

# The Impact and Effectiveness of Innovate

April 2019

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## 1 Foreword

The FCA started its innovation programme 5 years ago.

There has been significant interest in our innovation work from innovators, existing financial services players, regulators and governments, both domestically and internationally. We have seen innovation programmes and Sandboxes established in dozens of other jurisdictions to encourage innovation in the interests of consumers.

5 years in, the key question for us is whether our innovation programme is delivering the results we expected? Are we enabling innovators to develop their businesses and get to market faster, and are the innovations that get to market genuinely improving the lives of consumers?

Some of this is hard to measure. In some cases, the results will only play out over many years. However, against the objectives we originally set for ourselves, the emerging answer is yes:

- We are seeing innovative firms getting to market quicker – groups of firms coming through Innovate are being authorised on average 40% faster than our standard authorisation timings.
- We are seeing innovation at scale benefiting consumers – incumbent firms are responding to new challengers to improve their own offerings, and firms we support are bringing beneficial innovations to market.
- We are seeing innovative firms accessing investment – firms we have supported are receiving significant levels of investment, signalling the value of the regulatory certainty we provide.

It is still early days. There is more for us to do both here in the UK and working in partnership internationally to make further progress, but we believe that this report demonstrates the positive start we have made. We will continue to measure and report on how we work to ensure that the benefits of innovation are maximised and realised by consumers.

**Christopher Woolard**  
**Executive Director of Strategy & Competition**



## 2 Executive summary

- 2.1** Innovation can be a positive driving force for effective competition. The FCA carries out a range of work to enable innovation in financial services markets. We launched Innovate in 2014 as an area of the organisation with a specific remit to encourage innovation in the interests of consumers. We believe that the actions and words of a regulator can directly affect the level of innovation that is brought to market.
- 2.2** We want to see innovation that has genuine potential to improve the lives of consumers come to market across all areas of financial services. The opportunity for consumers to be better served as a result of innovation is clear; be this through products that are better suited to their needs, greater access, or lower prices.
- 2.3** We also want to see innovation delivered by a diverse range of participants, both in terms of type of firm, and the people behind the developments. Diversity unlocks innovation and ensures new solutions and products are inclusive and designed to satisfy the varied needs and circumstances of consumers.

### Innovate supports firms with innovative business models:

to **understand** the regulatory **considerations** relevant to their **developments**;

by producing **policy** to ensure the UK **regulatory** framework is fit for the **future**;

by **engaging** widely to better **understand** trends and further promote **innovation** in the interests of **consumers**

- 2.4** Since launch, we have provided support to nearly 700 firms of varying shapes and sizes. We have a presence and active role in the FinTech ecosystem, we have held our own events and participated in others, and we have produced policy on innovation in financial services markets. Our leadership and collaboration on an international scale has contributed to a developing global approach to encouraging innovation in the interests of consumers, through pioneering regulator-to-regulator FinTech cooperation agreements, supporting experimentation through our TechSprint programme, and launching the Global Financial Innovation Network (GFIN).
- 2.5** Demand continues to be high for our support, firm feedback remains positive, and the reaction from industry, consumer groups, academia, and our peers in regulation and government has been very encouraging. Despite the generally positive reaction, we want to objectively evaluate our progress and set out our findings transparently. We are focused on ensuring that the work we do contributes to a regulatory system that is well set up to facilitate positive innovation coming to market in a controlled and sustainable manner. Taking stock of what we have delivered and better understanding our impact enables us to move ahead with this aim.
- 2.6** We have tried to maintain an evaluative mindset to our work as we have grown. We recognise the importance and value of putting ourselves under as much scrutiny as the firms we work with. We survey firms to identify what we are doing well and what we could do better. We iterate our offering to better serve the needs of stakeholders internally and externally. And we have evaluated and reflected on our progress in an



open manner as we have sought to develop and update our approach. This evaluation and report represent the next step in that process.

**2.7** 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. We want to clarify misconceptions that persist about what we do, and present an open reflection on the effectiveness of our approach.

## The evidence suggests that our work:

gives firms the regulatory certainty they need to develop their innovations and deliver them at speed	
support provided	success in market
<p><b>1,563</b> applications for support</p> <p><b>686</b> firms supported</p> <p><b>149</b> informal steers</p> <p><b>101</b> authorisations or variations of permissions</p> <p><b>~40%</b> reduction in time to determine authorisation application</p>	<p>start-ups in <b>Sandbox cohort 1</b> receiving <b>£135m</b> total equity funding</p> <p><b>~80%</b> of firms that <b>successfully</b> tested in the <b>Sandbox</b> are still in operation</p>
improves outcomes for consumers by firms we support bringing innovation to market and incumbents responding to compete harder and improve their own offerings	
incumbents are responding	our support is broad
<ul style="list-style-type: none"> <li>development of <b>innovation hubs/units</b></li> <li>partnerships with <b>private accelerators</b></li> <li>partnerships with <b>FinTechs</b> (~50% of <b>Sandbox tests</b> involved a partnership between an incumbent and a start-up)</li> <li><b>imitation</b> of <b>disruptive innovation</b> by incumbents</li> </ul>	<ul style="list-style-type: none"> <li>firms supported from across <b>all sectors</b></li> <li>increase in number of <b>large firms</b> applying to Sandbox (<b>9</b> in cohort 5)</li> <li>increase in number of <b>regional</b> and <b>international</b> applications to Sandbox (<b>46</b> in cohort 5)</li> </ul>
encourages positive innovation domestically and internationally	
creating a supportive regulatory environment	collaboration and leadership on a global scale
<ul style="list-style-type: none"> <li>through policy publications such as guidance on <b>Distributed Ledger Technology (DLT)</b> and <b>cryptoassets</b></li> <li>increasing focus on areas where we think <b>innovation</b> can be particularly beneficial e.g. <b>Green FinTech Challenge</b> and <b>six themed events</b></li> </ul>	<ul style="list-style-type: none"> <li>promoting <b>collaboration</b> through the Global Financial Innovation Network</li> <li>signing <b>11 co-operation agreements</b> with international regulators</li> <li>involving international peers in our <b>RegTech</b> work and <b>TechSprints</b></li> <li>working with international standard setters to develop <b>global standards</b></li> </ul>



- 2.8** It is still early days. We expect to be able to draw clearer conclusions on Innovate's impact as firms spend more time in the market and the evidence base grows. But we have identified ways in which we can do more now to expand our assessment capabilities. We are going to broaden the information we collect from firms we support and expand how we formally monitor their progress over time. This should allow us to make clearer comparisons with similar firms that do not receive our support.



