FUTURE OF FINTECH

02 NEOBANKS Can digital banks survive negative interest rates?

04 SUSTAINABILITY Good money: top fintechs for eco-conscious consumers

08 WOMEN Top founders on why the future of fintech is female

OUTLOOK

What 2021 holds for fintech

The sector survived 2020, but what has 2021 got in store for financial technology?

Jonathan Weinberg

There is no doubt 2020 has been tough for every industry, but with the economic fallout of the coronavirus pandemic still very much ongoing, how will that impact the future of fintech as we head into 2021?

Fintech has long been lauded for being at the heart of change within finance, driving future thinking through agile launches and thrive-or-fail advancements. It ended 2019 with high hopes, but progress and opportunities in many areas, such as travel, have been stifled, with funding down or flat.

That is not to say some parts of the sector haven't succeeded. For instance, those in the buy now, pay later credit space saw huge funding rounds; Klarna raised $650 million and Affirm received $500 million, fuelled by demand from stuck-at-home consumers, looking to finance DIY projects, plus new furnishings and household products.

But will this general belt-tightening continue in 2021 and who will suffer the most? Well, according to a report by FleishmanHillard Fishburn, which has been developed in conjunction with Money20/20, seven in ten of the C-suite fintech leaders spoken to think early-stage fintech startups will find it more difficult to secure funding going forward. Two-thirds also believe there will be a spike in mergers and acquisitions, due to many fintechs being cash crunched.

Opening the report, Claudia Bate, fintech lead at FHF, says: "Funding has dried up as investors grow cautious, expansion plans have been shelved, and hyper-growth and unprofitable businesses are feeling the strain."

Concerns around profitability also cause Alex Reddish, chief commercial officer at Tribe Payments, to believe investment will be constrained as goals change. He predicts: "The bull run had to end sometime. As COVID-19 rolls on and the recession deepens, investors will no longer be satisfied with 'growth' and instead will be looking at hard numbers: profitability, average revenue per user, discounted cash flow, price-to-earnings ratio.

> **Funding has dried up as investors grow cautious, expansion plans have been shelved, and hyper-growth and unprofitable businesses are feeling the strain**

"We will see a shift away from paid customer acquisition, 'moon shot' ideas and unfocused diversification, where fintechs rebundle a multitude of services, towards specialised and sustainable offerings that can prove profitability."

One beneficiary of this proposed laser focus could be in now proven and accepted solutions, such as digital payments, through open banking. These have seen a huge boost in 2020 because of COVID, both in their use but also, crucially, in the confidence people now place in them.

And with the cost to the merchant of taking payment, for example through their own app, being lower than through the traditional contactless chip-and-pin card routes, Nick Corrigan, UK and Ireland managing director and president of Global Payments, says the pace is quickening for smaller, everyday payments using such means.

He explains: "While these entrenched payment rails have a very important place, offering protection for bigger purchases like a TV or a holiday, they aren't needed for many consumer purchases. It's unlikely you're going to seek a refund and have to have a chargeback raised for a cup of coffee or an insurance renewal, which is what these big networks are so vital for facilitating.

"When you take these types of credit and debit-card purchases, about 30 per cent of them could sit outside of the typical network ecosystem. This is why we're seeing banks quickly launch their open banking services, specifically for these types of scenarios. In 2021, open banking is really going to start doing what it was intended to do: increase competition."

Another, perhaps unexpected, use for open banking in the future of fintech could be for social good, especially given the number of financially vulnerable people looks set to rise due to unemployment and recession. Not-for-profit lender Fair for You's Sarah Gardiner says: "We use open banking to enable low-income families who meet our affordability checks, but who can't access mainstream credit, to buy essential household items with ethical credit. As you'd expect, we've seen a substantial increase in applications for affordable loans during the pandemic.

"We will keep serving more customers with dignity in 2021, with our only limiting factor being levels of additional investment. We're thankful to the UK's leading social investors for investing millions into us this year and are now seeking an additional £10 million in debt funding to continue to help vulnerable families navigate the challenges of Brexit and the pandemic."

In the year ahead we will also see technology brands ramp up their own future of fintech plays, for example Amazon Pay will be joined by Google offering its bank account as well as the rise of the Apple Card. All could offer opportunities for smaller fintech players to capture the attention of these big, money-laden beasts with their own innovations.

Having such huge consumer names raising fintech's profile will also help to grow use of the ewallet, something many experts predict will be the big future of fintech talking point for 2021 among retailers and customers.

Jane Loginova, co-founder of Radar Payments, believes this will be emboldened by retailers embracing new payment methods and it could also be boosted by one of 2021's surprise successes, the QR (quick response) code, which gained prominence due to the influence of COVID tracking-and-tracing apps.

She says: "Unlike card transactions which require merchants to invest in costly and complex point-of-sale terminals, QR codes are cheap to deploy and easy to use. Currently, the QR code payment solutions available require an app, for example developed by a retailer, that can only be used in its stores. In developed markets, leveraging popular digital wallets already on consumer smartphones, such as Apple Pay, Samsung Pay and Google Pay, will make QR codes more accessible. They will continue to emerge as an important payment method in 2021."

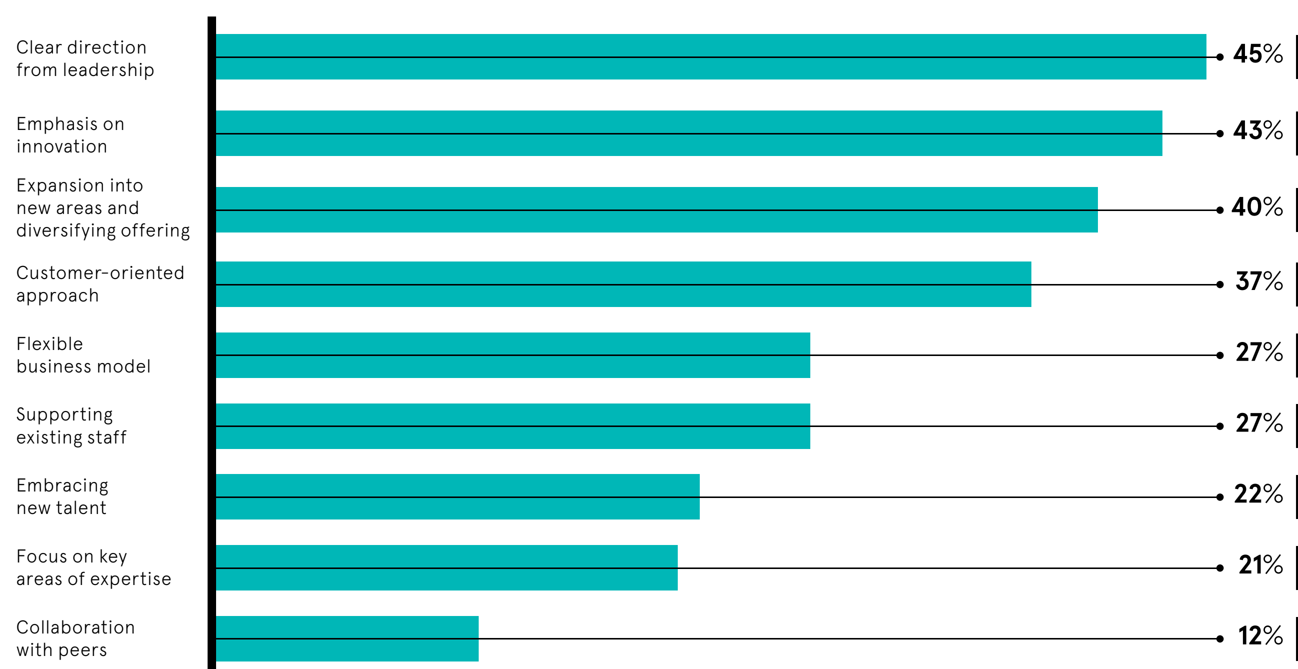
Brad Hyett, chief executive of phos, agrees on the importance of ewallets to the future of fintech, saying they prove contactless is here to stay. "The launch and proliferation of ewallets has been building in 2020, but this trend will really take precedence in the world of payments in 2021," he says. "The global mobile wallets industry is predicted to jump by almost 50 per cent, to reach a value of $1.47 trillion amid the COVID-19 pandemic, with more than 1.7 billion people using mobile wallets by 2024.

"While most of us will be familiar with Apple Pay and Google Pay, these won't be the only touchpoints that people have with ewallets either. Increasing numbers of companies are developing their own solutions to directly serve the needs of their customers.

"The majority of smartphones in use today can natively offer this kind of technology, so customers can pay on a website, a mobile app or physically in-store. But the crucial point is all these scenarios are contactless and cashless, and so respond to the changing demands we have seen for these kinds of payment options."

WHAT IS NEEDED FOR LONG-TERM SUCCESS?

Fintech experts choose the crucial factors for ensuring the industry thrives in the long run



Fleishman Hillard 2020

Distributed in THE SUNDAY TIMES

Published in association with INNOVATE FINANCE

Contributors

Oliver Balch
Journalist specialising in sustainability, business and travel. Author of travelogues on South America, India and Wales.

Richard Brown
Journalist and investigative reporter he has covered conflict and corporate controversies, and works as Middle East correspondent for *Il Giornale*.

Lucy Douglas
Journalist specialising in social issues, education and technology, published in *The Guardian*, *The Independent* and *Positive News*.

Ben Edwards
Freelance journalist and copywriter, specialising in finance, business, legal services and technology.

Christine Horton
Long-term contributor to specialist IT titles, including *Channel Pro and Microscope*, she writes about technology's impact on business.

Charles Orton-Jones
Was editor-at-large of LondonlovesBusiness.com and editor of EuroBusiness magazine.

Daniel Thomas
Writer and editor, published in *The Telegraph*, *Newsweek*, *Fund Strategy* and *EducationInvestor*.

Jonathan Weinberg
Journalist, writer and media consultant/trainer specialising in technology, social impact and the future of work and society.

Crystal Wilde
Asia-based writer, published in *Reader's Digest* and *New York Magazine*. She covers a range of subjects, including tech and women's issues.

Uneesa Zaman
Journalist specialising in finance, technology and social issues, with work published in *Amaliah*, among other publications.

raconteur reports

Publishing manager
Alexion Lai

Associate editor
Peter Archer

Acting managing editor
Francesca Cassidy

Digital content executive
Taryn Brickner

Head of production
Hannah Smallman

Design
Sara Gelfgren
Kellie Jerrard
Colm McDermott
Samuele Motta
Nita Saroglou
Jack Woolrich
Sean Wyatt-Livesley

Art director
Joanna Bird

Design director
Tim Whitlock

Although this publication is funded through advertising and sponsorship, all editorial is without bias and sponsored features are clearly labelled. For an upcoming schedule, partnership inquiries or feedback, please call +44 (0)20 8616 7400 or e-mail info@raconteur.net. Raconteur is a leading publisher of special-interest content and research. Its publications and articles cover a wide range of topics, including business, finance, sustainability, healthcare, lifestyle and technology. Raconteur special reports are published exclusively in *The Times* and *The Sunday Times* as well as online at raconteur.net. The information contained in this publication has been obtained from sources the Proprietors believe to be correct. However, no legal liability can be accepted for any errors. No part of this publication may be reproduced without the prior consent of the Publisher. © Raconteur Media

/raconteur.net
@raconteur
@raconteur_london

raconteur.net /future-fintech-2020-dec

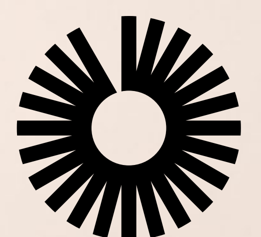
FINANCIAL INFRASTRUCTURE
YOU CAN BANK ON

Banking Circle's proprietary technology enables Payments businesses and Banks of any scale to seize opportunities, compete and grow.

From multi-currency accounts to real-time FX, international payments to local clearing, we're quick, low-cost, and secure.

Bypass old, bureaucratic and expensive systems and enable global banking services for your clients.

bankingcircle.com



BANK ON US

Commercial feature

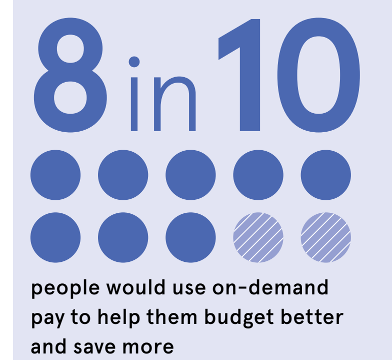
On-demand pay powers happier, more productive employees for free

A new technology-powered model of paying people for their work is signalling an end to the 'absurd' pay structures that cause unnecessary financial stress and anxiety

The majority of people in the UK get paid monthly, but the disconnect between their expenses and when they get paid forces millions to rely on expensive credit to get through the month. Life's expenses, whether planned or otherwise, don't wait for payday.

A monthly pay cycle also perpetuates a "payday millionaire" culture. Research by Portafina found 43 per cent of people's monthly disposable income is spent within 24 hours of being paid, often irrationally, and 81 per cent within seven days. A small change in the way organisations pay their employees can have a big impact on how employees' budget, their whole mindset towards money and their overall wellbeing.

"If you go back a few decades, it was normal for people to be paid daily and it's really only in the last 70 years, because of the technology of the time, that pay cycles shifted to monthly," says Josh Vernon, co-founder and managing director of Earnd, an app that allows people to choose when and how they get paid, in real-time and for free.



"It's extremely rare for all of an individual's expenses to fall on the exact same day, every single month. If we can give people more flexibility in terms of when they are paid, then they can budget more easily to reduce financial pressure and start working towards a positive financial future."

Earnd (www.earnd.com) is a pioneer in the emerging field of on-demand pay and is unique in its commitment to remaining free for all employees and public sector employers, forever. Earnd's mission is to help people take control of the money they've earned by allowing them to choose when and how they get paid.

This is especially important for shift workers who may not know how much they will get paid until the money hits their account. By being able to track and access pay on a daily basis with Earnd, they can ensure they have worked enough shifts to meet expenses.

Coupled with integrated financial education tools, Earnd also encourages positive financial behaviours such as growing savings and repaying debts.

Founded in Australia in 2018, Earnd is available to more than 130,000 employees across the globe. With tens of thousands of NHS employees already using Earnd in the UK, the fintech has plans to roll out to UK government, local authorities and the private sector next year. In Australia, the app is already in use by employers such as Hungry Jack's, the local franchise for Burger King, and is launching with its first US employers in early-2021.

Companies that use Earnd's platform can expect up to 50 per cent take-up among their employees and four in five Earnd users say it has had a positive impact on their finances. Earnd's focus is financial wellbeing so they will never charge employees for access to their wages.

If somebody is charged £1.75 to drawdown £50 and asked to pay it back in five days, for example, that equates to an annualised interest rate of 255 per cent and is comparable to using high-interest credit or loans.

The value isn't just on the employee side. By alleviating the number-one cause of stress and anxiety for employees – money worries – there are also very clear gains for employers from improved morale and productivity. A Kronos report found three in four people would prefer to work for a company that offers financial wellbeing support and one in two people would work harder if their employer offered on-demand pay.

Employers in Earnd's portfolio have reduced their employee turnover rate by up to 16 per cent and many are incorporating on-demand pay into their mental health strategies to support staff wellbeing.

The Royal Free London was among the first NHS trusts to embrace Earnd and hasn't looked back. Chief executive Caroline Clarke says: "When staff use Earnd, they realise it's really going to help their lives and materially improve their financial wellbeing. That makes them come to work and feel happier as a result. So why wouldn't you do it?"

> Society will shift to an on-demand pay economy, for the good of everyone

Importantly, Earnd is easy to implement and doesn't need employers to use their own cash flow or working capital to fulfil on-demand payment requests. Earnd is owned by Greensill, an alternative finance firm with international reach that last year provided $150 billion of finance to more than eight million customers and suppliers in more than 175 countries. It uses predictive artificial intelligence technologies to advance them cash based on the value of future payment receipts and invoices issued.

Using Greensill's fintech infrastructure and access to capital markets, Earnd is able to access ultra-low-cost capital and provide on-demand pay at no cost to employees across the globe.

"We are a financial wellbeing product, so we don't charge individuals for access to something that's theirs; it's counterintuitive," says Vernon.

"On-demand pay isn't just an emergency finance tool; it's about genuinely shifting the way people get paid, to better suit their lives. We see some examples of it where our higher-paid users drawdown on a daily basis and put their income in a mortgage repayment account or a savings account, so it really does shift it from an emergency tool to one that gives people complete control and flexibility over their pay.

"People already access entertainment, food and transport on demand, so they should be able to access their pay on demand to match the pace of their expenses. That means the ability to choose when and how they will get paid, because you've earned that income and it can support you in such a significant and powerful way. It's a no-brainer. Society will shift to an on-demand pay economy, for the good of everyone."

For more information please visit www.earnd.com

NEOBANKS

Digital banks struggle as interest rates plummet

As the Bank of England takes steps to cushion the economy from a growing recession, challenger banks might lose the advantage of the very thing that makes them competitive: low rates

Daniel Thomas

Digital-only banks, known as neobanks, have risen fast thanks to innovative low-cost services that chime with millennial consumers. But overall the coronavirus pandemic has not been kind to them.

