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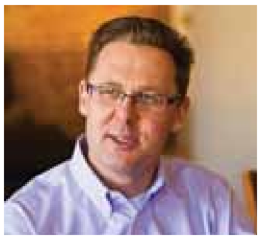

Consumer confidence
P2P lenders are cautiously optimistic in the face of economic jitters, says Peter Renton, chairman and co-founder of the LendIt Conference

Payment disruptors: spread the word!
Growth in e-commerce and improvements in security have boosted electronic payment services. Now, how can providers convince consumers and businesses to use them?

The great FinTech disconnect

A new report reveals that Millennials haven't got a clue about FinTech. Another claims 70 per cent would happily buy financial services from Big Tech. Is the sector failing to connect with its key constituency?

There is a lot of noise about FinTech. A lot of statistics shared, opinion aired. And yet it seems its core message might not be translating into the wider electorate, sorry, potential customer base. A recent poll of the sector's target audience - 18-35s - revealed that 92 per cent of them have never heard of it.

Hang on. Didn't 70 per cent of this age group say they would be more excited about a new offering in financial services from Google, Amazon, Apple, etc., than from their own bank? We know that Big FS 'gets' FinTech. Just this month one of the world's biggest banks launched an in-house initiative to win back customers lost to startups. But what about those outside the "ecosystem"? Does the UK's most exciting technology sector mean anything to them?

"We need to talk"

Yes and No, according to our own unscientific snap poll (via smartphone, of course). The London-based Millennials we spoke to were not only aware of FinTech as a noun, but use its services (read: apps) "a lot". From other consumers (assorted ages and geographies) the 'F' word evoked a rather different response: confused emoji face. What about SMEs? Do advisers suggest solutions that help them to deal with late payments, funding, currency transfer or any other small business everyday horrors? Not if our focus group is any guide – and I fully accept that it might not be.

Strip away the Tech talk, though (and maybe the "Fin" bit), and there is a lot of love for what's on offer. What, you can keep more of the money you send or spend money overseas? Do your banking just on your phone, fund your education, earn a higher rate on your savings? Happy emoji face raised palms.

Julie Lake
Founding director, The FinTech50 / FinTechCity

"A recent poll showed that 92 per cent of 18-35s have never heard of FinTech"

Another report earlier this year suggested that, in the US, robo advisers are likely to manage $2.2 trillion of funds by 2020. It also found that while awareness of brands in the space was low, interest in the services they offer was high, with 75 per cent of respondents saying they were "very likely or somewhat likely" to consider using them.

On paper, this looks like one big old disconnect: demand for services that make managing finance easier and less expensive: high. Awareness of the companies that offer them: low.

Not different – easy

"There are many ways in which FinTech could help Millennials, if they only knew about it," says one new service, Bud, which is setting out to explain what they can do in a language "Millennials understand."

Great! Although if this really is, to use a popular term just now, democratised finance why not use language that everyone can understand.

"Startups are making big statements about "change" and "doing things differently", but a lot of people don't want or value that," says Marketing Strategist Fiona McAnena. "They want it to be easy and perhaps better but without them having to do anything different or learn something new."

Point taken. There has been a lot said recently about the importance of listening, of being inclusive. Anyone working to make financial services faster, better, stronger, keep making some noise - we certainly will on your behalf - but perhaps also consider taking the conversation further afield. As interesting times get even more interesting, a lot of Millennials, SMEs, the under / over-banked – or people, as we think of them – will be keen to hear what you have to offer. ■

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Now Lending to Big Business is Big Business for Everyone

Financial service providers are recognising that to keep up with the pace of innovation they should collaborate, not compete, with FinTech startups. It's not just the banks who benefit, but the startups themselves, and ultimately the end customer.

By Rezaah Ahmad, CEO WiseAlpha Technologies

WiseAlpha was born with the idea of bringing an online marketplace to the syndicated corporate loan market and giving equality of access to investors of all sizes. Having started my career in banking, structuring and investing in corporate loans it always amazed me at how archaic the functioning of the loan and credit market is in comparison to other financial markets. What if the credit markets were as liquid and transparent as the equity markets – would that have prevented some of the practices that led to the last financial crisis?

Our model

WiseAlpha is an online investment platform offering its members access to senior secured loan investments in very large, established companies. Although from a glance many mistake us for a P2P lender our model is very different. We do not structure loans on behalf of companies looking to borrow but instead our members can invest in loans already made by major international banks to corporate borrowers. WiseAlpha selects which loans are listed but members choose which companies they invest in. We want our members to feel the satisfaction of making individual investments in a previously inaccessible asset class to individual investors.
Over time we aim to foster a liquid "secondary market" for members to buy and sell from each other.

