



UK FinTech:

balancing innovation
and consumer
protection





'If we can capture the extraordinary potential of technology, we'll cement the UK's position as the world's pre-eminent financial centre'

Chancellor, Rishi Sunak



'We're taking forward the key recommendations of the Kalifa Review on UK FinTech, ensuring the UK remains at the global cutting edge of technology and innovation in financial services'

Economic Secretary to the Treasury, John Glen



'Our principles-based approach will ensure innovation is embedded in any new regulation, and we will look to reduce red tape to enable our vibrant tech sector to thrive'

Digital Secretary, Oliver Dowden

Introduction

The Government has a clear ambition to make the UK a global FinTech hub at the cutting edge of digitising finance – and industry has responded. In 2021 the UK FinTech market launched 14 unicorns¹.

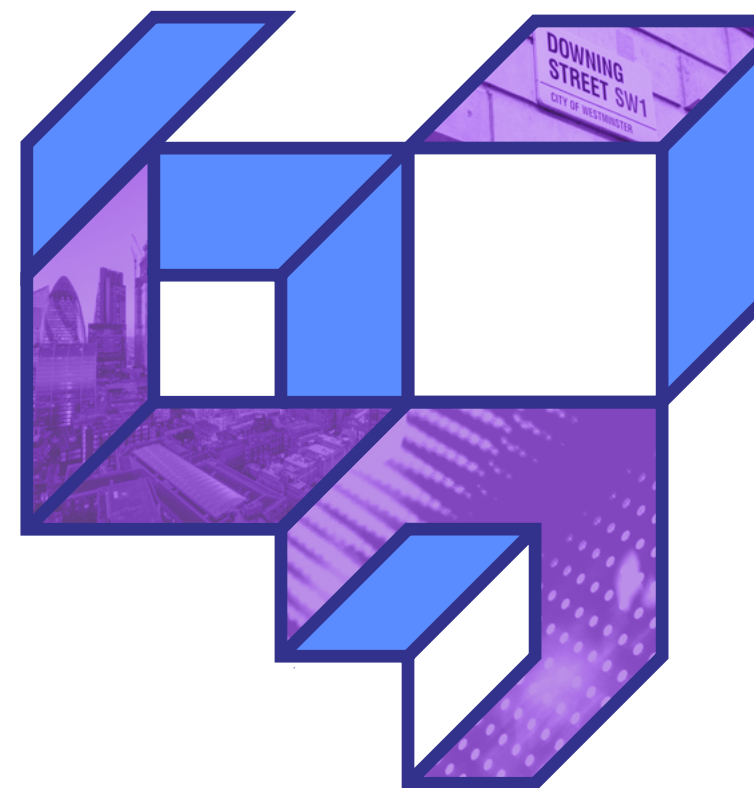
But with significant growth and expansion comes increased scrutiny. Politicians, journalists, and consumer groups across the UK have been quick to point out some of the shortfalls of rapid growth, and regulation of the FinTech sector has not kept pace.

Also, while London maintains its position as one of the top three FinTech hubs in the world, it is facing a strong challenge from major European cities such as Paris, Berlin, and Amsterdam, keen to position themselves as a natural home for this booming industry.

Now the sector faces a year of change – with greater uptake of products amongst consumers, media attention unlikely to dwindle and multiple legislative and regulatory changes on the horizon. Now is the time to shape the future of the market.

To see how much influence consumer behaviour and perceptions were having on the media narrative and Government's regulatory design, WA sought views from consumers across the UK on their use of FinTech products and their perception of safety, regulation and innovation in the sector.

Taking place in November 2021, the online General Public questionnaire surveyed over 1,000 respondents.



¹ Beahurst, including Insurtech

Consumer habits are driving the innovation race

Unsurprisingly, innovation and digitisation in the financial services sector has been accelerated by the growth of the FinTech market in the UK.

Consumer habits have followed suit, and there has been a marked trend in consumers taking up new products and services as they emerge. Whilst many remain committed to the “traditional” online banking services, appetite to use and explore new products is far-reaching.



