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Working in a rapidly changing, fiercely competitive world we know that you don't simply find opportunities – you must create them. It's the creed we live by and practice for our clients every day.

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Please do get in touch with Cicero’s team if you would like to discuss any of the themes or issues raised in this analysis.

Innovate Finance is an independent membership association that represents the UK's global FinTech community. Founded in 2014 and supported by the City of London and Broadgate, Innovate Finance is a not-for-profit whose mission is to accelerate the country's leading position in the financial services sector by directly supporting the next generation of technology-led financial services innovators.

More than 250 global members have joined the Innovate Finance ecosystem to date, ranging from seed stage start-ups to global financial institutions and professional services firms. All benefit from Innovate Finance's leading position as the single point of access to promote enabling policy and regulation, talent development, business opportunity and growth, and investment capital.

By bringing together the most forward-thinking participants in financial services, Innovate Finance is helping create a global financial services sector that is more sustainable, more inclusive and better for everyone.

DISCLAIMER: The views expressed in this publication are those of the contributors and do not necessarily reflect the views of Cicero Group or Innovate Finance.
It’s my pleasure to welcome you to the inaugural FinTech Nation 2018, a collection of essays from some of the sector’s best and brightest.

While there are many terrific assessments and analyses of the UK FinTech sector, we at Cicero and Innovate Finance felt there was a gap that numbers and graphs alone could not fill. Hence, what follows is a fantastic collection of essays and viewpoints from the leading lights of the sector, which provide greater colour to the current landscape of UK FinTech.

As a communications and public policy agency specialising in financial services, Cicero sits between the sector and its influencers. We see first-hand the extent of innovation and change being undertaken by those within financial services as well as the willingness from influencers and policymakers to position the UK as the leading force in global FinTech. However, with the increasingly competing priorities of the current business and political climate, it is vital that practitioners, policymakers and influencers continue to engage and ensure aims are aligned. Collaboration between FinTech practitioners, policymakers and influencers is what helped the UK to gain an edge on the rest of the world and it is such collaboration that will help to cement the UK’s continued dominance in the future. At Cicero, we help such collaboration take place every day and we are excited about the future opportunities presented by FinTech innovators.

FinTech has gone from strength to strength over the last few years. From startups to technology firms and global institutions, there has been real momentum in the space which has seen the ecosystem and our 250+ members endeavour to transform the financial services industry for the better.

Our recent FinTech Investment Landscape revealed that venture capital investment in UK FinTech startups reached record highs in 2017, with $1.8 billion of capital invested across 224 deals, a 153% increase year-on-year. This momentum has been illustrated by the different stories shared in this inaugural FinTech Nation 2018 collection.

At Innovate Finance, we continue to support our members and partners across the global FinTech ecosystem who are at the forefront of innovation in financial services. In this collection, our members - all FinTech pioneers - have shared their unique viewpoints and have delivered fascinating insights on the rise of new technologies and their implications.

When taken together, these viewpoints reflect the achievements our sector has made and point to exciting future innovations set to create even greater change in the industry.

We are grateful for the many contributions by FinTech innovators and influencers that has made this collection possible. We hope the analysis and insights here will inspire the next generation of FinTech innovations and help to deliver a more sustainable financial future for us all.
Once used to describe the most incremental of advancements, FinTech is now a term that encompasses a broad spectrum of innovation within financial services. Such innovation has not only enhanced current practices but caused a complete rethink of the nature in which organisations, Governments and consumers think about finance. It is this causal shift brought about by FinTech innovation that this collection hopes to display.

Through the following chapters, you will find viewpoints from some of the sector’s leading influencers and innovators. While every one of the contributors has their own perspective and point of entry into the sector, there are common upbeat themes running through each narrative. A key theme is that the sector’s journey so far has been one from potential disruption to a commitment to collaboration – from both innovator and policymaker standpoints. Another vital message that resonates throughout, and may well be the most exciting, is that even with the industry-changing innovation seen so far, we are only at the beginning of a period of substantial digital change.

What is also clear is that the UK remains an outstanding centre of excellence for FinTech innovation. The organisations included here are testament to this, and it would seem there is yet more to come from UK FinTech. There is a sense of pragmatism that the job is not yet done and, much like the nature of innovation itself, there will be many more iterations as FinTech becomes increasingly mainstream – both domestically and globally. Such ambition among FinTech practitioners is supported by the UK’s policymakers too, who are forward-looking in the way they encourage greater growth from the sector. While the stage is set for a bright future, the UK FinTech sector cannot rest on the laurels of its strong start. With the challenges and opportunities presented by the UK’s exit from the EU and with the march of rival FinTech hubs from Europe and Asia only growing, we must ensure a conduit of ideas continues to flow between the sector and policymakers.

This collection of essays, which we are releasing in the run-up to the Innovate Finance Global Summit, set out the individual viewpoints of industry leading contributors. We hope the narrative will provide you with an insight into how and why these FinTech firms are driving the industry forward and laying the foundations for future innovation. We look forward to seeing innovators continue to challenge the status quo in financial services in 2018 and beyond.

Finally, we would like to thank our contributors for taking the time to pen their views. We hope this collection will provide you with a thought-provoking read.
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Section 1 - The Influencers
FinTech: Innovation that Empowers Consumers

John Glen MP for Wiltshire
Economic Secretary to the Treasury (City Minister)

@hmtreasury
The FinTech sector has the capacity to deliver huge benefits across society: to small businesses – the backbone of the UK economy – and to ordinary people, including the disadvantaged and vulnerable. It’s a fantastic example of how the classic capitalist mechanism of competition can be a benevolent force for positive change in everyone’s lives, not just those in the square mile.

Technical advances have already transformed the ability of new, innovative businesses to successfully challenge the big established banks. FinTechs have been able to reach out to consumers directly for the first time, sowing the seeds of a new model of financial services – one that is better value for money, faster, fairer and more competitive.

This is a challenge that established financial services firms have started to rise to. They’re embracing innovation and working harder to meet the needs of their customers: individual consumers and small businesses across the UK, who are increasingly able to find financial services products that better meet their needs.

To realise our vision of an economy that works for everyone, our financial services sector needs to continue to help people make the most of their money, and to make it easier for small businesses to borrow the funds that they need to flourish.

Open Banking is the clear next step. This is a bold and ambitious programme in which the UK leads the world. It empowers customers to make the most of their data: where they choose to, they can share it securely and efficiently with FinTechs, giving them access to a range of better, more tailored products than are currently offered by their current account provider. These range from improved financial advice, to better deals on short-term loans. It opens the door to cheaper and more easily available loans for small businesses by making it easier for them to shop-around for deals, and by allowing lenders to better understand the risk they are exposed to. The Government has been active in helping these services develop and grow, supporting a £2.5m prize fund for firms building services that will help realise the value associated with Open Banking for small businesses.

I have already emphasised the potential for FinTech to help the disadvantaged. Looking to the future, I am particularly keen to see financial services firms using technology and the market to support individuals, and to serve often overlooked groups of consumers.

That is why, as part of its digital strategy, the Government commissioned Tech City UK to run a FinTech competition to recognise digital innovation that supports financial inclusion. Eighty-five firms applied, and the winners were Pockit, who provide a prepaid card account targeting those who find it difficult to get a mainstream current account, with a clear charging structure for their services, and Mespo, a fully independent robo money saver, which identifies opportunities for consumers to save money on household bills, and makes the switch for them.

The success of this challenge has led to the Government to launch the Rent Recognition Challenge, to address barriers that many face to accessing affordable credit. Millions of hardworking families living in rented accommodation in Britain today are not getting access to the credit they deserve. That is because, currently, a history of meeting your rent payments on time is not reflected in your credit score, and is not taken into account when you come to apply for a loan, such as a mortgage. The Treasury’s Rent Recognition Challenge is designed to tackle this problem. It offers a £2m prize fund to UK FinTechs, to
develop innovative new solutions enabling tenants to collect their rental data, and share it with lenders and credit reference agencies. I would like to see firms building on these principles and using data more effectively, for instance to provide consumers with access to better value loans as a means of alleviating financial hardship, cutting out the high-interest payday lender.

More broadly, financial education is fundamental to consumers being able to make the most of their money. In the UK one in five consumers cannot understand their bank statements, and FinTech firms building personal financial dashboards can help present complex information in a way that is intuitive, making it easier for consumers to understand. The Government and I are firmly committed to ensuring that the UK remains the best place to start and grow a FinTech business. We have the most supportive regulatory environment in the world for innovative financial services firms. The Government has a wide-ranging package of measures to promote technology - for instance through a 10-year action plan to unlock over £20 billion to finance growth in innovative firms. And we recognise that increased international investment will play a key role in holding onto the UK’s position as the global FinTech leader. This is why HM Treasury hosts an annual UK FinTech Conference. This showcases the UK’s thriving sector, as international investors are invited to a one day event to hear from the biggest, most influential names in global financial services and to celebrate the UK’s forward reaching approach to innovation policy and regulation. I’m looking forward to the next conference taking place on 22 March.

So, the Government is doing its bit to support innovative firms in financial services, but we are asking for something in return. We want FinTechs to take up the challenge of realising the enormous potential they have to support individuals, businesses and the community. We want them to address the needs of the vulnerable and excluded, and to enable consumers to include ethical considerations in their saving and investment strategies. In doing so they will play a significant role in creating the kind of society the government wants to see in the UK.
Digital Inclusion should be the Future Goal of FinTech

by Jonathan Reynolds MP for Stalybridge and Hyde Shadow City Minister
What happens when millennials turn 80 and realise they might need more than an app for their banking?

These are the questions we should be asking to future proof our financial services. In recent years, developments in FinTech have opened doors in ways we never could have imagined. But I believe it would be a mistake to create a pared-down, stripped back infrastructure just because technology allows it. Technology must serve consumers, not the other way round.

One of the huge opportunities we have today is that evolving technology offers us novel ways to address historic issues of financial exclusion. This is a problem that needs urgent attention. I find it extraordinary that we play host to one of the world’s leading global financial services hubs, yet an astonishing 1.5m adults in this country are unbanked.

But new technology can broaden access to financial services for the traditionally excluded. Advanced data sharing and analysis allows for a better understanding of who customers are and we can use this information in inventive ways. Experian, for example, has partnered with Big Issue Invest, the social investment arm of The Big Issue Group, to create the Rental Exchange initiative. It observes rental payment data in the same way as mortgage payment data, aiming to tackle the financial exclusion renters face compared to homeowners. In my view, it is wrong that those paying tens of thousands of pounds in rent over years of tenancy cannot rely on this data as part of their credit score when they come to buy a home of their own. The way we live is changing, and technology must help up keep pace.

A report published in October 2017 by the City of London and KPMG, the Value of FinTech, explored the ways evolving technologies in financial services can benefit retail consumers, smaller businesses and the underbanked. Doreming, for example, allows individuals to shop without access to a bank account. Or there is Aire, launched in 2014, an algorithmic credit scoring engine that uses AI to conduct assessment and underwriting, which helps non-conventional applicants access credit. More broadly, innovations such as robo-advice could be used, where appropriate, to provide services to people who might not otherwise have access to financial guidance.

What’s more, the future success of the banking sector is dependent on the way it engages with new technology, as was highlighted by the Financing Investment Interim Report, produced for the Labour Party by GFC Economics in December 2017. It noted that poor IT infrastructure and a lack of reinvestment is reducing the ability of banks to monitor the development of new markets and seek out opportunities for more productive lending. The report pointed to the growing ability of larger technology companies to make superior credit judgements thanks to their broad access to big data – Google, for example, captures around 70% of the credit and debit card transactions in the U.S.

With that in mind, however, there is a challenge to be achieved in ensuring that we use technology to benefit consumers, rather than creating a pared down, automated banking sector which leaves vulnerable customers without the support they need. We need to build safeguards into our financial system to make sure it can continue to serve its users well into the future. Just because technology could potentially replace human interactions, does not mean it always should.

One of my concerns as Shadow City Minister is that the bank branch network has been
shrinking at an accelerating rate. In December 2016, Which? reported that 1,046 branches of major banks closed between January 2015 and January 2017, with another 482 due to be axed in 2017.

