All Party Parliamentary Group
FinTech

STEPPING FORWARD FOR FINTECH

Influencing and Encouraging Developments in the UK's Financial Technology Sector

FOREWORD

All-Party Parliamentary Group on FinTech

The All-Party Parliamentary Group on FinTech was set up to raise awareness in Parliament of the growing importance of Financial Technology (FinTech) to the UK economy, to policy-making and to consumers. It aims to promote a regulatory framework that encourages a growing, inclusive and competitive FinTech industry, and seeks to investigate the potential applications of FinTech including peer-to-peer lending, crowdfunding, digital currencies, internet banking etc.

Chair, APPG on FinTech
Adam Afriyie MP, Conservative, Windsor

Just one year ago the APPG on FinTech was created and we have already seen a massive shift in the Financial Technology ("FinTech") ecosystem, a step-change in the uptake of services on smart devices and a growing public and Government appreciation of the importance and potential of the FinTech industry.

I'm pleased to say that the APPG on FinTech has been an active and tireless participant in highlighting the benefits of this sector. The UK's FinTech industry is flourishing and changing the face of financial services to produce a more pluralistic, inclusive and secure financial environment.

FinTech provides opportunities to improve financial services to all participants in society, especially the poor and financially excluded, through greater access to choice, information and security for transactions and lending.

The Government has taken note of both the APPG and the calls from the wider FinTech sector. An EY report recently confirmed the UK as a FinTech powerhouse. On top of this we are seeing many earlier commitments, such as better tax treatment of P2P lenders and a regulatory sandbox, come to fruition.

However, a headstart is not a birthright. We need to actively drive policy if we are to stay ahead. I am optimistic that together we can continue building a forward thinking, cross-party consensus on how best to enable the benefits of FinTech solutions to ripple out through the wider economy and society.

So we look forward to the year ahead and in eager anticipation of what is to come. If FinTech is to deliver benefits across the board then financial inclusion, competition and quality will all require greater focus.

INTRODUCTION

Sharing the benefits of the FinTech revolution

The application of technology to financial services ("FinTech") is a fast-growing industry, revolutionising the way citizens, businesses and governments transact, save, spend and invest. As we lead increasingly digital lives, our use of financial products is changing rapidly. Exciting innovations are affecting everything, from how we make payments and check our bank balances to how we identify ourselves and share our data.

It is important to ensure that this FinTech revolution brings maximum benefit to society. This means benefits not just for financial services firms and those who invest in them, but also for the wider economy, the small business, the average citizen, and the financially excluded.

Technology can improve our understanding of our finances and our interaction with financial products. It can offer choice, as smaller, innovative service providers, such as challenger banks, enter the digital market and avoid the costs and difficulties faced by bricks-and-mortar providers. It can drive the creation of new markets, such as crowdfunding, and the opening up of existing markets to a new audience, such as robo-advice. It can help those who need finance to access it more quickly and efficiently. And it can help keep us secure against the risk of fraud and money laundering.

> *"FinTech can bring benefits for the wider economy, the small business, the average citizen and the financially excluded."*

This report develops these issues, starting with an overview of the FinTech landscape in the UK. It then considers the opportunities that FinTech can offer by exploring three key policy areas – fairness and choice, access and inclusion, security and integrity – and makes observations and recommendations about how to promote good policy objectives within the FinTech landscape.

