

**Testimony of Christopher Woolard,  
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**To:**

**The U.S. House of Representatives; Committee on Financial Services;  
Task Force on Financial Technology**

*"Overseeing the FinTech Revolution: Domestic and International Perspectives  
on FinTech Regulation"*

**June 25, 2019**

**Washington, D.C.**

## Summary

This testimony will set out some of the key work and supporting documents that the FCA and other UK agencies have published in relation to Innovation and Open Banking.

## Innovation

### 1. Project Innovate [Feedback Statement](#) (October 2014)

- Project Innovate was established in 2014 with the objective to foster innovation that can genuinely improve the lives of consumers. We observed that a wave of innovation was taking place in financial services, largely due to the increasing application of digital technologies and the growth of the FinTech sector, so in July 2014 we published a Call for Input that outlined the FCA's establishment of Project Innovate and ask for views on our proposals.
- In October 2014 we published a Feedback Statement summarising the feedback we had received and setting out our response, which included the launch of our Innovation Hub to provide support directly to firms as they develop and launch their innovations, and to give the FCA a function with which to engage proactively with the FinTech ecosystem.

### 2. Sandbox [Consultation Paper](#) (November 2015)

- Following recommendations by the Government Office for Science, the FCA was asked by Treasury to investigate the feasibility of developing a regulatory sandbox for financial services.
- This paper set out the FCA's recommendations for implementing the regulatory sandbox. The sandbox allows firms to test innovative products, services and business models in a live market environment, while ensuring that appropriate safeguards are in place.
- It aims to deliver more effective competition in the interests of consumers by:
  - reducing the time and, potentially, the cost of getting innovative ideas to market
  - enabling greater access to finance for innovators
  - enabling more products to be tested and, thus, potentially introduced to the market, and
  - allowing the FCA to work with innovators to ensure that appropriate consumer protection safeguards are built into their new products and services

### 3. [Feedback Statement on supporting the development and adopters of RegTech](#) (July 2016)

- RegTech involves the development and application of technologies to help overcome regulatory challenges in financial services.
- In 2015 we issued a Call for Input to find out more about how we could support the adoption and development of RegTech.
- In this paper, we summarise key themes from the responses to that Call for Input, and outlined the FCA's approach in relation to RegTech and the role that we would play.

### 4. [Sandbox Lessons Learnt](#) (October 2017)

- The sandbox is an experiment for us as well as for the firms testing in the sandbox. It was the first time we had allowed firms to test in this way, and as such at the start of the sandbox we undertook to publish lessons learned from its early stages of operation.
- This report further explains how the sandbox operates, discusses the impact on the market and our insights from testing, and explains some limitations firms have faced when testing in the sandbox.

## 5. [Impact and effectiveness of Innovate](#) (April 2019)

- Since launching Innovate, we have provided support to nearly 700 firms of varying shapes and sizes, have played an active role in the global FinTech ecosystem, and have produced policy on innovation in financial services markets.
- In this report, we aim to shed light on the work we do through Innovate, why we do it, and why we think it advances the FCA's objectives in an effective manner. The report outlines evidence that suggests our work:
  - gives firms the regulatory certainty they need to develop their innovations and deliver them at speed
  - improves outcomes for consumers by firms we support bringing innovation to market and incumbents responding to compete harder and improve their own offerings
  - encourages positive innovation domestically and internationally.

## Opening Banking

### 6. Retail banking market investigation: [Final Report](#) (August 2016)

- The CMA is implementing a wide-reaching package of reforms. Central to the CMA's remedies are measures to ensure that customers benefit from technological advances and that new entrants and smaller providers are able to compete more fairly.
- The key measure, which will benefit personal and small business customers, is:
- Requiring banks to implement Open Banking to accelerate technological change in the UK retail banking sector. Open Banking will enable personal customers to manage their accounts with multiple providers through a single digital 'app', to take more control of their funds (for example to avoid overdraft charges and manage cashflow) and to compare products on the basis of their own requirements.

### 7. [Open Banking: A Consumer Perspective](#) (January 2017)

- This report was written by Faith Reynolds, members of the FCA Consumer Panel and Consumer Representative for the Open Banking Implementation Entity.
- The report provides a good introduction to the concept of Open Banking and the implications it will have for the payments market.

### 8. [The future of competition and regulation in retail banking](#) (November 2017)

- This is a speech given by Christopher Woolard at the Future of Retail Banking 2017 event.
- Retail banking is on the cusp of some of the most significant change the sector has ever seen in the form of PSD2 and Open Banking.
- These changes are welcome, as competition has long been a concern in the retail banking industry.
- As the regulator, we need to understand the impact of these changes on firms' business models, and how they may affect consumers.
- PSD2 and Open Banking offer opportunities for incumbents, as well as challengers.