## 3 Overview of this report

### 3.1 This report sets out the following:

- In Chapter 4, we set out the evolution of Innovate since we launched nearly 5 years ago. A significant amount of change has taken place in the market over this period, and we have adapted significantly alongside it. This section sets out how Innovate supports the FCA's overall objectives, and the substantial development we have undergone over this period to expand our goals and our functions.
- In Chapter 5, we set out the framework we have used to evaluate the work of Innovate and our impact on firms, markets and consumer outcomes. We discuss the hypotheses we have developed to assess ourselves against, how we have conducted the evaluation, and the scope of this evaluation.
- In Chapter 6, we set out the evidence demonstrating how we are having a beneficial impact on firms by providing them with the regulatory certainty they need to continue development of their innovations. We look at the significant levels of demand that we continue to experience for our services, the range of benefits our support provides, and the outcomes for firms that have received our support.
- In Chapter 7, we set out the evidence demonstrating how we are having a beneficial impact on outcomes for consumers. We discuss how firms we support are bringing innovative propositions to market that provide clear consumer benefit, how incumbents are responding to innovation to compete harder and improve their own offerings, and how our support appears to be making an impact across the full breadth of financial services.
- In Chapter 8, we set out the evidence demonstrating how we are influencing and contributing to the development of a regulatory response that is encouraging of positive innovation coming to market on a broader domestic and global scale. We explore the impact of our efforts to ensure the regulatory environment in the UK is fit for future innovation, to engage broadly both domestically and internationally, and to be at the forefront of the international regulatory response to innovation through extensive collaboration and cooperation.
- In Chapter 9, we set out future work to enable us to better measure and evaluate our impact on firms and consumer outcomes. This involves explaining how we will expand the information we collect from firms we provide support to and how we will monitor their progress over time.



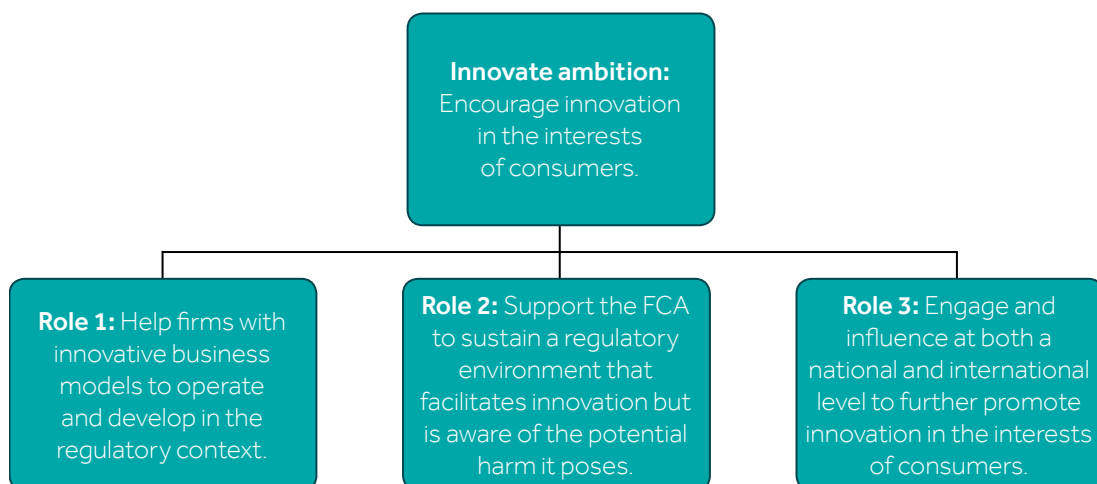
## 4 The evolution of Innovate

**4.1** Our aim is to add public value by improving how financial markets operate, to benefit individuals, businesses and the UK economy. We have a single strategic objective – to ensure the relevant markets we regulate function well. We also have 3 operational objectives to advance this overarching strategic objective:

- To secure an appropriate degree of protection for consumers
- To protect and enhance the integrity of the UK financial system
- To promote effective competition in the interests of consumers

**4.2** Innovation is a powerful driver of effective competition in the interests of consumers. It leads to some firms emerging to operate at scale as genuine competitors to incumbents, and some innovators being purchased by or partnering with large firms to deliver their propositions to mass market. Disruptive innovation comes from firms of all sizes, and it drives incumbents to compete harder to gain or retain customers.

**4.3** We have a strand of work to enable positive innovation in financial services markets. We conduct in-depth market studies to review how well competition in markets is working. We produce policy to ensure we have a regulatory environment fit for future innovation. We also continue to evolve our authorisation and supervisory capabilities to ensure firms can deliver positive innovation to consumers in a controlled manner. Innovate has a specific ambition to encourage innovation in the interests of consumers. We contribute to this by working with other areas of the FCA to play 3 broad roles.





# Evolution of Innovate – timeline



FCA launches Innovate  
in October 2014

**October 2014** – FCA officially launches Project Innovate following publication of Project Innovate Feedback Statement

**May 2016** – First Cohorts of the Regulatory Sandbox and the Advice Unit open for applications

**November 2016** – First Cohort of firms participating in the Regulatory Sandbox to test innovation in a live environment announced

**June 2017** – Advice Unit scope expanded to include firms developing automated models in the mortgage, general insurance, and debt sectors

**October 2018** – Green FinTech Challenge launched to provide support to firms developing green solutions

**January 2019** – GFIN is formally launched by 29 participating organisations

**April 2019** – Pilot cohort of firms participating in cross-border testing through GFIN announced



Support

**September 2015** – First Innovate event held on Robo-Advice

**March 2016** – First FinTech Cooperation Agreement Signed with Australian Securities and Investments Commission (ASIC)

**April 2016** – First TechSprint held on Consumer Access to Financial Services

**March 2017** – Event held on InsurTech and TechSprint held on Financial Services and Mental Health

**February 2018** – 10th FinTech Cooperation Agreement signed with the US Commodity Futures Trading Commission (CFTC)

**October 2018** – Event held on Innovating for a Greener Great Britain to coincide with launch of Green FinTech Challenge



Engagement



Policy

**March 2016** – Feedback Statement on digital and mobile solutions published

**July 2016** – Finalised Guidance on outsourcing to cloud published and Feedback Statement on supporting the development and adopters of RegTech published

**October 2017** – Lessons learned from the first two cohorts of the Regulatory Sandbox published

**December 2017** – Feedback Statement on Distributed Ledger Technology published

**February 2018** – Consultation on global sandbox proposal published

**August 2018** – Consultation on Global Financial Innovation Network published in conjunction with 11 other international regulatory bodies

**October 2018** – Final Report of the Cryptoassets Taskforce published in conjunction with HM Treasury and the Bank of England

**January 2019** – Guidance consultation on cryptoassets published



- 4.4** We believe that the FCA can play a unique role in encouraging innovation in the interests of consumers in a way that advances all our objectives. Recognising this, in 2014 we asked for feedback ([Project innovate: call for input](#)) on proposals to expand how we directly support firms developing innovative products and services.
- 4.5** [Project Innovate](#) launched later that year, and the remit and functions of what we now call Innovate have grown ever since. We continually strive to evaluate our activities and enhance our capabilities to provide more effective and targeted support to firms, expand our ability to produce effective policy, and increase the FCA's ability to engage and influence the debate on effective regulation of innovation at home and overseas. A large amount of change has occurred in the market over the last 5 years. If we are to be successful we know we must listen and adapt, and the journey that we have been on is one that recognises these changes and demonstrates our attempts to iterate our offering accordingly.
- 4.6** We started with a small team running a [Direct Support](#) function to provide bespoke regulatory support to firms with innovative business models. This, coupled with our [Engagement](#) function, gave us a good base to proactively reach out and participate in the FinTech ecosystem. As our experience and understanding increased, we recognised a clear need to provide regulatory support to firms looking to test their innovations live in the market with real consumers, but on a controlled basis. To deliver this, we added the [Regulatory Sandbox](#) to Innovate's offering, launching our first cohort in 2016. We are now on our fifth cohort with a total of 110 tests completed or in train to date.
- 4.7** The [Financial Advice Market Review](#) identified an advice gap in UK markets. This occurs where consumers are unable to get advice or guidance on a need they have at a price they are willing to pay. In 2016, we set up the [Advice Unit](#) to focus specifically on providing support to firms looking to address this advice gap. Robo-advice has the potential to provide affordable advice and guidance solutions to consumers that are currently not served by traditional advice offerings. 2016 is also the year we launched our [RegTech](#) initiatives to encourage the development of technologies with the potential to help overcome regulatory challenges in financial services. We held our first ever [TechSprint](#) in April of that year to identify potential solutions to access issues, and have held a further 5 since with more in the pipeline.
- 4.8** Following a couple of years of operation, we recognised that many of the start-ups we were seeing breakthrough in 2014 were beginning to have a real impact in the market, and were making that challenging transition from start-up to scale-up. To support FinTechs scaling internationally, we created [FinTech cooperation agreements](#) and started signing these with other regulators in key jurisdictions around the world. If FinTechs are better able to scale internationally, they are more likely to be able to compete in UK markets as well.
- 4.9** It was around this time that some incumbents were beginning to seriously consider their innovation ventures and strategies, either through acquisition of FinTechs, partnering with start-ups, or in-house development. Recognising the shifting attitudes of the time we launched a scheme to proactively [engage with incumbents](#). Innovate exists to support firms of all sizes in developing positive innovation. Larger firms are certainly more familiar with regulation than most start-ups, but often have complex questions about their new propositions that would benefit from our support.