The rationale for senior secured loans

In light of stock market volatility and low savings account rates wiseAlpha is bringing loans into the mainstream.
For those new to senior secured loans they have the following features:

- First ranking security over the assets of the borrowing company
- Floating rate coupons (LIBOR plus a fixed margin) provide a potential hedge against long duration and inflation
- Typically low price volatility versus the equity and bond markets which are more closely correlated to changes in the macro and interest rate outlook
- Loans are generally callable at par and can be refinanced at any time reinforcing price stability

Independent studies[1] show that the senior secured asset class also compares favourably on a risk-adjusted return basis versus high yield bonds and equities.

Symbiotic relationship with Banks

Here at wiseAlpha we form a co-operative approach with banks. With global banks now focussed on arranging and syndicating their loan exposure therein lies a symbiotic relationship with wiseAlpha's model. Specifically:

- Arranging banks free up more capital to increase their lending by being able to syndicate into a wider investment base
- A wider spread of risk assets to potentially longer-term income driven investors less focussed on using leverage to bolster their returns could reduce leverage in the banking system.
- Greater liquidity and demand in the asset class stimulates issuance benefiting company issuers

Technology is at our heart

wiseAlpha is fundamentally a technology company servicing the investor and banking community.
At the institutional level the asset class has remained the happy hunting ground for large pension fund backed funds in a relationship driven market. This combined with the long procedures for transfer and settlement tend to put off many investors.
By operating on-line we seek to create a wider investment audience for the asset class and replace the substantial costs and complexity of investing in the product.

Our mission of liberalising the corporate loan market and ultimately the global credit market is audacious but we firmly believe it is possible.

[1] Credit Suisse Leveraged Finance Strategy Weekly Report 10 January 2014, Credit Suisse Leveraged Finance Strategy Monthly 03 September 2015

wisealpha.com

WiseAlpha

INSPIRATION

COLUMN

Luis Carranza
Founder, London FinTech Week

Industry must stay strong amid Brexit uncertainty

The FinTech sector comes together this month for London FinTech Week, and the potential fall-out from the EU referendum is on everyone's mind

It could take a year before the FinTech industry knows what impact Britain's decision to leave the European Union might have on its potential growth.

London's position as a financial services powerhouse is under threat and the capital is battling rivals such as Berlin, Amsterdam, Paris and Dublin to be Europe's top FinTech city.

"The Brexit vote could be good or bad for FinTech in the UK, but we might not know for up to a year," says Luis Carranza, founder of this month's London FinTech Week. "This is such a dynamic industry that a challenger London might emerge and that could spur the sector on."

Coming together

He adds that the current uncertainty means everyone involved in FinTech must stand united. This includes government, academics, banks and start-ups.

"FinTech will need access to the single market and be able to bring in skilled professionals, such as developers, from other countries. Recruiting talent is already a problem."

Carranza says the UK's expertise in financial services built up over many years should mean the industry continues to flourish.

EU rules

The UK government must also decide whether to follow European Commission rulings, such as the European Union's Deposit Guarantee Schemes Directive and the Payment Services Directive.

"One positive of Brexit is it will enable our government to act quickly on tax and other policies that embrace innovation, which is what the industry likes," says Carranza. "Difficult times make good companies work harder and we all need a fighting spirit to retain London as a FinTech global hub."

He admits that in the short-term there will be winners and losers in the sector. A weak pound is bad news for FinTech businesses hoping to expand overseas, but for companies selling digital services to foreign clients, being a UK firm has suddenly become much more attractive.

London FinTech Week is taking place at the Grange Tower Bridge Hotel until July 22.

The power of FinTech to 'bank the unbanked'

Statistics show that around 2 million adults in the UK do not have a bank account. techUK believes that new technologies can transform this situation

By Ruth Milligan

These figures are astonishing and shameful: almost 12 per cent of the population are 'unbanked' or 'under-banked'. Imagine not having a debit card; no access to the buy-now, pay later of your credit card. Most of us would be appalled. Yet according to the Financial Inclusion Commission, many of those without a bank account do not want one. They have been stung too often by overdraft fees, fees for sending a letter announcing the overdraft, unexpected charges - they are once-bitten, twice shy. And it shows: the payday lending market grew from £330 million in 2006 to £3.7 billion in 2012.

