

**Industry Seminar – 16 November 2016**

**Business Culture: Fiduciary Flags, Facts and the Future**

**Steve Chandler, Consultant**

**Slide: The Lending Credit & Finance Project**

Thank you Alice and good morning everyone.

I should like to talk briefly about the lending credit and finance project.

The project has two principal objectives:

Firstly, to introduce consumer lending and credit protection. Basically we are proposing to implement prudent controls aimed at protecting the financially vulnerable.

The second objective is to provide clarity on the regulatory and legislative requirements for innovative financial lending services and it is this subject that I would like to first talk about.

**Slide: Innovation**

It is widely acknowledged that innovation is not a new phenomenon however the rapid pace of change that technology is enabling is transforming the market, examples seen are in the emergence of challenger banks, robo-advisors, differing payment options and smart contracts. Basically technology is delivering alternatives to legacy business models, processes and delivery channels. In essence technology is enabling faster cost effective options.

The subject which is possibly receiving the most attention is the block chain's distributed ledger technology. Through its power to transform ledgers as tools to record, enable and secure an enormous range of transactions distributed ledger technology is undergoing progression from its initial purpose of being the underlying technology for digital currency to larger scale adoption. Distributed ledger technology is seen as an alternative enabler for new products and services or the means to enhance existing ones

The opportunities arising through the various alternative products and services is unsurprisingly attracting attention as businesses and customers are keen to take advantage of the benefits. While there may appear to be minimal development at this stage there is significant investment being undertaken. Businesses have been quick to identify that the rewards are high but equally it is a highly competitive world which is intensifying through the demand to deliver quickly so as to capture market advantage.

The dichotomy this presents is that the advances occurring are challenging, disrupting, even opposing legacy legislation and regulation that cannot react and respond at an equal level of speed. However this should not be seen as a limiting factor to development.

### **Slide: Innovation Soundbox**

The Commission recognises that we need to support and encourage new financial products and services as this is in the interests of industry and consumers.

One means by how we intend to add our support is through the innovation soundbox and I would like to talk further on its aims and objectives.

A number of jurisdictions around the world have established innovation hubs and while we do not have comparable resources to other larger jurisdictions the innovation soundbox is our equivalent means by which entrepreneurs and innovators can meet with us and learn about the bailiwick's regulatory landscape.

We are keen to encourage a dialogue as often the developers and creative people behind an innovative proposition are unfamiliar with the legislative and regulatory requirements of the bailiwick and therefore there is a distinct advantage to discuss a proposition, especially at an early stage because often the propositions presented are diverse and test the boundaries of existing legislative and regulatory requirements. The Innovation SoundBox is designed to serve as a cross-Commission hub for enquiries regarding innovative financial products and services so as to provide a steer on the Bailiwick's regulatory requirements.

It is equally important that the overall product or service is appropriate and not one that has the potential to damage the bailiwick's reputation. Clarity of the regulatory landscape is a reason that innovation is included within the lending credit & finance project's scope.

### **Slide: The Lending Credit & Finance Project Timelines**

I should now like to speak briefly about the lending credit & finance project's timescales and its next steps.

This slide depicts the project's timelines since its inception.

With regard to the project's next stages you will note on the slide that the next objective is to conduct a follow up survey of the activities conducted by NRFSB firms. The reason is that the current NRFSB population consists predominantly of firms involved in lending, credit and finance and therefore we are seeking their assistance to collate data and information that is representative of the existing business conducted. This data will be valuable as we progress to the next stage of the project which is to issue a consultation paper when we will outline in more detail the proposals for the new law.

## **Slide: Proposed Regulatory Framework**

A quick recap on the proposed model.

The first category is red milk – full fat. The suggested criteria is that for firms that are providing lending, credit and finance they will have full registration.

The second category is the blue milk. We are suggesting a form of limited licence. The suggestion is for this criteria to include innovative FSBS not included under the protection of investors law, firms that provide ancillary services to lending, credit & finance businesses and those firms that purely provide credit products and services.

The third category – the green milk – is for those firms who should be registered only as they do not conduct any form of lending, credit and finance, for example there are currently in the NRFSB Law categories for providing safe custody and providing advice on industrial strategy, related questions on mergers.

Finally there is a fourth category – which we describe as the empties! These are the instances where it is appropriate and sensible to exclude some items.

Excluded items would be those where there is little regulatory risk and it would be over-zealous to include certain activities or transactions in the scope of the suggested new law. Examples are the bus travel card & utility structured debt purchases.

## **Slide: LCF Project Discussion Paper**

As noted on the project timeline the discussion paper response period has closed and we are currently analyzing the feedback provided to us following the discussion paper.

I would like to take this opportunity to thank those of you who replied to the paper and also to everyone who participated in the focus groups who were instrumental in helping design and develop the discussion paper's proposals.

The focus groups consisted of a cross section of representatives and we will continue to engage and involve stakeholders in future stages of the project.

If you missed the opportunity to read the discussion paper it can still be accessed on the commission's website, although the online response system has closed.

Finally if you would like to see more about the innovation sandbox we have published details on the commission's website together with the means to contact us.

Thank you and I will now hand back to Eamonn.