The scale of these closures seems disproportionate. Nearly two-thirds of consumers (63%) would prefer to talk to someone face-to-face when making a big decision, and nearly half (47%) of all those who had visited a branch in the last 12 months said this was for reassurance and support with complicated transactions. The report also found that 11% of the population (7m people) use no other banking service than their local high street branch, and that these people are overwhelmingly older and/or poorer. Labour's answer to this challenge is a proposal to change the law regulating banks so that no closure can take place without appropriate local consultation and without Financial Conduct Authority (FCA) approval. Of course, new developments such as communicating with individuals through video link have been hugely important to less mobile customers. But there remains a role for bank branches to play alongside exciting technological innovations; the two must be complementary.

Our other challenge is creating the right regulatory framework for new FinTech. Banks are unlike other industries in that dealing with people's money gives them a unique and special responsibility, and this brings with it rightly higher expectations about conduct, culture and putting the customer first. We are not talking about a new laptop or washing machine here – the risks are greater and so the stakes are much, much higher. But equally, we need to ensure there is a level playing field for challenger brands against incumbent institutions. As such, the regulator needs to evolve their approach too, as do policymakers. Initiatives such as the FCA’s sandbox, which allows companies to test new products in a live market environment but with the right safeguards, are an illustration of how this can be achieved.

Britain has a thriving and dynamic FinTech sector of which we should be proud, and which is equipped to solve some of the historic issues we have faced with financial exclusion. However, policymakers and regulators must work closely with the sector to ensure that we are supporting the development of a fit-for-purpose industry which uses cutting edge technology to support and involve, not isolate, consumers.
UK FinTech’s bright post-Brexit Future

by Adam Afriyie MP for Windsor
Chair, All-Party Parliamentary Group for FinTech

The All-Party Parliamentary Group on FinTech was set up to raise awareness in Parliament of the growing importance of FinTech to the UK economy, to policy-making and to consumers. It aims to promote a regulatory framework that encourages a growing, inclusive and competitive FinTech industry, and seeks to investigate the potential applications of FinTech including peer-to-peer lending, crowdfunding, digital currencies, internet banking and beyond.
In 2016, London leap-frogged Silicon Valley to become the world’s FinTech capital. Ambitious new companies came in their droves, drawn by our vast pools of talent, light touch approach to startup regulation, and the sheer volume of capital in The City.

A year and a half on from the UK vote to leave the EU, it would seem that the risks of Brexit to the financial sector were vastly overstated as the fundamental factors that make us a global centre for FinTech show no signs of reversing. The UK remains a magnet for investment, with over £1.8 billion in venture capital invested in London’s FinTech sector in 2017.

Post-Brexit, we have the opportunity to further boost UK FinTech by placing it front and centre of our free trade agreements; by building a society at ease with itself over talent-based immigration; and by using our greater regulatory autonomy to become ever more attractive both to our European friends and partners and the wider-world.

This pro-enterprise and outward looking Government can fuel extraordinary growth in Britain’s financial sector and, I believe we will see further benefits for the Financial Technology sector with new legislative autonomy, greater access to talent, and a focus on UK FinTech in future trade deals.

I remain confident that the values behind FinTech (of competition, social inclusion and innovation) will not only keep us prosperous but will deliver a post-Brexit Britain that is profoundly outward-looking and pro-enterprise. Retaining and increasing access to talent The UK is a magnet for skilled immigration and this is particularly true of UK FinTech, which thrives with an international workforce.

Many of those currently employed in the FinTech sector come from EU Member States and, from the very beginning of the Brexit negotiations this Conservative Government has been clear that its top priority has been to secure the rights of EU nationals, resident in the UK, to continue to live and work here.

The Prime Minister reiterated this commitment in Florence in September 2017 and, in the recent negotiation breakthrough, guaranteed the settled status of EU citizens living in the UK. Moreover, the UK have secured concessions to ensure that the rights of EU citizens living in the UK align with those of British citizens putting us well on the way to neutralising immigration from the EU as a cause of concern.

Crucially, our newly gained control over immigration will enable us to end the immigration discrimination against non-EU based workers and open our arms to talent from across the globe.

There are plenty of positive measures that the Government could emulate to encourage easier movement for overseas businessmen to come to the UK without accepting unlimited freedom of movement, for example, Hong Kong and Dubai allow short term visits without a visa requirement.

With better control over immigration post-Brexit overall numbers might fall, but I think we can safely anticipate that the number of Exceptional Talent Visas will double again in the nearfuture. Afterall,Ididn’t hear a single complaint, even from the most stridently anti-immigration politicians and campaigners, when the Government doubled the number of Exceptional Talent Visas last November. Retaining and increasing competitiveness
Most of the business people I speak to who voted Remain did not do so out of love for the EU and its labyrinthine bureaucracies, but instead out of concern that it would damage the UK’s competitiveness.

This is particularly the case in financial services; and it’s a reasonable concern. The City has long been recognised as the world’s foremost financial centre and financial services, and connected legal services, constituted 10.7% of our GDP in FY 2015/2016 and paid more than 11% of all tax revenue in the same period.

However, the recently updated Z/Yen Global Financial Services Index not only showed that post-Referendum London remained in first place, but that the gap between London and second place New York, is now wider than at any point in the Index’s history. Recent reports by Colliers International and Forbes have also suggested that the UK is the most attractive developed economy for business.

Perhaps the best news is that, sitting alongside the overall success of the UK financial sector, 2017 was a record breaking year for investment in FinTech startups. In its latest census Innovate Finance found that half of FinTech firms were anticipating 100% growth over the next year. Our approach to regulation was key: light touch, ambitious and innovative. Firms know that our regulators seek to support and secure FinTech innovation rather than suppress and control. We led the world in creating the first FinTech regulatory sandbox where new FinTech firms could test their services in a regulatory safe haven; since 2016 banks have been legally required to promote alternative lenders to a customer if they’re turned down for a loan, helping to nurture the UK’s vibrant alternative lending market; and this January we began the rollout of Open Banking – arguably the most ambitious project yet in FinTech – promoting competition and account switching.

On the day we exit the EU our regulatory standards will be identical to those of the remaining EU Member States. The Markets in Financial Instruments Directive II (MiFID2), will come into operation in 2018, providing an equivalence regime for both investment banking and investment management and the UK’s financial heart will beat on as it has for centuries.

‘Taking back control’ is a practical application, not just a slogan. After Brexit we will have even greater freedom to customise our regulations to the needs of FinTech. Of course, our firms will have to comply with EU regulations when exporting to the EU, but in many ways this is academic in the realm of FinTech. Financial services have to comply with thousands of pages of regulations, but many FinTechs are operating in areas so innovative and unchartered that they do not have regulations at all, or there is a dispute in the area they should be regulated under. We can ensure that the UK is a test-bed for cutting edge FinTechs, away from the stifling red tape of the EU.

But our lead in FinTech is a head-start, not a birth-right. Our Regulatory Sandbox is being emulated in Singapore and Australia, and others will soon join them. To remain ahead we must stay at the cutting edge, cultivating regulatory environments that ensure innovations like blockchain can grow and thrive in the UK. Future regulatory equivalence may prove challenging but is possible and, as innovation has taken place within the confines of the EU it will take place outside of it.

And whilst regulations are emulated and matched our dynamic business culture cannot be. It permeates the entire economy, allows us to adapt quickly to new circumstances, and is particularly pronounced in FinTech.
The area that taking back control will create the most opportunities for FinTech in, is in regaining our powers to conduct trade negotiations. The UK, is a world leader in so many sectors. But more importantly, we are the location for some cutting edge companies specialising in precisely those areas that rapidly growing economies in Africa and Asia are seeking expertise in; such as professional and legal services, finance, creative industries, agri-tech and, most of all, FinTech. We are the perfect partners to trade with, support, and mutually prosper from, emerging markets' successes.

As a Prime Minister’s Trade Envoy I have travelled across West Africa, discussing the possibilities of new ambitious trade and investment partnerships – mining in Guinea or oil, gas and agriculture in Ghana for example. But FinTech is a necessity in all nations, and the global decline of physical cash payments will open up many new opportunities for trade. As one member of a 28 member club, it is only fair that we would receive a proportionately small degree of the EU’s trade negotiator’s concern when constructing trade agreements with other nations. But as an independent country with our own power to negotiate we will be able to push and promote those areas, like FinTech, where the UK is most specialised. We are leaving the EU. The nation voted to leave, Article 50 has been triggered and stage one of the negotiations is complete. It is time for the whole of society, not just the government, to determine what sort of country will become. Will we be an atavistic, isolationist country? Nationalising industry, taxing capital and shunning talented migrants?

Or will we be a pro-enterprise country with open markets, an open attitude to talented people world-wide and a trade policy that has a global disposition rather than an European obsession. I believe that Brexit has the potential to energise our regulators and provide a more stable environment for immigration. This will require hard work, innovation and, most of all, a pro-enterprise Government. But the political will and the spectacular industry talent is there. For me the future is bright for Britain’s thriving FinTech sector.
Section 2 - The Innovators
The Rise of ‘Alternative Credit’
by Rupert Taylor
Founder and CEO

AltFi Data is the sole provider of a standardised lending performance track record. Our analytics products enable loan investors to make decisions based on like for like comparable metrics and enable originators to demonstrate alignment and monitor market conditions. Meanwhile our benchmarks provide the standard against which performance can be measured.
Financial intermediation is being digitised. The act of matching excess capital seeking a return, with those who need capital and are prepared to pay for it, is moving online. The reasons behind this shift are compelling: borrowers are finding the due diligence process to be easier when sharing data in an online environment; lenders are making lending decisions in the light of more information; and both are benefitting from the removal of legacy fixed costs.

If this structural change can realise its full potential then it stands to bring enormous benefits. Hard-to-price borrowers will have improved access to loans, bad debt performance should improve through better pricing of credit, and risks can be diversified away from the centre mitigating the ‘too big to fail’ conundrum. Fortunately the conditions that have precipitated this change are durable. This is because the major driver is technology. Bank balance sheets, constrained by the financial crisis, and further limited by the resulting regulatory response, are contributory factors. But by far the biggest factor is technology. Tech is making it easier for financial assets to reside on balance sheets outside of the mainstream banks. In fact it is interesting to note the relationship between the decline of ‘structured credit’ in the banking world and the rise of ‘alternative credit’ in the institutional asset management world. The label has changed because the location in which the risk sits has changed. But the assets themselves remain largely the same. In effect unlisted loans which used to reside on bank balance sheets are now held by institutional investors. The result is that ‘alternative credit’, itself sometimes called ‘private debt’ is the new name for ‘structured credit’ now that the risk no longer sits with banks, and has found a home instead in the real money community.

The effect of technology in this process has been to allow the roles that banks combined, both originating and holding risk, to be split. The model now evolving in the digitised world enables the role of originating the risk and holding the risk to be separated. As a result the problems associated with banks funding assets using a pool of liabilities, including deposits, which results in mismatches of both maturity and risk, are solved. A more elegant system has been created: those that specialise in holding risk own the assets; those that specialise in sourcing risk originate the assets. But this model also involves a problem, the effect of which was writ large in the global financial crisis. This is the problem inherent in the ‘originate to distribute’ model i.e. the ‘agent versus principal conflict’. To thrive this market must acknowledge this challenge and provide a means of establishing an alignment of interests between originator and owner.

Under the new digitised model investors in loan assets are aware that the economic risk lies with them. Their balance sheet holds the loan, with the originator having earned their fee, or at least the majority of their fee, for sourcing the assets. As a result investors will favour originators who can find a way to demonstrate that they are also motivated by the ongoing performance of the loans. One way for originators to achieve this is for them to demonstrate that, if the loans deteriorate, then the investor will not suffer alone. i.e. if the loans go bad the originator will also feel some pain. This can be achieved if the originator can demonstrate accountability to a credible and visible performance track record. In fact an effective track record can create a very clear motivation to originate high quality and sensibly priced loans. This is because the originator becomes accountable for the lifetime performance of the loan. If loan performance
deteriorates then the loan buyers balance sheet will, of course, still suffer. However the originators will also feel some pain because their track record will suffer. And herein lies the creation of an economic incentive for the originator - because if track record deteriorates then revenue outlook will shortly follow. In this way motivations are aligned. The originator now has a motivation to prioritise quality of origination. If they fail to do so their prospects in the future will suffer.