Data from Curve, a service that brings multiple bank cards together into one, shows people's use of challenger banks and neobanks dropped by 90 per cent at the start of the first UK lockdown in March, compared to a 60 per cent drop-off for traditional banks.

And both Monzo and Revolut, two of the biggest players, have had to cut hundreds of jobs after revenue fell, with Monzo even saying in July that the pandemic threatened its ability to operate.

Now another, potentially devastating, threat has emerged. With the UK economy on track to suffer its sharpest contraction in 300 years, the Bank of England has hinted that it might consider taking interest rates below zero for the first time, as has been done in the eurozone and Japan.

It would penalise the hoarding of cash to stimulate growth and effectively force banks, which usually set their own rates against the benchmark, to charge customers for current accounts, putting neobanks' no-frills model under real pressure.

"Neobanks have a much leaner cost structure than traditional banks so they can live with relatively small margins, but if rates go below zero, they will struggle," says Thorsten Beck, professor of banking and finance at Cass Business School in London. "The question is, can you continue to offer that innovation and convenience if you are facing these costs?"

The issue is that most neobanks have only recently started lending money, which is typically how banks make most of their revenue. Instead, they rely heavily on deposits, overdrafts and ancillary services, such as low-cost foreign exchange transactions, which don't make much profit, and even those income streams are under threat.

"International travel has fallen away in the crisis, along with that income, and zero or negative interest rates would make it very hard to make money on transaction accounts," says Beck.

Neobanks have already begun to tighten their belts because of the pandemic. In November, another market leader, Starling Bank, became the first UK bank to introduce negative interest rates for personal accounts, although only for a small number of its customers who hold high balances in euros.

Customers pay -0.5 per cent on balances over €50,000, a cost Starling says it is passing on to reflect European Central Bank rates.

Separately, Monzo has begun charging customers a 3 per cent fee if they withdraw more than £250 a month from cash machines, unless they use Monzo as their main current account.

Jaidev Janardana, chief executive of peer-to-peer digital bank Zopa, thinks more banks will raise costs if rates turn negative. The issue for him is that they typically hold money they are not lending out with the Bank of England in a reserve account, or in bonds or gilts, where interest is tied to the base rate. And this money would become a cost instead of a source of revenues.

"These potential costs will need to be offset, either by charging the customer for the current account, a practice which UK consumers are not used to, or by increasing the number or margin of other products that banks can monetise, such as loans," he says.

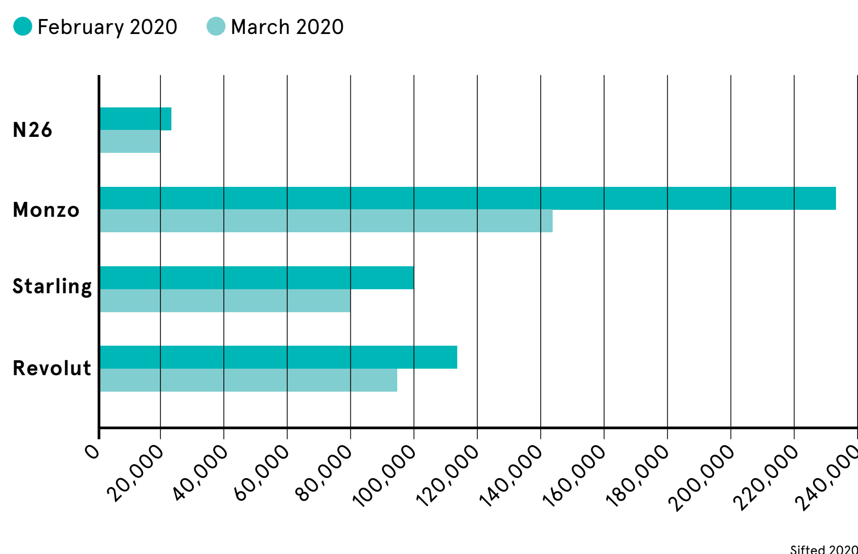
Of course, the margin on credit is also likely to fall if rates turn negative, but banks with low loan-to-deposit ratios are better placed to weather the storm.

Janardana says Zopa would be "largely immune" because it makes 90 per cent of its money from lending and credit cards, with rates based on the wider market and individuals' creditworthiness rather than the benchmark.

Starling, which only started lending last year, had already built a chunky loanbook of £1.3 billion by September 30, which compares to total deposits of £3.7 billion and 1.7 million customers. The firm, which also became the first neobank to move into profit in November, says it is "very well placed to handle negative interest".

HOW LOCKDOWN IMPACTED EUROPE'S CHALLENGERS

The first COVID-related lockdown saw a big drop in digital downloads for Europe's biggest neobanks



Monzo, however, may have a tougher time. It had gross lending of £143.9 million in the year to February 2020 versus deposits of £1.4 billion, while losses at the bank doubled to £113.8 million. Monzo did not respond to a request for comment.

The longer-term risk of negative rates is that it could undermine neobanks' value proposition of affordability and convenience, which has made them such a hit with 18 to 34 year olds. It would also come at a time when traditional banks are catching up in terms of innovation.

> The question is can you continue to offer that innovation and convenience if you are facing these costs?

"The pace of innovation of the neobanks has outstripped the established banks who are now making efforts to close the gap and reduce the erosion of differentiation as they introduce more features for their customers," says Terry Farnfield, partner at analysts BearingPoint.

"For neobanks to maintain their edge, they must double down on their customer-centricity and keep leveraging their agility to stay more aligned with customer needs and expectations."

Around one in ten people in the UK now have a neobank account, but only around half of them consider it to be their main bank account, with most continuing to rely on big players. Such existing market challenges, coupled with the impact of COVID-19, could mean some challengers go under or get snapped up by bigger rivals, says Beck.

However, while uncomfortable changes lie ahead, no one believes COVID will kill off the neobank phenomenon.

Matt Baxby, chief executive of Revolut Australia, says his firm is "cautiously optimistic" about the future, even though recovery from the pandemic will not be instant. "The economic impact of COVID has meant most companies are re-examining their business models to some extent, to ensure they are still effective," he says.

Starling Bank says the pandemic is in fact accelerating the shift to digital banking, with its own customer base having grown since March.

According to the bank: "One of the advantages of being a digital bank is that we have a much lower low-cost base than the legacy banks. We can achieve as much, and more, with our engineers as the big banks can with teams many times the size of ours. And as a branchless bank, we do not have to service the costs of branches."

SME OPPORTUNITIES

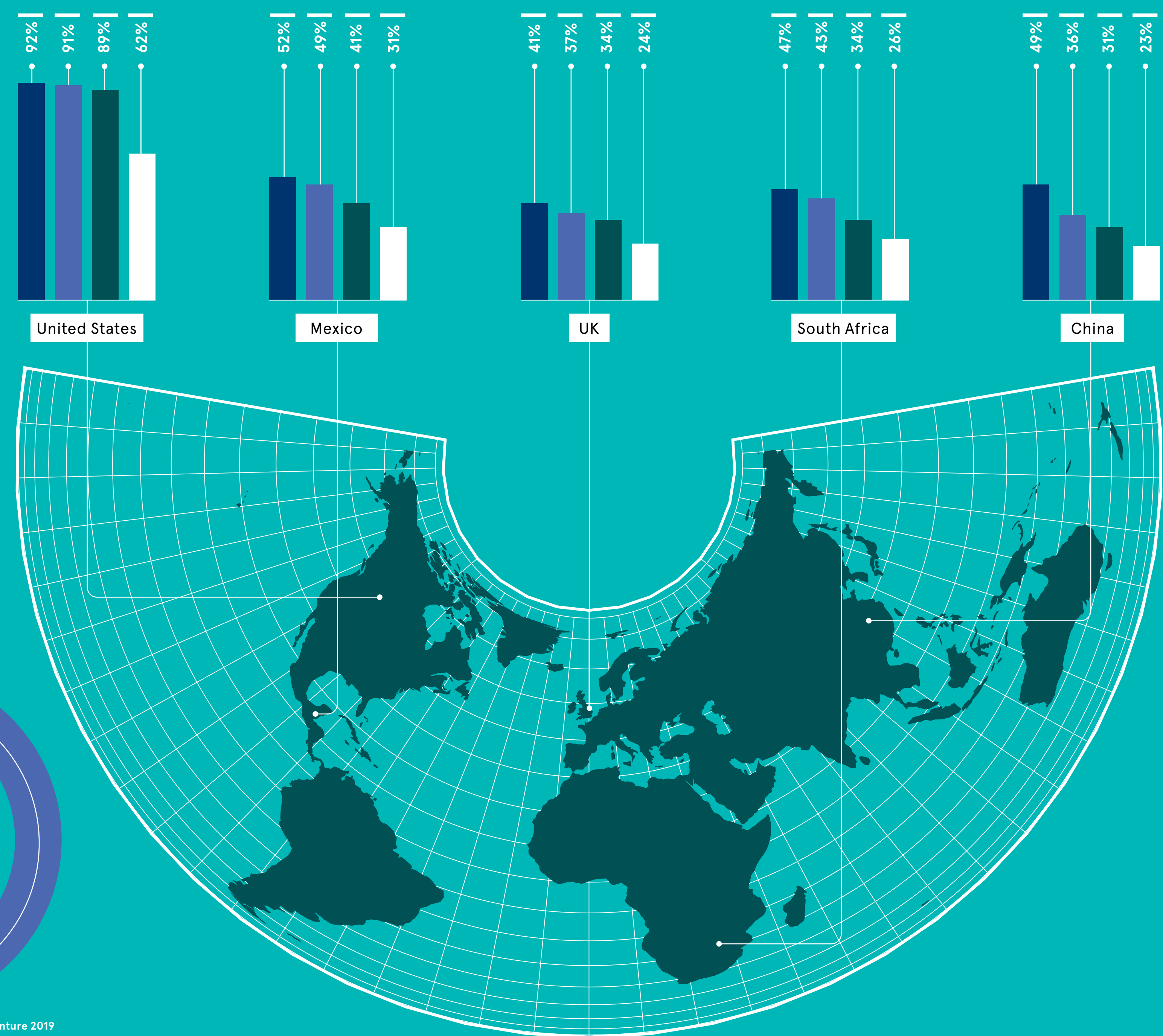
Small businesses often rely heavily on incumbent institutions for their banking and financing needs, but at a time of economic crises and lending restrictions, could tech-first, digital disruptors step in to fill the gap? Large, traditional banks may not be able to provide the fast-paced, flexible solutions that SMEs will require in an ever-changing business landscape, but fintech could provide the answer

SME FINTECH ADOPTION

Fintech adopters as a percentage of the digitally active SME population in five selected markets in 2019

EY 2019

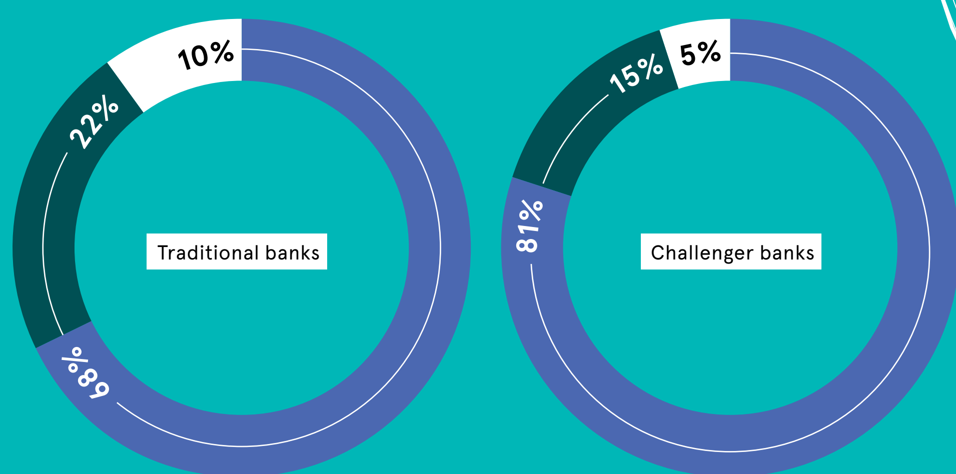
Banking and payments · Financial management · Financing · Insurance



CUSTOMER SATISFACTION LOWER FOR INCUMBENTS

UK SME satisfaction with current banking providers

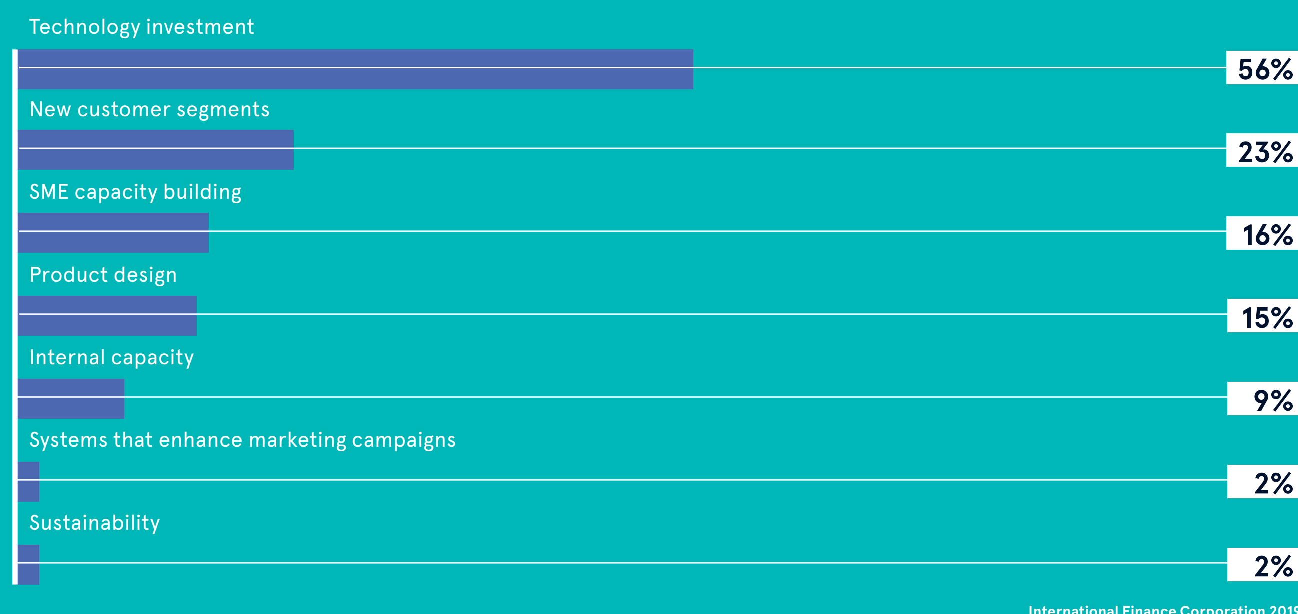
Satisfied · Neither satisfied nor dissatisfied · Dissatisfied



Accenture 2019

AREAS FOR IMPROVEMENT

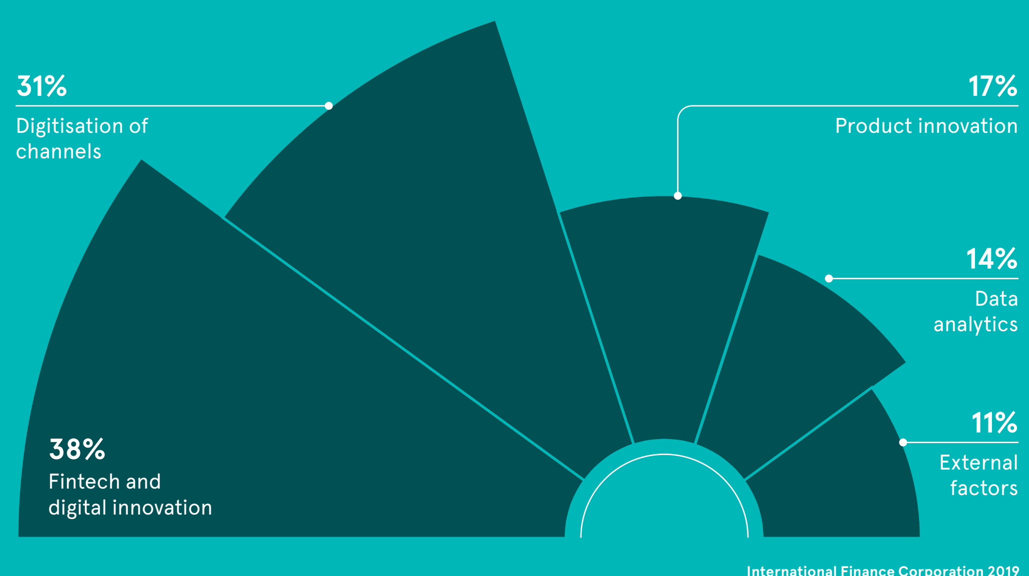
Investment focus areas for SME banking in the near future, according to global SME banking operations professionals