And the inability to pay electronically or to make direct debits; the recourse to high-interest loans when cash is low brings on a 'poverty premium' estimated at £1,300 per year. Technology can change this – and many other problems faced by those on low income. We just have to let it.

E-money has been around for a long time, but the reach of the smart phone is taking it to a new level. In the market there are two main types of app-based bank accounts. One model, such as start-up Loot, stores e-money on your smart phone via a pre-paid card, not necessarily linked to a bank account - and you can sign up in minutes. The other comes from the 'challenger' banks, such as Fidor, Atom and Tandem, which will offer a full range of products: current accounts, savings, loans and credit, all housed on a mobile phone or tablet. These are bank accounts like any other but operating digitally with no physical presence, allowing lower margins and lower fees. IT systems built from scratch have none of the legacy issues, which hamper traditional banks.

Their selling point is an emphasis on customer service: fees are transparent and customer involvement is a big feature: user communities share tips and ask questions to which experts respond. An additional draw is the in-built

PHOTO: MATTEO GIACHETTI

Work together. Current uncertainty means everyone involved in FinTech must stand united

Ruth Milligan
Head of financial services & payments, techUK

budgeting features, which track outgoings, notify users of upcoming bills and calculate funds available to spend.

Technology can do great things, but we also need regulations that allow them to flourish. The Payment Services Directive, due for implementation in 2018, will enable more players – banks and tech companies - to offer payment products and give consumers a more detailed picture of where their money goes. If real-time payments are added to this, consumer certainty will increase. Work on the open banking initiative will also allow the transfer of data with greater security and simplicity.

The technology exists and the regulatory landscape soon will, yet the habits and of structures the UK's financial services industry are decades old. They need a strong push towards change.

The pace of change must be accelerated and techUK strongly supports calls for a national financial inclusion strategy. This could give the strong leadership required to ensure that the capabilities of technology to change lives reach all citizens. The potential of fintech can and should make financial exclusion a problem of the past. ■

Read more on **ukfintech.com**

COLUMN

Jose Morago
Chairman, Institute of Risk Management

Insurers ready to embrace new technology

Traditional insurance providers have been busy in recent years implementing Solvency II and strengthening their balance sheet after the financial crisis, but now they have their FinTech rivals in their sights.

The insurance industry is finally waking up to the opportunities from disruptive technology to improve efficiency and customer service.

Chairman of the Institute of Risk Management, Jose Morago, says the traditional conservative culture within many insurers towards automation is changing and investment in technology is increasing.

"There is a genuine willingness to tackle digital transformation but there are practical challenges such as legacy systems and moving data to the cloud," says Morago. "Insurers need a clear vision and a practical strategy, with well-defined outcomes for the next five years."

He adds that insurers need to know which parts of their operations would benefit the most from automation or data analytics.

Morago, who is also group risk director at Aviva, says consumers interacting with insurance companies today expect the same slick digital service they get from digital leaders such as Google or Facebook.

"Insurers are very good with structured data but not so strong when analysing unstructured data to help them to understand their customers' needs," he says. "The industry's capabilities need to improve with new talent from the technology sector, such as data scientists."

Insurers that are wary about launching new digital products and services can take advantage of the FCA's new regulatory sandbox. This 'safe space' lets companies test new ideas in a live environment without the usual regulatory consequences.

"New digital and Data capabilities are critical for adapting to the new technology and confronting new entrants in the sector in the next few years, but insurers need to be confident about the business outcomes if they are to invest in them," says Morago.

INSPIRATION

COLUMN

Steven Garner
Compliance officer,
Kession Capital

Regulation under the spotlight after Brexit

The rapid growth of FinTech has meant necessary EU regulation to control this burgeoning industry, but Brexit has brought calls for less red tape to fuel progress in the UK. FinTech companies concerned about compliance and regulation have nothing to fear from Britain's decision to quit the European Union, says an expert.

Steven Garner, a compliance officer at regulatory consultancy Kession Capital, says the Financial Conduct Authority (FCA) has already adopted more EU regulation than most other member countries.

"Regulators around the world already use the FCA rulebook as a guide," says Garner. "Brexit might make things easier for FinTech companies because some directives could be amended in the UK."

He cites the EU Market Abuse Regulation and the Prospectus Directive as two rules he would like to see revised.

The Market Abuse Regulation insists companies inform the FCA if they have delayed the disclosure of inside information and explain why. The Prospectus Directive determines the information companies must disclose when being admitted to trading on a regulated market.

