



Project Innovate: call for input

Introduction

1. Innovation can be a powerful driver of effective competition in the interests of consumers. As a regulator with a competition objective, we want to do more to support and encourage innovation in financial services and are seeking input on an initiative, Project Innovate, which will help both start-ups and established businesses to bring innovative ideas into financial services markets. The objective of Project Innovate is to foster innovation that can genuinely improve the lives of consumers.
2. To do this we are proposing to build an Incubator and an Innovation Hub. The Incubator will assist innovative financial businesses through our authorisations process. This will involve proactive engagement and support on how to engage with the authorisation process, for example, in relation to presenting a business plan. The Innovation Hub will then provide a dedicated contact for firms which have been authorised with the help of the Incubator. The Innovation Hub will also talk to existing regulated and unregulated firms with innovative ideas and engage relevant wider FCA expertise to understand the issues and opportunities raised. Where we see innovation in the interests of consumers we will work with those firms, including potential collaboration on research or trials.
3. We want to engage directly, as well as through this call for written input, so will shortly be organising events with stakeholders interested in innovation in financial services. More information is [available on our website](#), including how to register to participate.

An adaptable regulatory system

4. Project Innovate will help businesses of all sizes to bring innovative ideas to market. It will ensure that when innovator businesses come into contact with the FCA, they are supported in their efforts to introduce new products and ideas for the benefit of consumers.
5. A significant driver of the current wave of innovation in financial services is the application of digital technology and we expect the fintech sector to be an important source of input. Other forms of innovation are also in scope, for example, firms that innovate through the use of new business models. We will focus on genuine, ground-breaking innovation.
6. For Project Innovate to be a success, the relationship between the regulatory system and innovation must be two-way. Just as we can help innovators get to grips with the changing demands of regulation, we must also find ways of keeping regulation up-to-

date with trends in innovation. This could mean changing requirements where needed to foster innovation in the interests of consumers. Rule changes, guidance and waivers can all (within the constraints of EU law) play a part in meeting this challenge.

7. As an example, we have also published [guidance](#) today (11 July) clarifying the boundaries between services that provide a personal recommendation and those that do not, to help firms interested in providing automated advice services.
8. We hope that more proactive engagement with innovators and innovation facilitators will provide a valuable feed of intelligence to help us keep the regulatory system on the right side of change. This will include seeking to influence EU policy developments to support innovation.

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

What we propose to do: for financial sector businesses

9. When an innovator firm is planning to conduct regulated business, its first experience of the FCA will usually be through the authorisations process. Given the potential benefits of innovation, we want to give innovator applicants more support when getting authorised. To do this we are proposing to build an Incubator, whose role will be to help innovator financial businesses put themselves into good shape for authorisation. This will involve proactive engagement and support on how to engage with the authorisation process, for example, in relation to presenting a business plan.
10. The Incubator will serve innovator firms that need the additional support it will provide, such as small start-ups with limited resources for engaging with the regulator.

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

11. Once authorised, small firms' relationship with the FCA is usually through our Contact Centre; small firms do not normally have a relationship with a named supervisor. However, for firms that have been supported by the Incubator through authorisation, we propose to continue the additional level of support with a named FCA contact in a new Innovation Hub. This contact will provide constructive advice and involve additional FCA expertise where appropriate. This will help newly authorised firms to understand their obligations and help us to understand their business models. This mutual understanding can inform discussions about how their business models are compatible with existing regulation, and whether there are ways in which it would be appropriate to change rules to support innovation in the interests of consumers.
12. Established financial sector businesses, as well as large new entrants, may also have innovative ideas that they wish to explore with the FCA. The Innovation Hub will talk with these businesses and engage relevant wider FCA expertise to understand the issues and opportunities raised.

What we propose to do: for non-financial sector businesses

13. Some of the innovation that is transforming financial services is being developed and delivered by non-financial businesses, ranging in size from start-ups to large technology corporates, which may never seek to carry out regulated activities. To design their concepts and products effectively for regulated firms, these innovators might benefit from discussions with the FCA to help understand the regulatory regime. These discussions will be led by the Innovation Hub.
14. Proactive engagement will be important to make this work. We have started building relationships with fintech platforms and facilitators such as NewFinance, TechCityUK, Level 39, and accelerators, who can help us to identify innovators that would benefit from discussions with the Innovation Hub. We will continue to engage with these organisations, as well as innovators directly, to inform the design of Project Innovate.

Question 3: Do you think it would be useful to establish an Innovation Hub?

Criteria for innovation

15. We will seek to use our resources as efficiently as possible by ensuring that we concentrate on genuine, ground-breaking innovation. This means that we will need to make judgements about with whom to engage, and how intensively. We recognise that this could lead to disappointment in some cases. Over the summer we will seek to develop criteria to guide these judgements, and would welcome suggestions from readers of this call for inputs.
16. Not all innovation is positive from the point of view of the consumer or the public interest. Innovation designed to avoid fiscal or regulatory responsibilities, or weaken consumer understanding, will fall outside the scope of the supportive arrangements outlined above.

Question 4: What criteria should we use to focus our resources on 'genuine, ground-breaking' innovation?

Working together

17. For Project Innovate to succeed, we will rely on businesses making a reasonable effort to understand how the regulatory system affects them. What is reasonable will depend on the circumstances. For example, an incumbent financial sector business is likely to have a greater understanding of regulation than a small fintech start-up. So we will generally focus Project Innovate's resources on those innovator firms that we expect to need our additional support most.
18. We will not be introducing FCA accreditation or endorsement for particular businesses or innovations as part of Project Innovate, but may choose to work with them on consumer research or trials. More generally, we expect many of our initial conversations with innovators to be informal. This means that firms should not expect the content of these informal conversations to imply binding commitments on the FCA. This approach will enable us to provide support that is both tailored and timely.

Question 5: Do you have any other feedback or suggestions about Project Innovate?

Next steps

19. Over the next few months, we will proactively engage with innovators in financial services to seek their views directly on Project Innovate.
20. We will consider the responses received to the questions in this paper as well as the feedback we obtain through our proactive engagement. We can then finalise our plans for Project Innovate and we will make a public statement in autumn about the steps we will be taking.

Questions

1. Is there anything about the regulatory system that poses particular difficulties for innovator businesses?
2. What practical assistance do you think the Incubator could usefully provide to small innovator firms?
3. Do you think it would be useful to establish an Innovation Hub function?
4. What criteria should we use in order to focus our resources on 'genuine, ground-breaking' innovation?
5. Do you have any other feedback or suggestions about Project Innovate?

Sending us your input

21. We will be reviewing your input as we go along, so please do feel free to send it through at any time up to **5 September**. Submissions received after that date may not be reviewed.
22. Please submit your answers through the [online form](#). If you are unable to use the form, you can either email your input to projectinnovate@fca.org.uk with the subject title "Project Innovate: call for input" or send it in writing to the address below. Please structure your input to match the five questions above and please remember to include your name and contact details.

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23. We will treat all responses as available for public inspection unless the respondent requests otherwise. We will not regard a standard confidentiality statement in an email message as a request for non-disclosure. We may be asked to disclose a confidential response under the Freedom of Information Act 2000. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the Information Commissioner and the Information Rights Tribunal.