- 4.10** In 2017, we officially transitioned from being a project to a full Department at the FCA. At this point, FinTech was becoming mainstream for incumbents as well as regulators. Alongside this transition, we developed a regional engagement programme to ensure that our support reaches growing markets outside of London, and continued to play back what we were seeing to the market through things like the Sandbox Lessons Learned publication. We also took this opportunity to expand our policy capability, which has so far aimed to provide clarity to the market on innovation in areas like DLT, cryptoassets, and outsourcing to the cloud.
- 4.11** We proposed a 'global sandbox' in February 2018, and formally launched the Global Financial Innovation Network in January 2019 to provide a more efficient way for innovative firms to interact with regulators, helping them navigate between countries as they look to scale new ideas. The first cross-border tests by firms will start later this year. We have also been exploring a complementary initiative in the UK with a cross-sector Sandbox, which would allow firms to test innovation with multiple different regulators involved. We also think we have the potential to take a more active role in driving innovation in an area where we see clear benefit to UK consumers and markets, and launched our Green FinTech Challenge at the end of last year to focus on supporting firms developing innovative solutions to help in the UK's transition to a greener economy.
- 4.12** Alongside our ever-increasing ambition, our functions have evolved significantly to enable us to better serve the needs of innovators. Six months ago we brought together all of our internal functions including those engaged in RegTech into a single Innovation Division. We will continue to listen to what firms and consumers are telling us and respond to the changes taking place in the market by further evaluating our progress and considering what the focus of our offering should be.



## 5 Evaluating our impact

- 5.1** We need to understand our impact on the firms we are supporting, and how this promotes effective competition in the interests of consumers. So, we have conducted work to evaluate our impact and the progress we have made. This has focused on evaluating the support we provide to individual firms, and the impact this has at both a firm-specific and market-wide level, but also considers the wider activities Innovate performs to encourage positive innovation.
- 5.2** We seek to help firms understand how regulation applies to them and provide greater regulatory certainty to encourage innovations which have positive benefits to consumers. Greater regulatory certainty should enable firms to launch their products more quickly, and establish themselves in the market.
- 5.3** By supporting individual firms get to market, we believe that this creates positive competitive pressures on existing firms to evolve and improve their offering, creating more positive outcomes for consumers, such as lower cost and higher quality products and services.
- 5.4** Our work in Innovate primarily focusses on the initial aspect of this process – providing greater regulatory certainty to firms who receive our support. Demonstrating the impact of this support on existing firms is important if we are to demonstrate our positive impact on competition. Our work with individual firms also allows us to identify and appropriately intervene to address barriers to entry and areas of regulatory uncertainty more broadly, through issuing guidance and engaging with the FinTech ecosystem to support and encourage innovation.
- 5.5** We seek to evaluate our impact across all these aspects of our work. We have developed three hypotheses or outcomes to assess our progress against, and set out a range of quantitative and qualitative metrics which seek to measure our impact.

### We believe that if Innovate is operating effectively, three things happen:

- **firms can establish their innovations in the market with greater regulatory certainty than without receiving our support.** This report details a range of quantitative evidence to support this hypothesis, including the nature of the support we have provided, and how long it typically takes firms to come to market after support. It also provides initial evidence on how this support has helped firms establish themselves in the market.
- **firms bring improved offerings to market following our support and increase competitive pressure on incumbents, who respond by improving their existing offerings.** This report details a range of qualitative case studies demonstrating the response of incumbents to new entrants to the market.
- **we contribute to the UK's supportive regulatory environment for FinTech and encourage positive innovation to come to market both domestically and internationally.** This report details examples of the work we do to clarify areas of regulatory uncertainty and address barriers to innovation, and details the outreach and communications work we do domestically and internationally to encourage positive innovation in the interests of consumers.



**5.6** To carry out this evaluation, we have used data we collect in our regular activities. The evidence base is still relatively small as many of the firms we have supported are not operating at significant scale and are spread out broadly across sectors. Given this limited evidence base, isolating the specific impact of Innovate is very challenging. There are many external factors at play, and identifying a clear counterfactual for comparison is not always possible. However, we do believe the analysis of quantitative metrics we do have, combined with qualitative observations and case study analysis, enables us to demonstrate progress across all three hypotheses.



## 6 Giving firms greater regulatory certainty

- 6.1** What a regulator says and how it acts can provide firms with clarity on how regulation could affect them. This is needed to both better understand the viability of a business model as it is being conceived, and to ensure it will comply with relevant regulatory requirements once it's operational. Innovative firms are often less able to extrapolate regulatory certainty because their business models are intentionally different to current market practices. Without this certainty, businesses' appetite to innovate is reduced, effective competition may be dampened, and potential harm may be caused to consumers, firms and the wider economy.
- 6.2** It's not just about getting to market. The entire regulatory lifecycle of a firm is important in being able to deliver innovation. Firms need to be able to appropriately interpret our requirements when they are developing their idea. They need to have a clear understanding of our expectations when they apply for authorisation to be able to deliver their proposition. They need to be prepared for the experience of reporting to and being supervised by a regulator whilst in operation.
- 6.3** We seek to help firms with positive innovative business models to develop and operate throughout their entire regulatory lifecycle. Our main interventions are providing early steers on the application of regulation; enabling firms to iterate their business models; and guiding firms through regulatory processes critical to launching a new business, service or product, e.g. gaining authorisation. The support we provide is bespoke to individual firms.
- 6.4** The hypothesis we have developed to test our impact on individual firms is that **firms can establish their innovations in the market with greater regulatory certainty than without receiving our support.**
- 6.5** To assess how well we are performing against this hypothesis, we have considered:
- the impact of clarifying the application of regulation in the developmental stage of a firm's' innovation
  - the impact of guiding firms through regulatory processes to support their innovation into the market
  - the accomplishments after entering the market of firms we have supported
- 6.6** Evidence suggests that the support we provide appears to effectively clarify application of regulation to firms' business models. It gives those firms the necessary level of certainty to continue development of their innovative propositions and launch to market. This is reinforced by the regulatory complexity of many of the business models we support, and direct feedback from firms. However, establishing a causal link between our support and improved outcomes for firms is very difficult as we cannot know how each individual firm would have progressed without receiving Innovate support.