72%

Of the public's most used online money-related services are high street banking apps or websites, like those of NatWest, Barclays, Santander or HSBC.

39%

Unsurprisingly, younger generations – respondents between 18 and 34 – are most likely to use digital banking (39%) than older generations.

25%

Of the population admitted they have looked into using digital only banking (e.g. Monzo, Revolut, Starling etc.) but have not used those services yet, showcasing the potential future growth of this sector.

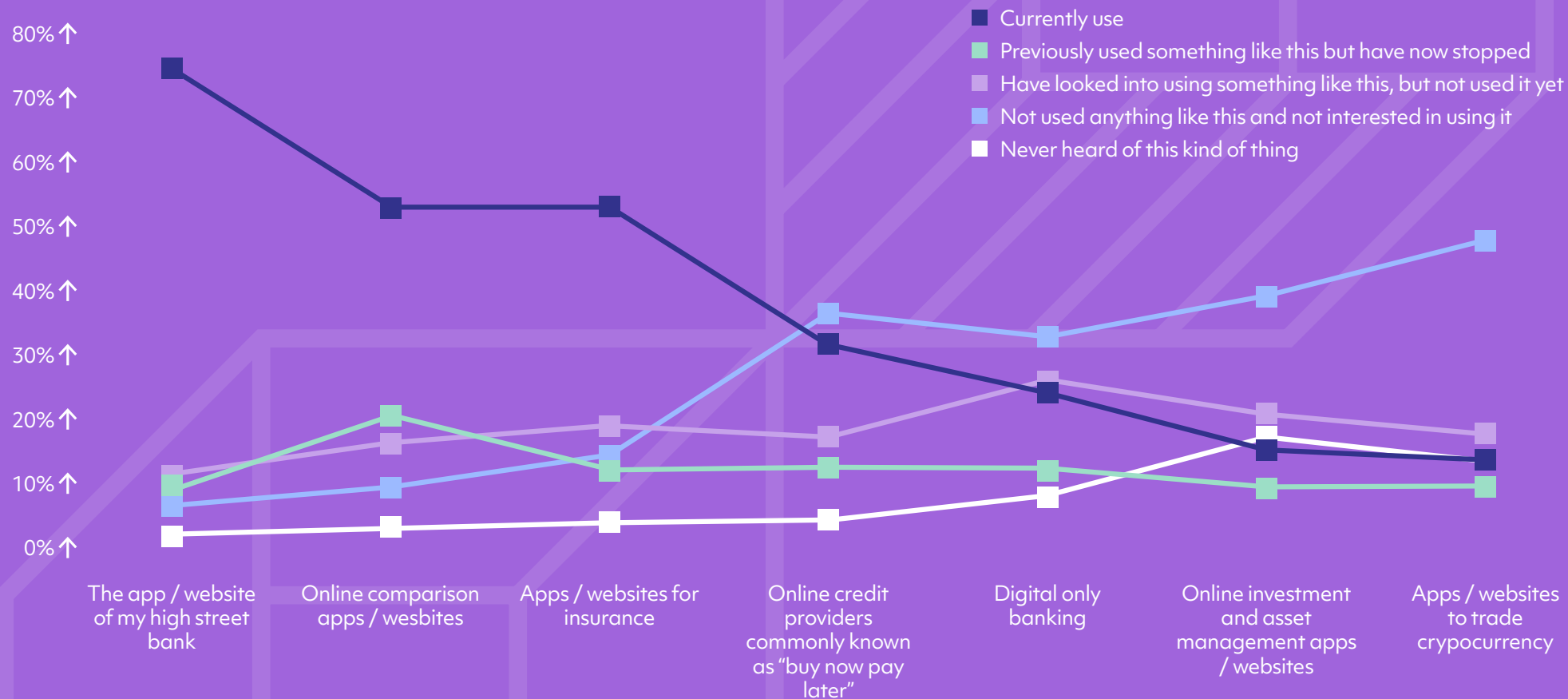
52%

Of the population stated their most used online money-related services are insurance apps/websites.

