



All Party Parliamentary Group
FinTech

APPG on FinTech breakfast briefing - The FinTech Capital: Can Payments Innovation Support the UK's Global Ambitions?

Date: 26 April 2016

Location: Room P, Portcullis House

Time: 09:00-10:30

Secretariat
Innovate Finance

Address: Level39
One Canada Square Canary
Wharf, London United Kingdom
E14 5AB

Meeting Minutes
www.appgfintech.org.uk

Telephone: 020 3819 0179
Email: info@appgfintech.org.uk

APPG on FinTech breakfast briefing - The FinTech Capital: Can Payments Innovation Support the UK's Global Ambitions?

Date: 26 April 2016

Location: Room P, Portcullis House

Time: 09:00-10:30

Attendees:

Tony	Craddock	Emerging Payments Association	Director General
Will	Archdeacon	Parliament	Parliamentary Researcher for Adam Afriyie MP
Adam	Afriyie MP	Parliament	Chair, FinTech APPG
Chris	Dunne	VocaLink	Market Development & Industry Relations Director
Daniel	Morgan	Innovate Finance	Head of Policy and Regulation
Joshua	Eves	Innovate Finance	Policy and Regulatory Advisor
Philippa	Verrecchia	Innovate Finance	Policy and Regulatory Advisor
Martin	Docherty-Hughes MP	Parliament- SNP	Member for West Dunbartonshire
Barry	Sheerman MP	Parliament- Lab	Member APPG on FinTech
Jeremy	Quin MP	Parliament- Cons	MP for Horsham
Bob	Ferguson	FCA	Head of Department, Strategy & Competition Division
Rafael	Plantier	Stripe	Financial Partnerships EMEA
Howard	Allen	Payfriendz	CFO
Nick	Kerigan	Barclaycard	Managing Director- Future Payments
Paul	Thomalla	ACI Worldwide	Senior Vice President Global Corporate Relations & Development
Mike	Banyard	Faster Payments	Head of Development
Catherine	Hickin	Cash Services	Intern
Mike	Kelly	Stateless API Consulting	Founder
Kevin	Smith	Association of Independent Risk & Fraud Advisors (Airfa)	Joint Chief Executive
Paul	Rodgers	Vendorcom	Chairman
Chris	Pond	Financial Inclusion Commission	Vice Chair
William	Walter	Kreab Worldwide	Associate Director
Rt. Hon. Baroness	Neville-Jones	Parliament	
Shaul	David	UKTI	FinTech Specialist
Faith	Reynolds	FCA	Financial Services Consumer Panel
Tom	Harrison	Government of Jersey London Office	Political Liason Executive

Rt Hon.	Stephen Timms MP	Parliament	Member APPG on FinTech
Seema	Malhotra MP	Parliament- Lab	Shadow Chief Secretary to the Treasury
Dr. Lydia	Harris	Parliamentary Office of Science and Technology	Physical Sciences and ICT Adviser

Introduction: Adam Afriye MP, Chair of APPG on FinTech

Payments and the system that underpins payments are a crucial part of the financial services infrastructure, therefore innovation and development in this area have the potential to bring about substantial benefits for the end user.

Nevertheless, the complexity and technical nature of payment systems infrastructure houses inherent security risks therefore a balance must be struck between providing an open space for innovators, and putting in place the requisite security precautions.

Opening remarks: Dan Morgan, Innovate Finance

Statistics show increasingly close links between the payments systems and FinTech firms, with:

- 35% of FinTech firms identifying as a 'payments' firm
- 37 FinTech 'Unicorns' (a company valued over \$1bn) in the payments space
- 26% of total VC investment in consumer facing payments propositions

For the most part FinTech firms are building on top of the current infrastructure, rather than radically upheaving the status quo.

The upcoming implementation of [PSD 2](#) includes new requirements, which will force changes in the payments landscape, and are already influencing the behaviour of FinTech firms and their product development.

Internationally the UK is recognised as having one of the most modern payment systems, and has strong government and regulatory backing for innovation and change with the Payments Systems Regulator (PSR) and Payment Strategy Forum (PSF).

Tony Craddock, Emerging Payments Association

We have seen the development of a new sector over the last few years labelled 'PayTech'. Key metrics demonstrate centrality of payments to financial services sector:

- Payments services generate £60bn of revenue
- Payments make up 40% of banks' profit.
- The payments industry is growing at a rate of 7% annually (McKinsey)

The main trends we are now seeing:

Consumer facing trends

1. Substantial changes to the way consumers make their consumption choices and carry out the transactions. For example, it is increasingly more likely that a consumer will have made the choice of what they intend to purchase before they arrive in the store, or will have a much wider choice of products in their mind when making their decision than the narrow selection of what the store has in stock. This is due to the instantcy of online transactions and new models such as click and collect. For example, 20% of US Starbucks transactions are now conducted through click and collect model.
2. The proportion of transactions carried out through innovative payment methods such as contactless, and mobile payments has increased by 59% over the last year. 10% of all transactions are now touch and go.
3. The development and mass adoption of 'invisible' and effortless payment, for example paying for a taxi on Uber - transaction is an automatic process within the app.