UK market place lending platforms have been global leaders in this kind of disclosure. They have allowed the performance of each loan to be scrutinised, by an independent third party, to create a common standard against which performance can be measured. This allows the return of the asset class to be understood, and for the performance of each originator to be measured on a like for like basis. The chart below shows the net return achieved from a uniform vintage exposure to a portfolio of all loans originated by Zopa, Funding Circle, RateSetter and MarketInvoice. The performance of each of those platforms, together with Assetz Capital, can also be represented individually, to a consistent methodology.

The resulting accountability has been rewarded with mainstream adoption of the asset class, including participation by the most blue chip institutions. This approach, which is now also being adopted in the USA and continental Europe, can be replicated across a wide spectrum of alternative credit. Further adoption will result in the deployment of more institutional capital and will drive an acceleration of this new disruptive model of finance. When institutions survey the alternative credit landscape two factors can catalyse the rate at which they adopt new areas of loan origination. Firstly - does this originator demonstrate the kind of accountability that reassures me that our motivations are aligned? Secondly - does this originator provide standardised performance data that allows me to streamline the due diligence, risk, and valuation processes? Standardised, third party
verified, performance data allows both of these questions to be answered in the affirmative and will catalyse the proliferation of a highly beneficial evolution in the way we finance our economy.

Monthly new loan origination (£m) - Verified
UK marketplace lending platforms:
Collaboration Meets Innovation

by Felicia Meyerowitz Singh
CEO

Akoni Hub is a digital cash treasury manager which helps SMEs make the most of their cash by ensuring they always have access to the best interest rates possible for their savings. The Akoni Team brings together a deep knowledge of the financial sector and the drive to improve the financial options of everyday UK businesses with the aim of allowing all businesses to maximise their return on cash via an easy-to-use platform that integrates seamlessly with banks.
Small and medium sized enterprises (SMEs) are the beating heart of the UK’s economy. They account for 99.9% of businesses and currently employ more than 60% of people working within the private sector. This makes the success of SMEs directly relevant for all of us, as most people in the UK will either work for an SME or care about somebody who does.

Supporting these promising companies and helping their business grow is an essential investment in the UK’s future. Yet many SMEs have been repeatedly let down by their banks and denied access to the information they need to make the most informed choices about their finances.

I experienced this myself as the frustrated financial director of a blossoming SME. Our business was holding up to £50m in cash and yet there were few market options available to help us maximize our returns. Even with the capital available to grow, we were still denied access to the financial information and options which larger corporates could take for granted.

It’s absurd that £50m has become an insufficient sum to attract any engagement from the banks and there is a clear need to democratise products and services available to global multinationals to SMEs and small corporates. It’s clear that the sector itself needs to adapt and to encourage whatever innovation is needed to give all their clients fair access to the tools needed to achieve their best results.

This is where FinTech has already begun to have a transformative effect on the sector with many more changes to come. It’s well known, however, that banking as a whole is slow to change which is hardly surprising considering that trust and stability are at the core of their offering.

My exasperating experience as a finance director of an SME, however, convinced me that innovation was needed immediately and I was inspired to create my own digital cash treasury management company, Akoni Hub, as a piece of the puzzle working to even the playing field for promising SMEs.

We have joined a community of other FinTechs in this space such as iwoca, Tide Bank and Funding Circle who are all partnering with SMEs to help them make their business goals a reality. The 2008 financial crisis eroded much of the trust clients had in their financial providers and this, combined with the revolutionary changes in technology to fill the gaps left by the old world of finance, created the perfect storm for FinTechs to affect real change in this environment.

The environment that banks are operating in today, however, is already very different from the pre-recession period. This past decade has not only seen a dramatic change in the use of technology but people are also now accustomed to having easy access to an unprecedented amount of information at their fingertips and are encouraged to be savvy evaluators of the market. Personalisation and one-on-one engagement have become the norm and banks are increasingly expected to provide their clients—big or small—with helpful information in an accessible and timely manner.

Additionally, companies are currently overwhelmed with too much data, and utilising technology to provide simple user experience while prompting only relevant choices is key to delivering solutions. Traditional processes for a company to buy financial products takes 30-150 days whereas the use of data and tech with trusted financial structures decrease this to 1-3
days as as demonstrated by the existing Akoni platform and the new products showcased at Finovate Europe.

Public awareness of the power of data has also increased and there is no longer broad acceptance that banks can collect data on their clients without using it for the benefit of their clients. We have already seen a move towards this more responsive and personalized type of banking in the consumer sphere with banks like Monzo and Starling acting as great first examples of the collaboration possible between the tech and banking sectors.

Smart use of data can be revolutionary for both banks and their customers. Especially within the SME banking sphere, there are many sources of useful data—such as accounting APIs, trade data around financial products and other sector and peer sources—which in their raw form often means very little to the business and are difficult for the average company to even access let alone interpret. These data sources will be growing significantly over upcoming years, providing opportunity to improve the financial life of the average corporate. This is a space in which FinTechs excel as they have both the flexibility and the technical experience, including use of new technologies around data science and machine learning, which are needed to integrate and present multiple sources of data in a very useful and client friendly manner, in addition to the agility and creativity around innovative solutions.

Yet FinTechs, in turn, face the challenge of engaging with clients who might be initially sceptical of their offering. Although clients have increasingly appreciated the increased personalization, efficiency and ease-of-use that FinTech has brought to the finance sector, they understandably remain cautious around issues of trust and security.

The FinTech community has worked hard to prove their commitment to security and has steadily built up trust with many users. Banks have also wrestled with an increasing need to improve engagement with their clients and expand their digital offering. Key to the growth over the next 5-10 years is partnerships between traditional financial institutions (banks, insurers, asset managers) and platforms providing solutions, in addition to global data providers, providing stimulus for business growth and leveraging a wide range of financial products for this growth. In particular, this type of collaboration can aid banks in adapting to challenges of the new world.

This mutual need to foster trust and engagement means that collaboration between banks and FinTechs is crucial to expanding their reach and assisting as many SMEs as possible. The Treasury’s bank referral scheme which requires big banks to refer SMEs they turn down for finance to a designated alternative lender is an early example of the potential for collaboration in this sphere.

The SME and Corporate banking sector is ripe for change. Increased financial support for SMEs remains desperately needed. Recent research from Liberis, the alternative finance provider, has shown that more than half of the UK’s SMEs are unable to grow because they lack access to the necessary funds. Additional research has the same negative outcome for increasing trade, an important driver for the UK economy post-Brexit.

Clearly, traditional banking services are currently underserving the very businesses that are at the heart of the economy. The relationship between banks and their SME clients will need to evolve very soon and it cannot be done alone. I believe that collaboration between the FinTech and banking sectors is the key way forward in providing UK SMEs with the best toolkits possible to foster growth and innovation.
The Rise of the Friendly FinTech

by Eric Mouilleron, Founder and CEO

Bankable is a global architect of innovative payment solutions providing “Banking as a Service”. Our core virtual account management platform is available in white-label or via APIs enabling anyone to deploy payment solutions – including virtual account services, e-ledgers, virtual and plastic card programmes, and e-wallet and light banking solutions.

@wearebankable
A lot has happened since November 2009, when the game-changing European Payment Services Directive (PSD1) disrupted the finance industry. This legislative work forced the industry to be more open and competitive - freed from regulatory yokes, non-banking players were finally able to thrive. In December 2009, Bankable was launched, set-up by design to legally, technically and commercially build long lasting partnership with banks and global corporates.

In 2012, Bankable’s stand as “the friendliest FinTech to incumbents” was deemed controversial. Because in those days, most FinTechs aimed to destroy the banking industry. Despite the general apprehension and competitiveness, we that year signed our first bank partnership with Deutsche Bank Global Transaction Banking. Today, we are partnering with several banks, Moneyou (a subsidiary of ABN AMRO) being one of them. We nurtured this relationship into a successful partnership – within 6 months from our initial meeting, it resulted in a fully digital challenger bank for consumers.

Today’s landscape has shifted to a more realistic and mature one, thanks to the new generation of innovative companies, PSD2 and Open Banking. Despite this, our challenge remains to create strategic partnerships that will generate new net revenues faster and therefore increase valuation and attractiveness. We need to focus more on building and maintaining partnerships that mutually benefit us, allowing banks to focus on their brand, distribution and client acquisition, and letting us do the rest, all the while accelerating time to market.

Although the approach has matured, a divide still exists between FinTechs and banks. We have observed the development of different types of FinTechs and banks: the ‘arrogant and hostile’ ones, and the ‘friendly’ ones. When putting them together in a quadrant, we can determine whether partnerships will be born.

<table>
<thead>
<tr>
<th>FinTech friendly to banks</th>
<th>FinTech arrogant/hostile to banks</th>
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<tr>
<td>Bank friendly to FinTech</td>
<td>Tactical vendor</td>
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<tr>
<td>Bank arrogant/hostile to FinTech</td>
<td>Strategic partnership</td>
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<tr>
<td>Tactical vendor</td>
<td>No business</td>
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**Category 1**

**Category 2**

**Category 3**

**Category 4**
**Category 1:** When a ‘friendly’ FinTech and a bank with a friendly approach to FinTechs starts collaborating, a strategic partnership has potential to blossom. The bank and the FinTech have both accepted their strengths and weaknesses and both see how they can benefit from each other, each consciously making a strategic decision. The FinTech sees the distribution possibilities that the bank has, and the bank appreciates the FinTech’s fast and agile working model and the opportunity of generating new net revenue for both.

**Category 2 and 3:** When the FinTech or the bank is ‘friendly’, but the other part has the ‘arrogant/hostile’ approach, there might be a business opportunity - but the relationship will most likely stop at the vendor stage. This is a short-term standpoint and it will not make your business grow exponentially. A FinTech’s lack of appreciation of a bank’s regulated infrastructure as well as large customer base is ‘arrogant’. Promoting a product with a “bank killer” identity will make it challenging for the FinTech to be seen as a potential strategic partner for a bank. Bank initiatives such as innovation labs and incubators often result in a pile of great ideas that are not addressing urgent business needs and therefore, they will not be turned into real business value. These initiatives are more likely to end up as marketing initiatives, at best.

**Category 4:** When both parties are ‘arrogant and hostile’ we recommend to not even meet. However, some still insist to do so.

If you want your business to grow and to be prepared for the future, you need to work together with strategic partners. Be conscious that a partnership is not something that happens on its own, you have to be two to tango. In my experience of being both vendor and buyer, the successful projects are those where we step away from words such as “vendor” and “supplier” and instead respect and trust each other’s capabilities and become true partners.

At Bankable, we do not believe in “one size fits all” – that is why we developed a platform that fits client’s needs. A partnership is no different: we need to figure out what works best for each part.

Here is my recipe for “A successful partnership”:

A recipe for success:

Cooking time: 3-6 months

Difficulty: Hard

Serves: Two corporations (or more)

Ingredients:

1 multi-level alignment with the Board, senior managers and team
A great deal of transparency
A pint of realistic goals and expectations
A litre of fairness
100 gallons of experimentation
Method:

1. **Start by building a multi-level alignment with the board, senior managers and team**

*Example:* To establish the partnership and be able to go to market fast, we align the vision and forecast of the project with the teams on all levels. We do this to ensure that all stakeholders involved embark on the project understanding what we all seek to achieve.

2. **Add a great deal of mutual transparency**

It is crucial for the partnership to be open and report challenges and hurdles along the way, as well as acknowledge and celebrate success.

*Example:* For Moneyou, Bankable is perceived as an extension of their company, that is why we receive the same emails that they send internally. Presenting their new employees, promotions, their vacant positions and the CEO’s updates to the employees.

3. **Add the pint of realistic goals and expectations**

This is an important step for creating a good base for the partnership and to have a common ground to stand on.