FINTECH LANDSCAPE

Growth and momentum in the United Kingdom

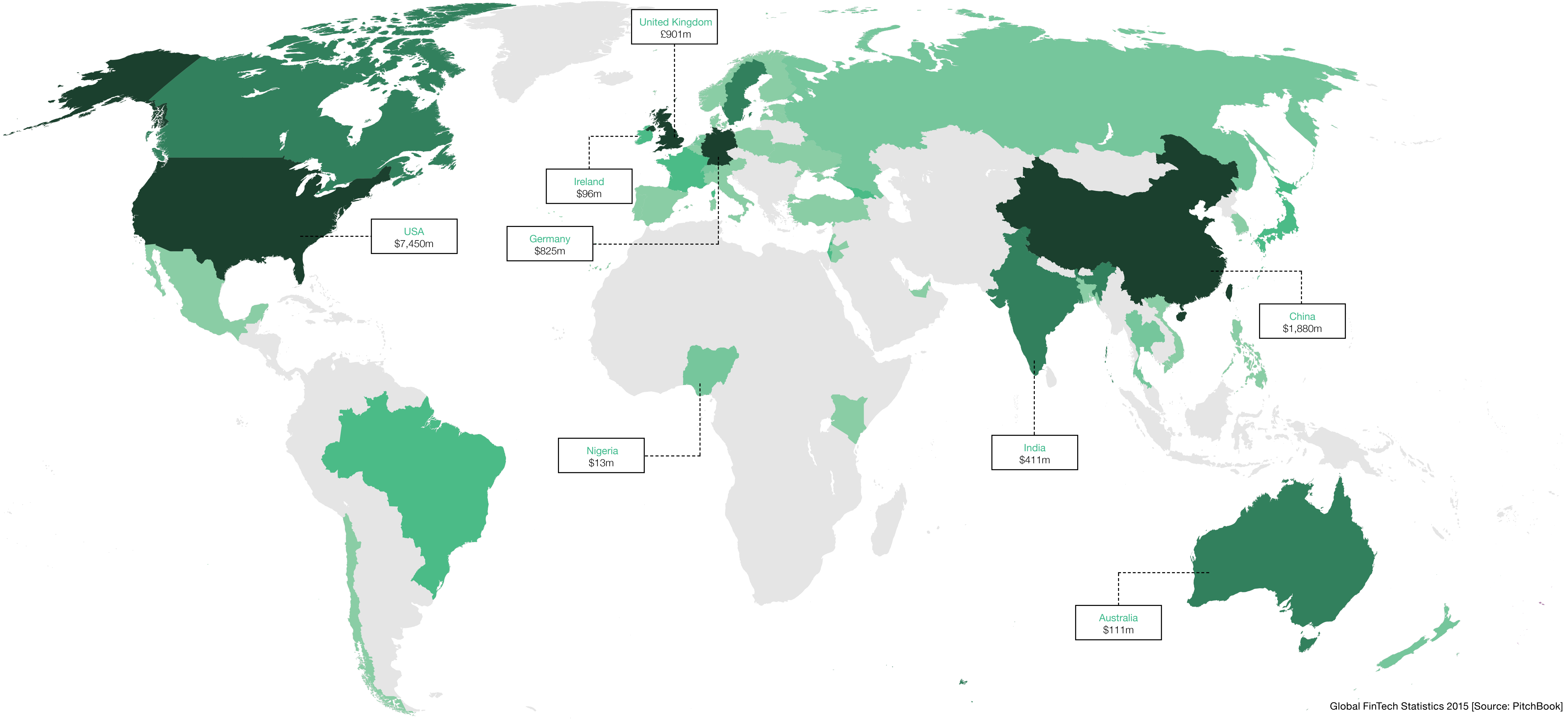
The UK is an ideal ecosystem for the development of FinTech, bringing together a thriving financial services sector, strong technology industry, investment community, and a digitally engaged customer base.

