TISAtalk **23rd January 2014**

Welcome to TISAtalk, TISA's regular commentary on issues affecting the financial services industry. In this edition:

- Kim Holloway, Director of Engagement at TISA, discusses the launch of the TISA Technology Innovation Forum, a special group set up to consider the impact of technology on the UK financial services market and consumers.
- Peter Smith, Head of Distribution Engagement at TISA, outlines how HMT and TISA are working together to understand how regulation and TCF will apply to crowfunding and P2P lending.
- Carol Knight, Operations Director at TISA, outlines how the TISA Data Quality Project is establishing a Steering Group tasked with drafting an industry best practice guide on tracing 'lost' clients.

ARE YOU KEEPING PACE WITH YOUR COMPETITORS TECHNOLOGY?

There is no question that innovation within the world of technology is driving both the style of new players into the UK Financial Services market and the way in which consumers are interacting with the product suppliers. Over the past 25 years, advances in technology have put more power in the hands of the consumer in addition to adding more flexibility and mobility, particularly with the advance of wifi and 4G technology – and this is only going to increase. The prediction is clear: companies that embrace this will flourish; those that don't will fall by the wayside.

All too often, for organisations that have been around long enough to have any shape of legacy business, the burden of regulation weighs heavily and on occasion can supress the time and budget available to consider 'blue sky' technology innovation.

We at TISA firmly believe that our members should be considering this impact of technology as a matter of urgency and in response are creating a 'Technology Innovation Forum'. The first meeting of the group will take place in February and members will be confirmed shortly. Output from the group will be posted on the TISA website – watch this space!

Kim Holloway, Director of Engagement

IN WITH THE IN CROWD

The rise of digital technology and social media has seen the emergence of some new phenomena. Similarly, something new is happening in the investment world with a new type of platform known as crowdfunding or peer to peer (P2P) lending, which has certainly caught the eye of government and a number of commentators.

Crowdfunding, a recent development in the financial services sector, is the practice of businesses borrowing money from or selling equity to a large number of small investors. The two main models are the sale of equity and P2P lending (debt). The FCA views the offering of other debt securities such as debentures as an equity investment, a view being applied to P2P lending due to the perceived level of risk. Others in the design, technology, arts and charitable sectors have adopted the sponsorship/donation or reward model.

Last week, following a suggestion from TISA, the Treasury held a briefing event for industry to raise awareness and understanding of crowdfunding and P2P lending, and to outline their thinking and plans going forward. The Treasury is forming a working group to look at possible ISA eligibility for these new investment products and how this might be implemented.

The group will include representatives of the investment industry, the P2P platforms and debt securities-based crowdfunders, and will consider what technical and other changes would be required to bring these products within the rules governing ISA eligibility and operation.
If this extension of ISA eligibility goes ahead it could offer savers an alternative in the current low interest rate environment and would also support the Chancellor's aim to reinvigorate small and medium sized enterprises.

David Geale of the FCA recently spoke about the FCA's desire to see regulation become fit for purpose. They have concerns that promotions within the P2P lending sector are not accurate, and that the promotional material should be careful not to exaggerate potential returns. The main concern with the equity and debt securities platforms are that the risks are much higher than the lending model, so regulation should reflect this. Their key objective is to reduce the risk of non-sophisticated or other non-eligible investors being exposed to these types of investments.

Equity will remain closed to retail investors unless they receive advice. It will be open to High Net Worth and Sophisticated Investors. The current rules around the classification will be reviewed this year.

If a business offers rewards or promotes donations or sponsorship it will not fall under the regulation. Platforms or businesses engaged in P2P lending will have increased responsibility to have cash reserves, monitoring and management systems in place to provide added protection to lenders if the platform fails.

The FCA Consultation Process "also applies to any firm that, using any media, communicates direct offer financial promotions for unlisted equity or debt securities to retail clients, who do not receive regulated advice or investment management services in relation to those investments, and who are not corporate finance contacts or venture capital contacts."

This means that the owner of a start up who offers friends a share in his business, via social media, in return for seed money will breach the FCA regulations on the promotion of unlisted equity. If they ask for money but offer nothing in return, they will not. It also reflects that this consultation impacts the whole financial services industry and not just the crowdfunding sector. The FCA has said they are keen to receive as many contributions to this consultation as possible and that the final decisions will be made following this consultation.

Formation of the Treasury's working group is happening right now. Meanwhile, this topic is bound to grow: we need to have a basic understanding of what it is and what it does, particularly for anyone advising clients on investment matters.

Peter Smith, Head of Distribution Engagement

ALL IS NOT LOST

Unclaimed assets and 'lost' clients are an on-going problem for all sectors of the industry and, with the recent consultation paper on client assets, the FCA are taking a keen interest in how we trace clients and repatriate monies.

Some months back, TISA established the Data Quality project to identify the size of and reasons for these problems. A number of firms have now committed funding to enable us to work with the British Standards Institute (BSI) and produce a set of industry standards which will ensure that firms take all appropriate steps to trace customers and at the same time meet our regulatory requirements. These standards will then be used for accreditation purposes with the award of a Kitemark - a sign of quality trusted by the consumer.

We are in the process of setting up a steering group to draft these standards. The group will be formalised in early February so, if your firm is not yet represented, time is running out to participate.

If you want to join this piece of work and help shape the processes for the future, please do get in touch.

Carol Knight, Operations Director