

# FinTech and Innovation Report 2020



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# Introduction

In 2020, our Innovation Hub dealt with 41 engagements and 72 enquiries.

The Innovation Hub is open to existing regulated businesses, businesses that are considering regulation and those that do not require regulation. It gives businesses the opportunity to engage with the Jersey Financial Services Commission (JFSC) in a more relaxed setting, allowing them to ask questions about the registration process, the regulatory framework or raise concerns or suggestions.

In this report, we build on our findings from 2019 and provide updated analysis for 2020.



2019

27% of enquiries were established, or were in the process of proceeding to establish in 2019

GFIN ⚡

5 enquiries received through GFIN throughout 2019

2020

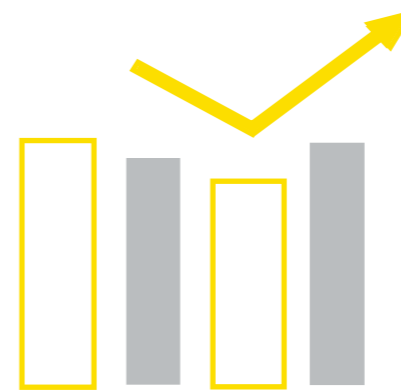
30% of enquiries were established, or were in the process of proceeding to establish in 2020



9 enquiries received through GFIN throughout 2020

2019

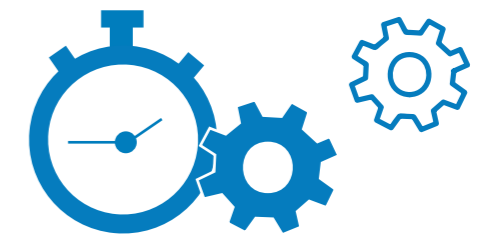
54 enquiries in 2019



2020

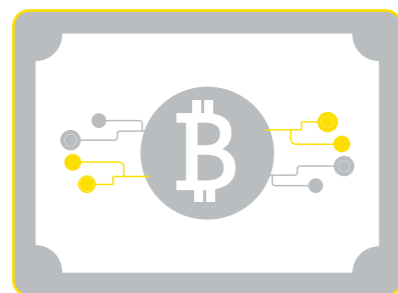
72 enquiries in 2020

28% of enquiries in 2020 were RegTech related, compared to 19% in 2019

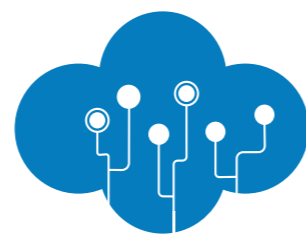


# 2019 - 2020

7% of enquiries were **Crypto and Token issues**, compared to 20% in 2020



27% of enquiries related to setting up virtual asset businesses or issuing virtual assets



Throughout 2020, we saw a **decline** in the number of virtual asset and service provider enquiries when compared to previous years

28 direct enquiries to the JFSC in 2019



33 direct enquiries to the JFSC in 2020

We also saw an **increase** in the number of enquiries from existing firms wishing to know more about leveraging technology to meet their regulatory obligations