### 9. [Payments after PSD2: evolution or revolution](#) (March 2018)

- This is a speech given by Karina McTeague at a conference in London.
- From a consumer protection and market integrity perspective, we have a real interest in the Open Banking Implementation Entity's successful delivery of the CMA's Open Banking API requirements and wider adoption of APIs by the industry.

- Customer communications should be balanced, and not seek to dissuade customers from using third party AIS or PIS providers through their communications or terms and conditions.
- We welcome the development of industry arrangements designed to facilitate the successful delivery of PSD2 objectives (including voluntary guidelines and dispute management system).
- We will be looking to see that firms' culture prioritises treating customers fairly, and doesn't take inappropriate advantage of ill-informed, naïve or vulnerable consumers.

#### **10. Modernising consumer markets: [Consumer Green Paper \(April 2018\)](#)**

- Whitepaper published by BEIS, they are due to publish their smart data review in June 2019. This work is being considered alongside our work on Open Finance.
- Open Banking was launched in early 2018 and is offered by the nine largest UK banks and an increasing number of challenger banks. It allows consumers to provide third party providers, regulated by the FCA, with secure access to their current accounts in order for them to seamlessly provide a range of innovative new products tailored to the needs of consumers. It will make it easier for people to manage their money, putting them in control of their data. For example:
  - an app could monitor their spending and make payments
  - they could be alerted to saving and investment opportunities across accounts
  - they could authorise the movement of money between accounts to prevent overdraft charges and even access cheaper overdraft facilities without switching current account provider.
- In the UK, new innovative financial service providers are making use of this data, and plan to expand their offer to consumers by partnering with providers in other essential markets such as energy and telecoms.
- Key to Open Banking are the underpinning Application Programming Interfaces (APIs) which are standardised, making it easier for innovative new firms to deploy their products.

#### **11. Strategic Review of Retail Banking Business Models: [Final Report \(December 2018\)](#)**

- Our Final Report confirms our view that the Personal Current Account (PCAs) is an important source of competitive advantage for major banks.
- PCAs bring cheap funding from customer deposits and additional revenues from overdraft fees and other charges.
- Major Banks with large PCA networks have a net advantage even when the costs of providing the PCA and branch network are taken into account.
- Innovative business models like Open Banking, and competition could deliver better value and enhanced customer service, including:
  - cheaper or more convenient payment or overdraft solutions separate from current accounts;
  - budgeting and money management tools based on analysis of customer data;
  - enabling consumers to search and switch for better deals on savings and lending, and potentially switch to new providers.

#### **12. Unlocking Digital Competition: [Report of the Digital Competition Expert Panel \(March 2019\)](#)**

- The Digital Competition Expert Panel was established in September 2018 to consider the potential opportunities and challenges the emerging digital economy may pose for competition and pro-competition policy, and to make recommendations on any changes that may be needed.

- In the report, they make several references to the UK and FCA as good places for FinTech firms to go for their business development.
  - *“Clearer principles, rules and standards can support and enhance competitiveness and success in the global economic arena. UK is a leader in global banking in part thanks to its regulatory environment.”*
  - *“The UK is a great place to start a FinTech company in part because of Open Banking, and the approach of the Financial Conduct Authority and the Payment Systems Regulator. Applying similar regulatory principles can improve the economic environment in the UK for digital start-ups and scale-ups while creating more predictability for large incumbent firms.”*

**13. [Weighing the value of data – trade-offs, transparency and competition in the digital marketplace](#) (May 2019)**

- This is a speech given by Robin Finer at a conference in London.
- Data can have economic value for the consumer – it is a personalised input that reduces search costs and helps individuals to obtain products and services that better match their needs.
- While consumers have difficulty understanding the value of their own information, the value of data to firms is augmented by their ability to combine data sources on individuals and then aggregate across consumers. The better they are at this, the more they’ll attract new business and more information.
- By increasing our understanding of these markets and the role and value of data, we can help empower consumers to choose what to share, where, and for what, as well as informing debates about how to deal with technology firms’ market power.

**14. [Payment Services and Electronic Money – Our Approach](#) (June 2019)**

- Our published guidance which can be used by firms to ensure compliance with PSD2. We make several allusions to Open Banking and the potential it has to change the payment industry in the UK.
- We also explicitly state our preference for firms to make use of an API in order to provide a dedicated interface.

