

PAS 201:2018

Supporting fintechs in engaging with financial institutions – Guide



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Foreword

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This PAS was sponsored by the Fintech Delivery Panel (FDP). Its development was facilitated by BSI Standards Limited and it was published under license from the British Standards Institution.

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- Barclays
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Sources of UK regulatory guidance:

- HM Treasury (HMT): www.gov.uk/government/organisations/hm-treasury
- Bank of England (BoE): www.bankofengland.co.uk/prudential-regulation
- Prudential Regulation Authority (PRA): www.prarulebook.co.uk
- Financial Conduct Authority (FCA): www.fca.org.uk
- EU General Data Protection Regulation (GDPR): www.eugdpr.org
- Competition & Markets Authority (CMA): <https://www.gov.uk/government/organisations/competition-and-markets-authority>
- Ring-fencing: <https://www.gov.uk/government/publications/ring-fencing-information/ring-fencing-information>
- The Computer Misuse Act (1990): <https://www.legislation.gov.uk/ukpga/1990/18/contents>

See also Annex B for further support.

NOTE *Some financial institutions will operate in a variety of countries and as such the regulatory requirements of those jurisdictions will also become relevant.*

Introduction

Financial services is in the midst of fundamental change, driven and enabled by technology advances that will transform the industry, place control in the hands of customers, and radically change the nature of the competition the established institutions face.

The business of banking will look completely different, delivered through digital technology that customers, conditioned to expect speed and innovation from all suppliers, regard as a basic hygiene factor. Banking is becoming more connected; with business models that digitally link customers and other providers of products and services.

New competitors, unencumbered with expensive and inflexible legacy architectures are entering the market. Open Banking will reduce barriers to entry. Banking services may simply become a commodity component of wider value chains. The environment is challenging. The changes are significant. The industry is moving from the traditional models to one where small can now compete effectively with larger suppliers.

Most established financial institutions are recognising the need to position themselves to address these threats and embrace the opportunities. The positive approach by established providers demonstrates a widespread awareness of how fintech will benefit all: the start-ups, the financial institutions and, most importantly, the consumers.

The UK has long recognised that embracing innovation is central to ensuring long-term success and the development of new financial technologies is the latest pivotal shift. It is a testament to the UK's competitiveness that its financial services sector, with support from the wider ecosystem, has positioned itself at the forefront of the fintech revolution.

As we move beyond the initial hype it has become clear that the benefits of this high-growth area can best be secured through a collaborative, joined-up approach. The Financial institutions have longer established customer relationships, larger scale, more funding, and developed regulatory and legal knowledge; whilst start-ups often have more innovative ideas, more specialised technological expertise, and the ability to be agile and move fast. The combination of these factors can help the UK continue to grow as a world leading fintech hub.

Yet, too many fintechs and financial institutions are still uncomfortable allies. Financial institutions often risk being perceived by start-ups as inflexible and bureaucratic, while fintechs may be perceived as lacking understanding of the regulatory challenges and demands of servicing customers at scale faced by established financial institutions.

Any great engagement is underpinned by open communication and mutual understanding. The purpose of this PAS is to lay out guidance for fintechs that will help them understand, prepare for and more easily navigate the path to forming successful engagement with large financial institutions. In addition it can provide a foundation document around which fintechs, financial institutions and regulators alike can discuss ways to improve and streamline the process to enhance the UK's position and importantly benefit customers.

The FDP was formed in 2017 at the request of HM Treasury to help sustain and accelerate the growth of the fintech sector in the UK. The FDP is facilitated by Tech Nation and brings together the leading fintechs and established financial institutions from across the UK.

This PAS has been produced in response to an FDP commitment to drive collaboration between fintechs and financial institutions. It is believed that introducing voluntary standards is crucial to achieving more collaboration to make piloting products and services easier.

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1 Scope

This PAS provides a guide to fintechs on the terms and approach used by many financial institutions for collaboration and commercialisation of new fintech propositions. It forms part of a wider body of work, referred to within the HM Treasury, Fintech Sector Strategy (March 2018), to develop a set of industry standards that will support fintech firms by providing them with a consistent understanding of what financial institutions will need from them before entering into partnership arrangements.

Its intention is to provide a framework that will allow fintechs to better prepare for and confirm that they are ready to engage with a large financial institution. It provides an explanation of both the commercial considerations and the necessary checks and controls that need to be satisfied to meet business and regulatory demands.

NOTE *Many of the processes and policies within this PAS are similar to those used for any supplier engagement and are not unique to engagement with fintechs.*

Specifically it provides:

- key terms and definitions;
- a framework of the categories information, checks and controls necessary to establish a commercial engagement;
- guidance on the preparation, data gathering and steps that a fintech can undertake to facilitate and speed-up the due diligence, commercial and contractual processes; and
- data protection and information security considerations.

It should be noted that each financial institution will have a different risk appetite, dependent upon their business strategy, the customer segments they support, markets they serve and geographies in which they operate. It will also depend on whether the fintech is to be engaged directly with customers or internally within the financial institution. As such it would not be possible to provide a definitive single guide and process.

This PAS is not intended, therefore, to be a definition of the engagement process as this could vary considerably from institution to institution. However, to aid understanding, Figure 1 provides a generic view of the broad stages in taking a new fintech solution from idea to implementation at scale. Whilst many fintechs are experienced in engaging with financial institutions and the on-boarding requirements, this PAS has been written from the perspective of helping early stage fintechs who may have little or no understanding of the process.