3 in 10

Stated they use online credit providers such as Klarna or PayPal credit. Younger generations are two times more likely than older generations to use both online credit providers and digital banking services.

We asked: which of the following products do you use?



Consumer behavior is being dictated by a specific set of concerns

Security, quality of regulation and data protection are the most pressing concerns for the public. For companies starting out in the FinTech sector, building trust in these areas will be key.

And there is a notable shift in perception by age. Those aged 55 and over show considerably more concern about how their data is being used compared to those aged 18-34 (27% versus 11%). A similar pattern emerges when asked about security from hackers (19% versus 41%).

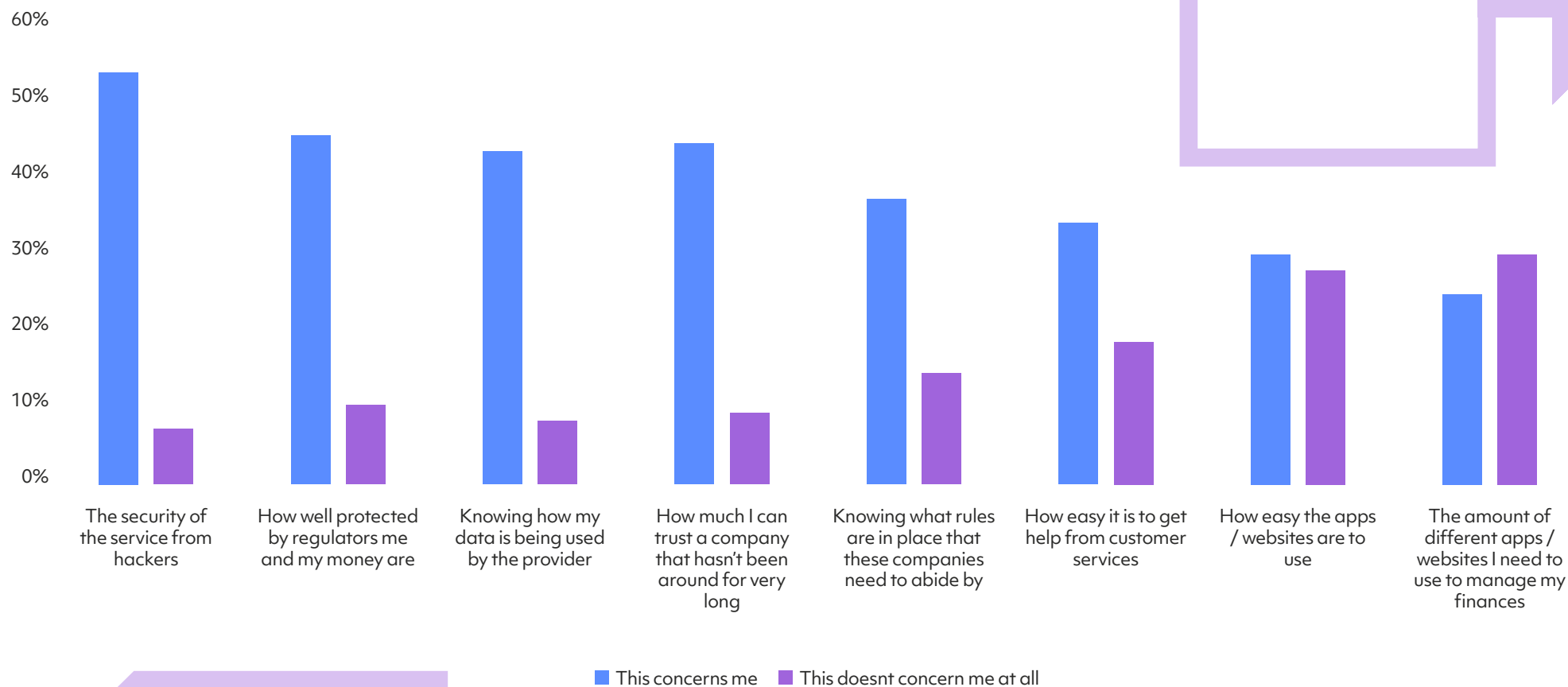
Among the older generation (55 and over), around three in ten are very concerned about how well protected they are by regulators, considerably more so than any other age group.