## Early steers help firms develop and iterate their innovations

- 6.7** We have received 1,563 applications across all our support functions and provided support to 686 – that represents an application received every day and a firm supported every second day since the launch of Project Innovate in 2014. Firms are telling us that we are responsive, collaborative, and we understand the goals and challenges of firms developing and launching innovative products. 88% of Advice Unit firms surveyed reported a good or very good experience, and 79% of firms receiving Direct Support rated their experience as excellent or good. Consistently high levels of demand and positive feedback over a sustained period indicate that our support is valued by firms and unique in its offering.
- 6.8** We use the 'informal steer' tool to give firms a view on how we would apply our regulatory requirements to their model. An informal steer is only the FCA's initial view, based on an analysis of limited information. It does not prevent us from taking enforcement or other regulatory action if we decide that it is appropriate. The firm relies on the informal steer at its own risk.
- 6.9** The more formal nature and procedure by which individual guidance is requested and given means that we are often able to issue informal steers more quickly, while still providing a view to the firm. Informal steers also enable us to provide a view to a firm at an earlier stage, when the business model may be less defined than we would need to be able to give individual guidance. This can be particularly useful in providing resource-constrained start-ups with the information they need to continue development of their proposition. Other areas of the FCA have also adopted the use of this tool to increase the value of conversations we are able to have with firms.
- 6.10** Firms find informal steers helpful for unblocking challenges and progressing their innovations to market. They can also give firms an early indication where a certain element of their business model will not be permissible, and enable them to adapt before expending significant resource on development. In total, we have issued 149 informal steers across a range of topics to clarify to firms how their business model interacts with relevant regulatory requirements, with it being a tool we use widely across the Advice Unit, Direct Support, and the Sandbox.

### NatWest, Nationwide and HSBC UK

Five firms that have received an informal steer from the Advice Unit have gone on to launch their robo-advice or guidance proposition. This includes large incumbents like **NatWest**, **Nationwide** and **HSBC UK**. Our recent [Financial Lives Survey](#), shows an encouraging increase in the numbers of consumers seeking financial advice. Investment via robo-advice models is relatively low so far, but they have the potential to provide low cost, suitable investment advice at a significant scale over the next few years.



### 1825 (part of the Standard Life group)

**1825 (part of the Standard Life group)** wanted to build an automated advice tool for consumers approaching retirement. This tool would help them to meet their needs and aspirations using available liquid and illiquid assets. 1825 needed our input on a range of questions about providing suitable pensions decumulation advice and help regarding their understanding of how the rules around personal recommendations would apply. This included assessing customers' knowledge and experience and financial situation, how automated models could educate consumers, and the firm's obligations around disclosure and use of existing customer information. We gave informal steers during the development phase to help the firm address its regulatory questions. This enabled the firm to build its model and go on to test the end-to-end automated advice process, which it did using the Sandbox.

### FloodFlash

**FloodFlash** came to us during the development of their sensor-enabled flood insurance product looking for support in understanding the regulatory implications of their proposition before committing to further development. We issued them with an informal steer on their parametric insurance product to provide the clarity they needed to continue development of the sensors and their overall proposition. They are now in the market after further development and a test in our Sandbox.

- 6.11** We recognise the clear benefits in providing clarity on the regulatory implications of innovative business models to the wider market, as well as to individual firms. Doing so has been a clear function of Innovate since we launched. We have given clarity on regulatory barriers to innovation in digital and mobile solutions, have provided feedback on our view and understanding of applications of Distributed Ledger Technology, clarified the perimeter in the context of cryptoassets, and have converted informal steers issued by the Advice Unit into general guidance.

## Guiding firms through regulatory processes to get to market faster

- 6.12** Becoming authorised or registered by the FCA is often the difference between a firm being able to deliver their innovation to market and not being able to. We support firms with complex business models at the pre-authorisation stage and through the authorisation process. This enables us to better understand the firms' models and the firms to better understand our expectations and requirements at an early stage, meaning all parties involved are well prepared for progressing through this vital process.
- 6.13** The value of the support these firms receive in the pre-application phase and while applying for authorisation is reflected in observations of it being generally faster for us to determine those applications compared to firms that do not receive such support.
- 6.14** The average authorisation application for a general insurance intermediary entering the Sandbox is processed in around 60% of the time of a standard applicant. This is also true for the average payments firm to come through the Sandbox. Sample sizes here are relatively small, and these timeframes do not include the weeks of support



provided to Sandbox firms before they submit their authorisation application. However, we are also conscious that many Sandbox firms are not comparable to standard applicants. They tend to have more complex business models that we might not have come across before and, in some cases, a restricted authorisation as part of a Sandbox test may be the only viable route to authorisation.

**6.15** These findings echo similar results we have observed through other bespoke FCA support functions. The support provided by the Asset Management Authorisation Hub to firms at a similar stage of development has resulted in applications being determined in around half the time of cases coming directly to the standard authorisation gateway (199 days vs 102). We recognise that this is the result of a substantive amount of resource and support provided by the FCA to these firms and investment by those firms, which other firms applying for authorisation directly do not receive.

**6.16** 60 firms have been authorised after receiving support from Direct Support, and there are more in the authorisation pipeline. Firms coming through Direct Support can benefit from direct feedback on how to prepare for applying, pre-application meetings to clarify expectations with relevant experts, and have their applications handled by a specialised Innovate authorisation process. After authorisation, we enable the provision of dedicated supervisory support for the first year to ensure a seamless experience of regulatory processes for the businesses concerned, and minimise the risk of unnecessary delay.

#### Cuvva

**Cuvva** is building a marketplace for flexible insurance. It currently provides ultra-short-term car insurance and single trip travel insurance via its mobile app. The app allows consumers to buy car insurance covering periods of just a few hours, and allows people to more easily borrow or pool cars by providing them with an alternative to taking out long-term motor insurance. Cuvva received Direct Support. We helped them to better understand our expectations of a firm seeking regulatory approval, and quickly assigned an authorisations case officer. They went from applying for Direct Support to being authorised in only 11 weeks. Since receiving this support they have expanded, enabling customers to exercise greater flexibility and access car insurance for as little as one hour.

**6.17** The Sandbox is also well placed to support firms in understanding and navigating our authorisation requirements and processes. 41 firms have so far obtained a restricted authorisation or variation of permission (VOP)<sup>1</sup> to test in the Sandbox.

**6.18** All Sandbox firms applying for authorisation must demonstrate how they meet the FCA's Threshold Conditions, alongside other applicable regulatory requirements, as any normal applicant would. Through the Sandbox we assess the firm's application proportionately to the activities it will be conducting in the test. We work with the firms to agree bespoke legally-binding limitations or restrictions to be placed on their permissions for the period of the test. This could include the number or type of customers a firm can test with. Combined with working with the firm to develop a comprehensive testing plan and closely overseeing test activities, this gives us comfort to progress the authorisation in an accelerated and proportionate manner.

<sup>1</sup> If an authorised firm wants to change or add to its regulated activities it can apply to the FCA for a 'variation of permission' (VOP).