"Of course, until Article 50 is triggered EU regulation relating to FinTech is unchanged," says Garner. "Once the process of leaving the EU begins we want the Treasury and the FCA to be proactive."

He believes the UK's financial services industry has nothing to fear from Brexit.

The main area of concern is the EU passport which allows regulated firms to operate freely across Europe's financial markets while having most of their staff in London.

"When Britain refused to join the Euro currency people were saying the industry would move to Frankfurt and Paris but that never happened," he says. "London has the heritage, expertise and the biggest foreign exchange market in the world, for example."

IoD is full of confidence for FinTech's future

By Steve Hemsley

The Institute of Directors is there to reassure and support businesses and it has no fears that the FinTech sector will thrive following the EU Referendum.

The Institute of Directors (IoD) is well placed to help FinTech companies through uncertain times following the Brexit vote.

The business support organisation was awarded a Royal Charter in 1906 and part of its mission is to promote entrepreneurial activity and wealth creation.

"During more than 100 years the IoD has been helping businesses through economic ups and downs, and there are great opportunities for Britain's FinTech sector to grow following the EU referendum," says head of external affairs Jimmy McLoughlin.

He says Britain is leading the way in many areas, including crowd funding platforms, peer to peer lending and payment systems, with clusters of FinTech companies increasingly engaging consumers and businesses.

"British business is resilient and entrepreneurs will always look for opportunities," he says. "Technology and financial services are two of the UK's most dynamic industries with traditional City institutions sitting alongside Tech City in London.

"Consumers are being more proactive too and enjoying the new experiences and simplicity that FinTech products provide."

McLoughlin likes to refer to the Hype Cycle developed by researcher Gartner to represent the maturity and market acceptance of different FinTech technologies.

The Hype Cycle shows how all new technology goes through five phases. First there is the early media interest in a concept, then more publicity following success stories and failures, before a trough of disillusionment as interest wanes. New technology then benefits from what Gartner calls a 'slope of enlightenment' as more businesses see the benefits, before finally there is mainstream adoption.

"FinTech has followed this path if you look at the initial rise in the digital economy, the dot.com crash in 2000 and its rise back to where we are today."

The IoD is busy providing members with advice following the Brexit vote.

Its research reveals that 83 per cent of its membership has a commercial link with the EU, and that figure is higher for the FinTech sector.

The IoD will help businesses cope with the short-term consequences from the disruption to financial markets and ensure they are prepared for the longer-term opportunities.

The Institute's advice to businesses is to have conversations early with suppliers, clients and customers in the EU to avoid any contractual confusion following the referendum result.

Many members are reporting a recruitment freeze which is something FinTech companies can ill afford. Many FinTech firms employ developers from countries such as Poland and Portugal and there is a fear that Brexit might make recruitment more expensive.

Jimmy McLoughlin
Head of external affairs,
The Institute of Directors

"London remains a global centre for creative disruption, and this should be embraced, not feared, by policy makers"

Longer-term, revamped UK migration controls could help firms recruit the FinTech specialists they need from outside the EU, including from the Far East and the USA.

"There will be challenges and opportunities from Brexit, and FinTech companies need to get into the right mind-set now and look at the whole world and not just Europe," says McLoughlin. "The government has some ambitious export targets and FinTech can be a major player in achieving these."

He adds that London remains a global centre for creative disruption, and this should be embraced, not feared, by policy makers.

The IoD has called on the government to do more to promote the Enterprise Investment Scheme and Seed Enterprise Investment Scheme to make it easier for more people to invest in new and growing FinTech businesses.

McLoughlin says these schemes have the potential to unlock billions of pounds in business investment. "With Britain leading the European alternative finance market, entrepreneurs in the UK can raise funds in more ways than ever before.

"As traditional bank finance dried up, businesses in search of capital and investors hungry for returns looked elsewhere, and avenues like crowdfunding and peer-to-peer lending boomed. Now is the time to open up the nascent 'equity economy' beyond the wealthy so investors across the country can benefit from these focused incentives." ■

Collaboration the key to success

Financial service providers are recognising that to keep up with the pace of innovation they should collaborate, not compete, with FinTech startups. It's not just the banks who benefit, but the startups themselves, and ultimately the end customer

By Lubaina Manji

In a world where customers want a banking relationship that reflects their identity, traditional banks can no longer afford to be all things to all people. It's now easier than ever to build a product that targets individual parts of the market, and new reports suggest that people are now more likely to recommend their FinTech provider than their bank.

With regulations in the pipeline that encourage this competition, we can no longer afford to ignore this trend.