*Example:* We cannot forecast everything that happens in the project from the start, but as trusted advisor to our partners we organise regular alignment workshops. In any case our remuneration is aligned with the success of the partner.
4. **Stir the litre of fairness in, and make sure it stays there.**
Put yourself in your partner’s shoes, know their industry by heart - and their decision-making processes. Acknowledge each other’s strengths and challenges and be open about them.

*Example:* Paying the bills on or before the term shows respect to the FinTech partner.

5. **Add a gallon of experimentation**
Experiment on strategic projects to deliver new net revenues from day one.

*Example:* Bankable’s flexible platform is built to facilitate quick and transaction-based experimentation. We start working with a clear business case and as soon as the pilot is live, we generate new net revenues.

6. **Taste and adjust to your liking and make sure you maintain and keep building the partnership.**

Good luck and enjoy!
Just like any recipe, you can add or remove ingredients to make it the way that suits you. By figuring out each other’s core competencies and utilising them fully, we can create better services and products for end customers and generate new revenue streams from day one.

It is clear that FinTech is here to stay alongside banks, just like Biotech today goes together with pharmaceuticals. With that said, we are approaching the end of the era of “Banks vs. FinTech”. This period should be remembered as a transition while we are reaching a level of maturity in collaboration and partnerships between the two industries. We all have our legacy, some more than others. However, it is important to realise that legacy does not have to be a burden, but rather an asset to quickly build a digital bank (without replacing the core banking system). We live in a world where everything is constantly changing, where you must give directions to where your company is headed and make that work.

With more friendliness, openness and collaboration, we will see new forms of partnerships that will take the FinTech and banking industry to a new level – and most importantly – new future proof services, that will deliver services that continuously improve for the end consumers and will have a competitive advantage for the client.
PolicyCastle makes insurance easy, transparent and fair. It is a digital insurance distribution platform, with increased service levels for customers and partners based on better data use, with two solutions:

1. A digital broker under the PolicyCastle brand, focused on UK personal lines, starting with specialist home insurance.

2. A platform as a service for insurance distributors.
2018 will be a breakout year for UK InsurTech, the sector having developed significantly during 2017. If 2016 was the first year that “InsurTech” was widely used as a term, and the initial impetus was about disruption to improve customer engagement, then 2017 saw a shift, a move away from attempts at disruption towards collaboration (acknowledging that regulation and capital are not easily disrupted) and a focus on the underlying problem of out-of-date insurance software holding back incumbents from developing new models to engage with customers.

As a result of this recalibration of expectations, the level of hype around InsurTech reduced from an unsustainable zenith. Startups and commentators recognised that there hadn't been a dramatic moment of change (yet); insurance customers haven't (yet) jumped in huge numbers to new entrants; insurance is still sold not bought and so far no one has found a way to bring virality to insurance. But behind the scenes a massive amount has happened, as InsurTech startups have gone live and continued to refine their models, often now focused on technical problems rather than purely on customer engagement, and the large insurers have recognised that while they aren't going to be disrupted on a massive scale - we have seen moves away from the peer to peer model - neither are the startups going away. And large amounts of capital have been raised by InsurTech startups to enable their ongoing development.

At PolicyCastle, we see three themes developing in 2018 in UK InsurTech:

1. Smart home insurance – home insurance that takes into consideration smart home devices that customers have installed in their homes.

2. The wider insurance industry (outside the largest players) will start to see the benefits of InsurTech.

3. What is Amazon going to do in UK insurance?

**Smart home insurance**

So far the incumbent insurance industry has been slow to adopt smart home technology. The insurance industry loves new sources of customer data and understands the potential that certain smart home devices (such as surveillance devices and leak detectors) have to improve individuals' lives and reduce losses. But smart home devices have developed separately from the insurance industry, unlike telematics devices in cars, so it has been fairly cautious about the technology. Underwriters like to see a track record of how losses are affected and consumer adoption of smart home devices at scale is relatively new, so there isn't a long track record showing the impact of a smart camera or a leak detector, let alone how different types of customer may use them.

Also many smart home devices potentially create a new set of behaviours, they don’t just track and effect existing behaviour. And it is still uncertain how well some devices work long term; there have been a few examples of bugs stopping devices from working. So a homeowner might stop checking for leaks because he/she thinks the leak detector will give a warning – but if the device has stopped working, then potentially there might be worse damage than if the device had never been installed.

At PolicyCastle, we are able to be different from the long-established players in the insurance industry. Right now we offer discounts to customers who have smart surveillance devices or smart leak detectors installed in their homes.
We are the first in the UK to offer this kind of discount. Most of the well-known smart home brands qualify, including Cocoon, Netatmo, Nest, Samsung and Yale. We have a link with nCube, a smart home hub, to be able to access data from different smart home devices to build up a picture of how they affect insurance claims – if customers are willing to share their data. Over time we will work with underwriters to develop home insurance products that reflect customers’ ability to reduce their risks using smart home devices and have individually tailored cover – a customer might choose to have a very high excess on a certain risk, say escape of water, if they were confident that the smart home devices they had made that risk very unlikely.

We are often asked what the large incumbent insurers are doing about smart home devices. There is a massive amount of interest from insurers and plenty of trials going on, and there are good examples from the US of insurers starting to offer discounts to customers who have smart devices installed, so smart home insurance won't be going away. Research suggests smart devices could reduce insurers’ loss ratios by 25%, so the prize for the industry is massive. There have been some suggestions that over time insurers will change to become monitors of IoT devices, and act to prevent claims situations before they happen. However, I am sceptical that insurers are going to transform their business models to become risk prevention businesses. Insurers are very like supertankers, slow to turn, and the big smart home device platforms aren't going to give their field up to the insurers. But there are opportunities for cooperation.

The wider insurance industry will start to see the benefits of InsurTech

2018 will be the year that the less glamorous parts of the insurance technology stack see benefits from InsurTech. Whether it be claims handling, management information, or compliance, the industry has many areas where legacy systems are holding back progress and margins. Incumbent technology providers are improving their offerings, but expect to see InsurTechs’ platforms being used, particularly supporting brokers in sales and reporting, and also in claims.

What is Amazon going to do in UK insurance?

Late in 2017 it became apparent that Amazon was hiring a team to develop an insurance offering in the UK. At time of writing it wasn’t clear what the model would be, but understandably there is huge interest in the insurance industry, given Amazon’s track record. It has been well commented that Amazon's model of giving the customer exactly what they want, cheaply and quickly, is in conflict with the need for underwriting discipline and claims fraud prevention. Amazon already sells warranty-type insurance on some products sold on its platform in Europe; the next stage may be a move into contents insurance for renters. But until the model becomes clearer, speculation will continue.

Conclusion

UK InsurTech is going to be an incredibly exciting space for years to come. At PolicyCastle, we are delighted to be part of that development, using our technology platform to enable smart home insurance through our broking business and also supporting distributors of bespoke products to their customers.
RateSetter is making investing better by opening the asset class of loans to everyone. The platform has originated more than £2.3bn of loans to individuals and businesses across the UK and has returned over £90m of interest to investors. RateSetter has pioneered many firsts in peer-to-peer lending, including the Provision Fund model which makes lending simple and helps investors manage risk. Now, investors can enjoy tax-free returns via the RateSetter ISA.
After decades of financial institutions becoming increasingly distant from their customers, the world was crying out for something to reignite consumer interest in finance. We certainly got that with the arrival of FinTech!

The FinTech sector is vibrant and exciting, and the media is bursting at the seams with FinTech news. Barely a day goes by without another clever FinTech app being launched, a FinTech business raising millions of pounds of funding, or being labelled a unicorn.

FinTech is a broad church, with lots of different types of businesses grouped together under that banner. There are innovative investment businesses, lending businesses, payments businesses, FX businesses, cryptocurrency businesses...the list goes on. On the one hand, there are those like our partner Plum, who are using innovative tech solutions to deliver finance in a better way; on the other hand there are businesses like my own, RateSetter, whose focus is on using modern technology to develop a new asset class.

FinTech ideas are often excellent and innovative, and their delivery is often very slick. However, beneath the clever concepts and the hype, there are of course some unanswered questions.

The reality is that a FinTech firm faces the same challenges as any other business: to deliver value to its customers, career paths for its employees and returns to its shareholders; to engage with regulators to deliver industry standards and supervision; to keep investing for the future to make the proposition safer and more scale-able; and of course to manage risk. In short, to become a sustainable business, without requiring ongoing capital injections to keep the lights on and computers running.

Doing this requires carefully maintaining a balance between the key priorities of the business, as shown in the diagram below. There is a natural tension between these areas which must be kept in a broad equilibrium for the business to grow sustainably. Over-delivering to any single area leads to underinvestment in the other areas, which stores up problems for the future. But get the balance right and all parts benefit and grow in step with each other, with all stakeholders sharing in the value the business creates.

Delivering value goes beyond providing something novel. Doing a new thing may be genuinely ground-breaking and exciting. But that doesn’t necessarily translate into a solid customer base unless the activity improves people’s lives and is worth their time and effort to engage and remain engaged. The challenge is to provide a product of sufficient value to appeal to a large enough number of customers and to deliver in a way which makes their lives better.
I would illustrate this with my own experience of taking on this challenge. At RateSetter, we identified an opportunity to deliver better value to ordinary investors by opening access to investment in loans – a surprisingly breakthrough concept given that, hitherto, this asset class had been the exclusive domain of banks and institutions who were enjoying healthy margins. The assets themselves have attractive characteristics of steady returns and controllable risk, sitting neatly between the safety but negligible returns of cash and the volatility of equities. We knew that we could provide value by helping ordinary investors access these returns in a fast and simple manner, matching them with creditworthy borrowers via products that are accessible and competitive.

To deliver this, we put in place some serious infrastructure and talented people. RateSetter has now channelled over £2 billion of retail investment from tens of thousands of investors, and lent it directly to a diverse range of consumer and business borrowers across the UK. In parallel, we have continued to innovate and offer better products, based on an ever-deepening understanding of what our customers want, keeping our proposition fresh and appealing. RateSetter now has over 250,000 active customers.

Having identified a way to deliver better value to customers and showing how it can be done, the challenge quickly moves on to doing so sustainably. At the heart of this is scaling-up activity without compromising customer value; investing strategically in the business (it isn’t cheap to develop a platform, build business infrastructure and invest in high quality, skilled people); and demonstrating to shareholders that their confidence and investment in the business is well-placed.

This is about building a commercially viable business that satisfies the needs of its customers, its employees, its shareholders and manages the risks inherent in financial services responsibly. If the underlying business activity isn’t generating a profit, if the revenues brought by each new customer aren’t sufficiently high, and if market share can only be achieved by burning through large sums of money, achieving sustainability is a pipedream.

After launching RateSetter, we made it an early priority to demonstrate the viability and sustainability of our model. We fulfilled this by recording a small profit in two years consecutively, before embarking on a multi-year programme – which is nearing completion – of delivering significant investment into the business to build the foundation for future growth. This is already bearing fruit, for example, in terms of the quality of the infrastructure and governance that underpins our business, and in the technology that powers our platform. We are confident that RateSetter can efficiently leverage this investment and expect to return to profitability within the next twelve months.

So, we should celebrate FinTech’s success in making finance more interesting and relevant to customers. The challenge now is to prove that the innovation, energy and delivery of value will translate into businesses that are viable and sustainable. It is a challenge that I am optimistic FinTech can and will meet.
The Future of UK FinTech

by Virraj Jatania
Founder and CEO

Pockit is a fast-growing challenger bank for the financially under-served. Pockit is on a mission to provide a banking solution for the nearly ~2B financially excluded globally with a simple, transparent retail banking model.
FinTech is booming. All around the world, but especially in the UK. With regulations changing and technology making it ever easier for new companies to carve out their own profitable niches, the finance sector is evolving at an increasingly rapid rate. This is giving rise to competition across large swathes of finance from credit and lending, to payments, insurance, identity verification and more.