### Laka

We supported **Laka** through their Sandbox test of a monthly bike insurance product. Laka's model involves the consumer making payments at the end of the month, based on the actual cost of claims settled during that period, rather than paying up front for cover. We issued Laka with an informal steer to help them identify the applicable regulated activities, which enabled them to apply for restricted authorisation with greater regulatory certainty ahead of Sandbox testing. Simultaneously, we worked with the firm to develop a thorough testing plan with specific consumer safeguards to reduce the risk of consumer harm during testing. Laka introduced a cap on premiums so that consumers would always know the maximum amount they could be charged at the end of every month, regardless of how many claims were made by the pool. Laka are now authorised without restrictions and delivering their proposition on a larger scale.

## Innovate firms are establishing themselves in the market

- 6.19** We recognise that failure rates amongst start-ups is high. When we consider applications for support we focus on the impact on consumers and the market, but do not focus on whether we think their model has high commercial viability, or if it is likely to represent a profitable investment for an investor. However, we think that regulatory certainty is one factor that contributes to a firm's likelihood to succeed and their attractiveness to potential investors and partners.
- 6.20** Looking at the success rates of firms that we have supported gives us an indication of whether the regulatory certainty we are providing helps those firms establish their innovations in the market. Without external data sources, we only observe the success rate of firms who have sought authorisation to operate in the market. Early indicators show that firms receive our support and go on to launch more widely in the market.
- 6.21** So far, 47 firms have completed testing in the Sandbox, and a further 63 are either currently testing or preparing for their tests. The Sandbox enables firms to prove the viability of their business model, understand how consumers will interpret and engage with it, and learn things to build into future iterations of the product or service.
- 6.22** Around 90% of firms that have completed testing continued with their proposition immediately afterwards, and almost all are still in operation today. Of the 24 companies that we accepted into the first cohort and tested in the Sandbox, 76% are still active in the UK around 2 years later. This compares to only 57% of the firms that applied for cohort one but were not accepted.
- 6.23** Investors often consider the regulatory status and certainty of the firms they are thinking about investing in. It is certainly not all an investor considers, but regulatory considerations are a factor in the funding a firm receives. We believe the significant levels of funding received by Innovate firms indicate the value of regulatory certainty provided by Innovate support to these firms.
- 6.24** Our evidence base here is limited, but of the 44 start-ups that tested in cohorts 1, 2 and 3 of the Sandbox, 17 were either acquired or received investment during or after their test. 15 start-ups participated in cohort 1, and of these 2 have been acquired, and 6 have gone on to receive a combined total of over £135m of equity funding. We see



similar stats through our Direct Support function, where 13 out of the first 50 firms we supported received subsequent investment to a value of over £165m.

- 6.25** Being in the Sandbox can also help firms develop partnerships required to test their propositions. We do not intervene in partnership arrangements or attempt to matchmake in any way. However, we understand that the increased certainty provided by participating in the Sandbox can accelerate these processes. In some cases, it makes the smaller firm in the partnership a more attractive proposition to the larger firm they are seeking to partner with.

#### HSBC and Pariti

In cohort 1 of the Sandbox, **HSBC** partnered with **Pariti** to test an account aggregation app which enabled customers to use automated rules aimed at helping customers increase savings. The firms worked closely with our Behavioural Economics and Design Unit in the lead up to testing to ensure that findings would be statistically significant. They found that use of the rules resulted in consumers saving around 30% more than they did in the same month the previous year, and around 20% more than similar groups of consumers not involved in the trial.

#### First direct and Bud

**First direct and Bud** worked together during cohort 3 of the Sandbox to offer consumers a platform that aggregates data from their accounts and credit cards and uses this to provide insights into the user's finances. It is also linked to a marketplace where consumers can purchase other financial products. The Sandbox was used by both firms as a tool to collaborate effectively and efficiently, and both organisations benefited from the input we provided in the development of the testing plan.



## 7 Firms are improving outcomes for consumers

**7.1** Our competition objective is focused on improving the process of rivalry between firms, and it is this process that leads to better outcomes for consumers, by forcing firms to work harder in terms of the choice, cost and variety of products and services they offer.

**7.2** The hypothesis we have developed to test our impact on improving outcomes for consumers is that **firms bring improved offerings to market following our support and increase competitive pressure on incumbents, who respond by improving their existing offerings.** We believe that by playing a role in enabling innovation to come to market on a wider scale, competition is boosted in the interests of consumers and market participants are forced to respond to this.

**7.3** Throughout Innovate's existence, we have observed a range of responses from incumbents to disruptive innovation. Incumbents are:

- increasing their focus at an organisation level by expanding their innovation capabilities and strategies
- responding to specific instances of disruption by launching similar new products and services, sometimes in response to firms that have received Innovate support
- responding to the clear evidence of the FCA being supportive and open to encouraging innovation, by accelerating their own developments

**7.4** The range of support we offer and the breadth of firms that have benefitted should lead to specific instances of incumbent response occurring across markets more broadly.

**7.5** We are unable to quantify the effect of Innovate support on improvements to the degree of competition in the market (e.g. as measured by a reduction of x% in prices), and cannot state with certainty that incumbent responses are caused by the activities of firms we have supported. Establishing a causal link will always be a challenge. But incumbent focus on innovation is increasing, and there are several case studies of Innovate supporting a firm and incumbents subsequently launching similar products.

### Incumbents are responding

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**7.6** Incumbents are increasingly focusing on expanding their innovation capabilities. Examples of incumbent firms developing in-house innovation labs, creating their own accelerator programmes or partnering with others, and investing in or acquiring FinTech companies, are now widespread across financial services. We cannot claim that this is a response to the FCA launching Innovate, but the response to innovation has certainly accelerated since we started our work.



- 7.7** We do not dictate how innovation should come to market, but we do want to see innovation operating at scale. It may be new start-ups growing and challenging incumbents, incumbents developing in-house innovation capabilities, or partnerships between incumbents and start-ups. Ideally, we would see a healthy mix of these models. We have seen sentiment from both incumbents and start-ups shift from the threat of disruption by new entrants to embracing partnerships and collaboration. Around half of all Sandbox tests have involved a partnership of some sort between a start-up and an incumbent. While forming these relationships often delayed tests in our earlier cohorts, firms now seem to be navigating these processes more quickly and effectively.
- 7.8** We are also seeing a mix of start-ups and incumbents applying independently. Most applications we receive are from start-ups, however, interest from large incumbents is growing. The Sandbox has received 29 applications from large incumbents, a feature which appears to be trending upwards, with only 5 large firms applying to cohort 1 compared to 9 to cohort 5. Incumbents may be observing the FCA's openness to engage with and support innovation where it is in the interests of consumers, and recognising our specific focus on large firms, which we published in 2016. Supporting large firms to bring innovation to market enables potentially a much larger impact on improving consumer outcomes through their significantly greater customer bases.
- 7.9** Large firms often do not require a formal regulatory tool to unlock the delivery of innovation, but being in the Sandbox and having that specific relationship with us in overseeing development of their innovation can give them the confidence to progress at a faster pace. Large firms have told us that involvement in the Sandbox has accelerated their governance and product development cycles, enabling them to test innovations more quickly, but with the same degree of consumer protection.
- 7.10** We cannot claim that incumbents launching products and services are a direct result of our support of a particular firm. Even if we are unable to attest to any degree of causality here, we believe the examples of us supporting a new market entrant and subsequently incumbents launching similar products and services are a positive indicator that the work we do to support innovative firms has an impact on innovation in the wider market. This in turn improves outcomes for consumers, both in terms of choice and convenience.