GLOBAL FINTECH VC INVESTMENT

$12.5 billion invested over 860 deals

Map Key

≥ $500m ≥ $100m ≥ $50m ≥ $10m ≥ $10k Non Recorded

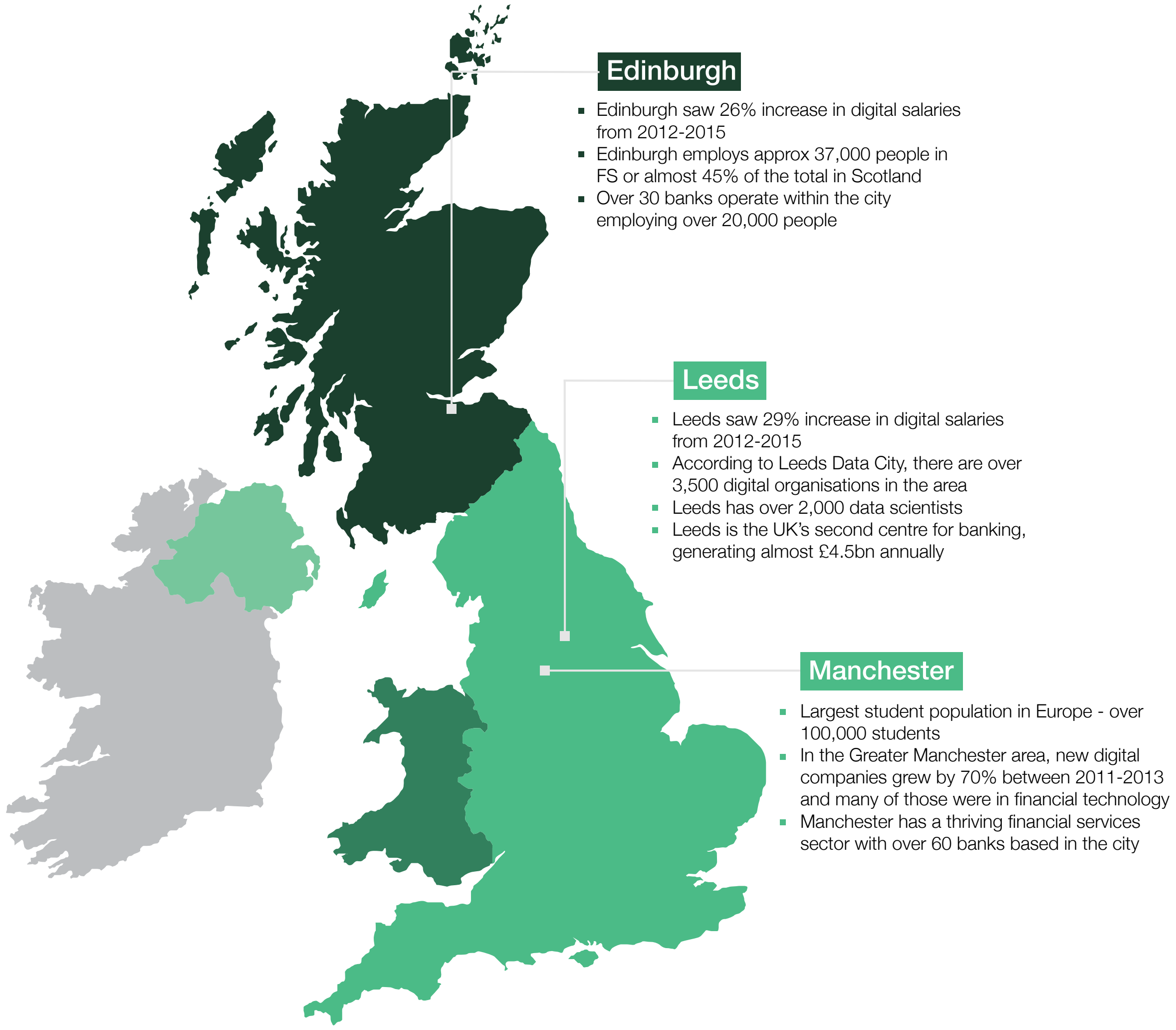


Global FinTech Statistics 2015 [Source: PitchBook]

The Government has been clear in its aim for the UK to be the FinTech capital of the world. The UK has one of the world's most supportive and progressive regulatory and policy environments, a well-qualified and experienced talent pool, and tax breaks for digital and technology start-ups. The Financial Conduct Authority's Project Innovate, set up to foster and encourage innovation in the regulated sector, is world-leading.

We are seeing results. EY recently found London to be the world's leading FinTech hub[1]. The FinTech market is estimated to generate £6.6bn in revenue. In 2015, FinTech companies attracted over $900m in venture capital investment, a 35% increase on the previous year[2].

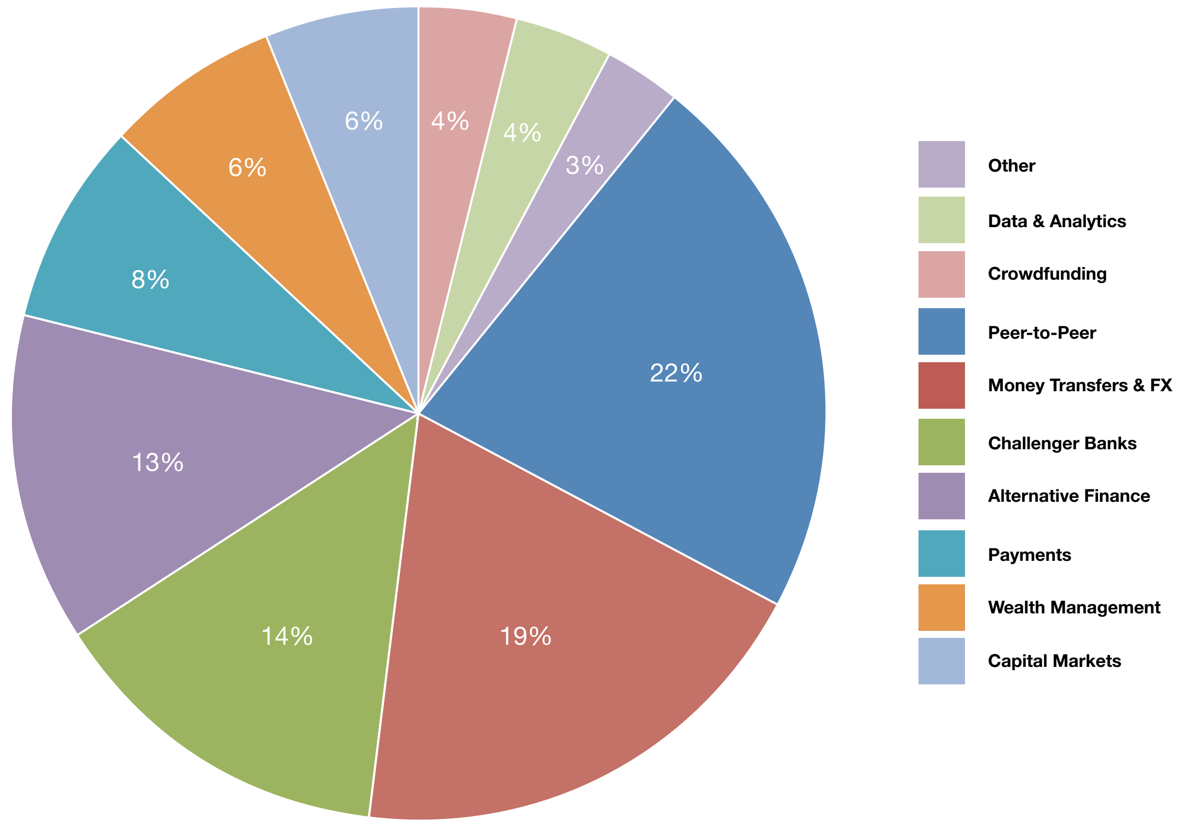
Growth in FinTech also relies on the right balance of competition, and collaboration, between incumbent financial services firms and innovative start-ups. Large firms are investing in FinTech through accelerators, incubators, partnerships and venture capital funds. Established players bring resources, expertise, funding and knowledge of the regulatory system. Start-ups bring innovative solutions, agility, the potential for fast growth and fresh thinking. Many FinTech firms offer propositions that could streamline and improve banks' existing processes, which can lag behind in terms of innovation and technological efficiency.