In Pockit’s corner of the world, many things excite us about what’s to come. The promise of Open Banking means that banking will become less monolithic. In the not-too-distant future, we’ll have a UK banking ecosystem where more and more micro-banking entities become specialists at solving particular pain points for particular groups of people. The best of these will be stitched together into simple, seamless experiences for the end-consumer through the promise of open APIs and common standards. In the payments space, we’re glad to see regulation and existing institutions opening up to the potential of FinTech challengers. For example, the Bank of England will soon allow a new generation of non-bank payment providers (such as Pockit) to hold settlement accounts at the Bank of England and to have direct access to the UK’s payment systems (e.g., BACS, Faster Payments, CHAPS, etc). This access was previously only available to clearing banks and we expect more, wide-reaching changes to be introduced over the next few years.

But at the heart of it all, the question we’re always asking ourselves is, “What will make the winners stand out?”. Over the last decade, when you look at other sectors where technology up-ended the markets - communication, entertainment, transport - the answer has almost always been a combination of dramatically greater ease of use for the customer, and a commercial proposition built off a deep user need.

FinTech will likely follow the same pattern. Startups often have an advantage over the incumbents in making things incredibly simple and easy for people, because of their ability to understand and act decisively on specific insights with modern technology. Plus startups can create alternative commercial product propositions that serve a niche off a low operating cost-structure.

Let’s dwell a bit on the latter - creating a product proposition that someone badly needs. So badly that they’re willing to try out (and even pay for) an unproven, early-concept product because they’re not getting it anywhere else. The fundamental question that begs is: “Who needs FinTech the most? Who will FinTech make the biggest difference to?”. And if we take a further step, the follow-on question that is perhaps worth asking is: “Why do so many FinTechs appear to think that the answer to that question is… millennials and young adults?”. We believe that FinTech ought to extend beyond a target customer base of Shoreditch and Soho, aspiring technophiles and WeWork dwellers. Beyond those who dabble in cryptocurrencies. Beyond the echelons of upwardly mobile London.

FinTech ought to extend to those who find finance and banking hardest.

Like people who need to resort to payday loans because that’s the best they can get. People who don’t have a bill to their name and therefore can’t get a working bank account. People who get hit with automatic overdraft charges every month and can’t escape. People who don’t really understand what APR means. People who live in rural areas where the big banks are steadily shutting down their branches.
The opportunity for UK FinTech in 2018 is for us to begin to escalate the pace of innovation in banking for those who are today on the fringes of modern banking, and often don’t deserve to be. At Pockit, we’re proud of the fact that our customer base of 250,000 is notably “un-London” and notably “un-millenial”. The people that make up the Pockit community come from remote towns and villages across Britain. They are extremely diverse people, of all ages, races and backgrounds. They have different interests, likes, dislikes, needs and dreams.

Regulation currently compels the big banks to provide “basic bank accounts” to people that they wouldn’t ordinarily serve, people who don’t fit a mainstream customer profile. Perhaps that is the wrong solution. The big banks do this reluctantly, because they must. And traditional banking is built fundamentally on the premise of profit through lending, which penalises those who don’t tick a certain profile. You and I get “free” current accounts, because the banks make a healthy overdraft margin off people in desperate times, or because a 30-year mortgage repayment more than compensates.

But what about those who need access to daily current account and payments solutions, or alternative credit and insurance solutions that suit their lives, even though their income patterns, and working and living situations are different from the norm? Surely this must be the promise of FinTech. To move us from a world where you have to live and work a specific way in order to access best-in-class banking... to a world in which banking stretches itself to wrap itself around you, no matter who you are. So that you can get a personalised set of financial services that are adapted to your specific circumstances without having to compromise, and with all the advantages that modern technology has to offer.

What if these new companies could harness the power of data to provide a better, more personalised service? Imagine if companies could use big data analytics and AI to learn from past behaviours and past patterns to accurately predict future behaviours and future patterns. That would enable companies to offer personalised products that are fair and accessible, not based on sweeping assumptions, but on real data and facts. We believe that FinTech has already started to enable this change so that eventually customers will be able to access exactly the right product for them, at exactly the right price and exactly the right time.

What then... if we could make things easier for startups with new business models, and with a greater desire to serve this group of people? What if Government and various industry players helped redirect people actively to these startups instead of compelling the main banks to act in a manner counter-intuitive to their core business model? What if regulation evolved to allow alternative forms of identity verification as a new basis for access to the financial system? Suddenly then we would see financial services become more relevant and a more positive experience for a greater cross section of UK society.

Today, eight million people in the UK have no access or limited access to a bank account. Today, four million people in the UK are in financial difficulty and have already failed to pay domestic bills or meet credit commitments in at least three of the last six months¹. Today, we live in a world where eight people own as much wealth as the bottom half of the world. Meanwhile, thanks to more zero-hour contracts, more migration of people between cities and between countries, more machines and more driverless cars, ever more people are living

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¹ FCA Financial Lives Survey, 2017
and working in ways that are different from before. Ever more people no
longer fit a specific profile, and the way we assess risk and deliver financial
services therefore needs to evolve. The great promise of FinTech is that it
will afford each of us, no matter what our work and life patterns, the ability
to manage, send, spend and stretch our money in ways that are suited to
our own personal needs, so that banking becomes personal again.
Alternative Finance in Support of SME Growth

by Gonçalo de Vasconcelos
Co-founder and CEO

SyndicateRoom connects ambitious investors with the country’s most trailblazing companies. Started in 2013, SyndicateRoom has rapidly grown to have more than 100 high-growth businesses in its portfolio, and now operates two EIS funds.
At around 10 years old, alternative finance as a sector is still nascent, particularly in the eyes of the mammoth incumbents from the conservative financial services industry. Yet there are myriad signs of just how healthy the industry has become.

Industry leaders and veterans are proud of just how much the sector has accomplished in the past 5 years. This includes earning acceptance from customers (both companies and individual investors) as well as many institutional investors collaborating with and using existing platforms as a conduit for investments. This wider acceptance proved wrong the initial scepticism showed by incumbents, and many industry critics are now either collaborating or directly competing with alternative finance platforms.

Opportunities

The biggest challenge of any newcomer is to be accepted by those existing players that feel threatened. Alternative finance is no different and addressing that has been one of the main roles of key players in the industry. With wider acceptance in the financial services sector now in our grasp, the entire industry has moved on to the greatest opportunity of all – to integrate itself into the existing ecosystem through collaboration. The opportunities for the industry at this stage are virtually endless.

The most obvious benefit to be had is, as is so often the case, through collaboration. This isn’t the Wild West. Platforms can offer new and versatile investment products to investors through banks, while banks introduce these platforms to their clients in a symbiotic relationship. It’s win–win, not only for the businesses, but for the people buying in. Traditional banks gain the benefit of being seen as innovators for offering a differentiated product portfolio, meanwhile, platforms benefit from a wide and established client base.

Then there’s acquisition. Many see a platform being acquired by a large financial institution as ‘selling out’ to mainstream finance. I beg to differ. Alternative finance doesn’t have to be and shouldn’t be ‘alternative’. It should be mainstream. The nimbleness and efficiency of processes and systems that new platforms have, added to the better product offering to customers, should be enough to make it mainstream. All customers would win. The only piece missing to go from ‘alternative’ to ‘mainstream’ is scale, and this is where a large financial institution can be a game changer, increasing the number of investors by an order of magnitude overnight. The efficiency and quality offering of ‘alternative finance’ platforms shouldn’t be alternative at all – it should be used by all.

Challenges

The efficiency of operations plus the quality of offering for both types of customers (companies and private investors) is what makes online investment platforms appealing. As they grow, the challenge becomes ensuring platforms remain nimble, efficient and providing a great service. Unfortunately, this is easier said than done.

Competition from incumbents is the greatest challenge of them all.

Large financial service institutions are typically slow to change course, but when they do, it’s with vast resources to hand. Examples of well-funded initiatives by existing players are starting
to abound. The irony is that all too frequently, the availability of such resources works against them because the team is often too corporate, tied down by too many management levels and authorisations, and lacking in the entrepreneur’s bread and butter: the incentive, passion and drive to execute a clear vision.

And execution is everything.

Ask any entrepreneur and they’ll tell you as much. Executing an innovative vision isn’t particularly difficult, but it requires passion and dedication at a whole new level. These are attributes entrepreneurs tend to excel at – the very same attributes large organisations find nearly impossible to replicate internally, with the end result being vast resources going underutilised or altogether wasted.

Track record

At SyndicateRoom we took the long-term view in order to build sustainable growth based on customer trust. This doesn’t mean growth has been slow; quite the opposite, we’ve grown at neck-breaking speed, doubling in volume between 2016 and 2017. It means we never compromised on our principles, vision and quality of service to achieve faster growth. Ultimately, this is why we’ll continue to double in size year on year for a long time to come – we are gaining our customers’ trust as time goes by; the proof is in the pudding. This concept is exhibited by a lot of other investment platforms, particularly peer-to-peer lenders. Long-term results support long-term growth.

Track record builds brands. In an industry where investors often confuse visibility with credibility (meaning that too often marketing dollars trump facts), track record is becoming ever more important and relevant for investment platforms, particularly when competing against well-funded, highly visible high-street banks. The marketing expenditure of all platforms combined is still just a fraction of any single high-street bank’s overall marketing budget. That’s why we focused on long-term results for investors, making SyndicateRoom what it is today – an investment platform with an industry-leading and defining track record. Four years since launch, we can be incredibly proud of our standards and of what we’ve achieved.

The focus on long-term objectives was embedded into the team culture from day one. As the founding team, Tom Britton and I were always in complete agreement about wanting to build something we are really proud of. This has percolated through the team and its culture of excellence. Again, team culture is something that smaller, nimble startups typically have as a significant advantage over large corporations. Used wisely, the ability to define the company culture is a phenomenal advantage when it comes to execution – one Tom and I have always made sure to leverage in our favour, with the obvious result of creating and growing a SyndicateRoom the entire team is very proud of.

Policy recommendations

Following a long period of uncertainty around how alternative finance would be regulated, both industry and regulator seem to have settled on a position where regulation gives investors the comfort and protection the regulator and market want, whilst at the same time enabling platforms to operate without being stifled by excessive regulation. All in all, current regulation achieves two key objectives – protecting investors from platform-related
risks (which is important for the FCA) and giving credibility to the entire sector (which is important for the platforms).

**Predictions**

The future of alternative finance can only be a happy story. Whilst in the past some may have questioned the longevity of the industry, by now even the greatest industry sceptic accepts that alternative finance is here to stay and will keep on growing. The key unknown now is who the main winners and losers will be, and just how much of a dominion they'll reign.

The incumbents will naturally play a vital role as the industry moves mainstream. As competition and collaboration intensify, the future key players in the industry will be prophesied by key decisions around collaboration, acquisition and competition with the existing mammoths of the financial services industry.
Fertile Ground for Financial Services
by Anne Boden, CEO and Sarah Williams-Gardener
Public Affairs

Starling Bank is building an entirely different kind of bank. It’s 100% mobile, with a clean, intuitive app that puts control of your finances at your fingertips – plus a range of smart tools that help you to manage and make sense of your money.
Where have we come from?

When it comes to reforming banking regulation and encouraging bold new competition in the industry, London continues to make the most significant strides of any major city. In February 2013, then Chancellor George Osborne spoke out about the need for “upstart challengers offering new and better services that shake up the established players.” This wholesale change was driven by the inability of established banks to transform.

In 2013 there existed a perfect storm of circumstance of regulatory change, consumer demand and existing bank reluctance to change. Firstly, consumers were beginning to demand a better experience, having seen the way in which other industries and consumer offerings had been materially transformed with modern technology. However, current banks were too cumbersome and spent much of their time and resources maintaining their existing legacy IT infrastructure, whilst also de-leveraging their balance sheets.

Then in March 2013, Lord Turner, then Chairman of the Financial Services Authority, announced a fundamental set of changes to reduce the barriers for new entrants that focused on reducing the initial and early capital requirements as well as accelerating applications by introducing a “two phase” process.

Previously, new entrants were required to hold more capital against equivalent assets than their established counterparts. However, reductions in the core capital requirements of new banks to enter the market, and more importantly, the “two phase” enabled banks to not only receive regulatory decisions within six months to one year, but it enabled banks like Starling to apply for limited permissions (“authorisations with restrictions”) that would help new entrants attract external investment.