International Finance Corporation 2019

SHAPING THE FUTURE OF SME BANKING

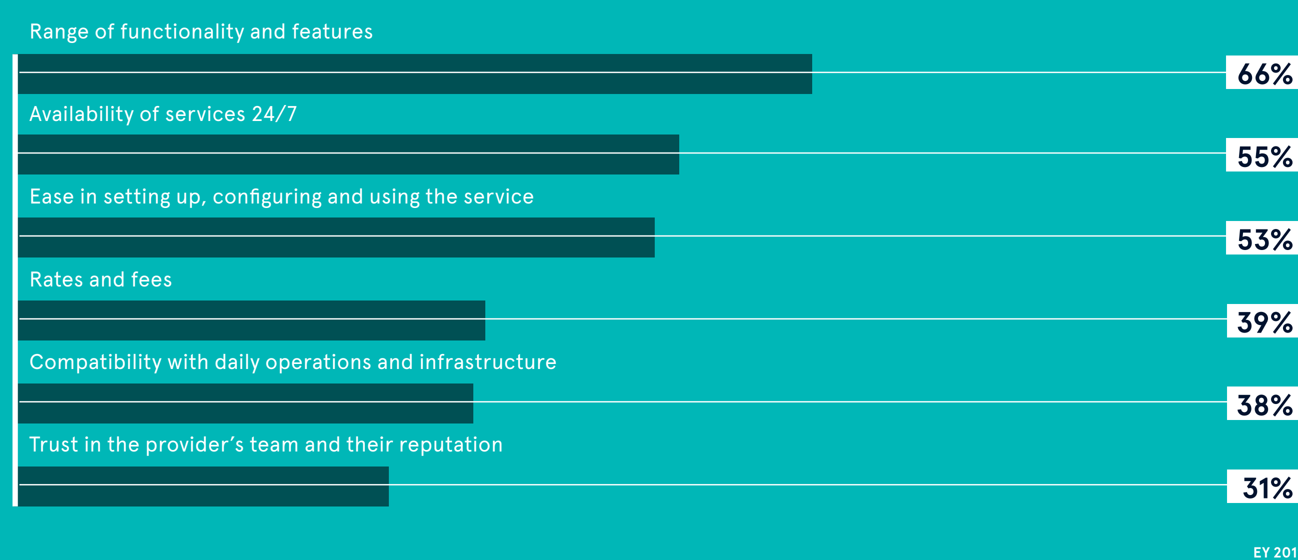
Top five trends that will shape the nature of SME banking, according to global SME banking operations professionals



International Finance Corporation 2019

TOP REASONS WHY SMES USE FINTECH

SMEs across five countries were asked why they choose to use a fintech challenger instead of an incumbent financial services institution



EY 2019

THE STATUS QUO

Breakdown of sources of outstanding debt for SMEs in the UK

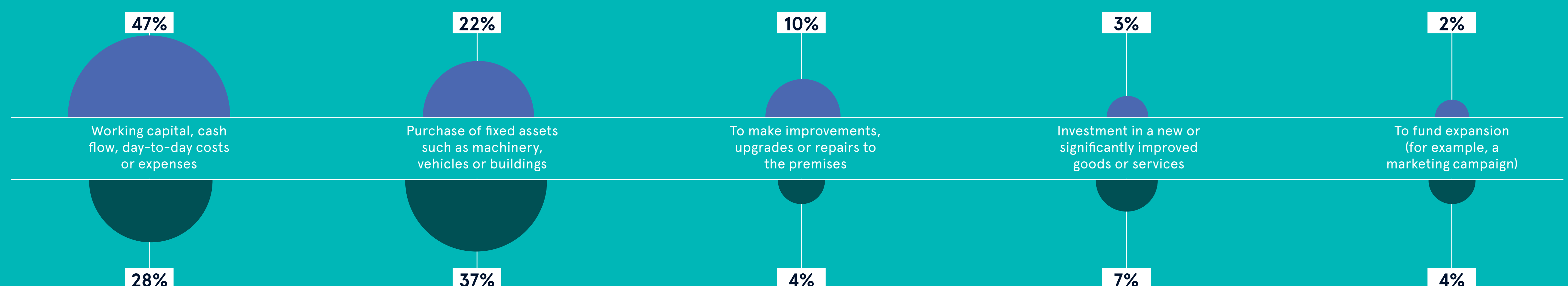
KPMG/AIMA/CAIA 2020

SEEKING FINANCE BY PROVIDER

Most important reason SMEs sought finance by type of finance provider

British Business Bank 2020

Big Five banks · Other (including challenger banks)



SUSTAINABILITY

Good money: fintechs for eco-conscious consumers

Coronavirus has reinvigorated concern about the climate emergency and a host of green fintech startups have sprung up. Here are five digital-first products helping consumers live more sustainably

Lucy Douglas

Interim Archives/Getty Images

Aspiration: best practice in green fintech

US-based challenger bank Aspiration launched in 2015, making a selling point out of not investing in fossil fuels. "That is key," says Estella Shardlow, acting senior consumer attitudes and technology editor at trend forecasting agency Stylus. "There is a big trust issue with consumers around where their money is going and what it's helping support when it's in the bank's care. I think that's a great example of showing how fintech can be a force for good."

Other features of Aspiration's green fintech include cashback on purchases from brands that "help build a better world", including TOMS and Warby Parker, as well as allowing consumers to fund reforestation projects by rounding up their spend to the nearest whole dollar. Its rewards for spending with sustainable brands are "a best practice of how to incentivise that ethical behaviour", says Shardlow.

The startup raised a series C round of funding worth £135 million in May, when it had some 1.5 million users signed up. Shardlow predicts that it's point of difference from competitors will continue to win over customers. "What consumers want from their financial services is a reflection of what they want from every brand they interact with," she says. Although banking has been a lot slower than other consumer-facing industries to demonstrate a commitment to environmental or social causes, it is now being forced to catch up as more consumers expect it.

TreeCard: debit card will plant trees as customers spend

Matt Artz/Unsplash

For now at least, Aspiration is available only to US customers. For Europe, enter TreeCard, a wooden debit card that puts 80 per cent of its profits towards planting trees. The startup is working in partnership with Ecosia, the Berlin-based ethical search engine that uses advertising revenue to plant trees and now has 140 million monthly users. Ecosia has invested around £1 million in a pre-seed round of green fintech and TreeCard will be funding trees through Ecosia's existing reforestation projects.

Co-founder Jamie Cox explains that TreeCard is "going after a different demographic to your standard neobank". "We're actually trying to scoop up users who care about cause rather than cashback or investing in crypto or more tech-focused sells," he says.

TreeCard is not a challenger bank itself; it's currently looking for a regulated banking-as-a-service provider to partner with on the card. With open banking technology, users will be able to pair the free card with their existing bank account, says Cox. So far it already has 10,000 users on its waiting list and is anticipating being ready to launch during the first half of 2021, in the UK, European Union and United States.

Although users have an average age of 25, Cox says that beyond the 30-years-old point, there is an even split across age groups. "It suggests there's actually a real sentiment change rather than just generational differences when it comes to that climate change sentiment," he says. That only applies to users in Europe, though, and not in America.

Nikita Ermilov/Unsplash

CoGo: fintech pushing customers towards green spending

CoGo was one of the early fintech players to introduce a carbon-footprint tracker allowing users to monitor the impact of their spending in real time. First founded in New Zealand in 2015, it launched in the UK in 2019 with its app that syncs to users' bank accounts. As well as tracking emissions, it also suggests ways users could reduce their carbon footprint, such as by switching to a green energy supplier or plant-based diet.

The platform now lists more than 20,000 businesses that are accredited for their environmental or social impact and also suggests offsetting initiatives for users to support to reduce their net impact. According to CoGo, the majority of the company's users are in the 21 to 30 age group, followed by 31 to 40, and 60 per cent are female.

Earlier this year, CoGo announced partnerships with two incumbent banks, Natwest in the UK and Westpac New Zealand. Shardlow at Stylus predicts we're likely to see more collaborations like this. "I don't think the big banks can replace fintechs because there's an ingrained desire to do things differently. I think it's going to be a combination of big banks collaborating and supporting fintechs, and ultimately improving their own behaviours," she says. "But I don't think they're going to muscle out these disruptors because they're already getting a lot of traction with consumers now."

Elle Aon/Shutterstock

Almond: carbon data for businesses and consumers

Like CoGo, this UK-based green fintech lets users track the carbon emissions of their spending and encourages them to spend with brands whose values align with theirs. Donor brands have committed a certain percentage of transactions to reforesting projects, so Almond customers are encouraged to spend with them to support the planting of trees and, in doing so, offset their carbon footprint.

Where Almond goes further is in its business-to-business proposition, offering a sustainability-focused customer relationship management product on a software-as-a-service model. The startup was founded in 2018 and secured £500,000 in crowdfunding earlier this year.

"So there's definitely a lot of activity in this space," says Shardlow of Stylus, pointing to Sweden-based Doconomy as another example. "It's nudging this planet-friendly behaviour in a way that's very transparent and very streamlined for the consumer."

Clim8: making impact investing accessible

This London-based startup has accrued £4.4 million in funding since it launched in 2019. Clim8's platform, which is yet to launch, will allow users to invest in public companies that are working towards tackling climate change in sectors such as clean energy, sustainable food and smart mobility.

Its ultimate mission is to move billions in investments into planet-positive sectors. Clim8's portfolio includes Greencoat UK Energy, a public fund that holds interests in UK on and offshore wind energy assets, and Ørsted, once Denmark's government-owned oil and gas company that has upended its business model to become a renewables provider and quadrupled its profits in the process.

Clim8's app is due to launch soon, but its proposition has already proved a hit with investors; its most recent fundraising of £2.4 million, via Crowdcube, was a 600 per cent increase on its original target. The fact that it has clinched funding from outside the dedicated environmental, social and governance investors – it has received funding on two occasions from 7percent Ventures – highlights the appetite for investments with sustainability at their core.

Candy_Pius/Shutterstock

Setting a new industry standard in real-time payment technology

Our next generation, cloud-native payment technology is enabling financial institutions globally to innovate faster, scale as capacity demands increase and reduce the total cost of ownership of their payments infrastructure.

To find out more visit form3.tech

FORM3 FINANCIAL CLOUD

OPINION

'The UK can be at the forefront of technological development and we don't need to start from scratch'

We are living through a time of unprecedented challenges and the decisions that we all make now will define the road ahead for our country for decades to come.

The coronavirus pandemic, and the economic and health crisis it has created, have taken over government focus and attention, and rightly so. But we still remain in the midst of a historic climate crisis, with scientists believing we only have ten years to turn back the clock on the damage we have done to the planet.

With many newly emerging priorities, we've recently seen the UK's Industrial Strategy updated, specifically to ensure we see a recovery with green initiatives placed front and centre. Next year, the UK will host the United Nations Climate Change Conference COP26 and the recent Green Horizon Summit explored the key role that finance and fintech can play in raising the capital needed to drive this greener change through.

Decisions must now be made on which sectors to prioritise and how to successfully fuel growth in key parts of the country that will feed into the levelling-up agenda. Fortunately, the UK is already home to world-class innovation, particularly in areas such as fintech, and there is now a second wave of emerging sectors coming to the fore that will help solve issues created by the coronavirus pandemic.

This is why it is vital that the UK provides the support for these businesses to scale. This is even more crucial with many startups failing to get off the ground since the start of the pandemic and growth opportunities more difficult than ever before. International competition is also growing and should not be ignored.

The UK can be at the forefront of widespread technological development of the future and we don't need to start from scratch. The fintech sector, and the wider innovation in financial services it has instigated, has demonstrated that we have the capacity to create an innovation-based ecosystem and scale it at pace.

Rather than wasting our limited time and resources outlining another new and more elaborate strategy, the UK should turn to the high-growth and dynamic sector at the heart of our existing tech industry – fintech – and use as a model for success and best practice, both at home and overseas.

Born out of the 2008 financial crisis, fintech created a generation of companies which have disrupted the financial services sector and changed it for the better, and what has followed is the development of a world-class financial technology ecosystem.

Policymakers in the UK, both nationally and regionally, have worked hard to create a progressive, open-minded and outward-looking policy environment that has favoured this innovation and allowed it to thrive. What's more, a world-class regulatory framework has crucially enabled firms to test new and innovative ideas with real customers in a controlled environment.

By supporting the influx of new products and services which challenge the status quo, fintech has served as the catalyst for wider adoption of new technology and innovation across financial services and transformed the sector for the better.

This move forward should provide the roadmap for many sectors in development now, used to shape the economy of the future. It is vital that we build a robust ecosystem which enables technology to thrive and creates the conditions for intellectual property to be developed.

There is no need to spend time seeking out complex answers and strategy, the innovation and transformation of financial services is a prime example of a success story that is sitting right in front of us.

Let us now use it as the blueprint to build industries which will define the future and pave the way towards a desperately needed economic recovery and a greener future for the UK.

Charlotte Crosswell
Chief executive, Innovate Finance

M&A

Payments become top attraction for private equity acquisition

It may not be the most glitzy area of financial services, but payments is increasingly becoming an attractive investment opportunity for private equity

Richard Brown

Processing electronic payments used to be seen as the poor relation of financial services. Boring back-office systems staffed by steady, though dull, people who lacked the dynamism of startup buccaneers.

Yet a deal last month, backed by the turbo-charged efforts of private equity, created one of Europe's largest payments firms. When Italy's Nexi bought Danish rival Nets for €7.8 billion, it was the latest in a rash of private equity-initiated deals that has reshaped the once slothful payments processing sector.

Both businesses in that megadeal started out as part of traditional banks, spun off and led by private equity firms Advent, Bain Capital and Hellman & Friedman. Nexi's acquisition of Nets followed hot on the heels of its €15-billion purchase of state-owned Italian rival Sia. It now vies with Worldline-Ingenico for the coveted title of Europe's payments, or paytech, champion.

Simply put, payments processors facilitate merchants' ability to accept both online and in-store payments while charging a small fee in the form of a sliver of the transaction price. But given the pressing need to offset the high capital cost of payments processing technology, a rush to scale up has attracted the gimlet eyes of private equity dealmakers.

According to data provider Refinitiv, close to $32 billion in transaction value has been sealed this year, compared with $8.5 billion in 2019. And that's despite a 22 per cent fall in consumer spending between January and June this year, courtesy of the coronavirus pandemic, according to McKinsey & Company.

PitchBook's *Q3 2020 Emerging Technology Report: Fintech* cites widespread regulations and financial reforms enacted since the 2007-8 financial crash, creation of oversight committees, ongoing stress testing and capital requirements as having left the financial system more prepared to handle the violent economic disruption wrought by COVID-19.

This perspective is bolstered by Cyrus Pocha, financial services regulatory partner and co-head at "magic circle" law firm Freshfields Bruckhaus Deringer's Global Fintech Group. He says the current mergers and acquisitions (M&A) activity in the European payments sector can be traced back to the last financial crisis when the price of state aid for many universal banks was the compulsory sale of their payments capabilities.

What had once been seen as relatively uninteresting financial plumbing was pushed into the spotlight. Pocha says: "At the same time, in addition to the growth of online transactions, the last decade has seen a gradual move away from cash transactions towards card and contactless payments and now, increasingly, digital payments using crypto assets or another form of distributed-ledger technology."

So the demand for payment services is increasing and new ways of making payments has brought other smaller players with high potential growth opportunities into the market.

James Brocklebank, managing partner at buyout group Advent, points out that payments truly is a scale business. "The marginal cost of transacting a million extra transactions once you have scale is almost zero. So it makes sense for payment providers to get economies of scale," he says.

"Also, because if you have developed good technology and good products in one market, it's possible to use them in other markets and reap the benefit of the investment across a wider geography." Private equity is perfectly able to give these businesses the focus they need, invest in them and attract top talent.

When Advent and Bain owned Worldpay, they spent approximately $500 million buying other payments companies to create an entity subsequently listed as a FTSE 100 company in London. That company was then bought by Vantiv, another Advent payments company and itself a bank carve-out, subsequently acquired by FIS for almost $35 billion. "So M&A is absolutely at the heart of the growth in the major payments players and has been a phenomenally successful strategy," says Brocklebank.

> M&A is absolutely at the heart of the growth in the major payments players and has been a phenomenally successful strategy

In parallel, adds Freshfields Bruckhaus Deringer's Pocha, the regulatory environment in which payments firms operate in the European Union has also improved. The first harmonised EU rules were introduced with the payments services directive (PSD) in December 2009 and updated by PSD2 which was generally implemented by member states in 2018.

These regulatory changes provided pure payment services firms with a European passport, similar to those enjoyed by banks, while imposing a lighter regulatory burden, among other things, in relation to capital. Overall, this meant that as the payments space became more interesting to sophisticated private equity, it was also becoming more accessible.

Traditional banks typically owned payment providers in the past, such as Royal Bank of Scotland-run Worldpay, Nets led by 186 Nordic banks, Nexi by the Italian Popolare banks and Concardis by German regional banks. These are not best owners of payments companies, according to Brocklebank, as it's not their core business, which is lending and deposits.