1/3

A third of the public are concerned about knowing what rules are in place for FinTech companies

We asked: How concerned are you about managing your money online and through apps?



A complex regulatory environment

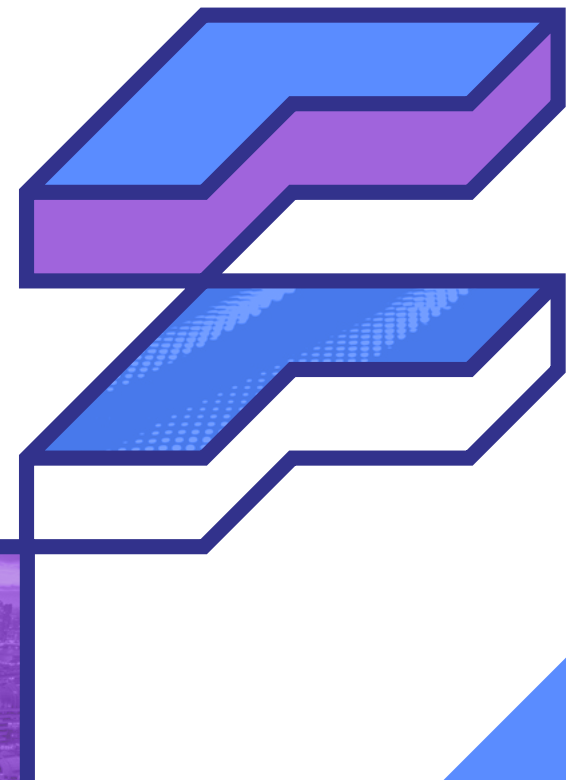
Recognising this shift in consumer behaviour, the drumbeat of FinTech-led policy announcements throughout recent years has been a demonstration of a Government eager to position the UK as the world's 'cutting edge' FinTech leader. Following their manifesto pledge to back innovation in 2019, the Government has launched a series of reviews looking at the future of the sector.

For many, FinTech is the solution to changing consumer behaviours in an increasingly digitalised world that is defined by the speed and efficiency of consumer services. The sector and the products it continues to develop are held up as a beacon of progress in a market traditionally dominated by established giants.

However, regulation has struggled to keep pace with the rapid growth of the sector. Government has been under pressure from all angles to improve consumer protection, and policy makers and regulators now face uncharted territory as they look to balance consumer protection while ensuring a vibrant and growing sector is not stifled – a case many players in the market have been quick to make.

10%

The UK has more than 10% of the global market share in FinTech and the sector is now worth more than £11 billion a year to the UK economy.



**Financial
Services Act
2021**

**Open Banking
and smart data
reforms**

**Financial
Services Future
Regulatory
Framework
Review**

**UK regulatory
approach to
cryptoassets
and stablecoins**

**Bank of England
Future of
Finance initiative**

**Kalifa Review
of UK FinTech**

**FCA Review in
to unsecured
credit market**

**UK
Government
Green Financing
Framework**

Diverging from EU regulations

One key issue facing the sector is the UK Government's ambition to diverge from the financial regulations emerging from the EU in order to open up innovation in the sector.