### Blink

In cohort 1 of the Sandbox, **Blink** tested a flight insurance product that integrated with external data sources to facilitate an automated claims process. This allowed travellers to instantly book a new ticket on their mobile device after their flight had been cancelled, giving them greater certainty for a claim and a more targeted solution to most traditional products. Since testing, incumbents have launched a series of similar propositions, enabling more customers to benefit from improved claims processes and more comprehensive coverage in this space. There is a clear potential to expand this model to other insured events that can be validated by trusted third-party data sources.



### Nivaura

**Nivaura** were the first company to execute a tokenised security issuance in the Sandbox. Automating the end-to-end securities issuance lifecycle process, along with the option of tokenisation, has the potential to significantly reduce cost and shorten time to market, which opens up this form of capital-raising to a wider range of smaller corporates and allows existing corporate issuers to execute more efficiently. We have subsequently seen a range of incumbent organisations exploring similar propositions, alongside other new entrants testing tokenised security issuances in the Sandbox.

### Aire

Credit scoring models are traditionally focussed on consumers that have significant quantities of historical data for firms to assess, but are often less suitable to consumers that have 'thin files', or less of this historical data for firms to base decisions on. We provided support to **Aire** to help it identify which regulated activities applied to its credit scoring model for 'thin file' consumers. Some of the largest CRAs in the UK have expanded their propositions since Aire launched to take greater steps to assess the creditworthiness of these traditionally underserved consumers.

## Our support is broad

- 7.11** If we can effectively reach across market demographics, rather than our support having a narrow focus, then our ability to improve outcomes is enhanced through having a much broader impact. Our support is wide-ranging in terms of how we help individual firms navigate the regulatory challenges they face in bringing innovation to market, and it is also diverse in its span across financial services.
- 7.12** Location should not be a barrier to applying for and receiving our support. Over five cohorts and 376 applications, 98 (26%) of domestic applications to the Sandbox have been from firms based outside of London, 53 (14%) applications from international companies, and the remaining 60% from firms based in London. This is positive, especially in the context of recent reports suggesting that over 90% of total capital invested in FinTech in the UK goes to London-based companies.
- 7.13** We also receive applications from firms operating across all sectors, however, some appear significantly more frequently than others. Around a third of Sandbox applications have come from the Retail Banking sectors, with Payments firms representing many applications. Comparatively, we have received very low numbers of applications from the Asset Management and Pensions and Retirement Income sectors, despite proactive attempts to engage with these sectors. This may be because innovation is taking place at a lesser extent here, or because the innovation here is mostly focused on back-office technology improvements, which may not be obvious candidates for Innovate support.
- 7.14** There are other diversity characteristics which are not well represented in applications to Innovate or firms we accept to support. Only 3% of applications to Direct Support in 2018 were submitted by women, and around 3% of firms announced across cohorts 1 to 4 of the Sandbox have female founders. These statistics may not come as a surprise given the low levels of gender diversity within FinTech. Nonetheless, diversity is a key issue for the FCA, and something we need to think more about in the context

of our work with innovative firms. Evidence suggests that diversity – including gender diversity – is fundamental to business success, and firms with monocultures are significantly more likely to suffer governance-related issues.

## Firms are bringing beneficial innovation to market

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- 7.15** The firms that have received our support and gone on to deliver their innovations have generally only been operating for a relatively short period of time. Most of these firms have limited transaction and customer volumes. However, we believe that these individual firms are incrementally delivering beneficial outcomes for consumers in the market.
- 7.16** We work hard to ensure that firms we provide support to have a clear potential consumer benefit to their proposition before we accept them. We also work closely with firms we support to ensure that risks are identified and appropriately mitigated. In the Sandbox, each firm develops a robust testing plan that includes bespoke safeguards to mitigate risks during the testing period. Safeguards include restrictions on customer type, additional capital requirements for certain activities and specific additional disclosures.
- 7.17** Our support may encourage firms to go on to exhibit more positive regulatory behaviours. By this we mean things like increased transparency with the FCA, treating customers fairly, and so on. We do not have sufficient evidence to claim that this is occurring, but we are considering how we could better evaluate this.
- 7.18** We have already done some work to assess the impact of innovation in the financial advice market. We have reviewed two Advice Unit firms as part of our ongoing supervisory work in the automated advice area. We assessed a sample of the personal recommendations produced by the firms' automated advice propositions and the firms' compliance with disclosure rules, including the application of MiFID II costs and charges requirements. The findings were positive with key strengths including:
- the firms' consideration of the target market, with educational messaging and questioning helping to filter consumers that may be either ineligible or outside of the target market
  - a focus on vulnerable consumers, e.g. independent customer research being conducted pre-launch and firms using innovative software to highlight those consumers that may potentially need additional support.
- 7.19** Areas for improvement included the application of MiFID II costs and charges requirements and using clear and informative wording within suitability reports. This is a good example of different areas of the FCA working in a coordinated way to ensure innovation can come to market in a controlled manner.
- 7.20** Innovation and effective competition can result in a range of positive outcomes for consumers. We want to see innovative propositions coming to market that deliver genuinely improved experiences to consumers, be this through lower prices, increased access or choice, or greater convenience. We are particularly keen to support firms looking to deliver innovation which has the potential to drive better outcomes for low-income and vulnerable consumers.



- 7.21** We can't isolate the impact of Innovate on these various outcomes, but there are many examples of firms we have supported that are delivering these outcomes and in many cases addressing specific issues we have identified.

### Lower prices

Robo-advice and guidance has significant potential to reduce the costs involved in accessing these services across a broad range of financial services sectors. **Santander** has launched a chat-based automated advice model that provides consumers with a suitability report for £20. Their proposition uses innovative web design to incorporate engaging visuals and gamification techniques, and was developed with support from the Advice Unit.

**honcho** are a firm that are attempting to turn the familiar insurance distribution model on its head. They provide a platform where consumers can upload their information, and insurers can bid for their business, potentially enabling consumers to get a significantly better deal on their insurance. We provided support to honcho in the early days of Innovate to help them navigate the regulatory complexities of offering such a model to market.

### Increased access and choice

In cohort 5 of the Sandbox, **Moneyline** and **Aviva** will be testing a home contents insurance product that low-income customers can pay for at the same time as loan repayments. The aim is to provide continuous insurance cover for customers that may need to take a break from making payments and to increase cover amongst customers that are traditionally under-insured and lacking in financial resilience. We are also supporting **ProxyAddress**, which has partnered with **Amiqus** to help homeless individuals open a basic bank account by providing them with a permanent address they can use in the on-boarding process. The aim is to enable customers at risk of financial exclusion to maintain access to a safe repository for funds, and an ability to receive wage payments which can support their transition out of homelessness.

**British Heart Foundation** is also participating in cohort 5 of the Sandbox. It will use its extensive knowledge and understanding of cardiovascular disease to help develop a targeted travel insurance product tailored specifically to the needs and preferences of consumers affected by this disease. We continue to do a lot of work to identify and address concerns about consumers with pre-existing medical conditions accessing suitable and affordable travel insurance products more generally, and recognise that the British Heart Foundation product could serve to address a specific part of this challenge.





### Greater convenience

**DISC** partnered with the **Department for Work and Pensions (DWP)** to test a DLT-based payments platform to enable DWP to credit value to a mobile device, rather than making payments in cash or via the Faster Payments Scheme. This enabled users to see their transaction information more quickly, manage and control spending more effectively, and provided a record of transactions which is not possible when using cash payments.