"So they struggle to invest enough in them, attract the right talent, use M&A to acquire scale and capabilities, or give them the independence they need to be nimble operators in a rapidly evolving marketplace," he says.

Given its history as a piece of market infrastructure run by banks or consortia of banks, the payments market has traditionally been characterised by strong regional or national players, says Pocha. "It therefore made sense to seek to grow the customer base through M&A in different EU member states and regions," he says. "This also played to the private equity industry's strengths: investors were perfectly placed to implement such cross-border 'buy and build' strategies."

Coupled with the fact that private equity lives with the imperative of having to send its capital out to work, and many of the active funds were raised prior to the pandemic, this has meant it has been able to continue pursuing its M&A strategies at a time when other potential trade acquirers are pausing for breath or finding it harder to compete on price.

Additionally, the pandemic has impacted the payments M&A landscape by illustrating the danger of being too niche, as in the example of payments firms which relied heavily on servicing the travel industry and were disproportionately negatively impacted.

Surprisingly, penetration of digital payments remains relatively low in Germany, the powerhouse of Europe's economy. Germans have traditionally not been comfortable with high levels of borrowing and instead preferred local debit schemes and cash. As a result, the penetration of cards, typically a precursor to digital payments, has lagged behind the rest of Europe.

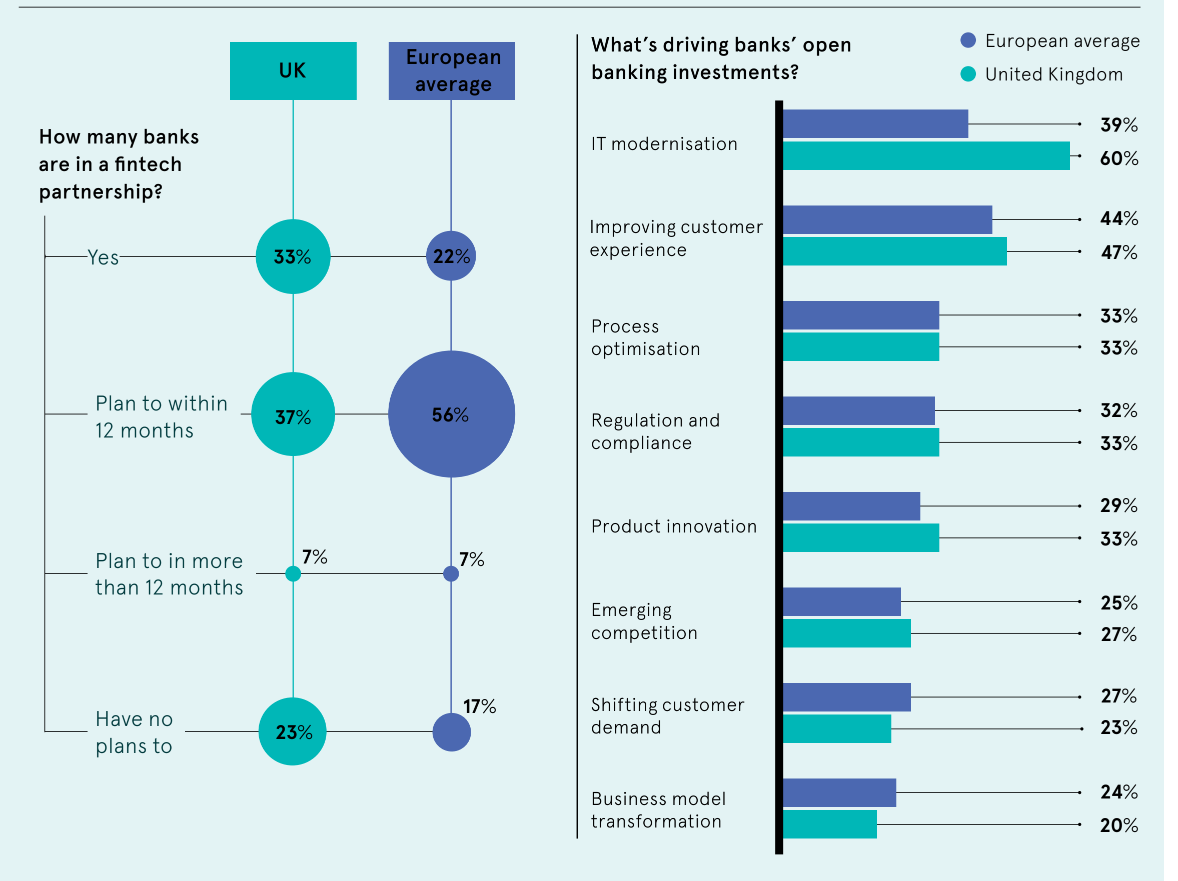
Where competition is most evident is around the edges, says Brocklebank. For example, niche ecommerce offerings from nimble fintech players. "But even those struggle to get traction with big, global merchants who need blue-chip, resilient, scaled solutions," he says. "These nimble fintech players are more of a threat in the small and medium-sized enterprise (SME) customer base."

One such nimble fintech player is London-based payments processor Safenetpay, which services the UK and, imminently, European and Asian SME sector with innovative payments and business current account solutions.

Co-founder and chief executive Sanjar Mavlyanov says, although advances by private equity groups may be flattering, Safenetpay is not receptive to such overtures. "We pride ourselves on being independent and having a tightly knit global team that can act fast to meet and exceed clients' ever-evolving payments needs," he says.

So despite the evident surge in takeover activity in payments processing, there are still minnows willing to take their chances in fintech seas awash with hungry predators. ●

Commercial feature



Banks and fintechs realise they're better together

Gone are the days of being pitted against each other, as fintechs and more traditional financial institutions are finding value in collaborating for open banking services

The relationship between banks and fintechs has evolved significantly over the last two decades. Disruption is increasingly giving way to collaboration, moving the industry past the now outdated narrative that pitted new entrants directly against incumbents.

Banks are not only now partnering with fintechs, but also fostering them through accelerator programmes and venture arms, while the UK leads the way in open banking to facilitate valuable collaborations. In a study by Tink earlier this year, three quarters of UK financial executives had a positive attitude to open banking, compared to 48 per cent in 2019.

Banks rarely step into the API (application programming interface) economy to power emerging use-cases in the ways fintechs do. Yet, while fintechs are often born with agility and a pace of innovation that banks struggle to emulate, banks have something fintechs know will take them a long time to achieve: trust built over decades or even centuries.

Trust capital resides in large institutions, as does vast behavioural data around customers, presenting a strong incentive for fintechs to partner. Recognition of their complementary qualities has brought a new dimension to the classic build-versus-buy conundrum that banks have long deliberated.

"It's a very important decision, because banks will live with the consequences of that decision for quite some time," says Rafa Plantier, country manager, UK and Ireland, at Tink, which is powering the new world of finance by allowing banks to quickly build smart and personalised financial services.

"Banks used to do everything, but have been gradually outsourcing more things over the last 20 years. They are largely designed to work on projects and once a project is complete, those resources come back to do something else. That's fundamentally different to fintechs, which have highly specialised, small and sprawling teams who take care of more narrowly focused engineering problems.

"While a bank will typically have a team who looks after all digital channels, fintechs work at a much more granular level, looking at things like onboarding conversion. Banks will see mortgages as a product. Fintechs will see the onboarding experience as a product. There is a very fundamental difference in how they approach technical problems. Institutions increasingly prefer to have it as a service so they can focus on their core business, fuelling partnerships for services powered by open banking."

By enabling people to have the fundamental right to own their own data, open banking is equally important for society as it is for fintechs, financial institutions and how they ultimately work together.

"Open banking takes what is available in the high end of finance and brings it to the masses," says Plantier. "Just like a developed treasury knows where every single pound resides, people will one day be able to see every single piece of their financial puzzle in one place in real time and across all financial institutions in Europe and soon globally. They will have the ability to share that information and move funds by simply granting consent. We are already there for most of the 'transactional' assets – current and payment accounts – and are now moving on to include high-value, low-frequency financial assets, like mortgages, pensions and investments."

Founded eight years ago, Tink has been trailblazing the open banking platform. As Europe's leading open banking platform, Tink enables banks, fintechs and startups to develop data-driven financial services.

Through one API, Tink allows customers to access aggregated financial data, initiate payments, enrich transactions and build personal finance management tools. The open banking platform connects to more than 3,400 banks, reaching over 250 million bank customers across Europe. Tink's technology is transforming customer experiences across Europe, enabling businesses to help their customers make smarter financial decisions.

"Early on in our trajectory, we won some of the largest partnerships that have been signed in this industry, including SEB, ABN AMRO, NatWest and BNP Paribas," says Plantier. "We help our clients come to market with data-exchange applications, streamline their user experiences and help them take more valuable financial services to their customers.

"The data exchanged on these APIs, from the industry perspective, is quite raw. We make the data more readable for the end-user, but also more machine readable for our clients. By making sense of transactions from sources within the bank, as well as accounts held externally, a bank can get a single overview of a customer's economy and create insights that are easily actioned by the user.

"In the future, I imagine every large British bank will ultimately have a handful of very large fintech partnerships. There are things happening in digital identity, consumer finance and payments, merchant acquiring and open banking that are advancing so rapidly on a technical level it would be very difficult for any leading bank to develop and then manage in-house. By establishing the right partnerships, banks can focus on what they do best, which is serving end-customers with their product vision."

When NatWest wanted to integrate a new feature in its digital banking service, it gravitated towards a fintech to help do the job. The bank wanted to give its mobile app users a more frictionless, time-efficient and intelligent way of managing their money. That amounted to a spending feature that tracks and categorises customers' spending habits and provides insights to help them meet their savings goals.

> By establishing the right partnerships, banks can focus on what they do best, which is serving end-customers with their product vision

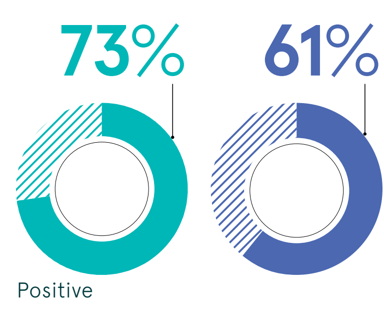
Finding a partner that could align with its values was a priority and Tink's "imagine, build and iterate" philosophy sealed the deal.

Since launching last November, the spending feature has empowered millions of NatWest's customers to take control of their finances. Around 4.6 million customers use it on a consistent basis, approximately 53 per cent of the bank's active mobile banking customer base. In July 2020, a personalised and actionable news feed was added to the app, which has delivered 6.8 million insights to customers, 1.6 million of which people have acted on to save money.

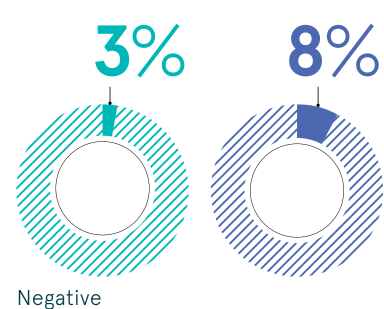
Wendy Redshaw, chief digital information officer at NatWest Retail Bank, says: "We look to partners to work with us collaboratively and bring in fresh perspectives. Tink brings a wealth of experience in open banking, personal finance management and getting insight from data, alongside deep connectivity. When you add that to what NatWest Group brings – more than 200 years of financial expertise, close relationships with customers and a deep understanding of their expectations – you get a cauldron of innovation that has real value."

HOW DO BANKS FEEL ABOUT OPEN BANKING?

United Kingdom · European average



Positive



Negative

For more information please visit tink.com

Commercial feature

Banking on an ecosystem to help post-COVID SME bounce-back

Anders la Cour, chief executive of ground-breaking financial infrastructure provider Banking Circle, outlines the findings of the bank's latest research and looks at how working with third-party providers can help financial institutions successfully serve small and medium-sized enterprises and increase financial inclusion

Banks across Europe often claim smaller businesses are too expensive to service and their needs too diverse. Yet small and medium-sized enterprises (SMEs) are the backbone of Europe's economy. They represent 99 per cent of all businesses in the European Union and employ 67 per cent of the workforce.

Despite representing a significant and profitable opportunity, SMEs face financial exclusion that leaves them unable to compete with bigger players. Lack of access to affordable banking solutions limits SMEs' potential and hampers their growth. In turn, because SMEs play an important role in economies around the world, this exclusion has a negative impact globally.

Finding the right prescription

SMEs struggling to access suitable and affordable banking is nothing new. The brightest and hungriest firms have, for many years, faced this challenge. But when you factor in the coronavirus pandemic, which is forcing thousands of those businesses to shut down for weeks or months at a time, bringing cash flow to a standstill overnight, more than once within a year, the picture grows bleaker still.

With little cash left in the accounts and government support not always going far enough, SMEs need additional funding to pay rent, utility bills and payroll, not to mention ordering stock for anticipated customer demand. They also need cost-effective payment and foreign exchange services. However, unable to provide a long credit history or report consistent revenue, many SMEs find their usual bank can't help and they are left unable to gain access to the services they need.

With the aim of exploring the specific challenges facing SMEs and identifying the opportunities for the financial services sector to support a post-COVID SME bounce-back, Banking Circle commissioned a new white paper, *Bounce-back Banking: Five markers for success in delivering SME financial services*.

The research revealed a significant gap between SME needs and the quality of advice and service they receive. Since new regulations and tougher restrictions came into play after the last global recession, banks have found it more difficult to offer financial services to smaller businesses. The wide range of business models, distribution and ambitions also means no two firms are alike, making them difficult for banks to serve. The result is SMEs are left out in the cold.

As a consequence, some European SMEs have been turning away from banks in certain service areas and more could follow. To remedy this situation, banks should think creatively about service provision, especially in areas like cross border payments and foreign exchange. Partnering with specialist providers reduces cost and enables tailored services through existing banks' digital channels.

As the Banking Circle white paper explains, money transfer companies have grown rapidly by offering cheaper, faster transactions; others have experienced rapid growth for their lending solutions. Now, as established institutions utilise their customer relationships, brand trust, liquidity and clearing capabilities to hit back, they are working with financial infrastructure providers such as Banking Circle to be able to offer banking solutions that better serve SMEs, while maintaining profitability.

> **Achieving total financial inclusion for SMEs requires a joined-up ecosystem, where various financial providers connect their solutions**

Preparing for the bounce-back

When banks first started, market requirements were very different, and no one could have imagined the the cross border, digital, international trading landscape in which we currently find ourselves. The once-pioneering systems and in-house servers on which banks are built now present a significant challenge in deploying new software and applying best practices.

Fifty per cent of banks told us in the research we conducted earlier this year that the move to digital services is a major challenge, yet two-thirds believe they are keeping pace with technological change. However, smaller companies are turning to alternative providers for faster, cheaper solutions; almost half (48 per cent) of SMEs have looked elsewhere for banking solutions that better suit their needs.

Future-proof vision

No single provider can successfully meet the diverse needs of the entire SME community. Ultimately, achieving total financial inclusion for SMEs requires a joined-up ecosystem, where various financial providers connect their solutions. Making these connections will be of vital importance to global economies as we look to recover from the worst health crisis in a century and one of the biggest economic shocks in history.

Partnering with specialist providers within the financial ecosystem reduces cost and enables tailored services through existing banks' digital channels. Our research found 80 per cent of retail banks and 74 per cent of commercial banks have already worked with infrastructure providers.

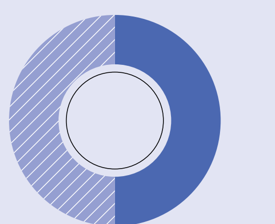
Financial infrastructure providers such as Banking Circle are focused on developing the technology to process payments directly and to integrate with a vast network of local clearing and payments schemes. Using decoupled architecture, we can easily update or replace individual pieces of architecture with limited impact on the rest, so we can quickly add more functionality and work within new geographies.

This means we are uniquely placed to give banks and payment businesses the ability to provide their business customers with faster and cheaper cross border banking solutions.

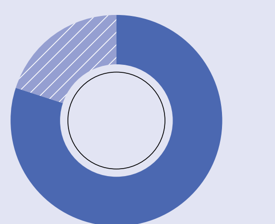
Inadequate access to cross border payments, foreign exchange and bank accounts is putting precious SMEs at serious risk more than ever before. Providers of all types need to make changes so they can provide better solutions for smaller businesses.

To find out more about how financial services providers can improve their service for SMEs, download the white paper at bankingcircle.com

CAPTURING VALUE IN FINANCIAL SERVICES FOR A DIGITAL AGE



50% of banks said that the move to digital services is a major challenge



80% of retail banks and 74% of commercial banks have already worked with infrastructure providers

2/3rd of banks believe they are keeping pace with technological change

How to improve service for SMEs

1. SMEs want a bespoke digital delivery model at reduced cost
2. Partnering with specialist providers enables tailored services through existing banks' digital channels
3. Better risk scoring and APIs can help address the inequity SMEs face when seeking credit
4. Combining digital delivery with tiered, personalised services and the human touch helps gain SME trust
5. Providers can add value by offering personalised advice for SMEs

Source: 'Bounce-back banking: 5 markers for success in delivering SME financial services', white paper by Banking Circle.