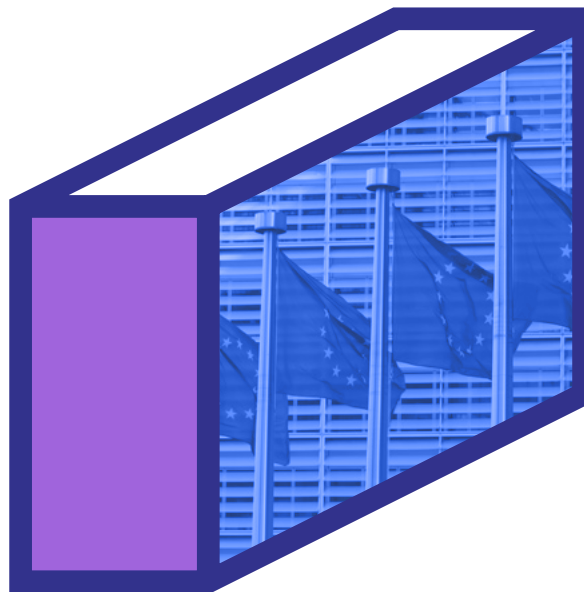
Many large financial services institutions were initially rattled by changes to passporting and listing rules that would seemingly inhibit the growth of the UK market. However, the Government's move to repeal most of EU financial services law and the decisions not to adopt new EU laws, has made it clear that it wants to avoid unnecessary market regulation.

With this new-found freedom has come a raft of reforms from the UK Government, with the 2019 Financial Services Future Regulatory Framework Review and the 2021 Financial Services Act forming the main vehicles for divergence from EU regulations. And Sunak's speech at Mansion House in July 2021, set out a vision for "once in a lifetime" regulation for the sector.



'Where regulation has imposed costs without beneficial outcomes to justify that cost, then we will want to use our new ability to change direction.'

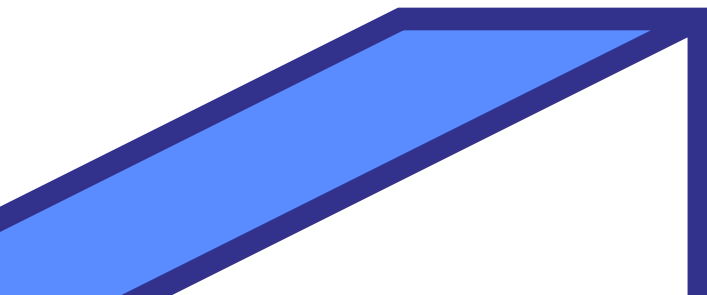
Edwin Schooling Latter, Director of Markets and Wholesale Policy at the FCA





The Government is being ambitious in seeking to build an open, green and technologically advanced financial services sector that is globally competitive and acts in the interests of communities and citizens across the UK. A goal reiterated at COP26 and in the 2021 Autumn Statement.

But as always, the devil is in the detail and the Government is seeking input from interested parties. The latest consultation on the future of regulation is due to close in February, covering everything from repealing the majority of EU financial services laws, to giving UK regulators greater power. Similarly, the powerful Treasury Select Committee continues its inquiry into the Government's work on this issue, with a report due in the early part of this year.



‘[These] proposals will support the future strength of the UK as a global financial centre, ensuring an agile and dynamic approach to regulation that supports the growth of the UK economy, without diverging from our continued commitment to high international standards.’

Chancellor, Rishi Sunak



Balancing consumer protection and innovation is an ongoing challenge

Despite the Government's ambition, Treasury proposals which place growth and global competitiveness at the centre have been criticised for conflicting with calls to improve consumer protection. There is a risk the Government falls short on both.

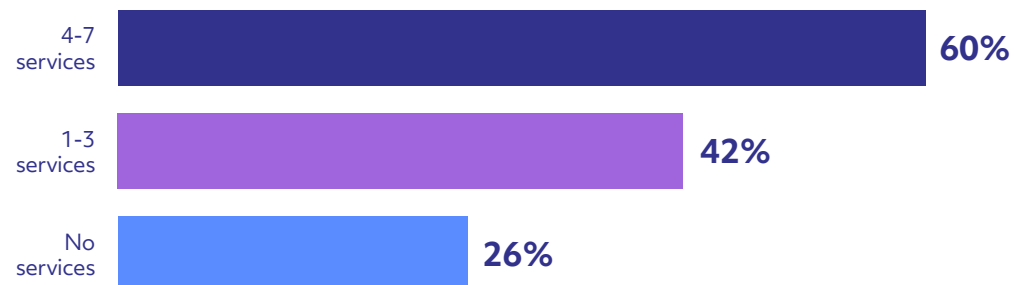
The Kalifa and Woolard Reviews are a key example of this tension. While the Kalifa Review made several recommendations aimed at supporting the development of the FinTech sector, the Woolard Review highlighted how a lack of regulation has resulted in considerable consumer detriment. Both have been accepted by the Government, and while work is underway to implement recommendations, it is still unclear how balance will be achieved and what this means for the future of FinTech.

