen as a risk, and not as an opportunity to meet regulatory objectives of protecting consumers alongside fostering innovation.

The capacity and capability of the regulators are consistently raised as a concern to us by our members. The FCA should have the goal to be more responsive to the policy life cycle. We need all teams in the regulator, including supervisory and policy teams, to embrace and champion innovation in financial services.

To achieve this, we need to see more industry experience in the regulator and better engagement with industry, which at present is sporadic and raises too many surprises with no pre-consultation.

In our Innovate Finance FinTech Plan for Government, we recommended the creation of an emerging tech secondee programme. This should seek to bring in industry and academic expertise for placements to assist regulators in building their understanding and approach to new emerging technological trends that could significantly impact the financial services sector. The purpose of the programme would be to provide additional resources into regulatory authorities that would help build technical

capability, provide additional capacity and potentially help speed up the feedback loop between industry developments and regulatory policy making. It would provide secondees with a greater knowledge of how the regulatory process works. The programme should also contain an outward component for regulators to get industry experience, but retain a ratio whereby regulators always receive more inward secondees than they send externally.

Whether the Government and the Regulators strike the right balance between consulting industry and taking advantage of new opportunities. Are there examples of opportunities where the UK has struck the right balance, and why; are there examples where the UK has not struck the right balance, and why?

We believe that a balance needs to be struck between competitiveness and consumer protection. In order to ensure the regulator is taking advantage of new opportunities, financial services regulators must adopt a 'tech positive' mindset. In practice, this would entail consistent consideration of how regulatory proposals impact growth and innovation and how technology can deliver better regulatory outcomes.

Regulators need to better demonstrate their agility whereby they should identify and act in anticipation of emerging issues to support innovation and protect consumers. At present, too many regulatory proposals do not take the specific circumstances of our growing FinTechs into account. Industry engagement is sporadic and raises too many surprises with no pre-consultation. Examples include the recent 'name and shame' proposals and climate disclosure.

The Jersey Financial Services Commission (JFSC) has committed to being tech positive with a strategic priority to "establish the JFSC as a technology-oriented regulator enabling the digitalisation of financial services. A similar commitment by UK regulators would be welcomed as a step in the right direction by the FinTech sector.

RegTech solutions will be crucial in enabling the regulators to embrace new technologies and opportunities at a faster pace. Singapore and Jersey are way ahead of the UK in promoting RegTech.

Cryptoassets is an example of where the UK has not struck the right balance between consulting industry and taking advantage of new

opportunities. The UK approach to crypto regulation set out in spring 2023 was welcomed by the sector, but we have made little progress since. The FCA held a crypto policy sprint with industry in May 2022, which generated great engagement and positive input; but since then, there has been no significant follow-up from the regulator. The opportunity to make the UK an attractive market for responsible innovators in digital assets and provide proportionate protection for consumers is in limbo. With sustained engagement with industry and momentum from government and regulators, we could have capitalised on uncertainty in the US, but we have potentially lost that opportunity.

Whether the FCA's current direction of travel aligns with the Government's steer for regulation to be both sensible and enabling (in line with his speech at the International Investment Summit in mid-October)

We welcome the growth-focused remit letters issued by the Chancellor in November's Mansion House Speech, which included a desire to see innovative new firms being supported to enter the market, and enabling existing firms to innovate and invest in new technologies. We have seen comments from the FCA's CEO, Nikhil Rathi, stating the FCA needs to embrace risk more to aid competitiveness. And in his recent Mansion House Regulators dinner, Nikhil Rathi even referenced our own Innovate Finance FinTech plan for Government.

We now need to see this operationalised and built into the FCA's strategy and work plans, with detail of what this looks like in practice. Current FCA work on their next 5 year strategy is encouraging - with an emphasis on innovation and growth. The mood music from the FCA remains encouraging, but FinTech firms will measure the regulator through deeds not words and we still await measures that are characteristic of enabling regulation.

FCA's innovation hub

Reflections on the FCA's innovation hub services, whether these have been helpful, and what more could and should the FCA do to support the firms through its innovation hub?

The FCA's innovation hub and its sandbox was a world leader when it was established ten years ago. These undoubtedly contributed to the UK's pre-eminent global position as a centre for FinTech, attracting innovators from around the world and supporting start ups. In its initial phase the Innovation Hub also benefited from being highly connected to the wider FCA policy and strategy work, not only through its executive leadership team sponsorship but also through strong policy connections at all levels.

