A Progressive Vision For Fintech

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STARTUP COALITION

TONY BLAIR INSTITUTE FOR GLOBAL CHANGE

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About Startup Coalition

Startup Coalition, formerly the Coalition for a Digital Economy (Coadec), is an independent advocacy group that serves as the policy voice for Britain's technology-led startups and scaleups. Startup Coalition was founded in 2010 by Mike Butcher, Editor-at-Large of technology news publisher TechCrunch, and Jeff Lynn, Chairman and Co-Founder of online investment platform Seedrs. Startup Coalition works across a broad range of policy areas that matter the most to startups and scaleups: access to talent, access to finance and regulation. We have over 3,500 firms on our mailing list and interact with hundreds as part of our extensive campaign agenda. Over the last five years, Startup Coalition has engaged extensively in the financial services sector, with in-flight campaigns across open banking, payments, and consumer credit reform. Startup Coalition is also represented on the Department for Business and Trade's Smart Data Council and on the Government's Digital Economy Council.

About the Tony Blair Institute for Global Change

The Tony Blair Institute for Global Change (TBI) works with political leaders around the world to drive change. It is a not-for-profit organisation that provides expert advice on strategy, policy and delivery, unlocking the power of technology across all three. Its mission is to support leaders to build more open, inclusive and prosperous countries for people everywhere. TBI provides expertise in several sectors, including health care, agriculture transformation, climate and energy policy, and economic development, and works with a wide range of partners, including governments, bilateral and multilateral institutions, private corporations, academic institutions, foundations, and philanthropists who share its commitment and ambition.

Acknowledgements

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Executive Summary

As we look towards a General Election, it is critical that all parties understand the role of financial services as an important tool in supporting growth and unlocking barriers to opportunity across the UK. In December 2022, the Labour Party launched *Start-Up, Scale-Up: Making Britain the best place to start and grow a business*, setting out how a Labour government would support UK entrepreneurs of all kinds.[1] Then, in January 2024, the Party released its *Financing Growth – Labour's plan for Financial Services* report, outlining the Party's plans for the financial services sector.[2] Sitting between these two blueprints are fintechs, cutting edge financial services technology startups, and scaleups.

Where the plans published so far laid the foundations, this report adds detail, probes where a progressive vision for fintech could go further, and outlines specific steps that the next government should take to utilise fintech to drive growth and unlock opportunity across the UK.

Firstly, fintechs can fuel economic growth – both through the continued growth of the fintech industry itself, and by enabling innovation and efficiencies across the wider economy. In order for it to do so, we must get the basics right and ensure the UK is one of the best places in the world to start and scale a fintech startup. This means optimising foundational innovation incentives for fintechs across their growth journey, including optimising incentives like R&D tax credits and share option schemes, building fintech export opportunities, and providing regulatory certainty.

Secondly, fintechs break down barriers to opportunity. From increasing the returns for savers and pension holders to reducing costs for small businesses, financial innovation is increasing equity and opportunity for people up and down the UK. To maximise the potential of fintech to break down these barriers, the next government should develop a national financial inclusion strategy with financial innovation embedded within, unlock pensions to invest in startups, and increase choice for small businesses in how to accept payments by cultivating competition.

Thirdly, a major opportunity that represents both a significant growth sector and an enabler of opportunity for consumers and businesses alike is Open Finance. The final section of this report outlines how, through building on the success of the £4bn Open Banking ecosystem in the UK, the next government can turbocharge fintech growth by introducing Open Finance as a priority, supporting financial inclusion, literacy and consumer empowerment.

Financial innovation and technology represent powerful tools for a progressive, mission-driven government – tools that were far more nascent fourteen years ago. Harnessed to its full potential, fintech can drive growth and break down barriers to opportunity. This report sets out steps to achieving this potential.

[1] https://labour.org.uk/wp-content/uploads/2022/12/WEB-17247_22-Start-up-review-v12-ALT-2.pdf
[2] https://labour.org.uk/wp-content/uploads/2024/01/Financing-Growth.pdf

Introduction

In 2024 a General Election could mean the first Labour government in fourteen years. As part of setting out an ambitious agenda for growth against the context of tight fiscal headroom, Keir Starmer and Rachel Reeves will look to creative ways of cultivating enterprise and growth across the economy, and have committed to taking action to make the UK the best place in the world to start and scale an innovative business. This is not a straightforward task, particularly as they face the prospect of defining, for the first time, how a Labour government would nurture and grow the UK's startup ecosystem, of which the fintech sector is the jewel in the crown.