45%

Of the public trust that UK regulation keeps customers protected from rogue providers, but levels of trust vary significantly between those who regularly use FinTech products and those who don't.

We asked: How confident do you feel that regulation in the UK keeps you protected from rogue providers of financial products?

Number of FinTech services used



The shift to digital is far-reaching

With the uptake of new products has come a notable change in perceptions.

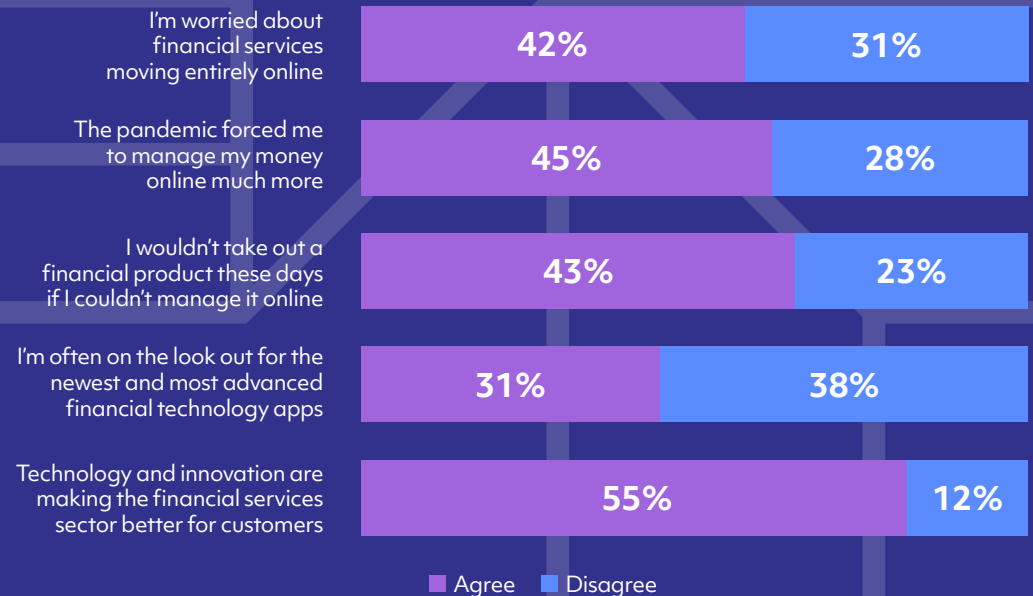
Whilst a majority of consumers have traditionally pursued user experience upgrades from their financial services providers, the longstanding debate over access to cash continues to show that there are some groups who do not perceive the benefits of innovations. For regulators looking to balance innovation and accessibility, ensuring customers are not left behind will be a key concern.

However, the shift to digital has been expedited by the COVID-19 pandemic, and consumers are increasingly turning to digital applications and new products. For many, this has also meant a shift to new products which offer the most advanced financial technology – a clear win for FinTech providers who routinely make the case that innovation leads to better outcomes.

55%

Of respondents felt technology and innovation are delivering better services for customers

We asked: How do you feel about the following statements?



Where politics and media collide

As with any new sector innovation, it takes time for regulators to fully understand the impact of the innovation and the potential consumer harm that might arise. In the meantime, the far more fleet-footed media, providing a channel for activists, becomes the voice of consumer protection.

In some cases, this creates real challenges for FinTech companies looking to enter an established space where editorial battle-lines have already been drawn.



