

## The Changing Face Of Financial Services

*Fintech is changing the financial landscape, driving dynamic new start-ups and pushing the old giants to adapt. With the impact it's sure to have in the coming decades, the promises and challenges of fintech must not be ignored.*



*Fintech is one of the most recognisable terms in the financial services industry but sits aside its lesser-known compatriots, RegTech and InsurTech. Put simply, these terms represent the evolution and revolution of financial services globally, and the UK has firmly embraced the use of such advances. Evolution relates to the giants of the UK financial services industry who have been around for over a hundred years and revolution reflects the large number of start-ups who have not had to adapt old systems to new ideas but have had a clean sheet from which to design a process and solution using the latest technology.*

***Simon Bonney, Partner at Quantuma and member of IR Global, explains to Finance Monthly how fintech has transformed the industry.***

# Background to the UK Fintech Industry

The UK fintech industry is worth around £7 billion and employs over 60,000 people. It now has banks that only communicate with their customers through an online platform and have no physical branches.

The UK thrives as a leading global fintech hub for a number of reasons. As a world leader in the financial services industry, there is an imperative to ensure that we invest in, and utilise, the latest technology to facilitate our competitiveness. As well as a deep homegrown pool, the UK attracts a wealth of entrepreneurial and tech talent because of its status (42% of workers in UK fintech were from overseas in 2018), and also its investment. Investors put more money into UK fintech than any other European country in 2018 (\$3.3 billion). In addition, the UK recognises the importance of striking a balance between the promotion of entrepreneurialism and the regulation of new ideas to provide confidence to businesses and consumers the world over through the Financial Conduct Authority (FCA). The FCA's regulatory sandbox, the framework to allow live testing of new innovations, has become a blueprint for fostering innovation around the world.

## The Opportunity

The UK Government has recognised that fintech engenders a significant opportunity to create jobs and economic growth and also facilitate the birth of new start-ups in other industries which are able to utilise new technology to make their costs quicker and cheaper. In 2019, 79% of UK adults owned a smartphone and on average they spent over two hours a day on their phones. Access to financial services by smartphones, coupled with a loss of confidence in the traditional financial services industry following the Global Economic Crisis in 2008, has meant that consumers embrace the relative ease and convenience of fintech.

Technology generally has changed the way that consumers expect to engage with financial services and the UK financial services industry has recognised that it cannot operate the same way it did 10 years ago if it hopes to keep pace with the demands of customers. Fintech has changed and will continue to influence the experience and speed of transactions. It has had a significant impact on the cost of operations. For those businesses with legacy systems, there is a huge challenge in ensuring that fintech is embraced and implemented. In order to cope with this challenge, it is likely that banks will seek to further outsource their operations and hand over management of their legacy systems so they can focus on serving customers and finding new routes to market.

## Potential Challenges

Growing opportunities do not come without hurdles. The sheer speed of change in fintech means that regulation is generally trying to catch up, and in a number of instances, such as

cryptocurrency, regulators are required to learn about the technology and the way it encourages people to behave before being able to effectively regulate it. However, that regulation will have an impact on development, as the costs of ensuring that new products are compliant will provide a barrier to entry. In addition, fintech is inextricably linked with data and the use and regulation of data will continue to feature in the spotlight.

## A Note on Fintech Bridges

It is hoped that through the use of fintech bridges, the UK's best and brightest fintech ideas and businesses will be able to thrive internationally, with automatic recognition by the regulators in those partnering countries. Collaboration has been a feature of the success of fintech, with open source solutions being made available to enable the improvement of all aspects of the industry for the greater good with blockchain being a prominent example. Collaboration on an international level should only provide a more stable platform for that innovation. However, Brexit has raised questions regarding the future of the UK as a behemoth of the financial services industry, and the nature and mobility of fintech and the use of fintech bridges means that competition has been increased across the world.

The UK has been able to remain at the forefront of fintech due to its history in financial services and its depth of talent and investment. Importantly it recognises the importance of remaining at the forefront and will strive to ensure that innovation and regulation continue to go hand in hand.