In 2010, in a world reeling from the Global Financial Crisis, the first green shoots of the fintech ecosystem emerged. Fourteen years later, fintech is one of the UK's most valuable and best funded startup sectors, raising nearly $40bn over the last five years alone, and employing thousands of people across the country.[3] Ranked as a percentage of GDP, UK investment in fintech is second only to Singapore and it is the sector that has delivered the most unicorns – tech firms valued at over $1bn.[4]

Fundamentally, these innovative firms are built on the solid foundations of the UK's world leading financial services sector, which incubates talent, knowledge, opportunity, and commercial partnerships – all vital ingredients for a successful startup sector. However, fintech can also be an enabler of growth, opportunity and innovation in its own right.

As the cutting edge of financial services innovation, fintech fills the gaps left by incumbent financial services providers. As a prominent example, many features now universal across banking apps originated in the challenger banks. Fintechs are also at the vanguard in utilising new technologies like artificial intelligence (AI) to unlock value for consumers. Beyond the way our apps look and feel, fintechs often solve for market failure. Examples include:

- Consumer credit fintech Infact exists to enrich credit scores to bring finance to some of the five million thin-file credit file UK citizens
- Bloom Money exists to support community-based saving across the UK where conventional financial services have failed to provide the right sorts of services
- Satago was founded to solve the pernicious problem of late payments for small businesses
- Swedish unicorn Klarna exists to save consumers time and money through innovative credit and payment options, where traditional providers have not provided sufficient transparency and flexibility
- UK fintech Freetrade enables consumers to invest for their futures, opening up global markets to hundreds of thousands of first time investors

Fintechs exist to solve problems too big or inconvenient for incumbents – this is often an inherently progressive agenda.

The fintech sector may have blossomed fast, but it could falter just as quickly. From regulatory stagnation and regulator resource limitations to growing international competition, the UK's prize fintech sector should not be taken for granted. Investment in the sector has decreased 48% year on year in 2023 in

[3] https://dealroom.co/guides/united-kingdom
[4] https://www.ftadviser.com/investments/2023/01/30/why-is-the-uk-so-successful-in-fintech/

contrast to sustained growth in the preceding years, demonstrating that the sector is far from immune to global macroeconomic headwinds.[5] We have seen growing pangs of uncertainty crop up in conversations with founders and investors, which is anathema to growth, and the prospect of a General Election has the potential to add political uncertainty to the mix too; if a change of Government precipitates a radical change of policy, this adds costs and complexity to firms.

Against this backdrop, comes opportunity.

In December 2022 the Labour Party launched *Start-Up, Scale-Up: Making Britain the best place to start and grow a business*, setting out how a Labour government would support UK entrepreneurs of all kinds. Then, in January 2024, the Party released its *Financing Growth - Labour's plan for Financial Services* report, a dedicated outline of Rachel Reeves and Tulip Siddiq's plans for the financial services sector, produced after extensive conversations with industry, and guided by an expert advisory panel.

Fintechs sit at the intersection between these two blueprints, and in conversations with firms across our ecosystem, there is an appetite for more from Labour. Firms have told us that they want more definition around the party's legislative and regulatory priorities for financial services, and more ambition when setting out how Labour can deploy the sector to progress its missions for government, starting with the goal of achieving the largest sustained growth in the G7.

This report is the next step on this journey and is designed to enrich what has come before, while also filling in the gaps. It is the product of a series of roundtable discussions, workshops and written feedback submissions with a host of stakeholders from the UK's fintech ecosystem.

Over the course of these conversations, two major themes arose. Firstly, the role of fintech in supporting sustained growth across the economy. This can be achieved through the sector itself continuing to grow, but also through fintech innovation supporting wider growth across the economy. Secondly, fintech as a tool for the next government in breaking down barriers to opportunity. This means both economic and social opportunity, creating choice and competition, whilst also promoting financial literacy, inclusion and equity across the UK. The first two sections of this report will track these themes, concluding with a series of recommendations to build out a progressive vision for fintech.

Beyond the broad strokes, however, one opportunity looms large – an opportunity that would accelerate growth and opportunity, whilst also presenting the next government with an opportunity to accelerate a progressive agenda across government: Open Finance. The third section of this report explores this in detail.

Set up for success and deployed effectively, fintech could drive forward a progressive agenda for Government, accelerating growth, breaking down barriers to opportunity, and empowering individuals and communities across the UK.

Here is a progressive vision for fintech in the UK.