SME LENDING

Breathing new life into the UK's small businesses

Coronavirus hit smaller businesses particularly hard and, while government-backed loans helped many, fintech lenders are in a strong position to support small firms in trouble

Christine Horton

Small and medium-sized enterprises (SMEs) are the backbone of the UK economy. There were 5.9 million SMEs in the UK at the start of 2020, accounting for 99.9 per cent of the business population. However, SMEs have also been some of the worst-hit companies during the coronavirus pandemic so, while they will play a crucial role in the country's economic recovery, SME lending will be vital.

Almost £65.5 billion has been delivered to nearly 1.5 million businesses through the government's COVID-19 support schemes so far. Figures from the British Business Bank show the bounce back loan scheme (BBLS), which delivers 100 per cent government-backed loans of up to £50,000 to smaller businesses, has proved most popular, deploying loans worth £42.18 billion. This was followed by the coronavirus business interruption loan scheme (CBILS) which has delivered loans worth £18.46 billion.

However, Josh Levy, chief executive of Ultimate Finance, a finance provider focused on SME lending, says the concern is now what lies beyond BBLS and CBILS, and what access to funding SMEs will have in 2021 and thereafter.

"High street lenders have lent considerable sums under these schemes and are unlikely to have significant appetite to advance further funding to SMEs," he says. "Risk appetite has been supported by the government guarantee and it remains to be seen what impact any successor scheme has on appetite. Coming through the worst of the pandemic, balance sheets will be in a weaker position with higher debt and lower profits to support; this will constrain the ability for SMEs to secure more traditional cash-flow or unsecured loans."

Levy believes, given those factors, alternative funding solutions provided by independent lenders and fintech companies will have a huge role to play in continuing to provide working capital to SMEs. Specifically, he cites fintech's better deployment of technology, more flexible lending criteria, it's ability to make decisions based on current or live data rather than historic data, and its relationship-driven business model.

However, SMEs were faced with unforeseen challenges when it came to securing funding this year. The Times reported in July that non-bank lenders, including fintech companies and peer-to-peer lending platforms, had been denied access to low-cost funding from the Bank of England to deliver emergency government loans.

This is seen as a huge blow for SME lending, as many small businesses struggle to get state-backed finance via mainstream banks during the pandemic.

"One of the critiques of the government schemes is they didn't initially allow in many alternative lenders and instead relied primarily on incumbents to deploy capital. Businesses that didn't meet the requirements of the programme or that weren't already existing customers of one of the named banks were often left short of options," says Justin Fitzpatrick, co-founder and chief executive of DueDil, a platform that delivers company intelligence to help onboard SMEs.

5.94M small business (with 0-49 employees) at the start of 2020

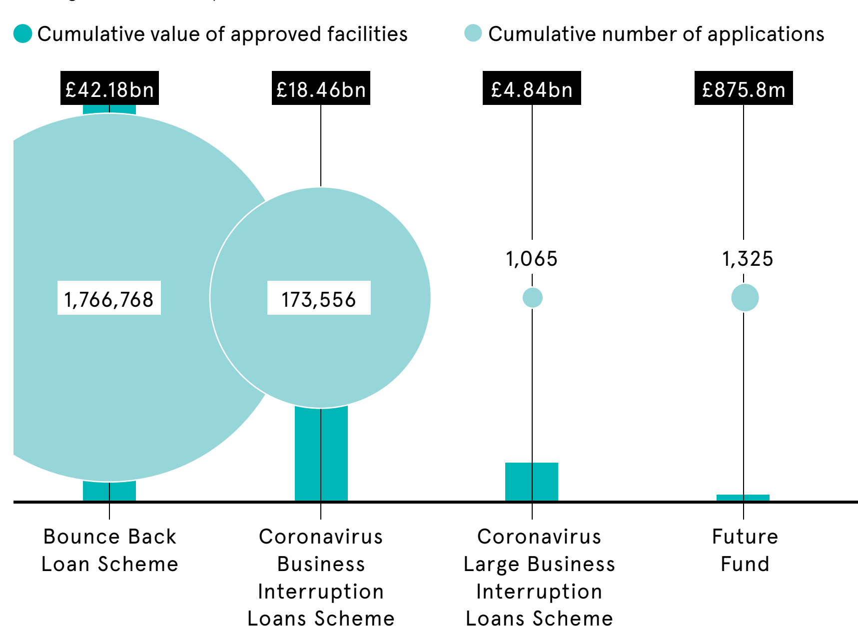
16.8M people employed in SMEs

£2.3TR in turnover for SMEs

FSB 2020

COVID LOANS WERE A TEMPORARY LIFELINE

Government-backed financial support has helped millions of businesses, but with these schemes coming to an end, new providers must be able to fill the void



British Business Bank 2020

> **The power of digital platforms to distribute financial products more widely and at very low cost is key to addressing the needs of the SME sector**

"But make no mistake, the lenders were presented with a massive challenge. They were being asked, out of necessity, to lend nearly ten times their annual lending volume in a shorter space of time. This challenge was made more difficult by the fact many lenders lacked the processes, technology and data to make fast, accurate decisions about which customers to onboard and lend to."

The onboarding process is seen as another hurdle in the SME lending process. Engaging with a legacy provider through traditional channels can be a time-consuming experience. Even after that, the bank's lending criteria may be too high for most small businesses.

"If you are engaging with a new financial service provider, the challenge of being onboarded by them begins with the tiresome paperchase that you may have to repeat a number of times with different lenders before the loan is secured," says Adrian Cannon, founder of Finch Global, a specialist in the know-your-customer, or KYC, sector.

However, Cannon says new fintechs such as Omnio are delivering digital engagement platforms that make it easier for their customer's end-users to source loans from multiple providers through a single digital interface. Similarly, Finch Global is a collaborative initiative that enables lenders to act as their customer's 'digital chaperone'. It provides them with a Finch Passport that securely delivers all the data needed to onboard with other regulated service providers.

"The power of digital platforms to distribute financial products more widely and at very low cost is key to addressing the needs of the SME sector," he says.

Elsewhere, fintech companies are leveraging technologies like artificial intelligence (AI) and automated underwriting to create flexible solutions.

Nucleus Commercial Finance has invested in AI and machine-learning to revolutionise the lending process. "Previously, SMEs would have to wait for weeks, or even months, to receive a decision on their funding request, but thanks to new technology, this decision can now be made in minutes," says the firm's chief executive Chirag Shah.

Simon Cureton, chief executive of business finance marketplace Funding Options, is encouraged by new entrants entering the SME finance sector during the pandemic, with compelling digital-first propositions. "It is these kinds of lenders, alongside the incumbent leading altfi [alternative finance] players, that will continue to drive the revolution in SME lending," he says.

"Going forward we need the fintech sector not to be seen as the cool kid on the block, but properly recognised as playing a critical role in a financial crisis. Reverting to the status quo and leaning on the incumbent banks will ultimately deprive businesses of such choice and competitive pricing. The fintech industry has the capability, ability and resilience to deal with a crisis of this scale, so it's about making sure innovation is not being stifled and instead encouraged to prosper during turbulent times."

DIVERSITY

Transformative power of diverse fintechs

When it comes to fintech innovators, the lion's share of support and funding still goes to a privileged minority. But a new generation of fintechs, aimed at serving the underserved, could be about to change that

Halima Iqbal, founder and chief executive of Oraan and Farwah Tapal, founder and chief operations officer

The ImpactX team L-R: Ezechi Britton, Yvonne Bajela, Eric Collins, Erica Motley, Paula Groves

Uneesa Zaman

An explosion of intersectional entrepreneurs has led the way in bridging economic justice and interconnectivity. Where mainstream fintechs focus on mass markets, diverse fintechs are unlocking the financial potential of underserved communities.

Coronavirus has shaped the way we interact, consume and act, inevitably changing the way we approach problems and build solutions. All across the world, a sense of collective community has been brought to the forefront to establish financial solutions.

As the world went into lockdown, the impact of COVID-19 accelerated the shift to digital payments as many moved online. While Europe leads the cashless crusade, countries across the global south have faced a crisis with economies dependent on cash.

Turkey has seen an exponential uptake in cryptocurrency adoption, as the Turkish lira continues to plummet against the dollar. Such financial instability in traditional finance has left a wealth of opportunity for communities who may have once lacked exposure to alternative finance.

Daniel Ahmed, Co-founder of Fasset, an ethical finance platform connecting the real and digital economy through the tokenisation of sustainable assets explains, "People in the MENA region lack ethical investment options. As crypto becomes a more viable and lucrative form of investment, demystifying and democratising access to this emerging asset class becomes ever more important."

To date, Fasset has garnered wide traction across the region with over 15,000 sign-ups to the platform since its launch in early November, as it continues to have tangible impact on often overlooked diverse markets.

Financial literacy has helped to break down barriers, providing awareness around common financial misconceptions. Diversity in fintech is building a path to financial freedom for intersectional communities.

Oraan, the first female-led fintech in Pakistan, offers people a chance to develop their financial prowess digitally through group savings, a long-standing financial tool in developing countries. By creating digital savings groups, known as committees, Oraan has brought the security of an established financial tool into the digital era.

Founder and chief executive Halima Iqbal explains: "We built a platform where women can participate within the financial system and feel validated; by having their own financial identity, they can benefit from the formal economy."

With more than 150,000 downloads and 85 per cent of their 10,000 reservations attributed to women, Oraan has tapped into a core underserved market, providing more financial equality within the Pakistani economy. In a country where women make up 48 per cent of the population, yet only 6.3 per cent are included in the formal economy, this is a significant achievement.

Access to additional income has helped to secure monumental milestones for female users. Iqbal says: "Women are coming to Oraan with their personal issues too. Digital committees have helped women to contribute to their households, as well as finance more personal issues such as IVF treatment."

Oraan has opened channels for women to talk about their financial goals and what it means to them through online communities, in turn building more trust within the community and in the product too.

The Pakistani female fintech isn't alone in creating tangible solutions in South Asia. Thaslima Begum, chief executive of TEEK TAKA, a trade finance platform working to improve labour conditions in the global fashion industry, believes there's potential for fintech to go further. "While digital payment systems are a great aid, we need to address the underlying flaws of our financial system," she says.

Initially focusing on Bangladesh, the world's second-largest clothing manufacturer, TEEK TAKA is currently supporting factories hit by the pandemic with their financing needs. Following order cancellations of more than £1.6 billion, such financial implications have left thousands of factories and the 4.2 million garment workers in a precarious situation.

"The current fintech landscape is dominated by products that serve business interests and the wealthy, while worldwide, people are experiencing growing inequality."

Although these diverse fintechs are helping people on the ground just like them, it doesn't come without struggles for their founders. According to Atomico's 2019 *The State of European Tech* report, only 4 per cent of founders in Europe were of Asian background, while 0.9 per cent were from a Black-African or Caribbean background.

Alarmingly, only 38 Black entrepreneurs received venture capital funding in the last decade, with Black female entrepreneurs being hit the hardest, gaining only 0.02 per cent of the total capital invested. It is evident there are higher barriers to entry for diverse founders.

Ezechi Britton, a fintech founder turned venture capitalist (VC) at Impact X, believes the disparity of opportunities within our systems makes it more difficult for diverse founders to leapfrog into the industry, as they don't have the same supportive infrastructure as more privileged individuals.

In a recent report by the British Business Bank, the Future Fund highlighted that for every £1 of VC investment in the UK, less than 1p is allocated to an all-female founder team. A deeper look into statistics provided by the UK government reveals the data only applies to senior management teams, skewing the statistics to portray a more inclusive outlook. Just 12 BAME (Black, Asian and minority ethnic) startups gained financial support.

> "The current fintech landscape is dominated by products that serve business interests and the wealthy, while worldwide, people are experiencing growing inequality

Furthermore, the report says VCs are more likely to use their networks to source investments. As such, these barriers can only strengthen class, ethnic and gender divides.

However, there has been an accelerated push towards changing this from the top. Britton expands: "We're seeing more diverse VCs trying to solve this problem, through targeted funds. Good Soil, 10x10 and Ada Ventures are all working towards increasing representation. At Impact X, we're building a £100m fund, which we are currently raising and will deploy over the next 4 years."

Traditionally, regulatory bodies have posed challenges for founders, now however they are looking towards bettering their relationships with startups around the world. The Financial Conduct Authority has provided solutions for fintechs to trial their products by obtaining a digital sandbox licence, while regulatory bodies in emerging markets are open to listening and adapting to meet the needs of consumers.

The experiences of diverse founders are shaping the way in which governments, regulatory bodies and investors are utilising their core skillset to tap into overlooked demographics. Diversity in fintech has led to mass innovation, solving deep-rooted problems experienced by underserved communities.

By promoting financial inclusion through tailor-made products, created by those with real knowledge of the lived experiences of these individuals, underserved communities can now access a financial system, where diverse fintechs are able to give them the reassurance and understanding that their voice matters too.

BLINDING LACK OF DIVERSITY IN VC FUNDING

UK VC deal number and value by founder team gender (numbers may not add to 100 due to rounding)

All-female teams · Mixed gender teams · All-male teams

Percentage of VC deals

Percentage of VC deal value

British Private Equity and Venture Capital Association 2019

Commercial feature

Recruitment in fintech: fostering diversity

Fintech must see the pandemic as a chance to boost diversity, comments **Elena Krutova**, global head of HR at multi-asset broker Exness

The fintech industry's lack of progress in promoting diversity is astonishing, but the coronavirus pandemic offers a chance to change.

The problem is still massive. For example, a study by Lendlt found that only 37 per cent of fintech employees are female and just 19 per cent hold C-suite positions.

The best fintech companies recruit globally across all ages and cultures. This approach has helped drive their growth. But even they have an opportunity to transform more radically to address imbalances in areas such as gender and race.

COVID-19 lockdowns have led to unprecedented investment in technology, according to a survey by KPMG. Most chief investment officers report spending more on technology due to the pandemic, with an average increase of 5 per cent. Some 86 per cent have moved to remote working and most anticipate large numbers of staff will continue working from home.

Elena Krutova, global head of human resources at multi-asset broker Exness, says: "Fintech is one of the fastest evolving industries with high levels of innovation. But men still dominate the sector and fewer female candidates are available for recruitment, compared to other industries.

"The fintech sector has reacted faster than other industries to pandemic-related changes such as remote working. They accepted quickly that the world will never be the same. This increases the opportunity to recruit a more diverse workforce, based only on a person's values and professionalism."

Cohesive and dynamic

The pandemic will continue to drive digitalisation as companies keep adapting to the uncertainties and financial pressures it has created. This affects almost everything from online shopping experiences to distance learning and telemedicine.

This change has highlighted the pressing shortage of technology talent in the market and forced fintech firms to focus intently on attracting and retaining staff. Attracting more females and minority groups will help them address the talent gap.

But it will also make their technical teams more cohesive and dynamic. Research shows adding diversity improves a range of team metrics. For example, 67 per cent of chief information officers say promoting diversity has increased trust and collaboration in the technology team and improved access to skills, according to the KPMG survey.

But to boost diversity further, fintech firms need to eradicate biases in the way leaders are selected, promoted and mentored. It is a stiff challenge given that only 24 per cent of IT leaders feel their organisations are very successful at promoting diversity and inclusion in their teams.

One way to solve the problem is to improve benefits and schemes that women and minorities value. For example, the COVID crisis should be a catalyst for promoting flexible working for people with caring responsibilities.

Many women's careers have been held back by family and caring duties. But the pandemic has shown flexible workers can be highly productive.

Krutova says: "Exness employees who now work from home have been at least as productive. Parents working from home should have more access to the job market compared to last year. If their company offers the right flexibility, working mothers can maintain a better work-life balance, which will make them more productive. The only major limitation should be their broadband connection.

"Remote technology allows a global approach, but it also brings challenges, such as working across time zones. Or during a Zoom chat, for example, you need to listen very attentively to make sure you understand the other person's cultural perspective and lose nothing in translation. But the opportunities to recruit a more diverse workforce far outweigh this."

Education and culture

Recruitment, education and culture must also change. The fintech industry has a reputation for innovation and upending tradition. Now, more than ever, companies must apply this principle in recruitment. Hiring from outside financial services, for example other relevant technology sectors, should help.

> We should try to take something positive from COVID by seeing it as a chance to improve and become more caring and diverse

"Fintech is different from the rest of financial services, in which people often tend to protect their positions with safe recruitment choices. In fintech, we need to step out of our comfort zones and recruit people with a more transparent mindset and who are better than us," Krutova points out.

"At Exness, we spend lots of time training and educating our team around this principle because each time you hire someone better than you, it opens new opportunities. There are no limits as to what 'better' means.

"We want each person we hire to change the company in some way. The culture in fintech is to innovate and create something new every day, which requires you to bring in new expertise constantly. This is harder if managers limit themselves by only making safe recruitment decisions."

Krutova says recruitment for diversity requires a wide range of tools and mechanisms for assessing candidates fairly.