Many firms we have supported aim to make insurance distribution fully digital, and in doing so significantly increase the convenience with which consumers can understand, access and manage insurance products. **Wrisk** have developed a mobile proposition offering home contents insurance combined with an insurance score to make it easier for the consumer to understand their own risk and the contributing factors. They tested this in the Sandbox, and it felt more transparent to consumers than traditional products, with many consumers finding it easier to understand why they were quoted a particular price and what they could potentially do to affect this.



## 8 Encouraging positive innovation domestically and internationally

- 8.1** Alongside encouraging and supporting innovation to come to market in the UK, our work gives us an ability to engage and collaborate with regulatory peers internationally. We want to see a global regulatory response that supports the development of innovation in the interests of consumers in a controlled and considered manner. Where we can, we want to provide as great a contribution to this work as possible.
- 8.2** The hypothesis we are testing here is that **Innovate contributes to the UK's supportive regulatory environment for FinTech and encourages positive innovation coming to market both domestically and internationally**. We appear to be effectively using our resources to make regulatory interventions that encourage positive innovation to come to market domestically and internationally.
- 8.3** Financial markets operate on a cross-border basis, and we can have a greater impact in achieving our objectives if we engage and collaborate with our peers internationally.
- 8.4** We try to reflect on the needs of the firms we support, but it is not our goal to compete with other jurisdictions to offer the 'most attractive' Sandbox or Innovate function. Our goal is to ensure positive innovation is encouraged to market in a controlled manner. This informs our approach, and if we can encourage this approach to be adopted outside of our own specific remit then we think the benefits for consumers globally through greater protections and improved outcomes are potentially huge.
- 8.5** The extent to which we specifically encourage firms to launch in the UK is difficult to quantify, but feedback suggests that it is a positive factor for many firms that do choose the UK to launch or expand to. Our work to demonstrate a regulatory framework that is encouraging of innovation and consistent with appropriate global standards enables this. The work we do through our engagement with the FinTech ecosystem, efforts to enable firms to more effectively expand to other jurisdictions, and contributions to thought leadership on innovation and regulation demonstrate our positive impact on a global scale.

### Creating a regulatory environment that promotes innovation

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- 8.6** The support we offer directly facilitates innovation coming to market in the UK, and demonstrates that we want to work with firms that are developing innovative propositions. Our interactions with firms support our work to identify areas of regulatory uncertainty and deliver appropriate and considered policy in response. This work aims to clarify how firms can deliver innovative financial services in a compliant and appropriate manner.
- 8.7** It is difficult to establish a causal link between our work and innovation coming to market, but several positive indicators suggest that it contributes to a supportive regulatory environment for innovation in the UK. Our work is widely recognised as a positive factor contributing to the strength of the UK's position as a global centre for innovation in financial services. The Chancellor cited the



FCA's "world-leading regulatory sandbox" as an example of how the UK has established a supportive environment in which FinTechs can thrive, noting that the initiative has inspired similar schemes amongst regulators across the world, in his 2018 speech at the International FinTech Conference. EY noted that the UK has a strong policy environment and regulatory regime which is due in part to the "supportiveness and accessibility of the FCA".

- 8.8** Feedback from firms tells us our work is having a positive impact on their perception of the FCA's activities to facilitate innovation. The number of firms surveyed as part of the [Joint FCA and Practitioner Panel Survey](#) that agreed that the FCA is effective in facilitating innovation within UK financial services has gone up by 20 percentage points since 2016.
- 8.9** Our regulatory interventions appear to have an impact on the number of firms that want to engage with Innovate. By shining a light on areas of the market, we increase the visibility of our Innovate services, which in turn informs any further policy work in these areas.
- 8.10** There was a noticeable increase in the numbers of firms applying for Innovate support with some application of DLT following the publication of our [DLT Feedback Statement](#). 52 of the 135 propositions accepted to test in the Sandbox involve an application of DLT. Our work with firms in this area subsequently informed our [cryptoassets perimeter guidance](#). We are consulting on guidance to encourage responsible development of legitimate cryptoasset activity, and seeking to manage risks to consumers and market integrity, and the use of cryptoassets for illicit activity. Initial feedback suggests we have gone some way to providing clarity. We have received similar feedback from some US firms who have stated that they find it easier to develop and launch robo-advice models in the UK due to the additional support we offer in development.
- 8.11** Green finance is another example where we have highlighted our ability to support innovation, subsequently increasing our exposure to firms innovating in this area. In the three-month application window of the [Green FinTech Challenge](#), announced alongside our [Climate Change and Green Finance Consultation Paper](#), we received more applications (22) from firms looking to support the UK's transition to a low carbon economy than we received in the five years before launching the challenge.
- 8.12** We recognise the positive reception and sentiment towards Innovate from external stakeholders, commentators and firms we work with, but we also realise that our impact has not yet fully permeated across financial services. Areas that would benefit from our support are not always aware of its availability or suitability for their developments. We are continuing to address this through targeted engagement and communications.

### **Connecting with stakeholders to develop understanding**

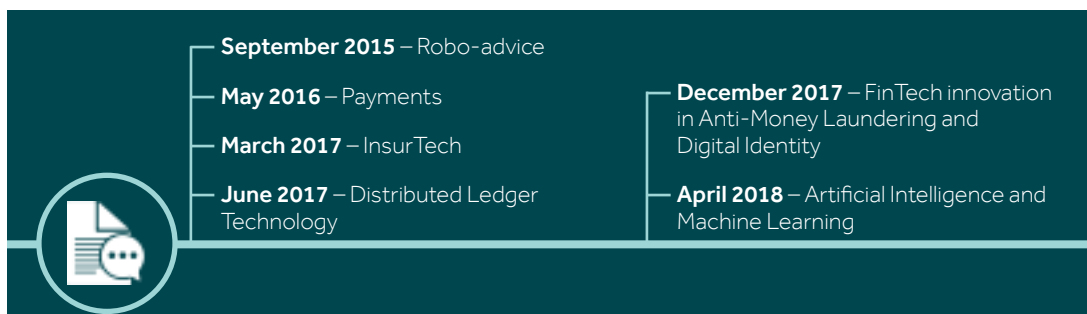
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- 8.13** Being closely connected with firms and individuals engaged in innovation and its impact on consumers is important to us. It allows us to understand market developments and sentiment, and gives us a good platform to ensure we are sharing our expectations and priorities widely. We place a lot of emphasis on ensuring we are actively and broadly engaging on an ongoing basis.



- 8.14** We fulfil 56 speaking engagements on average each year, including delivering speeches at conferences and participating in panel sessions. During 2017 and 2018, we visited areas outside of London 24 times on an active regional engagement programme. This has resulted in Sandbox applications from non-London based UK firms increasing every cohort since that programme, peaking at 32 applications to the most recent cohort.
- 8.15** As with the support services we provide, we are keen to ensure that our engagement activities span across borders. We regularly speak and present at international events, alongside offering more informal sessions where innovators can have initial conversations with us on a bilateral basis. In the last year, we sent representatives to conferences and events across Europe, Africa, Asia, the Middle East and North America alone.
- 8.16** In January 2019, we welcomed almost 300 external guests to our Innovate Open Day where we offered a full programme of sessions on the work of Innovate and current topics of interest in FinTech. We also regularly host themed events to stimulate discussion around important topics to help inform our activities in these areas.

