

## Regulation Holding UK Fintech Back, Says Mayer Brown Report

By **Richard Crump**

*Law360, London (November 24, 2016, 2:12 PM GMT)* -- Overly complex and outdated regulations are blocking collaboration between banks and financial technology firms and should be removed, a report published Thursday by law firm Mayer Brown found.

The survey of 70 U.K.-led financial services companies found that too many regulators, a lack of industry understanding among officials and general inappropriateness of the system ranked as the biggest barriers to developing fintech — the technology applied to financial services.

"Regulators say they're technology neutral, that the platform is not a factor, but it's undeniable that some regulations are not suited to some of the technology we're seeing emerge," said Guy Wilkes, a partner in the Financial Services Regulatory & Enforcement group at Mayer Brown.

Financial technology is increasingly affecting the banking sector through services such as online banking, peer-to-peer lending or price comparison websites. And banks are concerned about data risk as the industry turns heavily to financial technology for controls and compliance.

Fintech start-ups are widely seen as holding an advantage over established firms because they don't have legacy businesses that are confined by regulatory compliance, while regulatory complexity was cited as the biggest barrier to the sector's development.

However, there is a clear divide on what the ideal regulatory environment should look like, with fintech firms favoring self-regulation and financial institutions preferring clear regulatory oversight, which serves as a bulwark against disruptive new entrants to the market.

If the compliance was to get lighter, more than half of respondents said there would likely be a flourishing of collaboration, which would also be aided by increased competition.

"A greater emphasis on competition could deliver the regulators' objectives better than trying to secure consumer protections in the areas being developed by fintech," said Wilkes. "Regulators have traditionally been concerned mostly with downside risk. But fintech firms are driven by the potential to open new avenues and sweep away the old ways, exploring possibilities and finding new upsides."

The U.K. is a world leader in fintech. London employs around 60,000 people and the industry generated £6.6 billion (\$8.2 billion) in sales last year and is worth an estimated £20 billion to the economy, according to government figures.

The U.K. Treasury this week gave a shot in the arm to the fintech industry by announcing £400 million in funding for startups, while the Bank of England and the Financial Conduct Authority are both exploring initiatives designed to support the sector's progress.

Earlier this month, the FCA ran a two-day event, known in the industry as a hackathon, focused on how regulatory technology solutions could streamline regulatory reporting and improve firms' understanding of compliance requirements.

Around 100 developers and 30 organizations participated in the event, including some of Britain's biggest banks such as Barclays, Credit Suisse and Santander.

To help boost the sector, Innovate Finance announced in September that it was creating a new industry-led testing space for startups away from the glare of regulators, or a "sandbox," which aims to help companies road-test ideas and formulate strategy without interference from regulatory bodies.

The project sits separate from a preexisting regulatory sandbox piloted by the FCA. The FCA approach guides firms through the regulatory process and helps them test ideas on the public without full approval, which can sometimes take up to 18 months to gain.

"The FCA seems to recognize that it has been very risk averse in the past," said Wilkes. "It's encouraging that it is starting to see competition as a more important part of its remit."

European policy makers also moving forward on fintech. On November 14, the European Commission launched a task force to study how financial technology could transform financial services in a step toward eventually regulating virtual currencies such as Bitcoin.

The Commission said its newly formed Task Force on Financial Technology will undertake work to understand the benefits and challenges fintech poses to the sector, and will present its first set of policy suggestions and recommendations in the first half of 2017.