Regional FinTech Satistics 2015 [Source: TechCity UK, Midas, Invest Edinburgh and SDI]

FinTech is not just a London phenomenon. Edinburgh, Leeds, Manchester, Belfast, Birmingham, Cambridge and Cardiff are all financial and/or tech centres which have contributed significantly to the recent growth in the UK. Manchester, for example, has 56,000 individuals employed in the digital sector and £3.5bn of investment to support digital and technology infrastructure[3].

FinTech start-ups are attracted to regions that are less expensive than London, but that still maintain an excellent talent pool, ecosystem and support network. This makes the UK a "tech nation" with hotspots all over the UK with their own specialisms and expertise, each competing globally in those markets.



UK VC Investment by Vertical 2015 [Source: PitchBook]

The largest FinTech sectors by investment are peer-to-peer (£196m in 2015), money transfers and FX (£175m), and challenger banks (£126m)[4]. A good deal of this growth can be attributed to policy drivers in those areas, such as changes in the regulatory environment for peer-to-peer, PSD2, the Bank Start-up Unit, the reduced capital requirement for start-up banks, and the Current Account Switching Service.

Sectors such as data and analytics, cyber security, financial inclusion, and blockchain are also attracting significant amounts of investment. Further policy measures to encourage development in those areas could help unlock their potential for growth.

The UK is certainly a world leader for FinTech, but in a climate of robust global competition its position is not guaranteed. Further work will be necessary to ensure that the UK keeps the momentum that it has been building. This period of fast and encouraging growth is an opportune time to consider how we bring the best out of the potential that FinTech offers for us, our communities and our businesses.

FinTech is driving change in the financial services industry and the UK is competing and thriving on the global stage. This is exciting, but this change and growth is to be encouraged most where it aligns with the interests of citizens, their security, and their prosperity.

OPPORTUNITIES

The next three sections explore the current state of FinTech through the lens of three policy objectives:

1

Fairness and Choice

How FinTech can improve consumers' and businesses' understanding of the financial products available and their cost. And enable them to make a free and fair choice from an adequate range of options that meet their needs.

2

Access and Inclusion

How FinTech can help customers or businesses access the financial products that they want or need.

3

Security and Integrity

How FinTech can help keep us, our data and our identities safe online. And how it can improve the prevention and detection of financial crime, fraud and money laundering.

In each section, this report makes recommendations of next steps to achieve these policy aims.

Fairness and Choice

A healthy financial services sector needs to fairly balance the interests of providers and users, giving adequate choice to both individual and business customers. However, with only 21% of customers checking that they are getting the best deal on their bank account each year[5], there is significant evidence that consumers aren't exercising free choice.

21% of customers check that they are getting the best deal on their bank account each year

The challenge is to ensure proper competition and transparency. Competition increases the range and diversity of offerings in the market, while transparency means that customers can understand those offerings and the differences between them. FinTech offers solutions for both these challenges.

Innovation brings alternatives to traditional financial services models and can successfully disrupt entrenched and concentrated markets. Payments and foreign exchange are markets which have traditionally been dominated by the big banks, both in terms of market share and their involvement in each step of the transactional chain from payment system to end user. These sectors are starting to be disintermediated by FinTech players, such as TransferWise, WorldRemit, GoCardless, and Currency Cloud.

This gives businesses and consumers a meaningful alternative to their bank when making a payment or moving money across borders and currencies.

More choice is to be welcomed when existing payment mechanisms are not sufficiently aligned with the needs of users. Making it easier for new entrants to access the payments infrastructure will enable them to develop solutions that better suit the way people run their business and live their lives. Prototypes are being held back by old infrastructure and current legislation. If access is not improved sufficiently in the next 12 months, the PSR must be empowered to take further action[6].

The UK is a global economy which attracts foreign talent and has a diverse cultural mix. Immigrants seeking to send money from the UK to their families at home often face high costs, a lack of choice, and sanctions issues. This has a significant impact on ethnic minorities in the UK, the wellbeing of their families and the

0.2% of current accounts were switched to another provider in March 2016

development of their communities at home. Money remittance accounts for 3 times as much investment into developing economies as foreign aid[7]. Innovation can drive down cost, but in order for this to have a competitive impact and a benefit to customers, costs and fees need to be transparent and readily comparable.

In a digital world, the transferability and compatibility of data is crucial for good design and innovation. There is a significant need within the FinTech sector for open APIs to be developed so that provider data is accessible in a standardised format. This could, amongst other things, allow for products to be digitally

57% of consumers have been with their bank for more than 10 years

compared with ease, and for the switching process to be streamlined. It seems that while there is a clear political will to develop an open API for banking, a clear action plan and funding will be necessary to ensure its delivery.

The decisions and attitudes of regulators have a material impact on the pace of innovation. The FCA's competition objective has been a key driver in its development of Project Innovate, leading to the FCA being a world leader amongst regulators in its open and collaborative

"Launched in 2011, people use TransferWise to send more than £500m every month, saving themselves more than £22m. TransferWise is an international money transfer platform: using the real exchange rate - the mid-market rate, there's no hidden mark-up on the exchange rate and no hidden charges on the fees. We make it up to eight times cheaper for people in the UK to send money abroad compared to using a bank.

We strongly support the Government's commitment to competition innovation in financial services but without informed consumer choice competition itself is not enough to make the market fair and better for consumers. We would like to see further and stronger commitment to effective transparency.