5 https://www.innovatefinance.com/capital-and-investment/press-release-in-2023-levels-of-global-investment-in-fintech/

Part 1: Fintechs & Growth

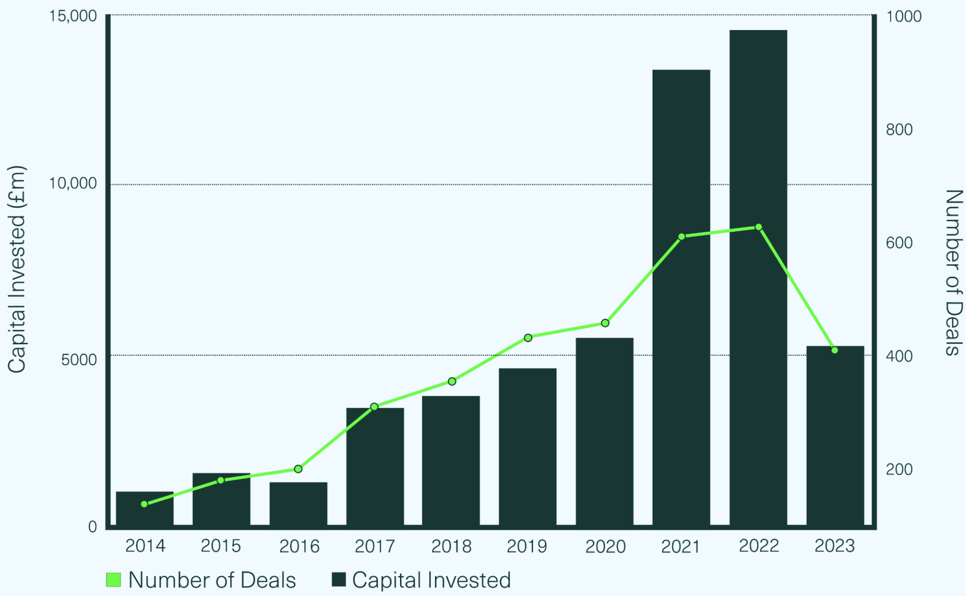
"We can achieve the highest sustained growth in the G7." *Keir Starmer, Leader of the Opposition, Speech at Labour's 2024 Business Conference*

"It is through growth and only through growth that we can sustainably resource strong public services, raise living standards, and compete internationally." *Rachel Reeves, Shadow Chancellor of the Exchequer, 2024 Mais Lecture*

Growth should be a fundamental objective of any progressive government. Leader of the Opposition Keir Starmer and Shadow Chancellor Rachel Reeves have built Labour's agenda on the ambition for the UK to achieve the highest sustained growth in the G7. Here, growth of the UK's financial services will be central, and fintech is a key part of this.

The fintech sector has grown from a few scrappy firms around Silicon Roundabout to the centrepiece of the UK's startup success. Eighteen of the UK's 52 tech unicorns in 2024 are fintechs, far and away the most represented sector.[6] Fintech in the UK has seen huge growth over the past ten years, with the number of deals and overall investment in the sector increasing significantly. In 2023, this changed when the investment declined in the sector – just as it did across the entire startup ecosystem. Inflation, geopolitical instability, and economic uncertainty chilled global markets, with the trend continuing in 2024. The UK's fintech ecosystem is strong, but not invincible.

UK Fintech Investment – Capital Invested and Number of Deals 2012-23[7]



[6] https://www.beauhurst.com/research/unicorn-companies/
[7] https://www.innovatefinance.com/capital/fintech-investment-landscape-2023/

The first thing the next government can do to shore up fintech in the midst of economic uncertainty is to ensure that the UK is the best place in the world to start and scale a startup of any sector.

Nailing the Basics

"One of the guiding ambitions of the next Labour government [is] to make Britain the best place to start, and to grow, a business." *Rachel Reeves, Shadow Chancellor of the Exchequer, Foreword in the Start-Up Scale-Up Review.*

To ensure that fintech entrepreneurs choose to set up their businesses in the UK, it is vital that the next government cultivates an innovation economy. Fortunately there are firm foundations on which the next administration would be building – foundations first laid during the New Labour years.

At the roots of our world-leading startup ecosystem are policies which both incentivise entrepreneurs to set up their businesses, and promote investment in these ventures. These core ingredients include the R&D Tax Credit Scheme and the Seed Enterprise Investment Scheme. As firms grow, they are then supported by policies including the Enterprise Investment Scheme (EIS) and Venture Capital Trust scheme which mitigate risk for early stage investors. They can also use the Enterprise Management Incentive (EMI) to offer share options to employees to enable them to compete for talent with bigger firms that can pay a higher salary. Across the board, these policies mitigate financial risk, provide sources of capital, and incentivise innovation.

Investment Incentives

Recommendation 1: A future government must ensure foundational innovation incentives are optimised for fintechs across their growth journey.