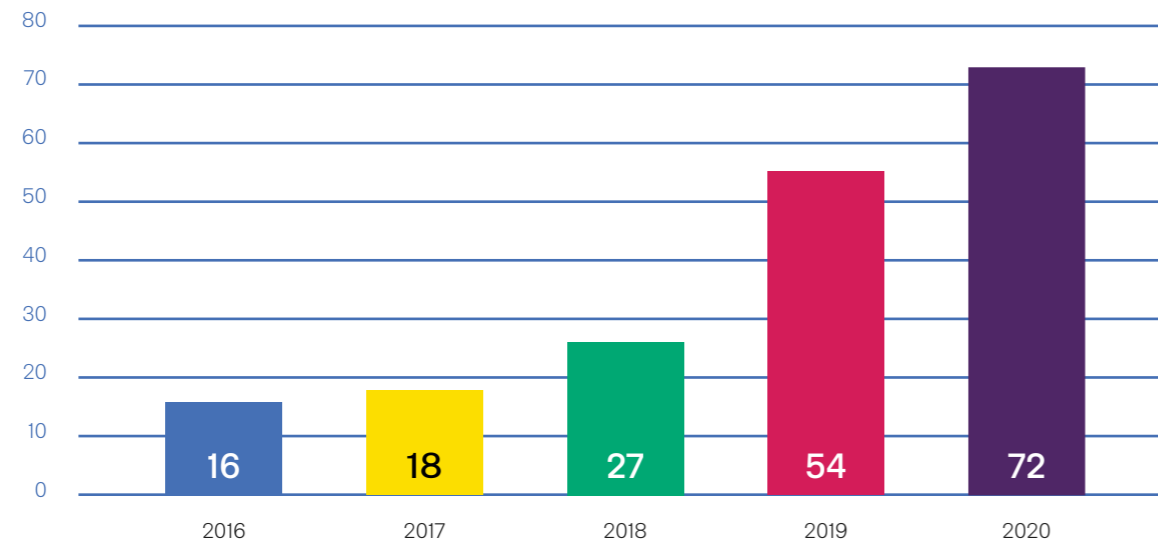
# Jersey's FinTech landscape

Each year, the number of FinTech enquiries we receive grows and 2020 was no exception.

As businesses deployed their business continuity plans and began working from home in response to the Covid-19 pandemic, a distinct theme arose around digitising or automating existing processes.

There was also an increase in the number of enquiries from existing businesses wishing to know more about leveraging technology to meet their regulatory obligations.

## JFSC Innovation Hub unique enquiries



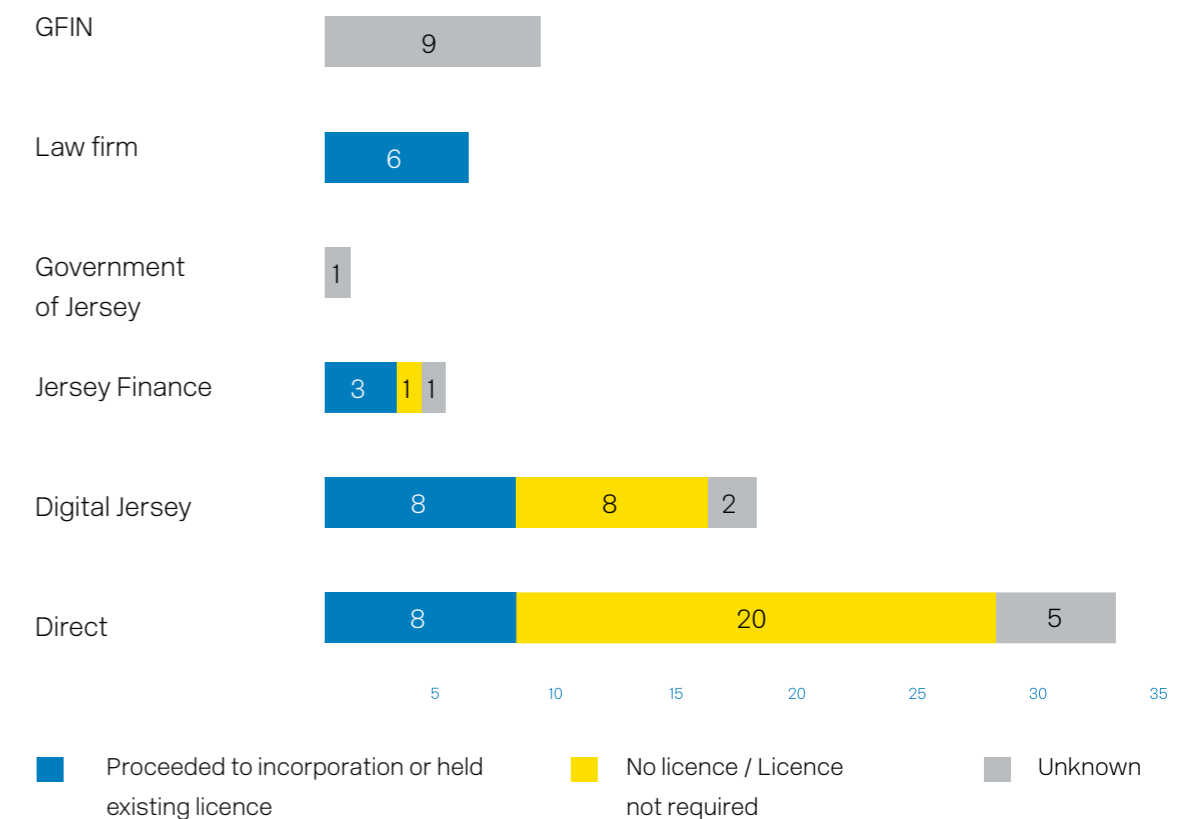
In 2020, we received 33 direct enquiries to the JFSC and continued to receive referrals from other Jersey-based businesses. The re-launch of the JFSC website towards the end of 2019 made it even easier for businesses to communicate directly with the Innovation Hub.