In foreign exchange, consumers have the right to know the real costs and charges upfront when making a payment or receiving money. It should be no different from buying a pint of milk: we should know what we're paying and what we're getting in return. Instead, the financial services sector is opaque to the extent that consumers don't know what they're paying until they see their bank balance. That needs to be stopped."

TransferWise

approach to innovative businesses operating in or around the regulated financial services sector. The FCA's own figures in its latest business plan show that 177 innovative businesses were helped by Project Innovate in its first year; 18 have been authorised, and 21 are in the process of going through the authorisation process[8].

The FCA recently announced an extension of the Innovation Hub, including engagement with overseas regulators. This is a positive development. However, response times from the Innovation Hub can be long, and there are signs that the Innovation Hub could be better at sharing its learning with other parts of the organisation which will be responsible for subsequent applications from firms with similar propositions.

Many FinTech businesses still struggle to engage with the FCA and the regulatory regime, which slows the pace of innovation. More can be done by the FCA, and by the industry more widely, to educate start-ups and the FCA about each other's objectives and requirements. It is hoped that the FCA's regulatory sandbox will accelerate this learning.

> *"Financial services shouldn't be one-size-fits-all. Open Banking empowers consumers to capitalise on the value of their own data and businesses to deliver intelligent products that meet their customers' demands."*
>
> CREDIT KUDOS

THE ALL-PARTY PARLIAMENTARY GROUP ON FINTECH:

- **Welcomes** the Competition and Markets Authority's proposal to require banks to progress an open banking API, and encourages the Treasury to set forward its proposals for open APIs in advance of PSD2 coming into force.
- **Calls** for further steps to ensure transparency of charges in relation to money transfers and remittance, particularly clarity in relation to exchange rates versus transfer charges.
- **Will** monitor the PSR's approach in relation to access to the payments market following the PSR's recent market reviews. It encourages the PSR to adopt such measures as are necessary to increase competition and choice over the next 12 months and beyond. It also welcomes further discussion with a view to increasing access to settlement accounts at the Bank of England.
- **Looks** to industry and FinTech accelerators to further assist innovators to navigate the regulatory regime and interact with the regulator.

Access and Inclusion

The UK economy derives huge benefit from London being the world's leading financial centre[9]. However, not everyone shares in that benefit, and many people and businesses remain financially excluded or find it difficult to access the financial services they need.

2 million people each year take out a high cost loan

Each year, 2 million people in the UK take out a high cost loan because they do not have access to any other forms of credit. Nearly 2 million adults do not have a bank account, and 13 million people do not have enough savings to support them if their income were to drop by a quarter for a month[10].

On the other hand, growing numbers of people are shopping and transacting digitally. 76% of adults own a smartphone and more than 80% of Britons have a broadband connection[11].

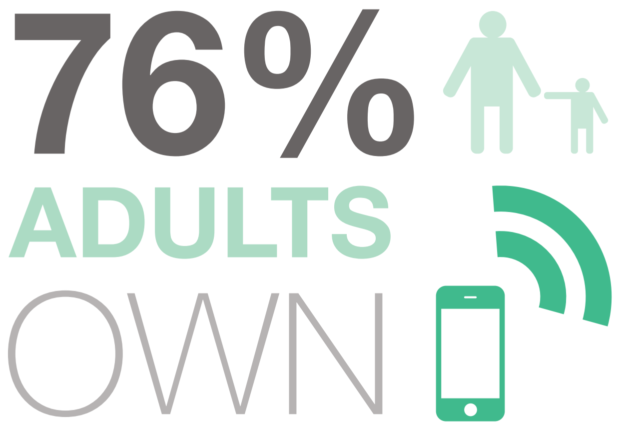
2 million adults do not have a bank account

The Government Digital Inclusion Strategy is helping more individuals get online than ever before.

With increasing adoption of digital technologies, FinTech is acting as a bridge between citizens and the financial services that they want or need. People can now access existing services in new ways, such as using mobile banking apps to pay money from their bank account. And new services are now available because of digital solutions, such as automated or "robo" advice.

Those who are not easily able to get to a bank branch for banking services or to an adviser for help with their finances, such as the elderly, immobile, or those in rural locations, can now participate digitally. The speed and ease of online and mobile banking leads to more frequent and better quality engagement; those who bank online are much more likely to have an accurate picture of their day-to-day financial situation and can make sounder financial decisions as a result.

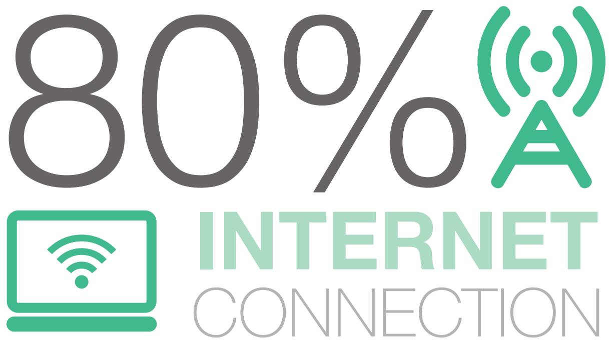
It should be no surprise therefore that challenger banks are differentiating themselves from incumbents through the quality of their online offerings. Atom Bank, for example, is digital-only and aims to offer better interest rates, made possible by its lower costs. Fidor Bank uses social media to engage and educate its customers about their finances.