In 2014, Anne Boden founded Starling Bank and began the process of applying for a full banking licence. In January 2016 Starling raised £48 million in funding and by July 2016, had successfully gained the banking licence that would allow Starling to build the first app-only UK current account.

Where are we now?

Although Starling received a banking licence in July 2016, our organisation continues to benefit from the ongoing change in European banking regulation that is enabling competitiveness in the industry.

The Second Payment Services Directive (PSD2) is a landmark piece of legislation that will pave the way for further examples of regulation leading to innovation, therefore benefiting companies and customers. In April 2017, Starling was the first bank to provide publically available open-APIs and we have had huge interest from prospective partners looking to provide integrations.

In September 2017, Starling became the first UK bank to receive material regulatory approvals to create a Marketplace offering, which will enable us to give customers direct access to a wide range of financial products, including ISAs, insurances, loans, mortgages, and other investment products, all from within the Starling app. Rather than offering these products on our own balance sheet, we’ll enable customers with other awesome FinTech companies from across the market who offer these products and services.
However, the Marketplace is not just a means to connect customers to other products, but a way to more effectively and fairly price products. For example, we can streamline onboarding and product selection using our KYC and AML procedures to enable more sophisticated and faster underwriting.

Last year, we announced our intention to enter not only the consumer current account market, but also the B2B payments industry. Starling became the 13th member of faster payments and one of only three banks to offer direct and indirect sponsorship to the scheme, alongside Barclays and HSBC. Using our proprietary technology, Starling can provide real-time access to faster payments using APIs and more importantly, this is delivered from a far leaner organisation at a market leading price point.

On the other end of our B2B proposition, we have expanded our current account offering to the SME sector, starting with limited companies and Microbusinesses. Our aim is to provide business accounts with an equivalent digital mobile-only proposition to their owners, who will benefit from real-time management of their cash flow and costs.

Unlike legacy banks, startups have been able to fully integrate their financial products and services to the latest technology, right from the beginning. Being digital is the foundation, not an addition to an existing model. This combination of new regulation and technology is what has led, and is leading to innovative products and services.

### Where are we going?

For Starling Bank, Artificial Intelligence (AI) and machine learning will be central to the evolution of our Marketplace. Customers owning and sharing their data means that they will have more choice over the financial products and services they use, which can also be curated to fit their individual lifestyle. With a customer's permission, AI and machine learning can be used to analyse their data, guide their choices, and anticipate the products they may require. This could mean that customers are able to browse, select and buy travel insurance, all while queuing for their flight in a seamless, paperless process. Just as Netflix recommends the best choice for your next film, Starling will recommend the best choice for investments or loans, giving customers a smoother and more tailored experience.

The Confederation of British Industry (CBI) reported that one in five companies have invested in AI in the past 12 months, looking to this technology to decrease human error and increase efficiency within the business. Several companies are implementing AI within customer services to cut costs and provide 24/7 access for customers. However, at Starling, customer services is a part of the business that we choose to invest in. We want to make sure that customers’ questions and concerns are addressed quickly and effectively.

As a digital bank, our customer service team are the face of the company. We may not have a physical presence on the high street, but we seek and value a tangible relationship with customers. The emotional intelligence gained from having a team of people in customer services is our way of providing exceptional 24/7 service without the delays, without the queues. As Starling continues to grow, our challenge will be using AI to help scale the company, while retaining the emotional intelligence of having real people solving real problems.

Running our entire banking platform in the cloud...
will also be critical as we scale the business across both our product offerings and also in different territories in Europe. Starling was the first UK bank to deliver a mobile only current account using cloud technology. This is crucial for our continuous software delivery process, allowing us to adopt new technology and deliver these improvements in a matter of days, rather than months.

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Ultimately, the impact of the industry becoming more inclusive and open is innovation delivered by more companies, to more customers who will gain more clarity and control over their money. Starling Bank is proud to be at the forefront of such a dynamic network of ambitious, talented individuals working together to challenge the past and connect to the future.
The Rise and Rise of RegTech

by Husayn Kassai
Co-Founder and CEO

Onfido helps businesses digitally onboard new users by verifying their Government IDs and comparing them with their facial biometrics using machine learning. Founded in 2012, Onfido is now a team of 150, has received $60m in funding, and works with over 1,500 FinTech, banking and sharing economy clients globally – helping them onboard more users while cutting costs and risk.
If there's one thing we're good at in the UK (after queueing and making tea), it's FinTech.

Thanks to a favourable regulatory landscape, access to world-class tech talent and lots of investment, London is widely recognised as the global leader in the space. And it looks like we'll enjoy the title for a while yet. Despite some pessimism, UK FinTech investment is on track for another record breaking year – far outstripping that of our European counterparts.

But there are changes on the horizon. The repercussions of Brexit – whatever they turn out to be – will continue to be felt throughout 2018 and beyond. A myriad of regulation, GDPR, PSD2 and MiFID II, will put financial institutions of all sizes under considerable regulatory pressure. And other global hubs in Singapore, New York and Silicon Valley are rapidly closing in on the UK's lead.

So, what does the UK FinTech landscape look like? And how can we stay ahead in 2018?

Challenges ahead

If one thing's clear, it's that we can't afford to rest on our laurels. UK FinTech, while booming, is at a pivotal stage, and the next twelve months will be crucial in determining the long-term success of the sector.

Unquestionably, we're facing some obstacles. Anxieties about Brexit have loomed large in the last year, and with negotiations still ongoing, are unlikely to be resolved in the immediate future. Though PWC predicts that London will stay at the centre of the FinTech universe, it won't be without difficulties. Some 10,000 City jobs are expected to be lost on the first day of Brexit, and the long term effect could be even more dramatic. London as a hub has historically benefitted from a rich stream of international tech talent, recruiting from a number of world-leading local universities within a relatively small radius. But that talent pool may dry up as it becomes more difficult for foreign nationals to stay in the UK, exacerbating an already problematic skills gap.

That loss is other hubs' gain. France, Singapore and China have all seen rapid growth in 2017, attracting interest from entrepreneurs and banks drawn by strong economies and thriving tech sectors.

Opportunities for 2018

But it's not all bad news. For all the challenges ahead, there's also a huge amount of opportunity. Even better, we have a head start – and the special cocktail of talent, capital, mindset and culture that's kept us ahead of the pack so far.

One big area of opportunity is regulation. In 2018, there'll be a lot of it, as regulators crack down on data usage and security. But while this might be a daunting prospect for established financial institutions, it opens the door to smaller, more agile businesses who are able to innovate. PSD2 in particular is likely to empower completely new ways of banking, as consumer choice and control is increased.

It's also good news for RegTech. Regulation technology helps financial institutions meet with regulatory requirements more efficiently and easily, and with so much regulatory upheaval ahead, they'll be needed more than ever to help shoulder the burden. Change can be scary for some, but it creates fertile ground to do what we do best – innovate.
Collaboration

Key to all this is collaboration. Luckily, that’s another thing we’re already good at in the UK. Innovate Finance’s Industry Sandbox and the FCA’s Regulatory Sandbox help FinTechs connect with established financial institutions and regulators. This enables the industry to pool its resources to develop solutions to shared problems, and for FinTechs to test their products in a safe space.

This collaborative approach will be fundamental when it comes to keeping UK FinTech ahead of the curve in the coming year. In the Vision Statement announced by Tech City’s FinTech Delivery Panel (FDP), co-chaired by Onfido’s co-founder, Eamon Jubbawy, fostering partnership and collaboration across the ecosystem was listed as a key goal. A core part of that will be the introduction of voluntary standards – a framework agreed by innovators, regulators and incumbents which will enable new products and services to be piloted more easily. The FDP is focused on action – real initiatives that will provide tangible results in terms of driving forward UK FinTech. But to achieve those results, we’ll all need to work together to propose and workshop ideas.

The same goes for RegTech. I recently co-chaired the inaugural meeting of Innovate Finance’s RegTech working group. The session, which brought together leaders from across the industry, was an opportunity to discuss challenges, opportunities and goals. Once again, the recurring theme was collaboration – to help educate, innovate and accelerate the adoption of new innovations in the UK market. RegTech is all about new ways of thinking and doing, finding ways to get around the constraints of legacy processes and opening up new opportunities. Just like the FDP, the RegTech working group will endeavour to embody that ethos, and work together to develop common standards that deliver real results.

What next?

It’s an ambitious vision, and one that will take a lot of work to achieve. FinTech in the UK still faces the same problems it always has: incumbent financial institutions are risk averse and slow to innovate; startup FinTechs struggle to meet with complex and changing regulation; lines of communication between FinTechs, incumbents and regulators still need to be strengthened.

At Onfido, it’s something we’re aiming to tackle head-on. We want to make this the year that all businesses stop looking at their regulatory requirements as a checklist, and start seeing them as something they can use as a competitive advantage. It’s our goal to make KYC and Identity Verification secure and scalable for our clients, so they can improve their onboarding, offer a seamless customer experience and improve access for millions of consumers globally. We’ll be growing our team substantially this year to help fine-tune our technology and meet that need.

The one thing that can change the lay of the land in 2018 is collaboration. Over the next twelve months, I’d like to see businesses across the FinTech spectrum pull together to first reach consensus on a gold standard for the industry, and then work towards meeting it. It will be to the benefit of all us in the sector, UK FinTech as a whole – and our counterparts, who look to the UK to set the bar for innovation. If we get it right, UK FinTech will continue to lead the world – not just this year, but for many more to come.
The Future of Capital Markets

by Nawaz Imam
CEO

Issufy is a primary capital markets orientated technology firm providing the latest in information management platforms for the benefit of investment banks, brokers and their clients.

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Primary capital markets are the lifeblood of modern economies. Smoothly functioning primary capital markets allow companies of all shapes and sizes to receive the capital they need to grow. However, not all sources of capital are made equal and there may be different sources of capital that are relevant for different types of companies and transactions.

Access to primary markets is mediated by a network of banks and brokers who liaise with asset managers to help shape these transactions. As banks in Europe have cut back on lending after the financial crisis, the relative importance of raising through alternative sources, including primary capital markets has increased.

However, there are significant challenges that are faced by primary capital markets practitioners at present, revolving around changes in market structure, itself caused by regulatory change, which is creating the need for increased technological innovation across the industry and for all participants in the process.

Firstly, from a regulatory perspective, Markets in Financial Instruments Directive 2 (MiFID II) has gone live in Europe, which is the most sweeping of regulatory change since the ‘big bang’ in financial services in the UK in the 1980’s. MiFID II covers a wide range of areas, including primary capital markets. One of the most important aspects of this new wave of regulation is the need for an enhanced justification of allocation decisions that are made at the end of each transaction. There has been a concern that in some cases, allocation decisions have been made for transactions have not been in the best interest of the issuer. As regulators have stepped up their oversight of wholesale markets and attempted to introduce more transparency in every aspect of financial markets, this arena is no different.

Enhanced regulatory transparency means that tools are also required to enable information to be managed in an appropriate way and easily accessible. It also means that interactions that were once manually constructed need to be digitised as far as possible. Having the technology to have information on demand, with flexibility over how that data is manipulated and structured is going to be paramount. With the speed at which finance is moving in general, regulators expect there to be increased immediacy in getting access to information for review and regulatory audits. It is critical to be able to generate and recreate how a transaction was constructed and be able to tell the story effectively behind the decisions that were made.

At the same time, this is not solely a European concern. After the Financial Conduct Authority (FCA) launched their ‘Regulatory Sandbox’ initiative in 2016, other leading financial jurisdictions around the world took note and have been launching their own initiatives. At the same time, there is a real sense that regulatory convergence is not limited to new initiatives such as these; rather there appears to be a growing recognition that increased transparency and information-based oversight can lead to better outcomes on a global stage. This is being facilitated by large financial services firms, particularly asset managers, who are applying the most rigorous compliance requirements on a global level. The concerns around allocation and making sure that issuers receive the best possible outcomes in a primary markets transaction are also not limited to any given jurisdiction. Therefore, any technology based solution to help achieve these types of best practices should also be designed to be applicable globally.