"We have employees from around 60 nationalities in our company," she says. "In addition to taking a global recruitment mindset, we have a recruitment committee, not just one or two people, who bring a range of perspectives into the hiring process. These perspectives add value to the way we collaborate."

Caring culture

Fintech companies should not use positive discrimination just to fill a quota. Firms should always recruit based on a candidate's professional level first, rather than for the sake of balancing diversity.

But fintech companies need to reassess their attitudes about how less-represented groups such as women can add value to this industry. In addition to education, they need to provide under-represented groups access to development and promotion. This will give these groups a supportive environment and a chance to believe in themselves.

Fintech HR managers have made some progress, but they need to go to the next level in embracing difference.

Finally, nurturing a more socially responsible culture should help. Krutova concludes: "During the pandemic, many fintech firms have protected employees' jobs, helped them cope with the uncertainties and care for their families. All this demonstrates a high regard for social responsibility, which has a hugely positive effect on employees and can also help attract people with similar values.

"The opportunities in fintech are enormous. There are positive changes occurring around the world. Remote working opportunities add to these changes, but there's a long way to go.

"We shouldn't be afraid to accept new challenges, even in the current climate. We should try to take something positive from COVID by seeing it as a chance to improve and become more caring and diverse."

For more information please visit www.exness.uk

Commercial feature

Unearthing the risks and opportunities hidden in websites

Financial services companies are finally waking up to the compliance risks lurking on their websites and discovering that exposing the unknowns also presents great opportunities

The coronavirus pandemic has seen financial services companies consolidate digitalisation into a shorter window to improve online communication channels and stay connected to customers. This has accelerated digital transformation strategies by six years, according to research by Twilio. Yet while adoption of newer digital tools has propelled forwards, the website, which remains the face of a business, is sometimes forgotten.

It's crucial, for compliance, that firms can evidence digital communications across their web estates with accuracy and confidence. Due to the ongoing pandemic, firms are also publishing more information that has to be captured and archived. This has made archiving modern websites an even more difficult task.

Modern websites are more experience led, with dynamic or personalised modules, videos, dropdowns, rich media and vast datasets. Web archiving captures online records in a format that's time-stamped, legally admissible and available for replay.

"One of the biggest concerns for financial services firms is whether they meet the requirements set forth by regulators," says David Clee, chief executive of website archiving and monitoring firm MirrorWeb. "From the Financial Conduct Authority (FCA) to the US Securities and Exchange Commission and Financial Industry Regulatory Authority, regulators often view inaccurate or incomplete records as non-compliance.

"Due to legacy compliance platforms and redundant in-house processes, many financial services firms are unable to produce quality records that call into question their ability to evidence compliance."

The rapid adoption of new technologies, even before this year's pandemic struck, has meant the way firms communicate and engage with customers, from internal communication tools to social and web platforms, is under unprecedented scrutiny.

The FCA issued a record £392 million in fines in 2019 compared with £229 million in 2017, representing a significant increase. Further to this, a study from Teleware identified that two in five firms are risking non-compliance with article 16 of the European Union's Markets in Financial Instruments Directive II, or MiFID II, over record-keeping, facing fines of €5 million or 10 per cent of their annual turnover.

Transactions made online between July 2019 and July 2020 were 19 per cent higher than the year before, according to analysis by ACI Worldwide. This trend is set to continue, led by the ecommerce shift the pandemic has enforced, which means understanding what was said on a website, and when, has become even more critical.

In this landscape, it's no surprise that both digital transformation and compliance budgets have increased this year. Recent research by SteelEye found 40 per cent of firms have been given a higher compliance budget to manage problem areas since the pandemic began. Financial services firms must take immediate action to minimise risk as they advance their digital efforts at greater speed, ensuring their internal controls and processes can capture, monitor and evidence digital channels.

"Sadly, there is no 'half compliance'," says MirrorWeb's Clee. "In the eyes of regulators, you're either capturing complete records of your online communications or you're not. It's not just about regulation. By not having website records, companies also risk trademark infringement, legal disputes and brand assets being compromised or lost. Web archiving solves all these issues, while also presenting opportunities in other business areas."

Indeed, the savviest companies are realising that website archiving, and understanding exactly what is communicated across their websites, is not just a tool for risk management and meeting their compliance obligations. It also presents unique opportunities throughout the organisation, most notably improving transparency and brand value at a time when customers increasingly care about who they interact with.

"The sentiment around compliance is often negative, but we feel there are also very positive opportunities here for companies," says Clee. "Those who provide transparency while protecting customers' interests are more likely to fare better in the current climate and beyond. Knowing what they communicated and when allows organisations to be more transparent and accountable, and better able to protect both their own interests and those of their customers.

> Sadly there is no 'half-compliance'...in the eyes of regulators, you're either capturing complete records of your online communications or you're not

"To put it simply, firms that provide excellent digital experiences, as well as improved online compliance, will enhance their reputation and perception in the eyes of customers."

MirrorWeb captures, archives and preserves web-based content. Born out of a large-scale web preservation project on behalf of the UK government, its archiving platform is now widely adopted by financial services firms around the world, giving them complete control and confidence in what they capture.

From small locally-based websites to vast global web estates, MirrorWeb's technology was built to capture dynamic content and complete digital experiences. The company drives innovation to firms, supporting their digital transformation while helping them to improve digital compliance and oversight.

Next year will be an exciting time for MirrorWeb, with plans for expansion into the United States and a move to a pure SaaS (software-as-a-service) model to support small and medium-sized enterprises that require something with a very light touch.

Automation is a particularly important element when it comes to recording, monitoring and supervising digital content. Historically, some financial services firms have employed teams solely tasked with this responsibility. But with the rapid increase of digital channels and constant updates to web estates, it's no longer feasible without automated support.

MirrorWeb's automation significantly drives down compliance costs and improves operational efficiency by removing the need for any manual effort and allowing teams to improve their internal controls and processes.

MirrorWeb's web archiving and monitoring technology is highly configurable, enabling financial services organisations to define the frequency of capture along with what they capture. The company's innovation makes it possible to include or exclude specific areas across a web estate. It can conduct crawls by geolocation or device and even archive gated-website content such as intranets. This is a huge step away from legacy offerings and gives businesses in the financial sector full confidence in the records they capture.

"Our vision is to give financial services companies ownership of their digital truth," Clee concludes. "At the close of 2020, we're proud to say we've helped a number of global firms achieve this during such challenging times. We know the web will continue to be a primary communication channel for businesses all over the world, meaning web archiving has a huge role to play in keeping regulated firms compliant and preserving information for the future. We look forward to continuing to deliver innovation to our customers and supporting their digital compliance and transformation initiatives."

To learn more about MirrorWeb, please visit www.mirrorweb.com

WOMEN

The future of fintech is female

Fintech may have shaken up the financial landscape, but in terms of diversity, there remains much to be done. Four leading women in the world of fintech share their views

Crystal Wilde

Fintech is a brave new world of creativity and exploration, but you wouldn't necessarily know that by looking at the boards of most leading institutions in the sector. According to a 2018 LendIt survey, only 37 per cent of fintech employees are female, with representation dropping to just 19 per cent at C-suite level. Although the number of women in fintech is steadily improving, there remain systemic flaws in the systems that create barriers to gender diversity and hinder women's rise to the top.

Deep-rooted challenges and biases persist, despite strong evidence of the value women bring to businesses. The Credit Suisse Research Institute reports that companies with at least one woman on the board perform 26 per cent better than those with male-only boards, while Forbes found female entrepreneurs generate 20 per cent more revenue than their male counterparts, despite receiving 50 per cent less venture capital funding.

Here, four world-leading female pioneers of financial technology, who are helping to open doors for the next generation of female founders and executives, share their insights. They discuss the challenges they've faced, the need for better representation and their hopes for a gender-neutral future in financial services.

Anne Boden
Starling Bank, UK

Her love for technology showed itself at the age of four, when Anne Boden's steelworker father bought a reel-to-reel tape recorder for her birthday. Although not a typical toy for a toddler, the bulky piece of kit, innovative in its day, sparked a lifelong interest in machines in the little girl from South Wales.

After a 30-year career in banking at some of the world's best-known financial heavyweights, including Lloyds TSB, Allied Irish Bank and the Royal Bank of Scotland, Boden's tech credentials came into their own. Finding herself ashamed to be a banker when it was clear the 2008 global financial crisis had done nothing to cure the industry's ills, she started Starling Bank in 2014 and began building wealth management apps from scratch.

While she is proud that 42 per cent of the executive team and 40 per cent of board members at Starling are women, she says the male-dominated demographic she started out in is yet to see significant disruption. "Women don't see themselves in an industry that's full of men, so why would they want to join it?" she asks. "I know I don't look like a fintech leader, so I always try to make noise about it."

This compulsion to bang the drum comes after a lifetime of being told to "tone it down" by naysayers who cautioned Boden that ambitious women in finance would only become frustrated as they reached their inevitable limits. "I'm glad that advice went over my head, because if it didn't, I wouldn't have built a bank," says the rightful queen of UK fintech.

As a female founder, Boden was underestimated once again when trying to secure funding for Starling in Silicon Valley. "Investors couldn't see past their idea of what a founder looked like," she says. "They were only interested in backing white men in gilets with beards who fit the startup stereotype." But such knock-backs only helped strengthen Boden's resolve. "I worked towards my goal, not only to help improve people's financial wellness, but also to show them that a woman can succeed in a male-dominated industry," she says.

While Boden insists women in fintech still find themselves with more to prove, she believes the industry is slowly waking up to the benefits of gender diversity. "We've started to have the conversations, so now we need to do the work," she says. "As long as we create an environment that's welcoming, I'm certain fintech companies can change for the better."

> I know I don't look like a fintech leader, so I always try to make noise about it

Dr Anna Maj,
World Business Angel Investment Forum, Poland

This female fintech champion likes to say she was a woman in fintech before the term was even invented. Joining Citigroup at the turn of the millennium, Anna Maj went straight into the newly created sector of financial technology, where she began scratching the surface of internet banking, account aggregation and open banking.

> Women for women only doesn't make sense in the long run. We need the entire population to support diversity

While there were several women assigned to non-managerial roles within the bank, she came across very few further up the corporate ladder, especially within her tech-focused sector. "It would often happen that I would be sitting in a meeting with 20 people and realise I was the only woman there," she says. "At first, I didn't even recognise there were gender issues because it was a daily routine for me, but as time went by and I was promoted, I found being the only woman had its challenges."

Maj claims that rather than being limited by the "glass ceiling", she repeatedly found herself facing off against a "glass cliff", a metaphor for the way she feels women in tech are tested to a greater degree than men and pushed out if they fail to deliver. "This is a battlefield for many women," she says.

Navigating such battlefields seems to have bestowed her with a warrior-like mentality, however, spurring her on rather than cutting her down. A high achiever in the extreme, Maj started school a year earlier than the other children in her hometown of Warsaw. She currently works as a senior lecturer at the Center for Financial Training & Education Alliance, a senator at the WBAF Angel Investment Fund and a jury member at the European Innovation Council.

Awarded a PhD and MBA, she speaks eight languages, has published two books, and last year featured in the Women in Fintech Powerlist, and was among the Top 25 Women Leaders in Financial Technology.

Part of the transformation generation that grew up as the Eastern Bloc's post-communist countries began opening to the world, Maj has never faced the dilemma of having to choose between her career and personal life, deciding in her 30s that her professional

development and freedom trumped having a family. "It very much depends, as everybody knows, on how you define success, what are your values and what you want out of life," she says. "Every life is different."

Maj welcomes the recent wave of positive initiatives supporting female leaders in fintech companies, but says a change in the global mindset must take place before minorities of all kinds can achieve genuine representation and shake off the shackles of imposter syndrome. "Women for women only doesn't make sense in the long run," she says. "We need the entire population to support diversity, not only in terms of gender, but also age, background, culture, ethnicity, skills and confidence. It's by connecting all these things we can create a collaborative ecosystem that's best for business."

Kahina van Dyke,
Standard Chartered, Singapore

From a family of rule breakers, Kahina van Dyke's parents met at a civil rights protest in the late-1960s, where her Black father was marching and her white mother was reporting. At a time of great social unrest and deep racial divisions, they raised five children in northern New York State, teaching them all to stand up and be counted. "I think when you're raised by two people who go against the odds and have the belief that just because something is legal it doesn't mean it's right, you have the idea of constructively challenging the assumptions of the system," says van Dyke.

This year, starting a new role in digital channels and data analysis with Standard Chartered in Singapore, van Dyke's path to becoming a fintech leader almost mirrors that of Anna Maj, beginning with Citigroup in 1999, when banks were just starting to explore "this ground-breaking new thing called the internet". Also similar to Maj, she found that while her team included plenty of women at the start, as she progressed in her career, through positions with Facebook, Mastercard and Ripple, diversity, both in terms of gender and ethnicity, became harder to find.

Pointedly announcing "Good morning, gentlemen", when entering a boardroom full of men helped her feel she was both acknowledging and owning the disparity, as did swapping her pin-striped trousersuits for dresses once she felt confident enough to do so. "I remember that being a very freeing thing as I hit my 30s and my stride. I realised, yes, I'm the only woman, but actually my femininity is my unique quality and strength," she says.

> Yes, I'm the only woman, but actually my femininity is my unique quality and strength

Motivated by her parents' conviction that she should use her blessings to help others, van Dyke worked tirelessly to outperform her male colleagues to pave the way for the next generation of non-traditional candidates. Running a global team by the time she had her twins, she hoped her work ethic and seniority would shield her from the sidelining some of her friends had faced when starting families earlier in their careers. Nonetheless, offers of moving into less intensive roles and questions about who was looking after her children were commonplace. "I never saw my male colleagues get asked those questions," she says. "Even the ones that had six kids."

As banking continues to evolve into a more collaborative and integrated entity, however, van Dyke sees an opportunity for the development of new leadership and working models that she hopes will ultimately result in more women in fintech. "In ten years, our C-suites are not going to look the same," she says. "I'm really excited about that, but we all have to push towards it. Those who get it right are going to win and those who don't are going to be dinosaurs."

Cristina Junqueira
Nubank, Brazil

When Nubank, one of a new breed of challenger banks, received a tenfold-unicorn valuation in 2018, it became the first company in the world with a female co-founder to reach the $10-billion milestone. The woman with that credit to her name is Cristina Junqueira, a gifted and idealistic Brazilian economist who, along with her partners, Colombian David Vélez and American Edward Wible, has disrupted the institutionally dysfunctional and complacent banking landscape in Latin America.

Nubank, now the world's largest digital banking startup with more than 30 million customers, operates exclusively online, providing financial services that strive to be simple, human and transparent.

After a degree in industrial engineering and a masters in economic and financial modelling, Junqueira found herself rising quickly through the ranks of Unibanco, the largest private banking group in Brazil. With no female role models in positions above her, she was advised to look and act more like her male colleagues, and complied by restricting her wardrobe to gender-neutral ensembles.

"I've always strived to have a protagonist attitude in my career, so I tackled this point with the same discipline I tackled every other piece of development feedback I received. But it was sad to see that the one thing they cared about was how I looked as opposed to the impact I was able to drive with my work," she says.

This, along with the constant rejection of her proposals to make financial services more transparent and affordable, left Junqueira deflated and disillusioned. Deciding she was "done making rich people richer", she left the banking behemoth and launched Nubank after stumbling across a meeting of ideals and expertise with her fellow co-founders.

Junqueira has two daughters, the first of whom was born as Nubank received its series-A financing round. Signing the deal from her hospital bed the day before the birth and back on the phone to clients the day after, she affectionately refers to the bank and her first-born as twins, and unashamedly admits her work and her family are of equal importance.

She believes the flexibility and creativity of fintech companies is more attractive to and supportive of women, and is proud to boast a payroll that is 43 per cent female, including many in leadership and C-level positions. With in-house initiatives such as "Yes, She Codes", Nubank hopes to see more women in fintech in the future which, Junqueira expects, will lead to better products. "If we only have a small group of people who look alike and think alike creating the financial services of the future, it's likely those products will only fit the needs of people similar to them," she concludes.

> If we only have a small group of people who look and think alike creating the financial services of the future, it's likely those products will only fit the needs of people similar to them

Commercial feature

Q&A

Democratising data to reduce credit losses

The coronavirus crisis will leave lasting financial scars and the recovery will reshape the economy. In the interim, banks and creditors must embrace technology to improve fairness and transparency in receivables management

The coronavirus pandemic and its destructive impact on economies around the world is set to cause a significant surge in non-performing loans and debt. Though governments are doing what they can to limit damage, through unprecedented stimulus packages and job support schemes, the second wave of the virus has all but eliminated the prospect of a swift economic rebound sparing a flood of default. More long-standing high street brands are falling into administration and unemployment rates continue to grow.

There is no doubt that European banks and creditors are entering a period of high credit losses, combined with a slowing of new business and compressed margins. Especially in markets where post-financial crisis restructuring was still ongoing, financial analysts expect many institutions will be pushed into a limbo state with very weak returns, although not on the scale of the financial crisis a decade ago.

