

Project Innovate – Call for Evidence

FCA Practitioner Panel response

5th September 2014

The Practitioner Panel is a statutory body which represents the interests of practitioners and provides input to the FCA from the industry in order to help it in meeting its statutory and operational objectives in an effective manner.

More information about the Panel is available on its website here <http://www.fs-pp.org.uk>

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

There is a disjoint between the quantum of what customers say they want and need to be told and the regulatory requirements. To ensure that they don't stifle innovation and competition, the FCA will need to ensure that when making decisions, there is sufficient internal challenge and oversight to these decisions and also that they have sufficient understanding of what customers truly want and need.

The Panel would like to see more assurances that as well as the FCA helping businesses to understand the UK regulatory landscape, assistance could be broadened out to consider the European-level current and proposed requirements. For example, the current European discussions on the revised Insurance Mediation Directive and its definition of tying and bundling are only one example of where a new innovative product/distribution channel could be developed and launched within the UK only to find that in two years' time it cannot be sold or delivered in that form. This would be expensive and potentially devastating for a new innovative firm. This point applies as much to existing firms wishing to develop new channels and products as it does to firms which aim to start an entirely new proposition.

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

There are several hurdles which innovator businesses must overcome, including the length of time the process can take, meeting capital requirements, and gearing up for the compliance regime. There are many innovative ideas in the market, but help with negotiating the framework would be the single most useful initiative to promote new ideas. There is currently a shortage of well qualified and experienced compliance staff who know their way around the regulatory regime and this is a significant barrier to entry for new firms.

It is important to note, however, that innovator firms may spend a lot of time and money getting legal opinions and researching customer outcomes to help format new ideas and hence may be unlikely to want to share this valuable intellectual property with their competitors or potentially even with the FCA.

On the issue of competition, it will be important that the FCA ensures that any waivers or changes in its regulatory approach are visible and available to the market as whole. To do

otherwise will create disadvantage within the existing market, which is not in the consumer interest.

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

No comment

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

No comment

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

Existing business vs new starts

The Panel has several concerns relating to the relative positions of existing businesses and new starts. It is concerned that more help may be provided to new entrants than to existing firms, and in order to maintain competitiveness it is important that the FCA shares its support equally between new and existing firms.

There is also a risk that firms within Innovate could be seen to be operating within a 'safe harbour' environment and may adopt approaches that would not be known to those outside who would simply continue to follow the existing rules.

Additionally, whilst the FCA commitment to share information and expertise should help those firms within the project, firms outside the project may receive information, research, changes to rules or waivers later than firms directly involved. Such delays could result in some firms outside the project being forced to obtain such information elsewhere or to conduct costly customer research at their own expense just to keep abreast.

In seeking to comply with regulatory requirements, established market participants may fail to engage customers, whilst new entrants could create a more compelling experience. This may be because they are smaller, more agile or have built less complex structures or products but could also be because they come from outside of the industry and are not as familiar with the regulatory requirements. Not only would this present a risk of poor customer outcomes, it could also place established market participants at a disadvantage.

UK vs European-level regulation

If it is confusing and overwhelming for new businesses to get to grips with what the UK requires of firms, it will be equally difficult, if not more so, to understand and take into consideration the implications of what is being proposed at European level. This is especially true as we then need to factor in how the FCA and Government will interpret the final requirements at national level.

Obviously the FCA and Government representatives sit at the European table and significantly contribute to these discussions during the early stages of directives and other rules, but the industry would appreciate more visibility and some early insight as to what the FCA thinks about the European proposals during that early journey and its considerations on how it might finally implement within the Handbook. The Panel understands that this is not easy but would find it useful to have more insight into the thought processes of the FCA in this area.

Resourcing

As noted in the responses to other questions, there is a shortage of qualified compliance personnel who know their way around the landscape, and it is expensive to recruit use those who have the regulatory experience or to train up to the required level. This is a problem for businesses who wish to innovate, but will also be an issue for the FCA in setting up its Hub and Incubator facilities. Therefore there must be substantial and adequate resource allocated to this initiative if it is to be successful.