Despite fintech's success, these foundational incentives are far from perfect. In conversations with firms across the fintech ecosystem, we heard that there is significant scope to upgrade incentives across every stage of the growth journey for fintechs, from those starting out to those looking to scale.

First, there is a fundamental barrier facing fintechs in accessing some of these schemes. As highlighted in the 2021 Kalifa Review, regulated financial services startups, and in particular firms directly providing lending and insurance facilities, are unable to access EIS under current rules, stymying growth of these firms, whilst also creating uncertainty for firms that may be regulated in the future.[8] UK fintech trade body Innovate Finance has consistently raised this as a significant barrier to early stage firms.[9]

Meanwhile, over the last two years, the R&D tax credit scheme has been systematically undermined through a combination of policy change and poor administration by HMRC. Facing increasing concerns and press noise about instances of error and fraud on the scheme, the Government cut the relief on the small business R&D tax credit scheme by 40% in the 2022 Autumn statement and then overhauled the design of the incentive at the March 2023 Budget, merging the small business and large business

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[8] https://assets.publishing.service.gov.uk/media/607979c7d3bf7f400f5b3c65/KalifaReviewofUKFintech01.pdf

[9] https://www.innovatefinance.com/policy-blogs/autumn-statement-2023-submission-by-innovate-finance/?utm_campaign=Policy&utm_content=269306800&utm_medium=social&utm_source=linkedin&hss_channel=lcp-5001045

reliefs.[10] Whilst an "enhanced credit" was introduced for firms spending 30% of their total spend on R&D (reduced from an initial 40% after Startup Coalition campaigning), the majority of startups have seen their average relief fall by at least 40%. Labour has stated that they intend to maintain the merged scheme construct if they win the General Election, which is positive as a truly merged scheme promotes consistency and clarity for firms, but the policy they would inherit is far from fit for purpose. Meanwhile, HMRC has significantly increased the time it takes for applications to be processed, and have also increased incidence of "clawing-back" granted funds, including for many fintechs. A rapid review of the scheme and its administration should be a priority, with a goal to create clear benchmarks for response time, when to provide guidance and through what avenues, what clear guidance should entail, and how they approach regulated businesses.

As fintechs scale, they face additional challenges, not least how to attract necessary talent domestically and abroad to take them to the next level. The skills fintechs need, however, are often those demanded by heritage financial services institutions, as well as big technology firms, and it is near impossible to compete on salary alone. This is a challenge that faces startups of all kinds, and consequently many leverage the Enterprise Management Incentive (EMI).

EMI provides fintechs with another tool to compete for talent with large firms, whilst giving workers more voice in how their company is run and a stake in its economic success. Once again, however, it is currently sub-optimal, particularly as the scheme's qualification criteria have not changed in line with the growth of the sector, with the 250 employee and £30m in assets caps remaining unchanged. These caps should be increased to 1,000 employees and £150m respectively. Fintechs have grown at such a pace that the scheme has grown stale, whilst other countries, including France, Latvia, Estonia, and Lithuania have significantly improved their own schemes.[11] Expanding the eligibility of EMI, specifically by increasing the asset and employee caps, was one of the key recommendations made by the 2021 UK Tech Competitiveness Study.[12] Not only would this help quell the brain drain, supporting startups' ability to compete against large incumbents, it would also promote greater employee ownership, which in turn would mean more representation of worker interests and voting rights.

Export Opportunities

Recommendation 2: A future government must build export opportunities for fintechs into its Trade agency, starting with open banking regulatory bridges.

"We will unashamedly champion our financial services sector as one of the UK's greatest assets. Our history as an innovating, industrious, trading nation was built on the foundations of a strong financial sector. The same can be true of our future." *Rachel Reeves, Shadow Chancellor of the Exchequer, and Tulip Siddiq, Shadow City Minister, Foreword to 2024 Financing Growth report.*

Regardless of their fundraising stage, the export opportunity for UK fintechs is huge. In the *Financing Growth* report, Labour explicitly acknowledged this, stating its commitment to promote the financial service sector internationally, including through expanding "the UK's agreements with international financial centres", and by building on existing 'fintech bridges'. We wholeheartedly endorse this ambition,

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[10] https://startupcoalition.io/news/rd-tax-credits-startups-experience/
[11] https://www.notoptional.eu/en/country-ranking
[12] https://www.gov.uk/government/publications/uk-tech-competitiveness-study/uk-tech-competitiveness-study#:~:text=The%20UK%20Tech%20Competitiveness%20Study,innovation%20in%20decades%20to%20come.

but also urge the next administration not to overcomplicate this approach. International cooperation works best where there is regulatory alignment, and in the case of Open Banking, we have exported our regulations and standards across the globe, with over 40 countries operating a form of regulated scheme globally. Open banking was originally introduced in the UK as part of a competition intervention into the Retail Banking market, enabling consumers and businesses to share their financial data in real time with regulated firms. Examining the opportunity to build open banking licensing equivalence into trade agreements is the low hanging fruit for accelerating the export growth opportunity of UK fintechs.