> Bringing money back to the real economy requires a data-driven approach to debt management that reacts carefully to economic policy measures

Europe is already beginning to feel the effect of the output gap caused by the pandemic and government-enforced lockdowns, and is entering a difficult winter with a further wave of defaults set to build through late-2020 and into 2021. The unique nature of the crisis presents particular challenges for banks, as customers who ordinarily always paid on time are now in highly stressed situations. How can they understand behavioural changes when such changes haven't been seen before?

As a strategic partner to financial institutions and creditors, fintech company QUALCO plays an extremely important role in the European credit market by providing tools powered by artificial intelligence (AI) that enable financial institutions to understand the behaviours and changing circumstances of their customers. Through these insights, organisations can approach debt management more fairly and transparently, and meet customers through their preferred channels in an increasingly digital and self-service world.

Spyros Retzekas, chief operating officer at QUALCO, explains why data democratisation is so important to achieving this, and explains what banks and other creditors need to do differently through this economic crisis to mitigate losses.

Q As someone present during the eurozone sovereign debt crisis a decade ago, what are your thoughts on the pandemic economic fallout and how are you responding?

A Rapidly accumulating household and corporate debt always presents a major risk to financial and economic stability. This time around, job, income and business support packages from governments have been truly unprecedented. Bringing money back to the real economy requires a data-driven approach to debt management that reacts carefully to economic policy measures. Fintech partnership with financial institutions and creditors, are in a prime position to lead the new paradigm of debt management by removing the opaqueness and bringing much more openness and transparency to customers. Many people are currently in a highly vulnerable situation, through no fault of their own, and while vaccines present a glimmer of hope, there is still a long way to go until the economy will begin to recover. It is important for banks and creditors to understand and deal with their changing circumstances in the fairest way.

Q Digitalisation has revolutionised money and payments systems. What impact has it had in the debt management industry?

A Digital technologies have played a crucial role in keeping society functioning during the COVID-19 pandemic, whether by enabling remote working, automating processes or facilitating virtual financial transactions. It goes without saying that customer relationships are at the heart of credit management, and it is now certain, that creditors, who do not integrate digital communication and self-service channels in their operations will simply not be able to fully serve a significant portion of their customers. Through the savvy deployment of technology, including AI and machine-learning, they can optimise performance and increase transparency, flexibility and consistency, ultimately enabling self-serve and offering tailor-made products that better reflect customer habits and needs. However, digital channels are only one side of complete recoveries automation. An AI-driven customer approach is the other and more challenging.

Q What are both the promises and the perils of big data and AI in receivables management?

A Receivables management is starting to be disrupted by AI and machine learning due to the low cost of vast amounts of processing power and the availability of massive amounts of historical records of customers in banks and other financial institutions. Many of these organisations are using AI to change the ways in which they optimise capital, model risks, assess affordability and manage their customer interactions through the likes of early-warning mechanisms, self-cure strategies, personalisation of customer interaction and treatment, and predictive modelling. There are many benefits of this, including improved customer experience, reduced losses and decreased bad debt, with explainability, auditability and reproducibility being the key to governing the use of AI in finance. We invest a lot in this area, but as the applications of AI continue to grow, creditors seem to struggle to build the right culture that is required to boost data democratisation within their business. AI and voice analytics are undoubtedly becoming very hot, but technology alone is not enough to drive transformation, people have to drive it.

Q Indeed, data democratisation is a hot topic in boardroom discussions. How far is the debt management sector from becoming truly data-driven?

A Digital democratisation pushes organisations to rethink how they manage, distribute and interpret data. That often means driving a dramatic cultural change in the organisation, freeing information from the silos created by internal, customer and external data. This is where most of the companies seem to fail. By enabling better decision-making, QUALCO's technology helps organisations build a common analytics language within the business. And by combining those capabilities with our data governance consulting services, our clients are able to connect the dots.

Q The credit industry's growth is expected to be limited in the coming years. What should be done differently to improve returns and mitigate credit loss?

A The industry needs to think outside the box and the traditional model, and ultimately do more with less. Improved returns will need to come from reducing cost, which means investing in digital transformation and upgrading the customer experience. By doing so, a new level of ambition can be set when it comes to operational efficiency and cost-reductions, but financial institutions must first leave legacy technology behind. They need to improve their project management discipline, particularly around remote technology delivery, and enable their business lines to work more closely with technology teams to simplify and automate recovery processes, improve their work capacity and use data insights better.

For more information please visit qualco.eu

INVESTMENT

What are VCs looking for?

Can investors see potential just by looking fintech founders in the eyes? Here's what three of the world's leading venture capital firms think

Charles Orton-Jones

Lyu Ming/China News Service via Getty Images

> He had no business plan, zero revenue, but his eyes were very strong. I could tell from the way he talked he has charisma, he has leadership

It is arguably the most successful investment of all time. Masayoshi Son invested $20 million in Jack Ma's internet startup Alibaba in 2000. That chunk of cash helped Alibaba grow into a $600-billion ecommerce giant. Son's company SoftBank enjoyed a payback of more than $100 billion. Just count those zeros. It's a 5,000-plus return.

And why did Son back Ma, someone who couldn't code and didn't own a computer until he was 33? "He had no business plan, zero revenue, but his eyes were very strong," says Son. "I could tell from the way he talked he has charisma, he has leadership."

It's an interesting quote. And a huge claim. Did he really invest on the glint of Ma's "strong eyes"? And if so, what does it say about how investment works? How important is the personality of the founder when it comes to winning investment?

"It's enormous," says Richard Anton, founding partner of venture capital (VC) firm Oxx and former chair of the British Private Equity and Venture Capital Association. "The characteristics of the entrepreneur we are backing are key. It's hard to create a new business. There are lots of new challenges. They may need to pivot multiple times. You need a leader capable of doing all that."

To identify the right candidates, merely looking for steely eyes isn't quite enough. The founder must be committed. "They need to be thoughtful, to understand their domain well and to understand the problem they are solving," says Anton.

"There are two kinds of ownership. The economic sense of owning shares. And the other kind is emotional ownership. The kind a parent has for a child. An entrepreneur needs to be emotionally invested in a business for it to succeed." He rattles off examples: Bill Gates at Microsoft, Larry Ellison at Oracle, Mark Zuckerberg at Facebook, all synonymous with their creations.

And the hallmark of an investable chief executive? "The standout predictor is that the person who founds it and runs it has already been successful as an entrepreneur. I don't think it's possible with unproven people," Anton adds.

It's an often overlooked detail of Ma's career that before Alibaba he had already founded two internet companies, at a time when a webpage took minutes to load.

In Germany, one of the best known VCs is Oliver Holle. He's a tech entrepreneur turned investor and now leads Speedinvest, backer of almost 40 fintech companies including hits such as Tide, Curve and Wefox.

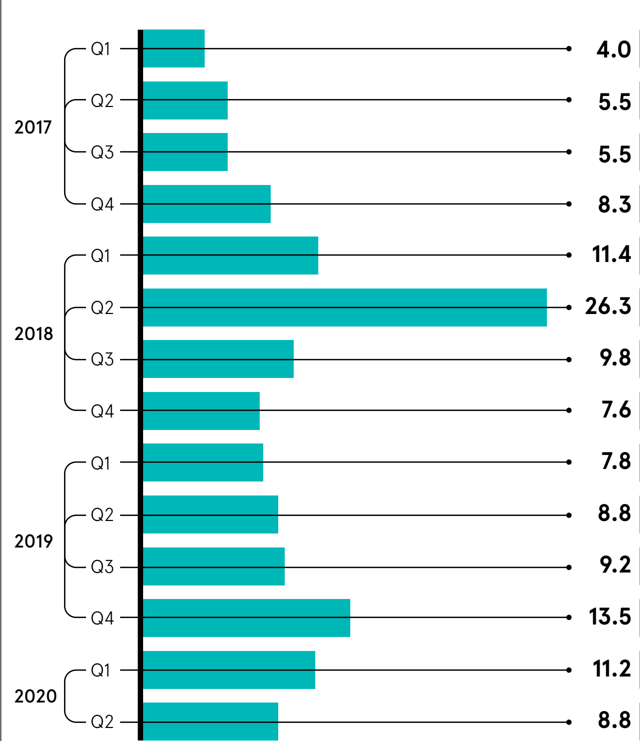
Holle says: "It's easy to laugh at Son's quote, but there is truth to it. It makes sense. The leader needs to be able to paint a picture. They need to be obsessed with the product and then zoom out and give a broad-brush story to investors. The best founders don't even use a pitch deck. They just have a talk with investors. If the entrepreneur can't explain their story this way then there is a problem."

Speedinvest has developed methods to analyse fintech founders. "The way we test entrepreneurs is to put them in front of incumbents, who we are friendly with or, even better, another founder from one of our portfolio companies and see if they can have a meaningful conversation. That gives us a clear picture," says Holle.

For founders who pass the early tests, there's one final challenge. "We always have a 'three customer' rule. Before we invest, we put them in front of three potential customers. That's great for them, as they may win new business, and useful for us as we can see how they act," he says.

HAS COVID DAMPENED VC'S FINTECH ENTHUSIASM?

Global venture activity in fintech from 2017 to H1 2020 (deal value in $bn)



Founder of Alibaba, Jack Ma, whose "strong eyes" won him the $20m investment which turned his startup into the global giant it is today

Holle has red flags that disqualify an investment. He says: "If the company has a very distorted cap table. That means the founding team only owns a relatively small fraction of the company at that early point in time. That makes it impossible for us to invest. As we know the company will need a lot of future fundraising rounds, so that's a big problem."

There's the question of how management and staff work together. "If the dynamics of the team members are not aligned, or there's potential conflict, that is a huge red flag. It's one of the biggest reasons startups fail," says Holle. And the final one: "Dishonesty. There is a fine line between making big claims and making untrue claims. We'll call customers to check claims about contracts and future sales. If a claim is not true, we walk out immediately."

In Silicon Valley, the cynical view is that a showman with enough razzle-dazzle in his pitch can hustle investors. A gadget for squeezing fruit juice called Juicero won $120 million from top-tier investors, including Kleiner Perkins and Alphabet, only to go bust after a reviewer noticed the packets of fruit mush could be squeezed just as efficiently by hand. Journalists noted the founder of Juicero was a former graffiti artist with no college degree. So how do VCs filter out the stars from the wannabes?

Mark Sherman is managing director of Telstra Ventures, which boasts three deca-unicorns with $10-billion-plus valuations, including cybersecurity company CrowdStrike, currently valued at $37 billion. "I think the Son quote has shreds of truth to it," he says. "The piece I agree with is determination. Grit is something you can suss out. You can get a feeling from the steeliness of their eyes."

Other qualities require some probing. "We are looking for people with high EQ [emotional intelligence] and IQ. We watch their alertness and how they respond dynamically to questions," says Sherman. "Are they a leader, able to take the hill? Or are they somebody who hides in a foxhole?" A sense of leadership is critical. Fintech companies can grow from a handful of staff to hundreds or even thousands.

Naturally, the complexity of fintech means these qualities are only part of the package. "We're looking for super-deep domain knowledge," says Sherman. He cites regulatory requirements, the nature of backend technologies and how to structure details, such as billing methodologies, as the kind of things a fintech founder might need to know. This is why fintech is comparatively immune to bluffers. A deep knowledge of payment architectures or cloud-native databases can't be faked.

But the conclusion is that VCs still rely on gut feel in fintech. They have to. It's the nature of the business. Neither a detailed business model nor glitzy presentation can compensate for the need of investors to feel the man or woman they hand cash over to is a born winner.

Even a veteran like Sherman comes back to this intangible quality. "You can tell within 30 seconds," he says. "When the first words come out, you get a sense of whether they are a great guy or gal."

Speedinvest's Holle concludes: "In the end we look at the founder and for their pure will to succeed."

It's clear that in an age of artificial intelligence and algorithms, fintech investing remains refreshingly human.

Maskot/Getty Images

FINANCIAL LITERACY

Educating customers is good for business

Traditional banks may have profited from keeping customers in the dark over fees, but a new wave of challengers have decided widespread financial literacy is a win-win

Oliver Balch

Financial literacy is to fintech what in-person cash deposits are to bricks-and-mortar banks: the absolute basic. With literacy comes knowledge and with knowledge, as the saying goes, comes power.

That's how Eddie Behringer sees it, at any rate. Chief executive of Seattle-based Copper Banking, he gives his customers cash rewards for hitting their savings goals and even offers to top up their accounts if they pass a quick test about finance.

His reasoning is simple: most people are ill-informed about how finance works and being ill-informed leads to bad decisions that limit their opportunities. The earlier such education occurs, the better, according to Behringer, whose digital bank focuses exclusively on teenagers. "When they win, we win. And ultimately, our world wins," he adds.

That may sound like wishful fintech spin, but there are hard numbers to back it up. Research by mobile data analyst App Annie estimates that American 16 to 22 year olds spend $44 billion a year and influence how an additional $600 billion is spent.

The market opportunities for banks in the pre-banked sector, like Copper, extend to the wider banking universe. Like teens, the world's "unbanked" would benefit exponentially from knowing how to maximise their cash. Their income may be small but, at 1.7 billion people, they represent a vast untapped market.

However, the real prize for fintech promoters of financial literacy is existing bank customers. Thanks to the transparency offered by digital banks, people are finally waking up to the sub-optimal offerings of traditional banks.

So argues Nikita Tchesnokov, partner in the early-stage fintech investment firm Gauss Ventures. "A new, financially literate generation is quickly realising they have been historically overcharged for banking products and are starting to shift their loyalty and custom to these new transparent providers," says Tchesnokov.

He is not alone in seeing the upsides of helping people wise up about money management. The "win-win outcome" is touted by former investment banker turned financial literacy champion Kerim Derhalli. Through the smart use of gaming and social interaction tools, Derhalli's stock trading app Invstr has not only empowered consumers, but also won their custom.

A cutting-edge digital offer is obviously key to attracting and retaining new users, but it all starts by getting people through the fintech door, he says. Explaining Invstr's rapid uptake, it's "as much about providing education as it is about digitalising a financial service," Derhalli argues.

Another believer in the business benefits of increasing consumer's financial literacy is Helen Bierton. Chief banking officer at UK disruptor Starling Bank, she maintains that educational tools such as instant notifications and spending breakdowns are helping customers see through the "complex and daunting" maze of personal finance.

Financial literacy is a double-edged sword, however. Yes, it makes individuals more likely to switch banks as they become more skilled at identifying providers that are "right for them and their needs", as Bierton puts it. But it also brings new expectations of what good service looks like.

It's a challenge fintech innovators like Wirex are content to embrace. The UK's first regulated crypto bank, Wirex has raised the bar for modern money management by enabling users of its online platform to trade up to 20 traditional and digital currencies at any one time. Other handy, simple-to-adopt innovations include a contactless debit card to spend crypto savings in-store.

It is no longer necessary to wait for the bank to open or the stock market to clang its bell. Armed with a sound understanding of basic finance, individuals now have an array of tools to manage their money how they want, when they want, says Wirex chief executive Pavel Matveev.

Nor is the literacy leap that great, says Matveev. The smarter fintech gets, the lower the knowledge threshold becomes. "Arguably, consumers don't even need to be that financially literate any more to make the most of digital platforms like ours," he says.

Traditional banks are wising up to this. Recent years have seen a massive expansion of digital offerings from bricks-and-mortar financial institutions as they seek to keep up with their digital challengers. Restrictions on movement imposed by coronavirus have accelerated this process, with daily use of digital banking channels up by 6 per cent globally over the last year.

This sensitivity to changing consumer patterns includes an appreciation of the need to educate people about basic banking. Kevin Martin, chief operating officer of wealth and personal banking at HSBC, describes a future scenario in which customers kick off a query with an artificial intelligence chatbot and get passed to a frontline colleague should they need more help.

In 2019 alone, HSBC clocked ten million chatbot conversations, a figure it anticipates could increase twelve-fold by 2024. Even so, Martin still expects the human element of banking to persist. Therein lies reassurance when things become complicated.

Quick though banks might be to mimic fintech's digital tools, their core business model may still rely on keeping customers in the dark. That way the profitable system of covert fees and administration charges can continue.

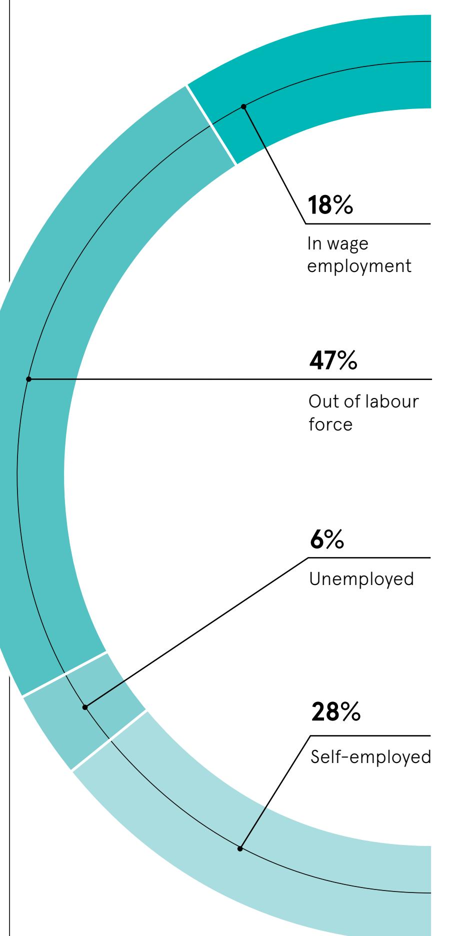
Of course, many customers are happy to stick with the status quo. If it costs them more to avoid the perceived faff of actively managing their money online, that's a price many may be prepared to pay. How well this argument holds up in today's economy remains to be seen.

