



Briefing

Fintech

Supporting the development and adoption of RegTech: No better time for a Call for Input

At a time when the time and cost to firms of complying with regulation is greater than ever it came as a welcome note to hear the Government's announcement in the March 2015 Budget that 'the FCA, working with the PRA, [would] identify ways to support the adoption of new technologies to facilitate the delivery of regulatory requirements – so-called "RegTech"'.

In November, following that announcement, the Financial Conduct Authority ("FCA") released a Call for Input entitled 'Supporting the development and adoption of RegTech'. It follows a number of initiatives by the FCA in recent months to better understand how it can support firms offering innovative products and services, be they of a regulated nature or in the pursuit of assisting with regulatory compliance.

Prior to the launch of the recent initiatives (including a **regulatory sandbox**), the FCA carried out initial investigations into the marketplace and identified a number of areas where, it believes, it could become more involved to help support the adoption of RegTech (being, the provision of regulatory expertise; supporting the current FinTech and RegTech environment; issuing standards and guidance and addressing barriers to entry, innovation and adoption).

What is included in the Call for Input?

This Call for Input is a product of those initial investigations and, from it, the FCA intends to further expand its understanding of the industry as well as to refine its role within it. The Call for Input specifically sets out to find answers to the following questions:

- What RegTech could be introduced in order to make it easier for firms to interact with regulators, at a lower cost and administrative burden?
- What role would it be most useful for the FCA to play in order to foster development and adoption of RegTech in financial services, and what method would best suit this engagement?
- Are there any specific regulatory rules or policies that cause barriers to innovation or adoption of RegTech for financial services (products or processes)?
- Are there any regulatory rules or policies that should be introduced to facilitate innovation and adoption in RegTech for financial services (products or processes)?
- Which existing regulatory compliance or regulatory reporting requirements do you feel would most benefit from RegTech?

Identifying barriers to innovation, and requirements that would benefit from RegTech

A number of our clients have reported facing regulatory barriers when attempting to develop innovative products or services and bring them to the market, and have identified areas for improvement, as well as RegTech solutions that could be helpful.

At a very high level, some of those issues include:

- A lack of communication and transparency about the application process to become FCA authorised. They further struggle to find information about the application process and the progress of their own application. This has led to calls for a better digital user interface, especially when dealing with the FCA's Gabriel and Connect systems.
- A lack of clarity and insufficient guidance around firms' reporting requirements once authorised. Again, this is most keenly seen by start-up businesses or those who are new to the financial services sector. Products that identify reporting requirements and are integrated into a firm's IT systems would be welcomed.
- A rigid system for reporting and disclosing to the FCA, which prevents or severely limits the use of technology in assisting with these requirements and the manual nature of which increases the cost for compliance, for example the inability of smaller firms to review reports converted to the XBRL format by third parties to ensure veracity prior to submission.
- The lengthy authorisation process and the business need to obtain permissions for niche or very infrequent use, which still incur ongoing compliance burdens such as, at times crippling, regulatory capital. This has led to calls for some thinking on pre-authorisation or the ability to turn permissions, and therefore compliance, "on and off" as needed.

For many smaller firms with limited compliance and reporting resources, the requirements impose in their view a disproportionately large regulatory cost on par with the bigger, more resourced firms. Though, few large firms would complain about a more efficient regulatory compliance framework enabled by RegTech.

A view from the FCA

From discussions we have had with the FCA on this topic, we understand that the FCA is already aware of some of these issues and is looking into various technology providers to assist with solutions, for which it is being commended by many in the industry, both in the UK and internationally.

An FCA spokesperson working on the FCA's RegTech initiative, helpfully commented:

"We are learning about this sector through our Call for Input and through our engagement with interested parties. Some of the challenges that have been mentioned to us to date include:

- Difficulties with adopting and integrating innovative technologies onto existing/legacy IT infrastructure.
- FinTech/RegTech innovators facing restricted access to incumbent financial services firms, particularly those with preferred and/or sole supplier agreements with established technology providers.
- The issue of RegTech innovators protecting their intellectual property and achieving a sustainable competitive advantage in the longer term.
- The limited established standards in the sector making engagement, contracting and adoption of RegTech solutions by financial services firms expensive, complex and/or risky.
- The uncertain regulatory position on FinTech/RegTech is making adoption of RegTech solutions by financial services risky.

Notwithstanding these challenges, we think there is plenty to be optimistic about and lots of opportunity. Firstly for the RegTech sector to prove to potential clients that it can provide new solutions to old problems and an opportunity for regulated firms to find suppliers who can help them manage regulatory

requirements more efficiently. Second, an opportunity for us at the FCA to understand how we can best support developments and potentially adopt some RegTech technology solutions ourselves. Get this right and the UK has the opportunity to become the centre for RegTech and FinTech in the world, to the benefit of both firms and ultimately their consumers."

Next steps

The FCA has already received over 70 responses to their Call for Input and expects further responses early this year. Over the next few months, the FCA will be considering the responses, engaging in discussion with participating firms and arranging workshops to take place in February and March with the aim of providing an update on its progress in the Spring.

If you would like any further information or would like to submit a response to this consultation, please use this link. No deadline has been given for submission of responses as the FCA is keen to keep the door open for ongoing feedback.

Contact:

If you have any questions regarding the Call for Input or any of the issues discussed in this article, please contact Gareth Malna or Adrian Shedden.



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