Regulatory change is not the only driving factor in catalysing changes in primary capital markets. The roots of these changes are driven by a need to achieve better interactions between
the investment banks or brokers leading these transactions and their own asset management clients.

One of the key reasons is the need by banks or brokers to maintain or improve engagement with asset managers whilst trying to cope with the changing nature of people’s roles within these firms, particularly the front-line sales staff. Historically, these sales staff have been viewed as providing advice and ideas to their asset management clients, along with helping sell the research generated by these firms. However, with regulation unbundling research services from trading commission, which has been extensively documented in the press, the knock-on impact has been that the role of sales is shifting much more towards account management and product sales. The effect of this is that much less time can be spent by sales staff on frontline, advisory type client interactions which enable asset managers to provide their perspective about a given transaction to the banking syndicate. This investor perspective is ultimately critical in shaping the transaction and is one of the most important parts of the primary capital markets process.

Alongside this, the number of banks and brokers involved in a given direction, commonly called the ‘syndicate’ in charge of the transaction, has continued to increase. This has been coupled with the rise of advisory firms that are viewed as being independent, working directly with the issuing company to oversee the transaction. Hence, the need to collaborate effectively, yet at the same time compete effectively and deliver the best service possible to the issuer.

Being able to leverage technology is critical here. Technology platforms that can construct and manage information flow, allowing the user to deliver actionable outcomes in a timely manner along with the pre-requisite reporting options will be critical in helping achieve these outcomes.

Lastly, the mind set of both investment banks and asset managers is changing. Asset managers want to have options for effective engagement in these transactions, including the ability to present their opinions directly to the banking syndicate in a form that is direct and accurately reflects their viewpoints. They also want to make sure that their interactions are recorded and they have access to the audit trail for their own compliance purposes. Portfolio managers, like everyone else, want to maximise their time, ensure that the transaction is executed effectively and maximise their chances of getting the best allocation. Ensuring that all the moving parts of the primary markets transaction process puzzle are effectively aligned is something that is realistically unachievable without the more intensive use of the latest in technology.
Delio’s long-term goal is to create a globally connected multi-asset-class investment ecosystem that enhances liquidity and deal volume while maintaining an exceptional client journey. By leveraging technology and talent we offer premium, intelligent and flexible solutions to organisations in a range of applications. We help institutions and advisors evolve their offering and amplify opportunity.
The Evolution of Wealth Management

To retain competitive advantage, wealth managers will have to continue to transform their client propositions and their internal processes to adjust to the digital age and rapidly evolving client expectations and behaviour. Digital capability is now at the heart of delivering a strong client experience.

Traditionally, wealth management has often involved time consuming and unstructured manual processes, where interactions with clients didn't effectively convey the full range of services and propositions that may be of interest to the client and that were appropriate for their needs. Furthermore, within organisations that deal with both buyers and sellers of assets, opportunities were missed through the absence of structured and coherent processes to connect both sides of the transaction. Today's entrepreneurial high net worth clients, who are more active with their wealth and eager to access a wide spectrum of investment opportunities, expect a faster, streamlined customer experience where offerings are digitised and personalised.

Through our relationships with a variety of market participants – such as wealth managers, private banks, family offices, professional networks and corporate finance advisors - we've witnessed their eagerness to evolve however, we believe that the changes made to date only mark the beginning of a period of significant potential digital transformation across the sector. Furthermore, as we enter into a period of unprecedented intergenerational transfer of wealth, we only see the demand for evolution increasing, emphasising the need for the sector to move at pace in effecting the necessary change. Given that these new clients have grown up in a digital world and are familiar with the ground-breaking changes we've seen in other sectors, their expectations will be high. Wealth managers must therefore become better equipped to meet client needs or risk losing clients to those who have effectively harnessed new technology.

Our business, Delio, was created in 2015 to aid the industry in this evolution. We provide a variety of solutions to enable financial institutions/advisors to differentiate their offerings and to allow them to connect their clients with global private market investment opportunities. Crucially we have been built from the ground-up to work with financial institutions, focusing on the wider delivery elements around the technology and building a highly customisable platform that can mould around a proposition rather than a proposition having to mould around a platform. This makes engaging with us, in a structured and compliant manner, simple for the wider stakeholders involved in deploying propositions within financial institutions.

Partnerships

We've positioned ourselves as a partner to financial institutions/advisors as opposed to a competitor. Our goal is to aid our partners in improving the range and depth of products/services that they are able to offer to their clients, rather than looking to disrupt the deep and trusted relationships they have built with their clients, and to facilitate the delivery of these opportunities in a structured and coherent way across a variety of channels.

We believe the close collaboration between FinTech firms and financial institutions is a key trend and we anticipate that the number of such partnerships will continue to rise. The
emergence of such relations has been developed through the realisation that collaboration is a win-win situation for both parties as both have a great deal to offer each other. FinTech companies provide financial institutions with innovative ideas, technological expertise and agility to adapt to rapidly changing consumer needs. On the other hand, financial institutions/advisors have an enviable client base, greater access to capital and longstanding brand recognition. Consequently, whilst we identified a gap in the private investment market and created a solution to respond to this, we appreciated that the likelihood of our success would be much greater through working with a broad range of partners to develop a thriving ecosystem to serve the needs of entrepreneurs and investors alike.

The Power of Platforms and Ecosystems

Whilst there are longstanding ecosystems in relation to the trading of publicly available assets, establishing such ecosystems in the private asset space is at a nascent stage and we foresaw that effectively operating within such an ecosystem will become a key differentiator for our clients, given the enhanced capability it offers for deal providers and investors. Our partners have been quick to recognise this potential in terms of the value of creating their own internal deal ecosystem but also connecting with other trusted partners to widen and deepen the range of opportunities available.

For evidence of the power that such communities offer; we merely need to look to other industries for the emergence of online platforms that bring together buyers and sellers, transforming the way in which they interact, with Airbnb being one such example. Platforms are growing in size and importance, with the range of opportunities available to participants increasing exponentially, meaning that unnecessary traditional impediments to opportunities being seized, be it in terms of geography or timeliness, are countered, however necessary client protections are retained and often compliance is enhanced.

The platforms that Delio can offer are premised upon the value of such ecosystems, allowing financial institutions/advisors and their clients to interact in a trusted and compliant environment. We’ve recently launched ‘DelioConnect’, which offers the opportunity for our clients to develop structured and effective relationships between each other, whereby private asset deals can be selectively shared between white-labelled platforms and key elements of the execution of the transaction are managed through the platform. Put simply, it’s an ecosystem of private asset platforms, allowing clients to broaden their network of buyers and sellers.

Impact Investing

A further key trend influencing our proposition has been the recognition of the ongoing shift towards impact investment. As well as achieving a financial return, investors want to use their wealth in a way that generates positive and measurable impacts on society and the environment. The ambition of investors to make this societal and environmental contribution makes it essential that wealth managers, private banks and family offices have access to such opportunities and prioritise them.

Partly to respond to this trend, Delio has been working on the ‘Align 17’ impact investing initiative, which is supported by UBS and the World Bank; which was showcased as the recent World Economic Forum in Davos.
Blockchain

The wild fluctuations that we’ve seen in recent months in cryptocurrency values and the consequential headlines that this generated have been an unfortunate distraction from the immense value that we believe the underlying blockchain technology offers. It has been our longstanding commitment to effectively and seamlessly incorporate blockchain capability within our proposition, allowing clients to leverage upon this technology if they wish. The features that the technology offers – in terms of traceability and verifiability – complement well with our strategic aims in terms of the prompt and user-friendly execution of deal documents, cost efficiency and compliance. We’ve already seen the effective use of blockchain in several areas of financial services, for example in trade finance, and our partners have been quick to grasp the potential the technology offers in relation to managing private asset transactions.

Challenges for the Industry

We remain hugely optimistic in terms of our direction and that of the FinTech industry and we feel that the UK offers us a fantastic base; given the thriving FinTech community, a progressive and constructive regulatory environment and the depth of interested investors. We are however, mindful that irrespective of the expanding supply of talent, the demand continues to expand at a greater pace, giving rise to an ongoing challenge to attract the talent and skills that we need to drive through our future ambitions. We also note the impact that an adverse Brexit deal could have on this situation. We’ve looked to counter this challenge in a variety of ways, not least through working with local schools and universities in offering secondments and opportunities for student development. Furthermore, as an evolving scale-up we continue to offer our teams a breadth of development opportunities that may otherwise be unavailable in larger, more established organisations.
Solving the Last Mile Problem in Finance

by Benedetta Arese Lucini
Co-founder

Oval is the first solution that allows the digital natives of the on-demand economy, to finally get some sense of their finances, and become money wise. Oval’s vision is to create a simple financial solution for everyone, that speaks to the new generation of workers, with flexible income, variable expenses and limited access to financial products.
We started Oval Money after over 30 years of combined startup experience that fully formed our conviction that technology is the most powerful enabler of inclusion. Its penetration and ease of use creates incredible experiences for people left out of traditional industries.

Uber, the startup I helped launch in Italy, is a clear example of how technology can impact inclusion. Through its platform, Uber created an authentic opportunity for anyone to work as a driver on one side, and to be a passenger on the other, reaching the far outskirts of cities which other transport methods couldn’t reach. In the same way, when my now Co-founders came to pitch me the idea that evolved into Oval Money, I was immediately attracted by the potential of a financial planning solution that enabled saving and investing for everyone through easy access and effective financial education.

Oval is a platform that helps financial providers reach a new set of customers directly, particularly those with lower initial capital. To do this, we have designed a new multi-sided marketplace that will connect users with financial product and service providers. Users will benefit from a single place where they can save automatically on a recurring basis, linked to their lifestyle habits, and have access to a full range of financial products and services that can grow their savings. Financial providers will benefit from scale – a way to put their offerings in front of many users at once, reducing the need for them to favor just those with the most initial capital. Creating such a marketplace helps to keep both sides honest.

With the introduction of new regulations like PSD2, the financial services industry will go through a considerable transformation in the coming years. I believe that the competitive advantage of financial services companies lies in their existing payment transactions infrastructure, and their multiple compliance and risk operations, which are often impossible to replicate for the newest startups given the required capital and intense regulatory scrutiny.

Open Banking is the beginning of a new era in which banks and financial service providers will increasingly leverage the strength of their distribution networks and existing transactions infrastructure, while partnering with consumer-friendly and data driven startups which can revolutionise the last mile delivery of the financial services themselves. Today, the consumer experience is cumbersome, but Open Banking APIs will mean a faster, easier and more seamless service across all providers.

This will mean a huge shift in the way finance is consumed. I believe products will become always more personalized and the data exchange will be the currency with which consumers will demand better, more tailored and cheaper services delivered everywhere through a simple, intuitive process.

For Oval Money, with due care for privacy laws and anonymisation of data, Open Banking will mean an enhanced experience for our users and account connectivity with the full range of banks. This will make the benefits of regular saving available to even more people with the opportunity to deliver customised solutions for groups that are often left out.

What motivates me and my fellow Oval Money founders is our experience of those moments when you feel overwhelmed by money. We have felt the guilt of spending and the frustration of saving. We have turned to our families and friends for advice when our banks had nothing to say. We have seen things that we want and thought it impossible to acquire them. We have felt we deserve more. Oval Money was created in response to these feelings. It is not just a technology that lives on your phone, but an answer to how we feel about money when we don’t know what we should do.
Open Banking and the Rise of Bank-to-Bank Payments

by Duncan Barrigan
Director of Product Management

@GoCardless

GoCardless is creating the world's first payment network for bank-to-bank payments, to rival credit and debit cards. Our mission is to break down barriers, so businesses can take payments directly from customers' bank accounts, anywhere in the world, in any currency. We've re-invented Direct Debit in Europe, providing a simple way to collect recurring payments online. More than 30,000 businesses already use GoCardless, from accountancy firms, gyms and travel operators, to tech start-ups and global SaaS providers. With our powerful API, our network of software partners and the backing of our incredible investors, we're now taking next-generation bank transfers to businesses around the world.
We're reaching a tipping point for bank-to-bank payments and the Second Payments Systems Directive (PSD2) might just push us over the edge.

