Governance of financial innovation and perceptions of responsibility: insights from an ethnographic case study.

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Abstract: The power of financial innovations to impact societies at global scales compels us to ask how financial innovation is governed and how its responsible development and emergence in society can be supported. We consider the process and governance of financial innovation, as well as perceptions of responsible innovation in the finance industry. Through a review of the literature and secondary data, we first describe generic approaches to, and limitations of, the governance of financial innovation, in the context of the Collingridge innovation control dilemma. This suggests that the financial innovation landscape is poorly characterized, with no descriptive models of how it happens and how it is governed. Financial innovation appears largely to be a complex but incremental and recombinant process, characterised by rapid diffusivity and technological automation. There are no specific forms of legislation focusing directly on financial innovation; what exists places emphasis on *post hoc* regulation of products after development and implementation, sometimes decades later. While some forms of non regulatory, multi-level governance (e.g. new product committees) have been recently discussed, their systematic use and scope appears to be limited. Applications of integrated dimensions that underpin concepts of anticipatory governance and 'responsible innovation' such as anticipation, reflection, deliberation and institutional responsiveness appear to be poorly developed.

In order to validate and empirically test these findings we undertook an ethnographic field study within a large, London – based asset management company which undertakes significant new product innovation. This allowed us to explore the financial innovation process, its governance within and beyond the company, and whether institutional governance mechanisms possess the necessary capacity to support emergent concepts of responsible innovation. The study occurred during the development to launch of a major new financial product and allowed close access to actors and institutional processes as innovation occurred in real time. The study revealed a well structured new product governance model in place at the company. Within this, deliberation (e.g. during meetings) was pronounced and fostered anticipation and reflection on risks and their potential impacts. Nevertheless, these discussions focussed mainly on understanding operational and legal/regulatory risks to the company (e.g. account/web setup delays, portfolio manager capabilities, trademark issues, etc.). This was largely restricted to internal stakeholders, with participation of external parties (e.g. clients) being limited. The company perceived itself as having an inherently cautious culture, which translated into perceptions of a lower probability of bringing something destructive to market. In situations where broader impacts of financial innovations (e.g. to clients) were considered, the organization was more concerned with concepts of investment risk and treating customers fairly, in accordance with rules set by the independent Financial Services Authority (FSA). Consideration of client needs when innovating seemed to be an acceptable definition of what responsible financial innovation means to most people in the organization. We conclude that current approaches to governing financial innovation offer considerable scope for enlargement and development to support systematic integration and embedding of dimensions of responsible innovation that allow for anticipation, reflection, deliberation and institutional responsiveness within the innovation process itself.