Ricky Knox, chief executive of Tandem Bank, doesn't buy the idea that traditional banks can continue to profit from "human laziness". Not because people will stop being lazy about their money, but because, through clever tools like Tandem's auto-savings service, digital services will work around people's natural inertia.

Annamaria Lusardi, professor at George Washington University's Global Financial Literacy Excellence Center, agrees. Financial illiteracy may serve the interests of big banks in the short term, but as a long-term strategy it's doomed, she says: "Better to serve the needs of consumers if they want to keep them."

SELF-EMPLOYMENT IS THE MOST COMMON FORM OF WORK FOR UNBANKED ADULTS

Adults without an account by employment status (%), 2017



Global Findex database; Gallup world Poll 2017

Commercial feature

Leading the digitalisation of operational risk management

The banking landscape has changed drastically since the 2008 financial crisis, but operational risk still has to catch up with market and credit risk in its digitalisation and standardisation

The risk landscape has transformed over the last decade, with operational risk leaping in significance. There have been almost $400 billion in fines and $150 billion in losses since 2012, and the Association for Financial Markets in Europe calculates annual regulatory costs at around $26 billion.

Pre-financial crash, banks didn't have to hold any capital against operational risk, only market and credit risk. Now, the top 30 banks hold more than $400 billion of capital against operational risk and it's the second highest capital item at J.P.Morgan, with regulators potentially perceiving its operations as riskier than its trading activities.

Despite the severity of fines and losses, banks have been slow to adopt a similar level of digitalisation and data-driven intelligence to operational risk than has been applied in other risk areas.

For market risk, banks have Bloomberg, Reuters and exchanges that connect participants in real time. For credit risk, credit ratings agencies, including the big three, Fitch, S&P and Moody's, have been leading standardisation and a network of comparability across firms. In both areas, technology helps achieve a single version of truth. Yet when it comes to operational risk, it's still predominantly people and process. Fitch Group, however, are a major investor in Acin.

Acin is changing all this with a ground-breaking approach to digitalising operational risk management. The company's industry-wide network combines technology and data standardisation to enable institutions to consistently measure, manage and mitigate operational risk in a way they haven't been able to in the past.

Organisations can clearly visualise their data, benchmark performance and demonstrate compliance to regulators, allowing them to reduce costs, return focus to their core business and ultimately make banking safer. This comes at a time when coronavirus has forced banks to rethink their operating environments.

"The foundation of Acin, when we launched three years ago, was really that there's a better way to approach operational risk. This is even more apparent since the pandemic has further exposed the flaws in any processes that are too reliant on people and proximity," says Paul Ford, founder and chief executive of Acin.

"Our technology helps organisations become better at what they do, as well as the industry to become better and safer on a systemic basis. When a new bank joins us, we see they can be missing 20 or 30 per cent of the key risks and controls. Despite their best efforts, people's judgments are important, but it's no substitute for the power of data and technology."

The people-driven approach to operational risk management was born in the wake of the global financial crisis. Though operational risk always existed, it never garnered the same attention as its direct revenue-generating counterparts in market risk and credit risk. The post-financial crisis regulatory environment, heavily influenced by a hostile political landscape, changed all of that, bringing operational risk management firmly to the fore.

Investigations, inquiries and rogue-trading incidents became frequent between 2008 and 2010, as the pressure from regulators to resolve operational risk issues mounted.

"Banks did what they always do when they don't quite know how to solve a problem yet, but there's a tsunami of existing regulations being applied and new ones being added, they hired some really smart people and brought in a bunch of consultants," says Ford, who along with other members of Acin's leadership team comes from a banking background, so he has lived through operational risk challenges in this sector himself.

"While those people were figuring it all out and dealing with the issues, banks could go back to their board and the regulators and say, 'Look how many people we've hired and consultants we've brought in to sort this out; we're taking it seriously'. It was a very people-centric approach to operational risk and that's broadly remained the case.

"Annually or quarterly, teams of experienced people sit down and look at a particular topic, discussing the risks they've identified, the controls in place to manage or mitigate them, whether anything has changed and how they grade each control in its effectiveness."

While relying entirely on the judgment, skills and experience of individuals can render good results; taking a manual, artisan approach means mistakes are bound to happen and frequently do. Intelligence is limited to the experience of the people sat around the table and the costs of that can be astounding. Global bank fines for 2020 hit €11.61 billion in October, on top of average annual risk and control operating costs of more than $100 million each.

Acin's vision is to utilise technology that brings operational risk up to a scalable, more efficient and effective operating model. Acin is creating the standards, protocols and data attributes for both identifying and controlling risk, and then using the digitalisation to form a network across the industry that is interoperable and interconnected around these protocols. Instead of just one organisation looking at their operational risk in a silo, data is aggregated across all the banks in the network, on an anonymised basis, so sharing vital risk intelligence.

"We're going to see operational risk grow to be on a par with market and credit risk in the ways they are managed and run like a data science," Ford concludes. "Acin is setting the standards and leading the industry in this new capability, forming that network across banks so they can be stronger together.

"But this isn't all about gold plating. A lot of the things we do allow people to remove controls and take noise out of the system. We want to see the industry become safer and more effective at managing risk, but also more efficient. Firms are always going to take risk, but they need to take it in a quantitative way, just like they do with credit risk in lending money and market risk in trading money."

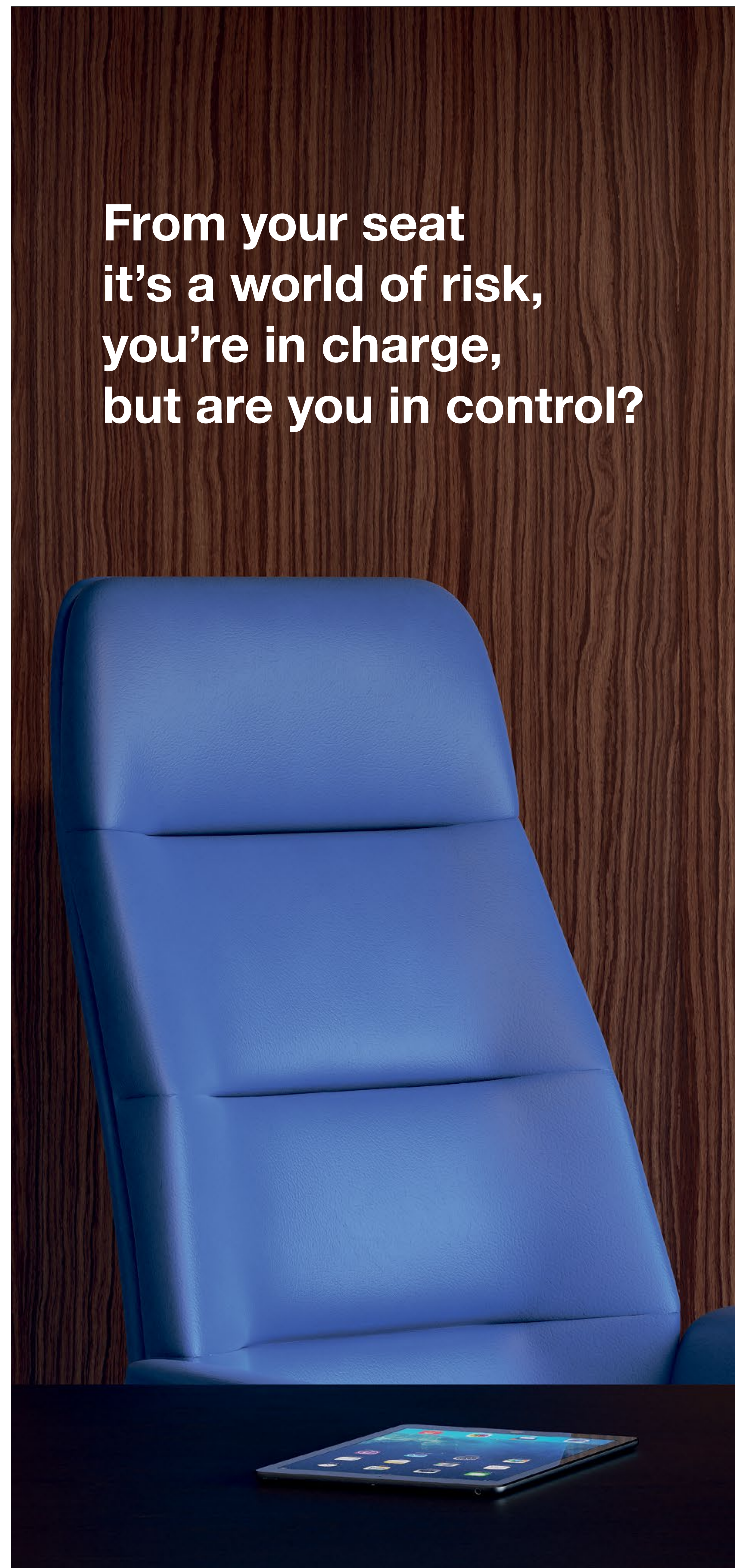
> **We're going to see operational risk grow to be on a par with market and credit risk in the ways they are managed and run like a data science**

£264bn
Total Conduct Cost at top 20 banks 2012-16
Conduct Cost Project Research Foundation

$321bn
Total fines paid by banks since 2008 to 2017
BCG Report

50,000
Average controls at a global bank
Acin estimates

For more information please visit acin.com



Acin combines the shared data of its peer-to-peer network with an accessible SaaS-based platform that enables those in charge to continually improve how they manage operational risk.

Acin's network includes many of the world's most significant investment banks and is built to serve thousands of customers around the world.

To discover how you could be sitting more comfortably please contact us.

+44 (0)20 3728 8585
connect@acin.com
acin.com

© Acin Ltd.

BREXIT

Reshaping the fintech landscape

As the Brexit transition period comes to an end, UK fintech companies are facing an uncertain future outside the European Union, but the changes could be more positive than negative

Ben Edwards

Alexander Spatari

The City of London is a thriving fintech hub, but the final transition out of the EU on the 31st December could be putting that in jeopardy

As the clock ticks down to midnight on December 31 and the end of the Brexit transition period, UK fintech is bracing for an uncertain future.

The loss of passporting rights that previously allowed UK fintechs to operate across the European Union has meant firms will either have to set up a subsidiary somewhere within the EU or simply stop selling their services there.

"If you're not prepared, you have very much limited your market," says Louisa Murray, chief operating officer for UK and Europe at Railsbank. "There are almost 450 million people in the EU and only about 66 million in the UK, so if you haven't taken action, your customer base has shrunk an awful lot; in that regard it could be an enormous disaster for some companies."

The lack of clarity over Brexit may also have caused some fintechs to delay executing plans to continue operating in the EU, which means there could be a number of firms that will be forced to temporarily cease EU trading on January 1 while they wait for regulatory approval.

"Where people have left it until very late to apply to go through the process of setting up in the EU, they will get to the end of the year and realise they can't do business," says David Whitelaw, senior project manager at Railsbank. "Regulators will be very keen on making sure people who are operating in the EU are operating legally."

Another unresolved area is whether the EU will allow data to flow freely to and from the UK under its data adequacy rules, something that is critical for many fintechs that process personal data.

"While there are alternative practical solutions, such as model clauses in contracts, the administration costs hit the fintech community disproportionately because they tend to be smaller and therefore not as well resourced to deal with those sorts of issues," says Rachel Kent, head of financial services regulation at Hogan Lovells.

Besides the cost of setting up a subsidiary in the EU, there could be an even greater long-term cost to the UK fintech landscape if companies start to prioritise their EU operations over their business in the UK.

"Having an office in Europe makes it easier for fintechs to put more of their staffing in an EU country than here in the UK if it's going to be a rougher, bumpier departure from the EU," says Russ Shaw, founder of Tech London Advocates. "If it becomes really rocky then they might be shifting more of their resources to work from within the EU. The harder the Brexit, the more we'll see some underlying threats to the level of investment that could come into the UK fintech sector."

> The harder the Brexit, the more we'll see some underlying threats to the level of investment that could come into the UK fintech sector

Yet there are potentially opportunities for the UK fintech landscape to flourish in a post-Brexit environment. Take fintech bridges. In 2016, the UK government announced a plan to set up a series of so-called bridges with other international financial centres, striking agreements with Australia, China, Hong Kong, Singapore and South Korea.

Not only could those fintech bridges be better promoted than they are currently, the government could also try to set up bridges with other jurisdictions, says Shaw.

"They're an under-utilised asset at the moment, but with Brexit on the horizon and a real desire from the private sector and also the government to turn the UK into a fintech leader, there's going to be much more focus and attention put into fintech bridges in the future," he says. "Asia is really key, but I think we also want to make sure we're looking at the United States as well."

UK-based fintech OakNorth has taken advantage of the bridge with Australia as it seeks to grow its smaller business lending platform in the country. Nick Lee, head of regulatory affairs at OakNorth, believes fintech bridges could play a central role in enhancing the ability of UK fintechs to expand overseas in the wake of Brexit.

"There may be opportunity outside the EU to build those bridges into something even more significant and intensive than they are now or something akin to the passport regime with other jurisdictions," he says.

The UK government also has an opportunity to develop trade deals with other countries that directly support UK fintech.

"The United States is the biggest opportunity out there," says Lee. "Anything that allows us to have closer links with the US market from a regulatory perspective and that allows UK fintechs to be able to access that market more smoothly, will be a good thing for the UK fintech sector and the UK economy as a whole."

Another way the UK fintech landscape could thrive after the Brexit transition period is by having a more flexible regulatory regime that is better tuned to the needs of fintechs.

"In a post-Brexit environment, the government will be more able to develop law and policy to ensure the UK remains an attractive place to establish a fintech business," says Kent at Hogan Lovells. "We want it to be easy to come here, easy to get regulated here and to be confident regulation will be proportioned."

At the moment, EU regulation means fintechs are often subjected to the same regulatory requirements as large global banks, putting smaller businesses at a significant disadvantage.

"This is not about tearing up the rulebook or imposing a light-touch regime," says Kent. "It's a delicate balance not a bonfire of regulation. That's in the interest of the fintech community because it's about having the right regulation to support them and the broader market."

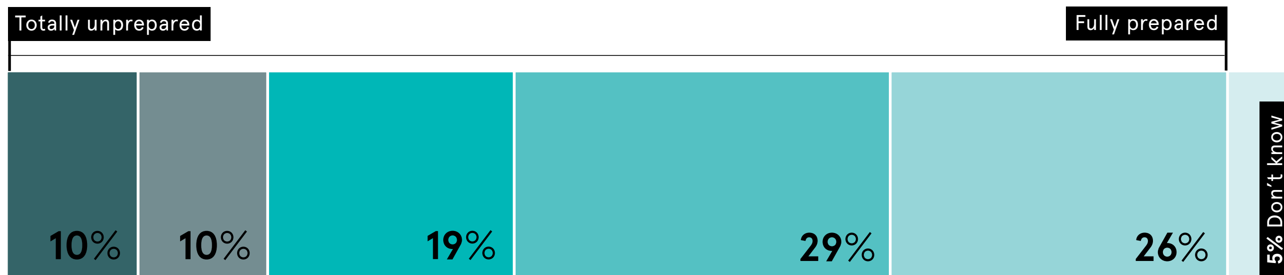
The UK could also take the regulatory lead on emerging financial products, such as crypto assets, and help set the tone globally, says OakNorth's Lee.

"It could be a real advantage that the UK is a regulatory thought leader in that sector," he says. "We found through the fintech experience that the UK regulator's approach was copied around the world, so there's a real opportunity to be more innovative in the regulatory approach."

OPTIMISM IS HIGH AMONG UK FINTECH

Innovate Finance 2019

British fintech companies state how prepared their businesses are for Brexit, with 1 being totally unprepared and 5 being fully prepared. (numbers may not add up to 100, due to rounding)



Kidbrooke

As you are getting closer to your preferred retirement date, we have adjusted the risk profile of your investments. Click here to review.

What would happen to my future net wealth if I put some of my amortisations toward an investment in a mutual fund?

I'm thinking of taking time off to retrain for a different occupation, but what would that mean for my retirement income?

The future starts now, and there's an API for it.

Imagine **a world** where everyone can make **educated financial decisions.** - We call it **Seamless Finance.**

Start your journey at **kidbrooke.com**

With **OutRank**, you can improve **quality and consistency** of your financial services. Start small and gradually build up your digital services towards true **holistic financial navigation.**

With **OutRank**, you will have a solution for your customers' needs **before they know they exist.**