76% of adults own a smartphone

> *The rise of technology in financial services is a double-edged sword. On the one hand, there are great opportunities for technology to disrupt the status quo, and promote financial inclusion for those facing access issues. On the other, its rise has the potential to create barriers for the digitally excluded.*
>
> *The Financial Inclusion Commission is working with stakeholders across government, regulation and financial services to promote financial inclusion, and embracing technology, whilst mitigating its risks, is a key driver of our work.*
>
> *Chris Pond, Vice Chair, Financial Inclusion Commission*

Convenient and low-cost online access is also encouraging a new demographic to seek financial advice or use a discretionary manager. More people are looking to investment growth for protection from inflation. Many ordinary people now have access to significant amounts of money through pensions freedom, and auto-enrolment means that millions of employees will be investors through their pension arrangements. These individuals may benefit from professional assistance with their finances. However, traditional models are costly, and also unattractive to investors since the RDR made the true costs of advice more transparent.



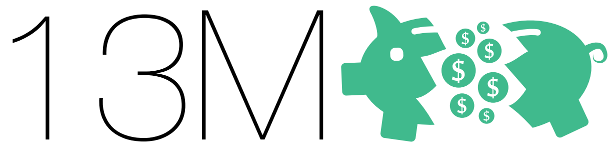
80% have an internet connection

This "advice gap" is being filled by innovative advice and discretionary management solutions which recognise that a personalised service is not necessarily best provided by a person. Robo advisers such as Nutmeg and Scalable Capital use automated processes to give advice and/or manage clients' investments. Their smart portfolio management techniques mean that the cost is much less than for a traditional adviser or manager, making it a feasible option for those with smaller amounts to invest.

Crowdfunding and peer-to-peer platforms have also opened up new lending and equity markets to those who did not previously have access to them. For example, crowdfunder Seedrs allows individuals to purchase as little as £10 worth of shares in a start-up or developing business. Mondo gives individuals the opportunity to invest alongside venture capital funding, and share in the potential growth of a VC-funded enterprise. Mondo itself recently raised £1m of funding in 96 seconds on crowdfunding platform Crowdcube.

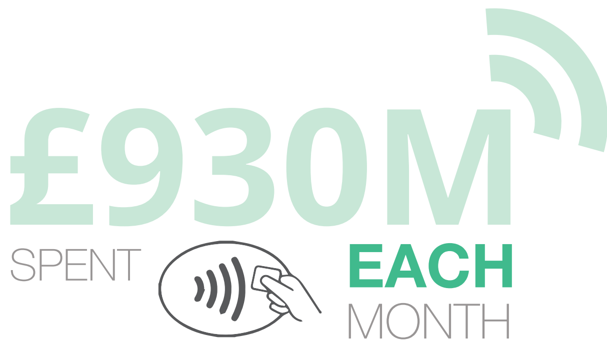
Crowdfunding and peer-to-peer are important sources of finance for entrepreneurs and SMEs who may not otherwise have access to affordable funding. This alternative finance forms a small but significant percentage of SME finance, growing from 1.74bn in 2014 to 3.2bn in 2015[12]. It is hoped that the referrals scheme from banks to alternative finance platforms will increase access, but with £20bn lost to the UK economy because of a lack of awareness of alternative finance[13], more needs to be done to educate SMEs about their options.

FinTech is also easing individuals' access to affordable loans, by improving the way that borrowers exhibit, and lenders assess, creditworthiness. Online aggregators will allow borrowers to share financial information about themselves so that lenders can have a true understanding of the risk of default. This leads to better access and pricing allowing, for example, those on irregular incomes to manage their cash flow and avoid unaffordable debt.



13m people do not have enough savings to support them if their income were to drop by a quarter for a month

With real-time payments made possible by the Faster Payments Scheme, innovation has exploded in the "last mile" of payment services. 1 in 10 card payments are now made by contactless technology[14], and consumers and businesses enjoy the benefits of fast and frictionless payments.



£930m is spent each month using contactless

However, innovation in the payments infrastructure should take account of the financially excluded, for example those on irregular incomes for whom direct debit (and the risk of a failed payment) is more expensive than pre-payment and pay-as-you-go[15].

In addition, aggregation tools which allow individuals to budget and manage their money could encourage further adoption of digital payments by those at the lower end of the socio-economic scale, many of whom still use cash as a way of budgeting.

> In 2016 Britain, building individual financial resilience is central to sustainable family and community life. FinTech can help meet the needs of the underserved, adding value to real lives now and in the future through cutting the financial and social cost of exclusion.
>
> We urgently need practical solutions: to help the undocumented prove their identity to providers; to ensure assessment of people's ability and willingness to pay is holistic and enabling, serving the needs of both provider and customer; to minimise transaction costs for essentials; and to help people make savings now so they can build up assets, increasing their financial resilience and access to opportunities to study, work and take part in the wider community. Solving these challenges will require FinTech to get close to the excluded, understanding the skill with which they overcome the barriers they face. By building user-centric products which are both accessible and effective, FinTech can help transform money management into an effective social inclusion and mobility tool.