Over the last ten years the innovation hub has developed a significant offering of different products to support start ups and innovators - with a range of sandboxes and also a range of tech sprints. Over this period, their approach has been much copied by regulators around the world. Other regulators like Singapore have also developed further additional innovation approaches.

As the innovation hub enters its second decade, a radical programme is needed to position it again as a world leader and to best support the growth and competitiveness of FinTech and innovation. Their work needs to be more focused and purposeful, in support of the UK's industrial strategy, Financial Services Growth and Competitiveness Strategy and the FCA's strategic priorities. It should look at how the UK develops use cases and proofs of concept and brings these to market as scalable, world beating products, services and infrastructure. This requires more active 'market making' by creating a coordinated regulatory response and framework for competitive industry collaboration.

We would suggest three areas of focus:

- **Stronger integration with policy, supervision and enforcement.** The innovation hub can appear to be a separate and junior partner within the FCA. It allows the rest of the FCA to say the regulator supports innovation, without requiring the rest of the regulator to do more to support innovation in their day job - in developing new regulation, authorising firms, supervising firms and applying the regulatory rulebook. We mention above the policy sprints, which generated a clear industry consensus on next steps for UK open finance and for crypto regulation in 2022, but have sat on a shelf since then and never been acted upon. More needs to be done to disseminate and pursue policy adoption and implementation of the findings of the innovation hub tech and policy sprints. Equally, little has been done to advance the adoption of RegTech

and supervisory tech solutions across the FCA. Quite simply, the innovation hub is not influential across the rest of the FCA. It needs to either become more policy engaged and integral to the work of the rest of the regulator, or its work needs to be mainstreamed into the rest of the regulator. It should be a partner for the rest of the FCA in delivering its next five year strategy - e.g. putting innovation at the heart of tackling economic crime, empowering consumers and supporting growth.

- **Customer experience and customer journey:** The extensive range of innovation hub services, particularly a variety of sandboxes, are not well understood by FinTech firms nor by firms in different sub-sectors of financial services. The FCA needs to review how they present and market their offerings - looking at them from a customer journey point of view. At present, they tend to be designed and delivered from a supply side view rather than demand side.
- **A new sandbox model**: The 'sandbox' concept needs to be developed to enable the regulator to innovate alongside industry. Up until now, the sandbox has been based on a model where the FinTech firms play in the sandbox (like children), supervised by the adults (FCA) standing outside the sandbox and helping the firms understand the existing rules. The new Digital Securities sandbox changes this - it allows the regulators (FCA and Bank of England) to get in the sandbox and experiment with the regulatory rule book - with powers for the regulator to turn regulatory controls on and off. This is genuine collaboration and innovation, which enables the regulatory framework to be tested and developed in real time as new services and products are tested. We would encourage this to become the norm.

These are in addition to three other proposals detailed elsewhere in this submission:

- A **scale up account management** service, providing dedicated support for firms as they grow
- Greater **interchange and industry secondments** in the FCA
- **Adoption of a RegTech test** to ensure all parts of the FCA consider and promote how technology solutions can provide better regulatory outcomes or compliance

Listings reforms

Reflections on whether the FCA’s recent Listings Reforms (and what comes out of Mansion House) has made the UK a perceptibly more attractive place for firms to list and locate? What more could the UK do?

The listings reforms are continually highlighted in conversations with our members as the one positive thing the regulator has done to improve perceptions of how the FCA is embracing risk more to aid competitiveness. The reforms bring the UK much closer to other stock markets such as the United States and Asia, by simplifying and aligning the UK’s approach. In our view, this increases capital and aids the UK’s competitiveness in attracting and retaining both domestic and international FinTech companies in listing here. This clearer path to listing also helps with some of the regulatory burdens that FinTechs face, which in turn has led to more diversity in terms of size of firms considering listing in the UK. The FCA’s forward-thinking is laudable and appreciated.

However, FinTech firms have raised concerns about the speed and cadence upon which the reforms are being undertaken. For example, the FCA initiated a consultation on the UK's listing reforms as far back as 2021, following the recommendations of the UK Listing Review. While this set the foundation for subsequent consultations in 2023 and 2024, things could have moved a lot quicker. As a result of our slower pace, the EU is now ahead of us as they have now adopted their EU Listing Act which implements the reforms.

