

UK leads global fintech regulation

Sandboxes and fintech bridges drive innovation

by Oliver Thew in London

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Fintech is, by its very nature, global and continues to alter financial services and market structures around the world. Regulators in all jurisdictions must adapt to mitigate risks to consumers and financial stability, while ensuring they don't stifle innovation or competition. Although efforts are being made at a national level, international co-operation and harmonisation between regulatory agencies are essential if they are to be truly effective.

Leading this move is the UK. Last month the Financial Conduct Authority announced it was considering options for a global sandbox for fintech companies. Sandboxes are testing grounds for new business models that are not protected by existing regulation or supervised by agencies. They allow fintech companies to test products and services in a controlled environment, and reduce time to market at a lower cost. Sandboxes help regulators to identify appropriate consumer protection safeguards and keep up with the pace of innovation. The FCA's proposal would develop agreements with other regulatory agencies to allow companies to conduct tests in different jurisdictions around the world at the same time and regulators to work together to identify and solve common cross-border problems.

It will take time for a global sandbox to develop and it may be a while before the first country joins. The FCA admits that a full multilateral sandbox is an ambitious goal. However, this type of international regulatory co-operation is essential to help the growth of companies with cross-border ambitions and those looking to develop technology in areas where cross-border testing is particularly important, such as anti-money laundering services.

The FCA also signed a co-operation agreement with the US Commodity Futures Trading Commission last month, which commits the two regulators to supporting fintech companies in both countries through their respective initiatives – LabCFTC and FCA Innovate. The framework includes support for innovative businesses and start-ups, information-sharing and a referral mechanism. Bilateral arrangements like this show why the UK's regulatory approach is seen as the model to emulate. Christopher Giancarlo, chairman of the CFTC, called FCA Innovate 'the gold standard for thoughtful regulatory engagement with emerging technological innovation'.

In 2016, the FCA signed a similar fintech agreement with the Australian Securities and Investments Commission. This month, the UK government announced it is building on the original agreement by establishing a fintech bridge with Australia. Fintech bridges are collaborative programmes between two nations that facilitate the entry of start-ups into each jurisdiction's regulatory sandbox. They also enable quicker processing in terms of licensing businesses already authorised in the other jurisdiction. In 2016, the UK and Singapore launched the first ever fintech bridge. Since then, the UK has gone on to establish fintech bridges with Canada, China, Hong Kong, Japan and South Korea. These bilateral agreements could potentially be the foundation for the global sandbox.

Other countries with a progressive approach to fintech regulation include Switzerland, which recently produced the most comprehensive regulation for initial coin offerings. In Singapore, the central bank recently signed an agreement with Asic that will enable fintech companies from both countries to expand into each other's markets.

The UK remains the leader in this field largely because it was one of the first countries to develop regulatory standards and policies specifically for fintech. The FCA was the first to develop a sandbox in 2015 – a model that has been replicated in numerous other jurisdictions.

There is a risk that fintech companies and regulatory standards could suffer as different jurisdictions compete for business. Moreover, the uncertainty surrounding Brexit and increasing economic nationalism in certain countries could hinder co-operation between regulators. It is important for the UK and other countries to continue working together to create a global regulatory environment that enables innovative companies to enter new markets, drives competition between incumbents, and, ultimately, leads to better outcomes for consumers.

Oliver Thew is Business Development Manager at OMFIF.