### Over the last four years we have organised and hosted six of these events



- 8.17** We think it is important that we are available for people to talk to and engage with, and so want to remain a visible presence in the FinTech ecosystem. It enables us to do our jobs better, and supports our overall ambition of encouraging innovation in the interests of consumers.

### Improving outcomes globally

- 8.18** We were among the first movers of financial regulators in actively encouraging innovation in the markets we regulate. We want to contribute where we can to the development of a broader international regulatory response and environment that is encouraging of positive innovation coming to market in a controlled and considered manner.
- 8.19** Substantive regulatory developments to encourage innovation across markets are likely to be facilitated by international standard setting bodies. We chair the FinTech Network established by the International Organization of Securities Commissions (IOSCO), work very closely with the European Supervisory Authorities to contribute to policy developments and share insights with our European colleagues, and participate actively in the International Association of Insurance Supervisors' (IAIS) FinTech Forum to ensure that global regulatory infrastructure can effectively respond to innovation.



- 8.20** Our approach to encouraging innovation in the interests of consumers has been widely emulated. There are at least 31 operational regulatory sandboxes globally, and 28 innovation hubs in the EU alone. Many of these have been developed in alignment with models we have pioneered and replicate our approaches, some of which are labelled as best practices by the ESAs.
- 8.21** Domestic regulators in sectors outside financial services are also looking to collaborate in developing their own sandboxes. We are assessing the feasibility of launching a British cross-sector Sandbox which would bring the benefits and services of these initiatives together into a collective forum for firms to test cross-sectoral activities with the input of multiple domestic regulators.
- 8.22** We want to improve the ability of UK firms to scale internationally, and for innovators from overseas to launch in the UK. We believe this has a similarly positive impact on outcomes for UK consumers and markets as providing support to firms in our domestic markets. If firms can more effectively expand from the UK to other jurisdictions, then they are more likely to develop sustainable global businesses and exert increasing competitive pressure on incumbents in UK markets, to ultimately deliver more positive outcomes for consumers here. Likewise, if firms can expand here from other jurisdictions, this should have a positive impact on effective competition in UK markets.
- 8.23** We play a key role in supporting government-led FinTech Bridges with different countries. We signed the first ever FinTech cooperation agreement with the Australian Securities and Investments Commission (ASIC) in 2016 to facilitate information sharing and referral of innovative firms. We have signed nine similar agreements since, and the approach is now mirrored by other regulators looking to build stronger regulatory relationships. These agreements serve to reduce some of the barriers to UK-authorized firms looking to scale overseas and help non-UK innovators interested in entering the UK market.
- 8.24** We know there is a demand from firms to operate and scale globally. The Sandbox facilitates testing in the UK market, and the bilateral agreements we've signed help to facilitate this in specific markets, but we have also responded to industry feedback and launched a cross-border testing pilot through our work with the Global Financial Innovation Network. This will allow firms to conduct tests across borders, with multiple regulators involved, which we think could support a reduction in the risks, costs and complexity of scaling overseas.



## 9 Future work

- 9.1** We want this report to shed light on the work we do through Innovate, how we do it, and how well it appears to be working. We set out three hypotheses against which we have evaluated our activities and measured our impact. Through limited quantitative analysis, qualitative evidence and firm-specific case studies, we have demonstrated a positive link between our work and improving consumer outcomes.
- 9.2** It is always likely to be difficult to isolate the impact of Innovate on firm and market outcomes. However, there are some limitations to our analysis which we can address. Many of the firms we have supported are still at a relatively early stage, making it challenging to assess their market activities based on regulatory returns alone. Moreover, we do not currently have as much information as would be useful to construct counterfactuals that we could compare Innovate firm journeys to.
- 9.3** As the firms we have supported expand and mature, we expect to be able to better measure their collective impact and the extent to which this can be attributed to our support. We can also do more now to assess our impact more robustly in the future. Here we set out how we plan to expand our measurement capabilities to enable us to track the impact of our support on firms and markets over time.
- 9.4** More generally, we recognise there are areas where firms expect to get support from us but are not currently included in our offering. For example, firms often want support in developing private partnerships, contract formation, and support with data protection requirements. We appreciate these challenges and look to act where it is in our remit to do so. We recognise that the prominence of data usage and protection in financial services is increasing rapidly, and so we are strengthening our relationship with the Information Commissioner's Office both independently and through work to establish the viability of a cross-sector Sandbox.
- 9.5** This report focusses primarily on the work we do to encourage and support firms to deliver positive innovation to market, and its impact on firm and consumer outcomes. We believe it represents the basis of an effective framework for evaluating the impact of regulatory interventions in areas that cannot be assessed in a purely quantitative nature. A next step will be to expand this evaluation framework to more prominently include our RegTech activities, such as our TechSprints, our engagement with industry on proof of concepts and our domestic and international engagement efforts.

### Measuring our impact on firms

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- 9.6** Establishing a causal link between our support and improved outcomes for firms is very difficult. We are unable to know how each individual firm would have progressed without receiving our support, so we lack an important counterfactual which would enable us to better isolate the impact of our support.

- 9.7** To improve our measurement capabilities, we will be conducting further work to analyse the data we already hold, gather firms' views on our services and use this to create a long-term evaluation framework. This will expand our understanding of the benefits firms derive from our support and of how to monitor our impact in the future.
- 9.8** We aim to complement this work by collecting additional data on the firms that apply for support and by asking more targeted questions. This would give us the ability to contrast the outcomes of supported firms with the outcomes of similar firms we decided not to support, if there is a large enough comparison group. Outcomes that we could consider include the authorisation success rate, time from Innovate application to product launch and time taken from Innovate application to becoming fully authorised. This approach may help reduce uncertainty around what drives these outcomes.
- 9.9** As the cumulative impact of Innovate firms in the market grows, we aim to expand how we monitor the regulatory behaviours of these firms over time and the impact they are having on consumers. We may monitor complaints volumes, social media sentiment, issues around financial promotions, conduct breaches and firm failures.

### Measuring our impact on consumer outcomes

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- 9.10** Isolating our impact on markets is also very challenging due to the number of external factors at play. Any work we undertake in this area will be limited. However, when considered alongside other evidence, we believe this analysis will allow us to be more confident about how our work influences market dynamics and outcomes for consumers.
- 9.11** To improve our ability to measure our impact on products and services in financial services markets we will expand our efforts to monitor competition changes. In sectors where firms receiving our support achieve significant market shares, we can monitor incumbent activities to see if they respond by adjusting their product offerings or pricing strategies.
- 9.12** More specifically, we also intend to examine the extent to which our FinTech Challenges, such as the Green FinTech Challenge, have an impact on innovation in specific sectors. These challenges have the potential to encourage the development of innovative products and services in specific sectors, where it is desired. We plan to compare the volume of applications to Innovate in a challenge sector with applications in other sectors.
- 9.13** Another specific area where we will assess our impact on innovation is the financial advice market. The post-implementation review of the Retail Distribution Review and Financial Advice Market Review will include an assessment of whether they have helped to increase innovation in financial advice. We will look at consumer research to understand whether there have been changes in behaviour that have led to better outcomes for consumers, e.g. the level of consumer awareness and use of automated advice services. We will also consider information about the advice and guidance services offered by firms, such as the extent to which firms are now offering automated advice, advisers' use of technology, the level of adviser charges and firms' views on the clarity of the regulatory framework.