Of particular note are some of the changes arising from the recent consultations, which will be helpful to listed companies when enacted. These include:

- The merging of the Premium and Standard listing segments into a single regime will improve liquidity instead of having 2 separate marketplaces
- The dropping of the requirement for a 3 year track record at IPO will help early stage companies such as FinTechs to IPO earlier
- Permitting dual class share structures with no regulated time limit puts the UK on a par with the US

Another outstanding issue regarding the reforms is Investment Research. The recommendations of the Kent Review are still under discussion, but a number of our members have cited investment research as key to creating investor interest at IPO and after market trading, and we urge the Government to expedite this discussion.

Compliance burdens

How the cost of compliance has affected firms' ability to grow in the UK, and whether the UK has a higher cost of compliance than other jurisdictions. The Committee would be grateful for any data you can share on this, including breakdown by sector, size of firm.

The Committee is right to highlight compliance cost as a barrier to growth. To highlight one particular example, LexisNexis Risk Solutions found that financial crime compliance alone cost UK firms £34.2 billion in 2022 which was a 19% increase from 2020. This trend of increasing compliance costs is particularly worrying to start-up and scale-up firms.

RegTech is a solution to this trend. RegTech solutions are crucial because with widespread adoption, it has the potential to ease and simplify compliance burdens across financial services ranging from regulatory reporting to cracking down on money laundering and meeting ESG commitments. RegTech can also help businesses grow by reducing compliance costs.

Despite the potential for RegTech to be a solution to increasing compliance costs, there is a feeling amongst RegTechs that UK regulators have not done enough to encourage and accelerate the use of compliance technologies.

To aid the FCA and PRA's thinking in delivering this, we are advocating, in partnership with the City of London Corporation, for a 'RegTech Test', whenever new regulations are introduced. This will help regulators assess how technology can assist firms with regulatory compliance, and learn from other jurisdictions such as Hong Kong in encouraging RegTech adoption. Two of our key recommendations are as follows:

- Introduce a compliance technology impact assessment
    - ☐ At each stage of the policy-making process, the PRA and FCA include some level of compliance technology impact assessment.
    - ☐ They should consult with industry to understand at a high level what some of the significant impacts of the proposed rules might be.
- Create a compliance technology working group
    - ☐ The group would provide regulators with technical support to evaluate the policy impact on compliance technology and facilitate a two-way exchange of information.
    - ☐ This will allow working group members to understand the policymaking process more clearly and the regulators to learn more about the use of technology to meet compliance obligations.

The UK is globally known for its pro-innovation regulatory and legal regimes. Implementing the ‘RegTech test’ would be an opening for the UK to lead the world in encouraging the adoption of RegTech and compliance technologies.

Annex: Full list of Innovate Finance proposals for the FCA and PRA to advance delivery of the secondary objective on competitiveness and growth

The full list of proposals it considers the regulators should take forward, and why these would improve the UK's competitiveness and growth.

Recommendations to be tech Positive and think Fintech first	Potential impact on the UK's competitiveness and growth
Adopt an outcome based approach to regulation	Regulatory policy must support and enable innovative technologies and firms in order for the UK's financial services sector to remain competitive, whilst taking into consideration good consumer outcomes to ensure the benefits of such innovation are shared. Outcome based approaches can better enable innovation than prescriptive 'tick box' regulation.
Cost benefit analyses by regulators should include consideration of impact on smaller firms and FinTechs and how technology may help deliver better outcomes	By taking into account the potential impact of regulatory policies on smaller firms, we can avoid rules that add burden, discourage innovation and thus hinder growth and competitiveness in FinTech and financial services.
Introduce scale up units	This would ensure dedicated and more proactive support for firms during the scale up phase, encouraging them to continue to grow in the UK. This would also increase supervisory teams' knowledge and understanding of innovative firms and enable more informed input to policy making.