Direct Debit, the most common means of collecting bank-to-bank payments, was devised in 1964 by a Unilever executive, as an automated way to collect recurring, variable payments from ice cream vendors, without having to ask permission each time.

In 2016, according to the European Central Bank, Direct Debit made up 20% of all 122 billion cashless payments taking place in the EU. Direct Debit volumes, according to Bacs, in the UK reached 4.2 billion in 2017 (more than double what they were at the turn of the millennium), representing a 3.8% growth on 2016.

There are several factors that have contributed to the growth of Direct Debit in the UK and Europe:

**Better access:** Third-party providers like GoCardless have opened up access to Direct Debit to thousands of SMEs in the UK who could not previously meet the revenue and bond criteria set out by banks. These providers act as a merchant account for businesses, developing and managing banking relationships on their behalf.

**Ease of use:** More commercial providers offering Direct Debit have led to significant improvements in user experience. While the former paper-based Direct Debit system was clunky and disconnected from the rest of a business' workflow, GoCardless now gives merchants a simple, automated way to collect payments, through an app within their billing or CRM software, through an online dashboard or by building their own integration with our REST API.

**Macro-economic trends:** The growth of the ‘subscription economy' in the last decade has led businesses to seek payment solutions more suited to a recurring revenue business model. Bank-to-bank mechanisms like Direct Debit allow these businesses to collect recurring payments against a subscription plan with a single mandate, while reducing involuntary churn and transaction costs (payment failure rates and transaction costs are lower for Direct Debit than for cards).

**So, why doesn't everyone use Direct Debit?**

One of the attractions of Direct Debit is that it's a ‘pull-based' system, enabling a merchant to trigger and stay in control of recurring payment collection. However, this typically has two side effects:

Payments take a few days to clear, typically five days under Bacs and three under the Single Euro Payments Area (SEPA). This makes it unsuitable for payment where immediate clearing of funds is needed – for example eCommerce. Customers enjoy strong protection in the form of unlimited refund rights under Direct Debit scheme guarantees, making it unsuitable for high-value physical goods like cars, or within industries where there is a high incidence of fraud.

For global subscription businesses, Direct Debit presents a different challenge. Since bank schemes are globally fragmented, a business wanting to collect by Direct Debit in multiple geographies, would, until recently, have to forge local banking relationships (or third-party provider relationships) in each one.

Where bank-to-bank falls short, cards have become the fall-back option. Their global reach, along with the facility to set up recurring
card payments with a single upfront customer authorisation (in a similar same way to Direct Debit), has led to them becoming the default payment method for many global subscription businesses.

But cards weren't designed for recurring payments and the costs can be high: card payments typically cost more (>5% per transaction compared to <1%) and fail more often, since they can expire or get lost or stolen, hitting subscription businesses where it really hurts - involuntary customer churn, consider the stat commonly-quoted in Software as a Service (SaaS) business circles that its seven times more expensive to gain a new customer than to keep one.

A global bank-to-bank payments network

So why is the use of Direct Debit on the rise? Let's take one of the challenges discussed above - global fragmentation.

GoCardless has started to address this by joining the dots between domestic and national Direct Debit schemes, with the aim of creating a global bank to bank payments network, with a single point of access and a standardised user experience.

GoCardless currently support Bacs in the UK, SEPA across the Eurozone and Autogiro in Sweden with Betalingsservice in Denmark and BECS Direct Debit in Australia opening this year.

Because of this, Direct Debit is becoming an increasingly attractive proposition for global companies taking recurring payments and more and more of them are now offering this as a payment option to customers, from SurveyMonkey to Receipt Bank, TripAdvisor, Box and more.

That leaves Direct Debit with two other drawbacks: timing and the risk of fraudulent refunds of 'chargebacks'. On these, open banking might just have the answers.

Smarter, faster bank-to-bank payments

There are three important elements of the pan-European PSD2 legislation, which work in the favour of bank-to-bank payments:

1. Creation of Account Information Service Providers (AISP)
2. Creation of Payment Initiation Service Providers (PISP)
3. Credit and debit card surcharge ban

Let's take these in turn.

Account Information Service Provider (AISP)

Until now, banks have been the sole owners of financial data like account details, balance and payment history. Under PSD2, payment providers and other organisations can apply to become an Account Information Service Provider (AISP).

Businesses and consumers will be able to tell their banks to share relevant banking data with an AISP. For GoCardless, being an AISP will mean we're able to make payments that are:

- Smarter and less likely to fail - for example, they could be triggered when money is in your customer's account.
- More secure - for example by authenticating new mandates through your customer's online banking account.
Payment Initiation Service Providers (PISPs)

Under PSD2, providers like GoCardless may also become Payment Initiation Service Providers (PISPs), meaning they can trigger instant ‘push’ payments from a customer to a merchant. These payments are immediate and, like Direct Debit, will carry much lower fees than credit and debit cards.

Since the customer is ‘pushing’ the payment to a merchant (although it's triggered by the merchant), PIS payments don't carry the same refund rights as Direct Debit ‘pull’-based schemes, meaning they are more appropriate to use for high-value transactions or within industries with a high risk of fraud.

As it stands, PIS payments require a customer to authorise each payment - so it’s not as easy to see how they could help a business taking recurring payments. The value, we predict, lies in the ability of PISPs to intelligently combine different types of bank-to-bank payments to suit a merchant’s needs.

Consider this: A global SaaS business has stitched together a patchwork of customer payment methods across different territories to try and find the optimum balance between customer experience and conversion, security, risk of payment failure and overall transaction costs.

Soon, a provider like GoCardless could do the juggling for them. For example, it may be important to our SaaS business that the first payment of a new subscriber goes through instantly. In this case, GoCardless will be able to initiate their first payment using PIS. If Direct Debit mandate and PIS authorisation are given at the same time, GoCardless can revert to Direct Debit for the seamless collection of subsequent payments.

Similarly if our SaaS business had one customer that needed to pay for a perpetual license, GoCardless could facilitate that high-value transaction using PIS, rather than Direct Debit, to reduce the risk of chargeback.

We are already seeing these kind of merchant-initiated ‘push’ bank to bank payments in the Netherlands with iDEAL and in Germany with Sofort. We will start to such much greater usage of these types of payments in the next few years.

Card surcharge ban

PSD2 includes regulation designed to increase transparency in payments and ensure that customers avoid unfair or hidden charges at the point of purchase.

The credit and debit card surcharge ban, which came into effect on 13 January this year, makes it illegal for businesses to add surcharges to credit and debit card payments anywhere in the European Economic Area (EEA).

While this regulation does not directly impact bank to bank payment methods, it does make them more attractive to businesses who have traditionally used cards and who are sensitive to transactions costs.
With typical transaction costs of 1% or less, compared to 3-5% for cards, it’s easy to see why businesses operating with low margins might turn to bank to bank alternatives. We have already seen this happening in the travel industry, where operators including Thomas Cook and Iglu, are asking customers to pay for their holiday instalments by Direct Debit, through GoCardless.

**Could bank to bank rival credit and debit cards?**

The opportunities for bank to bank payments are significant, leading some analysts to predict that they will become an everyday reality for consumers, capturing 20% of customer spend away from existing card schemes.

For businesses that take recurring payments, the new-world proposition for bank-to-bank payments is a compelling one: a global network, offering low transactions fees, high security, low payment failure rates and the ability to accommodates high-value and instant payments - all with a single customer mandate.
Finally, FinTechs are Scaling up in 2018

by Christoph Rieche
Co-founder and CEO

iwoca is transforming small business lending by offering fast and flexible credit facilities to SMEs across Europe. iwoca’s award-winning technology makes credit available to small businesses in a couple of clicks, providing access to £1,000-£150,000 directly through the iwoca website and through partner integrations with its Lending API. Since launching in 2012, iwoca has issued over £350 million to 15,000+ businesses across Europe.
Less than 10-years ago, a wave of disruption began to sweep through the financial services industry, transforming the way that individuals and businesses view the obstinate rock that is banking. Given that retail banking has gone largely unchallenged for more than a century, FinTech has been keenly anticipated.

The financial services industry was crying out for reform. Customers wanted products and services designed to suit their needs, their lifestyles and their schedules. This is why FinTech arrived and, by creating a new world of customer-centric services built from the ground up, has not only survived, but flourished.

At its simplest, finance is complex. Combining credit, assets, liabilities, etc. with human decision making, emotion and desire, forms a Rubik’s Cube-like puzzle that seemingly few can solve. Yet, despite this inner complexity, financial services don’t have to be complicated for the end-user.

Previously, the onus was placed squarely on the customer to demystify a bank’s products and services. Now, FinTech companies have taken that burden upon themselves, thereby freeing-up consumers to have the time and space to make informed and fair choices from which they then benefit.

To achieve this transfer of weight from consumer to provider, FinTech entrepreneurs and their teams have worked tirelessly to build seamless products. In doing so, we have not only had to overcome technology and design hurdles, but regulatory ones as well. The result, however, has been enhanced services and personalised experiences for those able to break free of the traditional banks’ grasp.

Advancements in technology and regulation have both been crucial to the process. Prior to this decade, FinTech in its current form could not have existed.

Rapid advances in digital infrastructure, mobile technology and algorithmic computing have enabled us to transform the way data is collected, analysed, interpreted and shared. Even with the introduction of a raft of important new legislation to secure and anonymise personal data, often needlessly collected in the past, there is a sense of excitement pulsing through the industry. 2018 promises to be a turning point in the road for the cumbersome manner in which customers must provide third-party financial service providers with their data when others already hold it.

And not a moment too soon as the FinTech revolution is in full swing. This transformation has been driven on by the overwhelming response to the new customer-first approach and aided by an eruption of new products and services on offer.

At the same time as the number of startups entering the market grows, some of the early first-movers are scaling-up, buoyed by an increasingly positive atmosphere. Ultimately, it is the consumer who benefits most from companies like iwoca achieving greater economies of scale, so more additions to this group should be encouraged.

In iwoca’s case, reaching this level is both an achievement and the beginning of a new challenge. We’ve given thousands of small businesses across the UK, Germany and Poland, a vital financial lifeline when the banks wouldn’t. What’s more, those businesses were able to access critical finance faster through our automated decision-making platform.

We are now in an age where getting a business loan is almost as easy as buying airline tickets or
booking a hotel online. End-to-end the lending process has been rebuilt by FinTechs to enable businesses to not only complete an application quickly but actually access the funds within minutes too.

Until now, one of the few limiting factors in the process is the speed at which a customer can provide the information relevant to a loan application, such as finding and uploading bank statements covering the previous three months. If Open Banking, introduced at the beginning of this year, is a success, however, we can eliminate the need to manually upload this data, receiving it from the banks almost instantly instead, customer consent permitting.

This year, further improvements to the products and services on offer will be realised through greater collaborative efforts between FinTechs - something that iwoca began doing in 2017 with industry partners such as Tide, Bud and Xero. Collaboration can create environments in which customers can access more comprehensive service offerings relevant to their particular circumstances, through a single gateway. For instance, businesses are served enterprise-level products and services from third parties through their bank accounts, while consumers can choose from those tailored for individuals and families.

Taking iwoca’s integration with SME banking service Tide as an example, Tide’s members have been able to apply for a business loan of up to £150,000 from iwoca, directly through Tide’s online platform, a service which Tide itself does not offer.

Traditional banks, on the other hand, have been slow to adapt and hesitant to adopt when faced with this changing landscape. Where FinTechs are collaborating, banks are prevaricating, and risk being left behind in the next five to ten years as their customers capitalise on the benefits for data sharing under Open Banking to use more relevant, transparent and customer-friendly propositions.

With all of this in mind, 2018 may present the FinTech industry's best opportunity to-date for going head-to-head with the traditional banks. As FinTechs scale-up, customer experiences will improve. For small businesses, iwoca is committed to leveraging all our available resources to ensure we deliver the fastest, fairest finance to those businesses that need it most.