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FinTech

Trends & Developments – UK

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Trends and Developments

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Fox Williams LLP has a leading reputation in specific industry sectors and practice areas, known for its ability to deliver effective solutions. The FinTech group delivers joined-up and cost-effective solutions to established players in the sector as well as start-ups. Its six-partner team has deep product knowledge and provides expertise in financial regulation, technology, data and cyber security, together with advice on corporate transactions including fund-raisings. The team's core areas include peer-to-peer (P2P) lending, crowdfunding and alternative finance, as well as FinTech trading technology and regulatory technology. The firm is an associate member of the Peer2Peer Finance Association and advises on disruptive financial products and obtaining FCA authorisation.

Authors

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Nigel Miller, a partner, leads the firm's technology and data protection group, specialising in business contracts, technology, data protection, IP and online matters. He is a Fellow, and past chairman, of the UK Society for Computers & Law (www.scl.org); a past president of the International Federation of Computer Law Associations (www.ifcla.org); and a member of the International Association of Privacy Professionals and the US iTechLaw Association. Nigel, a regular speaker at tech and tech law conferences, is a Certified Information Privacy Professional/Europe; publishes a blog, iDataLaw; and is a regular author on topics including General Data Protection Regulation and cyber security.

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UK: Trends and Developments in FinTech

FinTech, or "Financial Technology", is the term for any technology applied to financial services. This dynamic and fast-growing sector is a key component of the UK's financial services industry.

FinTech start-ups use technology to deliver financial services to customers, usually at a lower cost than traditional providers, and often resulting in better client service for customers. Established financial services firms are exploring either acquiring or working with FinTech start-ups to drive innovation within their own culture.

FinTechs may be providers of technological solutions that bring innovation to traditional financial services companies, or they may be companies delivering innovative financial services offerings that disrupt an existing financial services market. However, ultimately, many FinTechs are simply financial services companies using technology to create an offering more in-line with the expectations of the Facebook generation.

Contributed by Fox Williams LLP ***Authors:*** Jonathan Segal, Nigel Miller, Julianna Tolan

The UK FinTech market can be roughly divided into four main areas. These are: (i) Payments; (ii) Lending/Crowdfunding; (iii) Blockchain; and (iv) Trading & Investments.

Payments

Banks, card schemes and acquirers and payment processors are the traditional players in the payments landscape. New entrants usually focus on taking the "friction" out of the payments process, and include providers of mobile payments, contactless and e-wallets. Trends in this important area include further advances in biometric identification and greater use of big data and AI to halt fraudulent payments.

The introduction in January 2018 of PSD2, the European Union's second Payment Services Directive, will also make an impact on the UK payments industry. It should revolutionise the payments industry, affecting everything from the way we pay online to what information we see when making a payment. PSD2 will break down the bank's monopoly on their users' data. It will allow 'merchants' – businesses like Amazon – to retrieve your account data from your bank, with your permission. This would mean that, when a consumer buys something, the merchant can make the payment for the consumer, without having to redirect them to another service (like PayPal or Visa). For consumers who hold more than one bank account, the changes would also allow businesses – known in the legislation as Account Information Service Providers – to display all their account information in one place for them. PSD2 will also require stronger identity checks when paying online. It also caters for 'open banking', whereby customers will be able to hold all of their accounts with various providers in the same app and, as a result, innovative firms will be able to collate useful data about their customers' spending habits in order to provide more tailored products to their user base.

Lending/Crowdfunding

After the financial crisis of 2008, some of the traditional banks reduced their lending to entrepreneurial or start-up businesses, thus creating an opening for new and innovative financing platforms. We have since seen the emergence of peer-to-peer ("P2P") or 'marketplace' lenders who 'crowd source' funds from both institutional and retail investors in order to provide finance to small and medium-sized businesses, or to consumers. These platforms combine technology-driven underwriting with superior customer service to compete successfully in a market traditionally dominated by the UK's high street banks.

Crowdfunding has grown substantially, not only as a debt offering but also as a means of raising equity, particularly for start-up companies looking to raise funds and gain brand recognition at the same time. A good example of the power of crowdfunding in the UK was challenger bank Monzo which, in February 2017, used crowdfunding platform Crowdcube to exceed its crowdfunding target of £2.5 million within four hours of opening for pre-registration through effective marketing and advertising to its core base of customers. This built on its previous target of £1,000,000 in 2016, which it raised in just 96 seconds!