Business to business

4. Increased uptake of innovative invoicing products where the supply chain is shortened and transactions between businesses are made much more efficiently.

Behind the scenes there are a number of developments driving forward these trends:

1. Investment in payments firms is increasingly coming from VCs rather than large banks which provides the firms with a more direct relationship when starting out and growing.
2. Retailers are beginning to interact with payments methods and products in a more positive manner recognising the benefits and efficiencies they can bring.
3. Investor interest in PayTech is growing in general.
4. Consumers are now starting to move to newer financial services firms such as challenger banks, which have closer links with more innovative payments firms.
5. The boundaries between interbank payments systems seem to be blurring e.g. changes to BACS and large-scale reviews of systems such as RTGS are in motion.

There are a number of negative developments, which need to be monitored:

1. Big banks are withdrawing current account access for SMEs, particularly pawnbrokers and money transfer firms, making it impossible for certain firms to carry out business.
2. Retailers are not adopting services from companies using more innovate payments processes at a high enough rate.
3. There remains a fundamental issue in cross subsidisation in traditional banking, where the less-well-off are over subsidising the better-off.

In conclusion the payments sector has seen a shift in the power balance from the larger firms to smaller firms thanks to an accommodating policy environment and this positive momentum should be maintained as far as possible.

Chris Dunne - VocaLink

VocaLink are 40 years old and run the bulk of UK payments infrastructure. Key trends they have seen over the last few years:

- Cash is still widely used: the number of ATMs in the UK has increased from 30,000 to 70,000 over the last 10 years.
- Since the introduction of Faster Payments the volume of electronic payments has increased at a rate of 30% a year and individuals can now send up to £250,000 in a single transaction.
- The biggest individual user of the payments systems remains the Government mainly due to the processing of benefit payments.
- There remains a large sector of society who does not interact with the payments system whatsoever due to access issues.
- The UK now operates a 24/7/365 payments system with over 50% of transactions taking place outside of 'normal business hours' i.e. 9am-4pm.
- Faster Payments is hoping to announce a number of new Sponsor Banks over the next year, including 3-4 'challenger banks'.

Internationally there has been demand for British designed systems with both Singapore and the US implementing systems designed by VocaLink.

FinTech firms are building on top of these infrastructures; however there has been more progress in terms of consumer facing propositions in certain foreign jurisdictions than in the UK to date e.g. consumers can use Facebook to pay in Singapore.

The link between payments systems and financial inclusion is becoming the focus of an increasing number of policy projects, for example, a joint project between VocaLink, Toynbee Hall and the Federation of Small Businesses (FSB) is looking into how systems that can adapt to changing employment patterns within the UK, i.e. zero-hour contracts.

Open Discussion

How concerned should we be about the impact of cybercrime on our payments systems?

- Cyber security is an increasing threat therefore systems providers work closely with government and the Bank of England to ensure the necessary level of cyber security is in place.
- The main threat is from organised criminal groups rather than individual hackers.

It seems to be the case that the US has a weaker payments infrastructure than the UK but that there are better applications being developed in that market - what is the reason for this and what are the barriers to innovation here in the UK payments market?

Global trends:

- There are a number of differing trends across the globe - for example Asia is the outright leader in terms of payments application for end users.
- There is a more profound preservation of the status quo in US payments systems due to huge vested interests from large firms, and strong lobbying voices therefore firms are forced to innovate on top of the old systems with little potential for change in the underlying architecture.

UK barriers:

- There is a need for standards to be agreed to provide the innovators with a framework when developing products and to promote interoperability.
- There should be a wider provision of access to settlement systems to promote competition and interoperability.
- Providing real-time banking is the cost that prevents smaller firms competing in the banking market, rather than the cost of accessing and using the payment system.

It was noted that a specific APPG on Payments Systems has been set up to raise awareness within parliament of the key policy issues. The APPG on Payments will work closely with the APPG on FinTech due to the likely overlap in priorities.

Closing comments

It is important that the conversation on innovation in the payments sector continues, and that where possible as many of the key stakeholders are represented at the table. It is especially important that the needs of the end consumer are considered in all discussions given the potential for rapid change in the sector.



All Party Parliamentary Group
FinTech

www.appgfintech.org.uk