When compared to other Innovation Hubs, in 2019 we reported an above-average percentage of enquiries leading to Jersey incorporated structures and/or regulatory licence applications.

In 2020, this trend continued with 30% of enquiries leading to structures being incorporated and/or applying for regulatory licences. Due to the nature of the enquiries, this figure also includes businesses that continued with their existing regulatory licences.

We also received a number of enquiries whose status we have categorised as 'unknown'. This category describes any queries that are still under review (for example those received via the Global Financial innovation Network (GFIN)).

## Origin and number of referrals



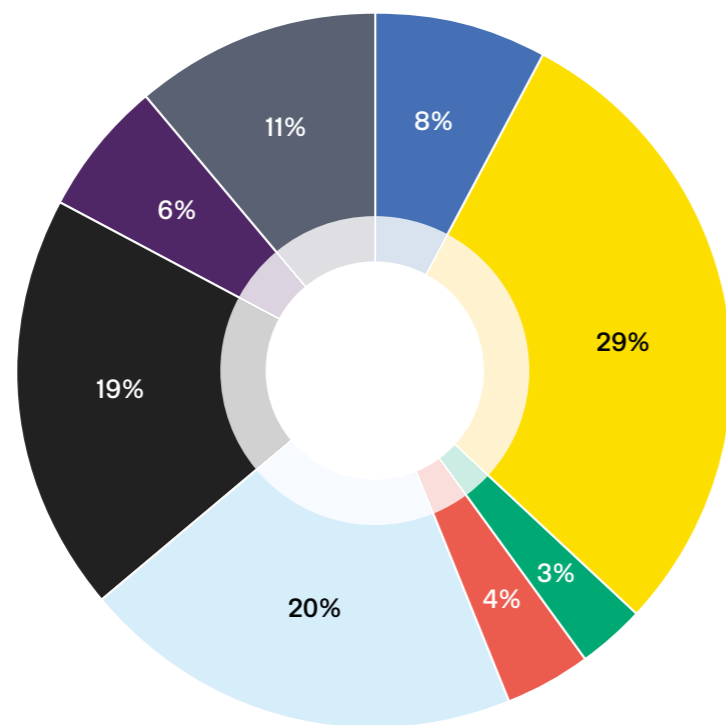
# Trends and analysis in 2020

## General

The chart below shows the percentage of enquiries based on broad themes, with the most popular analysed in more detail.

“Other” enquiries relate to businesses that approached us to discuss relevant regulatory touch-points, businesses that asked for assistance with the regulatory process or businesses that wanted to ensure that the JFSC is aware of their solutions, particularly if they are actively marketing to the regulated community.

We do not endorse any product or service, or provide any legal advice.



- Regulated business (Funds and Investment Business)
- Pandemic management
- Other
- RegTech/ SupTech
- Research
- Crowdfunding
- Crypto and Token Issues
- Alternative banking services and payments

## RegTech

RegTech and supervision technology (SupTech) businesses continued to engage with us and, in almost all cases, wanted to demonstrate their product. Reasons for this included:

- A new product which they felt may have been of interest to the JFSC’s IT division
- Clients using their service which are also regulated/supervised by the JFSC
- Checking they had not missed any regulatory elements prior to actively marketing their product or service.

These requests spanned across:

- banking
- client on-boarding
- data
- insurance
- intelligence services
- SupTech.

KYC (Know Your Customer) solutions continued to be a key feature for RegTech businesses. We received eight KYC enquiries after publishing our report last July on [exploring smart regulation: A shared KYC utility](#).

Due to the nature of their products and services, these businesses do not typically require authorisation or registration by the JFSC.

## Virtual asset activities

We saw a decline in the number of service provider queries as well as businesses looking to issue their own virtual asset in 2020 compared to previous years.

This may be due to changes in market focus as a result of Covid-19. That said, 20% of all enquiries related in some way to virtual assets activities. These included:

- wallet providers
- trading platforms
- token issuers
- securities issues
- potential new fund launches.