In the past, banks kept up with changing customer behaviours either by building their own products, or by acquiring companies to plug particular technology or knowledge gaps. However, it can be difficult for banks to keep pace with this technological innovation internally, and acquiring startup after startup is certainly not a sustainable model.

The benefits of collaboration

Financial service providers are increasingly waking up to the realisation that when it comes to innovation, if they can't build it and they can't buy it, then the only way to remain competitive and relevant is to collaborate. The Bank of England is one of the most recent organisations to recognise this with the announcement of their own FinTech accelerator last month.

But it's not just the banks that benefit from increased collaboration. Aside from the potential increase in revenue, startups that choose to collaborate are able to validate their business model, as well as tapping into their new partner's reach, customer data, client relationships, and years of compliance and regulatory experience.

Lubaina Manji
Head of Rise, created by Barclays

rise

In partnership with BARCLAYS

Convincing the business

However, it's not always easy to convince those holding the purse strings that FinTech collaboration is the way forwards, and one of the biggest reasons for that is the uncertainty inherent in all innovation projects. Applying SMART metrics to FinTech collaboration is not easy, and it's often tempting to prioritise projects that are more likely to deliver a short-term return on your investment.

One of the ways to overcome this is to focus on known inefficiencies in the business' existing processes. Barclays recently signed a framework agreement with Cutover, a startup that participated in one of the recent cohorts of the Barclays Accelerator powered by Techstars, whose solution enables large teams to plan, rehearse and execute complex IT change events. Lowering the risk of IT change should lead to less abortive work, fewer systems outages, and fewer reputational issues - music to the ears of any senior executive.

Proving your effectiveness with existing business challenges will win over hearts and minds internally. Not only will this give you the freedom to start exploring collaborations around new products and new markets, but it will also begin to shift the culture and values of your organisation. Encouraging colleagues to embrace the opportunities of open innovation will allow you to deliver innovation cheaper and faster than when working in isolation, helping you to create the products and services that best meet the needs of your customers.

After the referendum, FinTech looks forward

London FinTech Week is a timely reminder that business goes on after the UK's vote to leave the EU. A showcase to remind the world of the unchanged strengths of London as a global FinTech hub, from its supportive regulatory environment to the breadth and depth of its financial ecosystem

By Steve Hemsley

The UK's FinTech sector is keen to understand what the leave vote will mean for it. And although there will be challenges to be solved, perhaps there may also be opportunities for the typically fleet of foot, FinTech community.

The economic and political impact may have been immediate but the UK's regulatory environment does not change until the UK actually leaves the EU, likely to be at least two years after the Prime Minister Theresa May chooses to serve a withdrawal notice. So the UK should keep matching the EU's regulatory environment until at least 2019.

Before then, the UK will be negotiating its future arrangements with the EU. It has asked business to support it by identifying priorities -creating a unique opportunity for the FinTech community to influence its future operating environment.

Access to markets

Securing passporting rights or equivalent will be a priority and is a significant concern for the financial services sector generally. But the impact on a UK FinTech company depends on whether it needs those rights to access EU markets. In start-up to scale-up, focus might be on the UK market or perhaps on activities which are not regulated in the EU markets they are targeting.

"If agreement cannot be reached between the UK and the EU on retaining a regime equivalent to passporting then firms will need to use another solution to continue trading across borders," says Rachel Kent, global head of financial institutions at law firm Hogan Lovells.

Rachel Kent
Global head of financial institutions, Hogan Lovells

Hogan Lovells

Third Country Regime

Alternatives may include the UK adopting a "Third Country Regime" keeping its rules equivalent to EU regulations. Or companies could register and staff a group company in the EU and outsource work back to London. Perhaps a different way of collaborating with customers already regulated, may also offer options for FinTech companies.

For now, the need is to understand what options would work best for their business based on a complex matrix of decisions, including labour laws, regulatory capital and tax implications, but Kent cautions against taking any major steps until negotiations between the UK and EU progress. "Business focus should be on contingency plans and understanding the pros and cons of the various options."

Opportunities for innovation

For FinTech, this time of change may offer opportunities for those who respond well to its challenges - perhaps a need for new ways of doing business for which it designs solutions. The UK regulators' commitment to enabling innovation to flourish is well-known so perhaps leaving the EU would enable it to expand its regulatory sandbox concept or to offer an opt-out lighter-touch domestic solution for FinTech companies who are only operating in the UK.

"One thing we can be certain of in this post-referendum world is that London will remain committed to FinTech as the UK's new regulatory landscape emerges," says Kent.