Clearer, more detailed metrics to measure the regulators' performance across three pillars: fit for purpose: updating existing rules; fit for the future: enabling innovation; and innovative, agile regulators. Where metrics become more granular, for example, the data must be cut by size/stage of firm and by sector.	This is an important part of the transparency that is crucial for effective scrutiny and accountability of our regulators. Such accountability is key to promoting a positive regulatory environment that encourages firms to start, scale and list here in the UK and stimulates investment.
Bring more industry experience into regulators through the introduction of a secondment programme	This will assist regulators in building their understanding of emerging technologies which could significantly impact financial services and our wider economy, allowing them to quickly and safely take advantage of opportunities which could boost the UK's competitiveness.
Regulators should consult with industry through other mechanisms, such as industry workshops and one to one sessions with firms, especially when there is a short deadline.	This would allow for a more collaborative, inclusive and agile policymaking process and clarity and flexibility in regulation that is able to anticipate market shifts and challenges, thus contributing to long-term competitiveness and growth in UK financial services.
Ensure forthcoming and in train proposals reflect the Growth and Competitiveness Objective: - Withdraw enforcement publicity proposals - Ensure By Now, Pay Later rulebook is primarily based around consumer duty - Amend MREL and strong and simple capital requirements - Develop stablecoin regulations that provide a	By reflecting SGCO in the proposals listed, we can ensure regulatory proportionality for the UK FinTech sector, that allows for growth and innovation. Amending MREL and strong and simple capital requirements would, for example, support challenger banks and SME lending and prevent cliff edges. Withdrawal of enforcement publicity proposals would also be a

joined up, proportionate approach across FCA and Bank of England regimes	welcome step towards improving the perception of the UK's regulatory environment, thus attracting talent and investment.
Introduce RegTech test	The creation of a 'learning loop' between stakeholders on new innovations to help firms meet regulatory objectives that in turn save compliance cost and time, allowing for more time spent on growth objectives for the business. Engaging regulated firms earlier in the policymaking process to ensure they consider the impact of new policies on their existing technology sooner, allowing for time for more strategic approaches to technology change to maintain a competitive edge.
Recommendations to 'Do things faster and more strategically'	
Review and amend current APP fraud reimbursement rules to ensure a proportionate joined up approach, that focuses on fraud prevention, widens responsibility to origination on Big Tech platforms and Telecom Companies, and removes moral hazards.	The burden and risk for APP fraud reimbursement and tackling the UK's fraud epidemic is laid solely on UK financial services, which is eroding investor confidence and appetite in our UK payments sector. Sharing liability and responsibility for fraud reimbursement would provide an incentive to social media and telecommunication firms to invest more to tackle fraud, which currently costs the UK economy circa £1.2 billion. The current disproportionate approach negatively impacts the UK's international competitiveness as a place to invest in FinTech and financial services.

	A joined-up and proportionate approach including Big Tech and telecom firms would lead to a reduction in fraud cases, more convicted fraudsters and an increase in both consumer and investor confidence in our UK digital finance sector.
One regulator should be given responsibility for leading and driving progress on Open Banking and Open Finance.	This will deliver momentum and pace in Open Banking, allowing the UK to maintain its international competitiveness in the area and provide the clarity and impetus needed for innovative Open Banking solutions and companies which grow our economy.
Enable regulators to start developing new rules before they formally acquire the statutory powers from Parliament.	This will quicken the policy lifecycle and remove a current unnecessary bottleneck in policy development, which prevents the UK from staying at the front of the international pack.
Actively promote and encourage the adoption of RegTech solutions	With widespread adoption of RegTech solutions, there is potential to ease and simplify compliance burdens across financial services ranging from regulatory reporting to cracking down on money laundering and meeting ESG commitments. RegTech can also help businesses grow by reducing compliance costs.
Recommendations to 'Remove outdated regulation and barriers to growth'	
Scrap reporting requirements that are no longer relevant or duplicate other activity, including Covid reporting and providing credit information that duplicates what firms provide to Credit bureaus	This will ease and simplify the compliance burden on FinTech firms, thus reducing the administrative overhead and cost of regulatory compliance, which can be put towards developing

	innovative products and services.
Streamline the consumer rulebook	This would significantly increase the UK's attractiveness as a hub for financial innovation. By removing redundant or overly complex regulations, FinTech firms would have more flexibility to develop new products and services. This would lower the barriers of entry to the market, enabling new players and bringing more competition and market diversity.
A further look at how capital requirements negatively impact on scaling, challenger banks	Existing thresholds impose additional capital requirements which discourages growth of scalable digital banking business models and reduces SME lending nationwide.
Ensure new reviews of FOS and of SMCR fully apply the growth and competitiveness objective, streamlining SMCR significantly and tightening FOS alignment with FCA rules and interpretation and preventing 'shadow regulation'.	This would reduce a significant administrative and compliance burden on firms, particularly smaller ones. Freeing up resources that could be invested in innovation and growth. Streamlining of SMCR and tightening FOS alignment with FCA rules would provide greater clarity and consistency, thus reducing the risk of regulatory surprises and ensuring predictability for firms looking to expand or consider long-term investments in the UK- much needed for the growth of our economy.

13 December 2024