Each business operating in this space is considered on a case-by-case basis by our Registry and Authorisations teams, due to their distinct business models and unique risks.

## Alternative banking services and payments

There was a considerable increase in the number of providers engaging with us about offering alternative banking services to Islanders or offering a different type of payment service to the regulated community. We received enquiries from:

- existing EEA-licenced electronic money institutions
- pre-paid card services
- lenders
- technology businesses proposing ‘banking as a service’ integration tools.

A number of sources have cited Covid-19 as a key driver for changing the way B2B2C transactions occur. One report explores how Covid-19 was an accelerator of a series of existing changes, including ‘shifts toward e-commerce, digital payments (including contactless), instant payments, and cash displacement’<sup>1</sup>. Noting this research, and other commentary on this space, it is unsurprising that we saw an increase in the number of enquiries involving alternative banking solutions and payment methods.

<sup>1</sup> <https://www.mckinsey.com/~media/mckinsey/industries/financial%20services/our%20insights/accelerating%20winds%20of%20change%20in%20global%20payments/2020-mckinsey-global-payments-report-vf.pdf>

## Pandemic management

11% of enquiries were from businesses that already hold a licence with us to conduct regulated activities. These businesses were exploring opportunities to use technology during the pandemic to meet regulatory expectations. These included enquiries relating to applying our outsourcing policy, recordkeeping in a digital world, and broader digital transformation initiatives.

## Global Financial Innovation Network – Cross-border testing

In 2019, we participated in the GFIN’s cross-border testing pilot, which saw five businesses express their interest in developing their products and services in Jersey.

The application window for 2021 cross-border testing closed on 31 December 2020, and nine firms have expressed an interest in Jersey. We are currently reviewing applications and will form a consensus with other participating regulators.



# 2020 in review

2020 presented a number of challenges to both the JFSC and the financial services industry we regulate. It also presented a number of opportunities. We all navigated the digital environment to deliver services to customers and businesses with as little disruption as possible.

Notwithstanding the challenges, we committed to progressing a number of items from the 2019 FinTech and Innovation report throughout 2020 and beyond.

In Jersey:

- We committed to helping emerging business models and technology businesses to navigate the regulatory regime. We did this by responding to 72 enquiries throughout the year. We also enhanced the way we process applications and enquiries internally, working with other teams across the JFSC to provide a comprehensive and consistent approach to innovative products, services and business models
- We were available at the Digital Jersey Hub one day a month in early 2020, however, due to Covid-19, our physical presence stopped in March. Our commitment to Digital Jersey remained notwithstanding the pandemic/changes to working and their members continued to engage with us virtually, via video calls with the Innovation Hub, Registry and other JFSC teams
- We continued to monitor the evolving landscape for insights and began contributing to the development of a new 'Virtual Asset Service Provider Regime in Jersey
- We completed our review on exploring smart regulation: A shared KYC utility in July 2020. [This report is available on our website.](#)

Off-Island:

- In 2020, we continued to be a member of the GFIN and participated in a number of projects. This supported our commitment to building relationships with the international regulatory community.

# 2021 and beyond

In 2021, together with the Government of Jersey, we will focus on assessing the risks of virtual assets and money or value transfer services. We are then hoping to develop a regime taking these risks into account. We have received enquiries covering these sectors and acknowledge that all businesses, whether new or existing entrants, need regulatory requirements which are clear and unambiguous. We hope that by laying the groundwork in 2021, we will be in a position to provide clarity on this.

We are also committed to aligning our approach and risk appetite towards FinTech and innovative businesses throughout 2021. This will be aligned with the recommendations arising from our review of our authorisations framework.

As a result of extensive commentary on the focus of alternative banking solutions as well as feedback received from local businesses, we will be exploring the options available within our regulatory regime to support these relationships and solutions.

Our commitment to open and active engagement with all businesses and stakeholders who are considering operating an innovative business will continue. We will proactively engage with:

- Innovative firms through our Innovation Hub
- Digital Jersey and Jersey Finance through the FinTech Forum, Digital Assets Working Group and Sandbox Jersey
- The Government of Jersey about introducing modern regulatory regimes for virtual assets and their service providers, and money or value transfer services
- Other like-minded regulators internationally through GFIN and IOSCO.





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