Case study: Buy-now-pay-later: a sector under fire

The rapidly-growing Buy-Now-Pay-Later (BNPL) sector is a prime example of this. The global sector is expected to be worth \$166bn by 2023², growing at a rate of between 60% and 70% annually, according to Bain & Co³.

**The
Guardian**

The surge in 'buy now pay later' – and why we should be worried

THE
SPECTATOR

Why you should be wary of buy now pay later

With investment continuing to pour in, and ongoing speculation around where the much anticipated Klarna IPO might list, the media have followed the explosion of the sector with keen interest, fulfilling the dual role of consumer champion and cheerleader of British innovation.

Whilst the business and trade press has focused primarily on the large sums of money and new entrants being drawn into the sector, the personal finance national press has taken a sceptical approach to BNPL, urging the Government to speed up the regulatory process to protect consumers.

Coupled with sustained political pressure from MP campaigners such as Stella Creasy through the course of the Financial Services Bill and as new products emerge, the sector has faced a significant challenge over the past 24-months. Now as HM Treasury wraps up a consultation on the future of the regulation for the sector, it can expect a raft of changes to be introduced within the year.

The  **INDEPENDENT**

Online shoppers 'bombed' with buy now, pay later schemes – Which?

i
Buy now, pay later
crisis: How people
are being tempted
into precarious
financial positions

2 <https://www.verdict.co.uk/caught-between-banks-and-online-shopping-fintech-predictions-for-2022>

3 <https://www.bain.com/about/media-center/press-releases/2021/buy-now-pay-later-takeaways>