Blockchain

Blockchain or 'Distributed Ledger Technology' is the core technology behind the cryptocurrency Bitcoin, and is one of the hottest and most intriguing technologies currently in the market. Similar to the advent of the internet, blockchain has the potential to truly disrupt multiple industries and make processes more democratic, secure, transparent and efficient.

A blockchain can be defined as a digital, chronologically updated, distributed and cryptographically sealed record of all data transfer activity. It may be thought of as a cloud-based ledger that is shared among a network of users (the "participants"), recording all data being transferred between them. In a typical blockchain, this record displays all the information related to the data, while at the same time allowing the identity of the involved participants to remain confidential, if required. The record can be viewed by all participants, but updates can only be made after being agreed upon by a majority of participants. Furthermore, once the data is entered into the record it can no longer be deleted.

Due to its perceived benefits, it is no surprise to see that many companies have tried to utilise blockchain technology in order to benefit financial services. We have seen regulated financial institutions & platforms exploring blockchain technology as an alternative to centralised and correspondent payment processing. Applications of such infrastructure have been developed to transform certain markets, including forex, trading and equities and central banking systems.

Trading and Investments

A fast-growing trend in the trading and investments space is the use of 'robo-advice' and 'robo-advisers'. Robo-advice involves replacing face-to-face savings and investment advice with online, automated guidance and execution that have the ability to deliver advice in a more cost-efficient way. Founded in 2011, Nutmeg was an early pioneer of the online investment model in the UK, although it is much less automated than newer start-ups entering the space. Newer businesses include Wealth Kernel, which is looking to sell its wealth management platform to financial advisers, and Gear Investments, an online discretionary wealth manager. Interfaces are becoming increasingly intuitive, easy to understand, accessible at any time and on mobile devices, and are relatively cheap. They seek to put the power in the user's hands, without the need for a human adviser.

To be able to advise FinTechs in any of these four areas requires detailed knowledge in several practice areas, includ-

ing financial services regulatory, technology (especially data protection) and financial products. These practice areas are inter-related, and to start, grow or expand in any of the FinTech sectors listed above requires expert knowledge.

Rise of Accelerators
We have also seen the rise of FinTech accelerators and incubators in the UK.

Accelerators are schemes that offer start-ups the opportunity (if accepted) to spend anywhere from a few weeks to a few months working with a group of mentors to build out their business and avoid problems along the way. Some accelerators are structured in the form of a competition whereby the winner receives an equity investment and branding benefits at the end of the programme. One of the most well-known accelerators in the UK is Barclays' accelerator powered by Techstars, which offers guidance from key Barclays staff, mentoring from leading entrepreneurs in FinTech, access to technical expertise and up to $120,000 of investment (depending on location).

Incubators often provide a co-working space whereby many different FinTechs can work in the same space and have the opportunity to share ideas and collaborate. Incubators often have good relationships with venture capitalists and early stage investors to help FinTechs get off the ground. An example of a successful incubator in the UK is Level39, a three-floor, 80,000 square foot community space located at One Canada Square in Canary Wharf, one of London's main financial districts.

Partnerships and Mergers
As early-stage FinTechs have expanded into the market, many have used partnerships within the FinTech community in order to further grow their customer base. We are now seeing many FinTechs pairing up in innovative ways in order to offer a variety of products to their customers. For example, Revolut, a 'banking-style' platform used to send and manage money around the world, has partnered with online mortgage broker Trussle and P2P lender Lending Works in order to offer its customers mortgage advice and consumer credit opportunities.

We have also seen established players such as banks either buying, investing in or partnering with FinTechs. An example of this is Santander Bank setting up an investment fund in London, Santander Innoventures, to invest in FinTechs such as Kabbage and Ripple. We have also seen Santander partner with Funding Circle, the UK's largest P2P lending platform co-operating in terms of borrower originations.

We anticipate that in the coming years there will be increased co-operation and collaboration between FinTechs and FinTechs, and between FinTechs and established players in the market. With banks looking to retain their customer user base and FinTechs looking to grow theirs, it seems that the two may merge in interesting ways in the near term.

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