## International Engagement

**15. Global Financial Innovation Network (GFIN) – [Consultation Document](#) (August 2018)**

- The Global Financial Innovation Network founding members<sup>1</sup> published a consultation paper inviting responses on the proposal of a ‘Global Sandbox’ in the form of the Global Financial Innovation Network.
- The paper set out the proposed mission statement and functions of GFIN, as well as details about how the Network would operate.
- 99 responses from 26 jurisdictions were received. The response from industry and other international regulators was overwhelmingly positive in favour of establishing the GFIN to

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<sup>1</sup> Founding members: Abu Dhabi Global Market (ADGM), Autorité des marchés financiers (AMF - Quebec), Australian Securities & Investments Commission (ASIC), Central Bank of Bahrain (CBB), Bureau of Consumer Financial Protection (BCFP, USA), Dubai Financial Services Authority (DFSA), Financial Conduct Authority (FCA, UK), Guernsey Financial Services Commission (GFSC), Hong Kong Monetary Authority (HKMA), Monetary Authority of Singapore (MAS), Ontario Securities Commission (OSC, Canada) and Consultative Group to Assist the Poor (CGAP).

facilitate a new practical method of regulatory collaboration on innovation and creating an environment for cross-border testing.

**16. GFIN [Terms of Reference](#) for governance and membership (February 2019)**

- The GFIN terms of reference set out the 3 primary functions:
  - To act as a network of regulators to collaborate and share experience of innovation in respective markets, including emerging technologies and business models, and to provide accessible regulatory contact information for firms.
  - To provide a forum for joint RegTech work and collaborative knowledge sharing/lessons learned.
  - To provide firms with an environment in which to trial cross-border solutions.
- Following the consultation feedback GFIN opened a 1 month application period for a pilot phase of cross-border testing. Interested firms were invited to submit applications to relevant participating regulators by 28 February 2019.

**17. GFIN cross-border pilot testing – [next steps](#) (April 2019)**

- 44 unique applications were submitted across the 17 participating regulators. Every regulator participating in the pilot was the subject of at least one application. Each regulator has considered whether a proposed test meets its individual screening criteria, areas of interest, and they have considered their ability to support the activity.
- After this initial screening, GFIN members will continue working with 8 firms. The next phase is for the firms to develop testing plans with the relevant regulators for their cross-border trial, some of which will involve live transactions. Firms that develop a testing plan satisfactory to each jurisdiction's criteria will take part in the pilot testing phase.

# House Committee on Financial Services Taskforce on FinTech

June 2019

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**Christopher Woolard**

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Chair, IOSCO FinTech Network

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# FCA Statutory Objectives

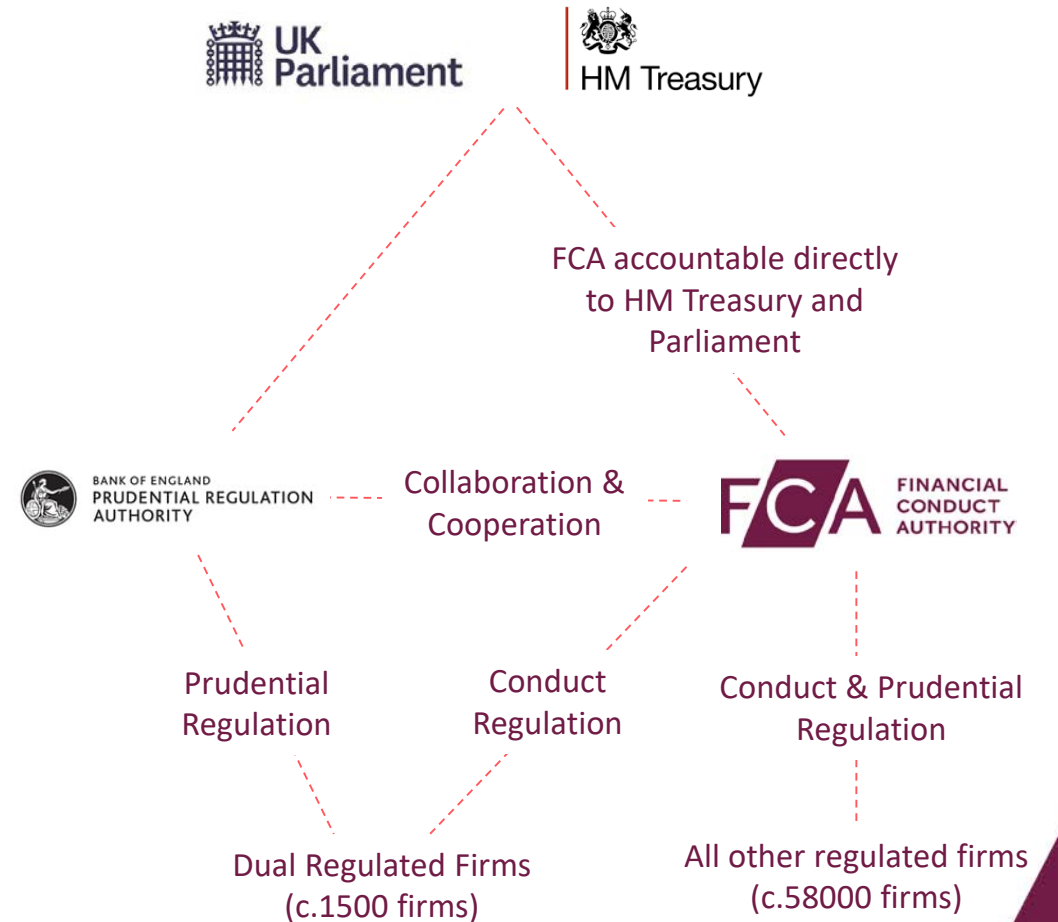
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- Strategic objective of **ensuring** that the relevant **markets function well**;
- To secure an appropriate degree of **protection for consumers**;
- To **protect and enhance** the **integrity** of the UK financial system;
- **Promote** effective **competition** in the interests of consumers.