Sian Williams, Head of National Services and the Financial Health Exchange, Toynbee Hall

THE ALL-PARTY PARLIAMENTARY GROUP ON FINTECH:

- **Calls** for a level playing field for challenger banks and a consistent approach in encouraging more entrants to the banking market, particularly in light of the application of the corporation tax surcharge to smaller banks' profits.
- **Looks** forward to the delivery of proposals made in the Treasury's Financial Advice Market Review. It notes that legislative proposals to change the scope of regulated advice must balance twin objectives; opening up a market for financial guidance and ensuring that customers are adequately protected from poor guidance and bad practice. It appeals to both the FCA and HMT to lead a coordinated approach to take the FAMR recommendations to the next stage, in collaboration with industry and consumer stakeholders.
- **Emphasises** the importance of total 5G coverage for all parts of the UK as a facilitator for financial inclusion in an increasingly digital economy.
- **Calls** for a behavioural change campaign to nudge SMEs and support the demand side for alternative finance, following the platform designation by the British Business Bank and the findings of the CMA. SME banking and consumer banking are still highly concentrated, and digital solutions could offer an answer.

Security and Integrity

The financial crisis of 2007 illustrated the turmoil that can occur if financial services firms and regulators underestimate systemic, prudential and counterparty risk. The crisis has renewed the importance of effective risk models and compliance processes. Firms and regulators are increasingly looking to technology - "RegTech" - to fulfil this need.

RegTech offers cutting-edge behavioural and data analytics that allow for smarter risk models and compliance monitoring. Providers like Riskopy analyse business data to identify operational risks and suggest mitigation. Behavox and Sybenetix are examples of FinTechs providing automated systems that spot and flag potential compliance breaches. Firms can now analyse employees' behaviour to identify suspicious activity in real time, increase skill, and reduce conduct risk.

1 in 3 SMEs suffer a cyber attack each year

Digital solutions can also streamline the extensive record-keeping and reporting requirements that must be met by regulated firms. CUBE, for example, aggregates a firm's compliance data, allowing it to be managed through one centralised tool, and enables the automation and implementation of regulatory policies.

£65-115,000 is the average cost to an SME of a cyber attack

The majority of RegTech tools concentrate on improving firms' internal compliance and their ability to provide accurate and timely data to the markets and regulators. There is room for improvement in the way that regulators interface with firms in order to receive and analyse data; developments in this area are dependent on the regulators adopting a more technologically advanced approach. Hopefully the FCA's call for input on RegTech and the Treasury's consultation on the regulators and their attitude to innovation will lead to further progress.

If RegTech leads to better regulation and improved markets, this has benefits for us all. However, adoption of innovative solutions by incumbents has been slower than might be expected. This may be to do with a lack of awareness, or an unwillingness to move from old but familiar processes to something new and unfamiliar. Large established firms are often unwieldy, fragmented and complex. This is a reason for, but also a barrier to, their adoption of RegTech. In addition, concern about legal and regulatory responsibility and firms' entrenched procurement and due diligence policies can make it difficult for smaller, entrepreneurial RegTech businesses to tender successfully.

> *"Head-to-head testing shows computers are outperforming manual solutions. The discussion should now shift to driving adoption, so businesses can reinvest these resources to best serve their customers."*
>
> onfido

With more financial services business going digital, cybersecurity is a key issue in the FinTech sector. Breaches dent consumer confidence, and data security is a key concern for individuals in the digital age. Each year, a third of SMEs suffer a cyber attack from someone outside their business, costing that business £65-115,000 on average[16]. This has a huge impact on the ability of small businesses to develop and scale.

The Government's Cyber Streetwise campaign and its Cyber Essentials checklist for small businesses is helping raise awareness of the risks and how to guard against them. However, many SMEs report that they are confused about cybersecurity issues and that the implementation of robust defences is too expensive for them. Financial services, where confidentiality and integrity are of such prime importance, is a leader in the development of cybersecurity solutions; hopefully the development of smarter and cheaper mechanisms within FinTech will lead to improvements in other sectors too.

Anti-money laundering and terrorist financing is another area where firms are, quite rightly, required to implement robust checks and controls to identify clients and monitor their activities. The City of London Police estimates the annual cost of serious and organised crime to be £24bn each year[17], and this money must be prevented from moving through the financial system. However, the processes that firms put in place are traditionally costly and time-consuming. Inconvenient and inflexible client on-boarding can discourage or prevent customers from developing a relationship with a new firm, creating a barrier to competition and growth. Disproportionate risk-aversion by firms impacts on genuine customers and prevents legitimate transactions from taking place as they should.

82%

IDENTITY FRAUD

ONLINE

82% of identity fraud is committed online

FinTech companies are seeking to solve these issues and help firms spot identity fraud and money laundering with a minimal impact on client experience. Onfido is a provider of intelligent background checks, and uses modern methods to check and verify identity. For example, machine-scanning of ID documents can not only compare the photo against a video clip of the applicant, but also reliably check the document for signs of tampering or forgery, something that paper-based and face-to-face ID checks rarely do. However, much of the law and guidance dates from before digital and automated tools were prevalent. To encourage uptake of such methods, Government and regulators need to take steps to ensure that firms are confident that their use is acceptable.