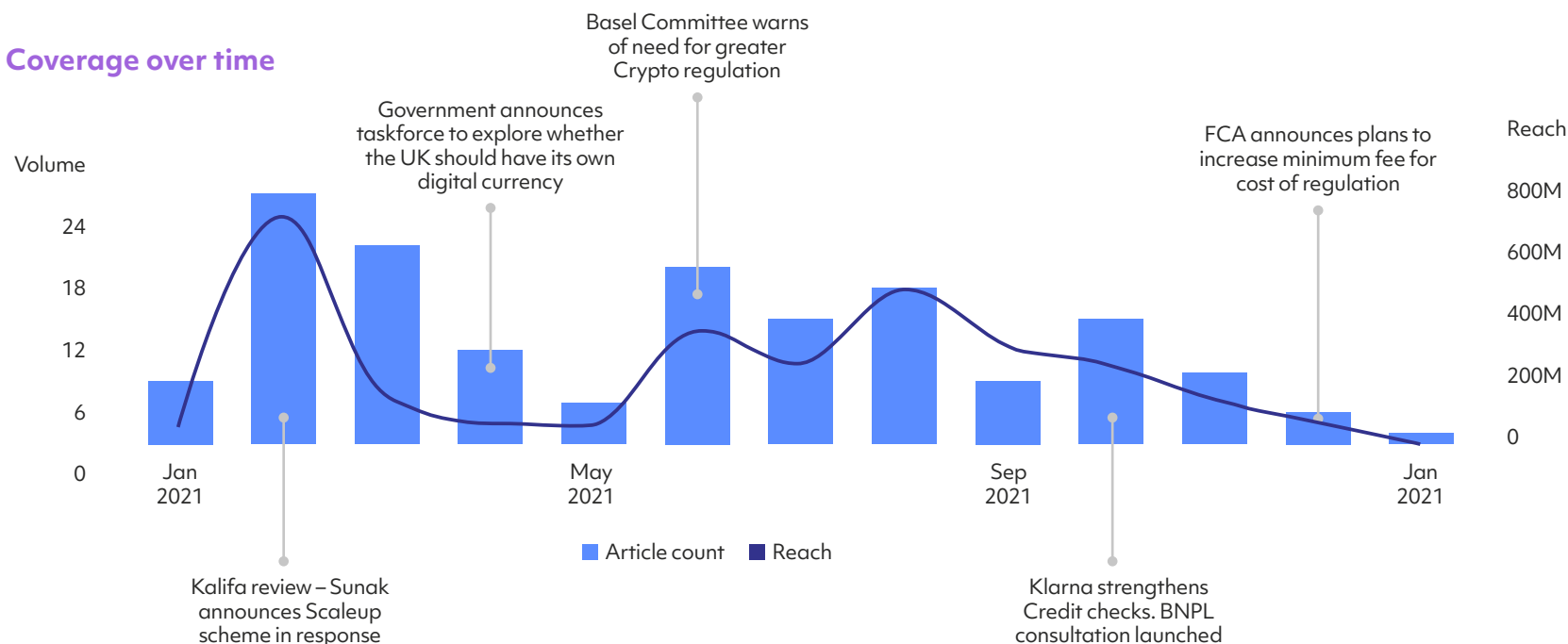
A natural media cycle

The enormous investment being poured into the UK's FinTech sector and the ongoing tension between innovation and consumer protection has naturally dominated media column inches.

The media landscape at the moment clearly reflects this dual purpose, with the potential for the UK, and London specifically as an investment hub for FinTech, balanced with the need for consumer protection and the regulatory framework around this.

FinTech Regulation in the national media in past year

Coverage over time



UK Investment: a good news story

Whilst the national press has historically been focused on macro trends and sky-high valuations of big name tech brands coming out of Silicon Valley, over the course of 2021, we saw a drumbeat of stories focused on where this investment is coming from and where the UK sits within the international context.

The mid-market titles in particular have followed investment in the UK FinTech sector with keen interest, with Daily Mail/ ThisIsMoney writing close to 1,000 articles in 2021⁴.

The growth of the FinTech sector has been positive news for specialist Tech start-up publications whose growth has mirrored that of the companies they write about. FT-backed Sifted, for instance, has recently announced an extra £4m funding of its own, with its newsletter readership nearly doubling in 2021.

The continued high readership of the tech, and particularly FinTech, trade press is a strong sign of the growing appetite for the deep-dive analysis of investment in the sector that specialist reporters are able to provide, both on a UK and international scale.

By telling the stories behind the investment, the trades are speaking directly to their audience, largely made up of investors and those working in the FinTech sector themselves, both of whom are keen for this level of detail. For the publications, they are looking to establish themselves as the 'go-to' news outlet of the business communities they report on.

MailOnline

Revolut considering London Stock Exchange listing after most valuable tech company ever in Britain

DAILY EXPRESS

Take that, Brussels! Brexit win as London STILL world's most vital FinTech hub outside US

MailOnline

Britain's tech firms outpace European rivals after bringing in record £13.5bn of funding – more than France and Germany combined

⁴ <https://pressgazette.co.uk/sifted-financial-times-raises-four-million>

Where the influence lies: a snapshot

Parliament

- APPG Financial Markets and Services
- APPG Fintech
- Treasury Select Committee
- APPG Debt and Finances
- Shadow Treasury Team

Consumer groups

- Citizens Advice
- Stepchange
- Fairer Finance
- Which?

Regulatory bodies and others

- Bank of England
- Prudential Regulation Authority
- Financial Conduct Authority
- Payment Systems Regulator

UK Fintech

Government

- HM Treasury
- Chancellor
- Department for Work and Pensions
- Department for Business, Industry and industrial Strategy
- Department for Digital, Culture, Media & Sport

Industry bodies

- Government Fintech Envoys
- Fintech Alliance
- Innovate Finance
- Tech UK
- Regulation Innovation

Media

- Finextra
- The Fintech Times
- Sifted
- City AM
- Daily Mail
- The Times
- Daily Express
- Fintech Futures
- FT
- Daily Telegraph



Who are WA?

We deliver commercial results for our clients by prising open opportunities and overcoming challenges where reputational, policy and regulatory concerns play together.

We use a rigorous and creative approach to problem solving to give insight and advice based on facts.

Our approach to strategic communications blends whichever techniques hit the outcome, from political campaigning and coalition building to corporate storytelling.

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