# UK Regulatory Landscape

- The FCA is an **independent public body**.
- Work and purpose defined by the Financial Services and Markets Act.
- The FCA:
  - regulate standards of conduct in **retail** and certain **wholesale markets**;
  - supervise **trading infrastructures** that support those markets;
  - **prudentially regulate firms** not regulated by the Prudential Regulation Authority; and
  - operate the **UK Listing regime**.



# Project Innovate

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- From 2 employees in 2014 to a fully fledged **Innovation division in 2019.**

## Aims

- Provide greater **regulatory certainty** for innovative business cases.
- **Improve outcomes** for consumers: we want to see **innovation at scale.**
- Encourage **positive innovation** to come to market.

## Actions

- Provide **formal and informal support in** all Financial Services markets.
- Provide testing environment in the **FCA Innovate Sandbox.**
- **Produce policy** in innovative areas such as DLT and Cryptoassets.
- Encourage the development of RegTech and test potential solutions.

# Project Innovate evaluation

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- Early steers help firms **develop and iterate** their innovations.
  - Over **1,500 applications** and nearly **700 firms supported**.
  - Over **150 informal steers** issued to clarify how we regulatory requirements.
- **Guide firms** through regulatory processes to get to market faster.
  - Over **100 new firms authorised** through Project Innovate.
  - **40% reduction in time** to be authorised for certain groups of firms.
- Firms supported by Innovate are **establishing themselves in the market**.
  - Around **80% of firms** that completed Sandbox testing are still operating.
  - Start-ups in Sandbox cohort 1 received **£135m of equity funding**.
  - 13 of 50 firms to receive Direct Support have received over **£165m of equity funding**.
  - **Open to all firms** – major firms have tested as well as new FinTechs

# Open Banking – the story so far

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- The **Payment Services Directive** (PSD2) was adopted by EU in 2015.
- Implemented in UK law via the **Payment Services Regulations** in 2017.
- The Competition and Markets Authority (CMA) mandated 9 UK Banks to establish the **Open Banking Standard** in 2016.
- The Standard is delivered by ‘Application Programming Interfaces’ (APIs)
  - **Secure** method of providing access to data.
  - **Standardised system** aides implementation and innovation.

## Outcomes

- Create more **competition in retail banking sector** for consumers.
- Reduce **barriers to entry**, increase **financial inclusion** and **engagement**.
- Improved **visibility of accounts** for consumers and clearer alternatives.

## Open Banking ➡ Open Finance ➡ Open Everything?

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- Success of open banking requires it to **expand further**.
- Looking to expand Open Banking type access to **savings, pensions and mortgages markets**.
- **Encouraging innovation** across financial services **through the use of data**.
- Moving toward a cross-sector approach with **Smart Data consultation** by the Department for Business, Energy and Industrial Strategy (BEIS).
- The Smart Data Review is looking at how **data access** could be carried out **across regulated sectors** (telecoms, energy and financial services).
- Improved consumer outcomes in **all sectors**.

# International Collaboration

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- **Promoting collaboration** through the Global Financial Innovation Network.
  - Driving cross jurisdictional collaboration on Fintech.
  - **35 international members.**
  - Cross border **testing pilot** established with 8 firms (4 US headquartered).
- **11 cooperation agreements** with international regulators.
  - Allowing more **efficient information sharing.**
  - Improving access to markets for firms.
  - Enhancing protections for consumers.
- Working with international counterparts to **develop global standards.**
  - Global Anti Money Laundering & Financial Crime **TechSprint.**
  - IOSCO Fintech Network.