For many, developing digital identity can reduce cyber crime, fraud and money laundering. Use of reliable digital identifiers has benefits to individuals, businesses and governments. Providers and users increasingly want to offer and access services online, but the difficulty of verifying them can create a barrier. The Government has developed GOV.UK Verify, which allows government services to be accessed online. This has huge potential for efficient interaction between the state and its citizens.

The possibility for individuals to have a single, unique, identifier for their online activities is one of many potential uses of blockchain technology. Blockchain, essentially an encrypted ledger which is securely shared amongst participants, may have far-reaching consequences for the way we transact, identify ourselves, store records and documents, and manage risk.

> *"The Government Digital Service (GDS) is part of the Cabinet Office. Our job is digital transformation of government.*
>
> *We're a centre of excellence in digital, technology and data, collaborating with departments to help them with their own transformation. We work with them to build platforms, standards, and digital services.*
>
> *We always start with user needs.*
>
> *We are agile. We work to a set of Design Principles that guide us in everything we do.*
>
> *We believe in working openly, because making things open makes them better. In the words of our Minister, Matt Hancock, our work is about "transforming the relationship between citizens and the state.*
>
> *We build platforms like GOV.UK Verify – a way to confirm users are who they say they are."*
>
> Cabinet Office

However, understanding of blockchain and its potential is at an early stage. The Government Office for Science has made recommendations for a blockchain roadmap, including the development of a suitable regulatory framework[18]. Further steps by industry and Government to understand use cases and explore whether existing law and regulation creates risks and barriers to adoption would be welcomed.

THE ALL-PARTY PARLIAMENTARY GROUP ON FINTECH:

- **Encourages** recent work by the FCA and others to investigate the impact of current anti-money laundering regulation on innovation and access. The guidance generally shows a bias against digital business models, which damages the growth of FinTech businesses. For example non-face-to-face verification of customers can automatically trigger more onerous requirements on firms. It hopes that the regime and guidance will become more compatible with digital methods for the monitoring of money laundering and financial crime risk.
- **Calls** for the UK regulators to accelerate their own adoption of technology as a means of regulating and communicating with financial services firms.
- **Anticipates** increasing development of blockchain technology and notes that this nascent technology should not be over-regulated, to allow the exploration of further use cases and impacts.
- **Welcomes** steps to foster further collaboration and procurement between RegTech innovators and traditional financial services firms.

THE FUTURE OF FINANCIAL SERVICES

Technological change is inevitable in our modern and connected society.

Engaging with the changes that are taking place will allow us to shape the future of the financial services industry for the better.

FinTech is a phenomenon that should not be ignored or dismissed. Instead, it is better seen as one of the most fundamental shifts in the financial services industry for a generation. Set against the continued rise of technology and the internet in all aspects of life, this is hardly surprising.

Much of the analysis suggests that this is just the beginning for FinTech. Whereas some other markets have been quicker to adopt technological advances, the regulated and traditionalist nature of financial services means that it has come comparatively late to the party. In a globally competitive environment, the industry must keep pace with innovation to maintain its position as a world-leading financial hub.

Citi has reported that, unlike China, the UK has yet to reach the "tipping point" of digital disruption[19]. Accenture considers that the demand for technology solutions and the size of the opportunity means that "*The FinTech sector is likely to continue its rapid growth trajectory for the remainder of this decade*"[20]. No-one knows quite what UK financial services will look like in 2025, but many expect it to be markedly different from the pre-crash market.

We encourage those in Government, policymakers and the industry to embrace and understand the reality of fast-paced technological change to the financial services landscape. Together we can help ensure that the UK continues to flourish as a financial centre, and help direct future developments towards the greatest benefits for all stakeholders in our society.

ENDNOTES

1 **Landscaping UK Fintech**, *Ersnt & Young LLP*, 2016. See also:
http://www.ey.com/Publication/vwLUAssets/Landscaping_UK_Fintech/$FILE/EY-Landscaping-UK-Fintech.pdf

2 Source: *PitchBook Data In*c.

3 **Tech Nation, Powering the Digital Economy**, *Tech City UK*, 2015. See also:
http://www.techcityuk.com/wp-content/uploads/2015/02/Tech%20Nation%202015.pdf

4 Source: *PitchBook Data Inc.*

5 79% of customers have either searched for, or switched to, another personal current account in the previous 12 months. See **Retail banking market investigation, Summary of provisional findings report,** *Competition and Markets Authority*, 2015. See also:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/470032/Banking_summary_of_PFs.pdf

6 The *Payment Services Regulator*'s **Market Review MR15/1.2** outlines steps the PSR may take if its concerns over indirect access are not addressed sufficiently in the next 12 months. See also:
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ALL-PARTY PARLIAMENTARY GROUP FINTECH

The All-Party Parliamentary Group on FinTech was set up to raise awareness in Parliament of the growing importance of Financial Technology (FinTech) to the UK economy, to policy-making and to consumers. It aims to promote a regulatory framework that encourages a growing, inclusive and competitive FinTech industry, and seeks to investigate the potential applications of FinTech including peer-to-peer lending, crowdfunding, digital currencies, internet banking etc.

INNOVATE FINANCE

The secretariat of the APPG on FinTech is provided by Innovate Finance, an independent membership-based industry organisation that aims to advance the UK's standing as a leader in Financial Technology (FinTech) innovation – both domestically and abroad.

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