The UK has a phenomenal suite of foundational policies and incentives that have turbocharged its fintech ecosystem, but an incoming government has an opportunity to upgrade these further. To truly unlock the next stage of fintech growth, there is another critical ingredient, which ran through the heart of Rachel Reeves's 2024 Mais Lecture.

Stability

"Now, you might ask: doesn't 'economic security' imply a denial of 'risk', the motor of innovation and entrepreneurship? So let me say this. Without the promise of stability, how can business invest with confidence?" *Rachel Reeves, Shadow Chancellor of the Exchequer, 2024 Mais Lecture*

Somewhat paradoxically, for innovation to occur, stability is fundamental. On the one hand, the raison d'etre for startups is to disrupt, overhaul, and transform products and services. But on the other hand, in order to attract investment, to market effectively, and plan ahead, startups require stability. This theme underpinned Rachel Reeves's 2024 Mais Lecture, and featured prominently in discussions we held with fintechs as part of this project. Many fintechs shared that the Shadow Treasury team has done a great job in building relationships across the sector, and has engaged thoughtfully and productively across a whole range of issues – this continued engagement will be critical if Labour wins power. So too will be following through on critical reforms already underway, and here there are reasons to be optimistic that the next government will focus on stability.

A Treasury Policy Initiatives Grid

Recommendation 3: Under the next government, the Treasury should publish a bi-annual Policy Initiatives Grid to promote a stable regulatory environment.

Labour supported the 2023 Financial Services and Markets Act, and has stated explicit support for the new regulators' secondary objective of international competitiveness and growth. We also know that they are meaningfully engaged in some of the meatier policy conversations around regulation of Buy Now, Pay Later, and Open Banking. Ensuring that the Financial Conduct Authority's (FCA's) backlog of work can continue and accelerate during the transition to a new administration is key for fintechs. This is foundational to them being able to plan resources, attract investment and, fundamentally, to grow.

Stability in policy work is also important for the regulator itself, with many firms stressing the need to set the FCA, Prudential Regulation Authority (PRA), and the Payment Systems Regulator (PSR) up for success with as little policy disruption as possible. Part of this stability means carrying through some of the pro-innovation reforms currently in flight, including expanding the ability for ISA savers to invest in fractional shares as well as the National Payments Vision, the Advice Guidance Boundary Review, and proceeding with the Edinburgh Reforms.

We've heard a desire from fintechs and other stakeholders in the sector for stability and predictability to be embedded into the financial services regime. This does not mean compromising on ambition – far from it. This means mapping out in advance a far-reaching agenda for reform that weathers political noise and accommodates complexity. The Edinburgh Reforms offer a platform on which to build, but did not include specific timelines, and work that has commenced has now slipped. Across issues as far-reaching as capital markets reform, reform of the consumer credit regulations, and the introduction of Open Finance, fintechs need more than words – fintechs demand a multi-year plan for a renewal of the financial services sector. Indeed, there are steps that all parties could be taking ahead of the election to set out their short term priorities: this report suggests some of the priorities for the next government, and clear direction on what the first months post-election will look like would be welcomed by fintechs of all sizes.

We support the sector's appetite for stability in policymaking and therefore suggest that, under the next government, the Treasury produce a parallel document to the FCA's Regulatory Initiatives Grid, to enable clear visibility of the overlap between policy and regulatory initiatives, and to enable fintechs to plan their engagement and compliance activities more efficiently. This Policy Initiatives Grid should map out at least the priorities and aspirational timelines for Treasury work over the next twelve months. By cultivating stability in the plans for financial services reform, fintechs will be better able to plan product development, which will support attracting investment, in turn fuelling growth.

One of the major benefits of stability is that it maximises certainty. Fintech founders know all too well that nothing is ever certain, however clear direction from the Government provides the necessary backdrop to mitigating uncertainty. In contrast, the prospect of significant policy upheaval can lead to the opposite. Stability and innovation are not opposed, indeed the former fundamentally enables the latter.

Regulatory Certainty

"Labour will direct the FCA to issue an open call to industry to identify rules which have been made redundant by the Consumer Duty, and will call on the FCA to define a transparent process for evaluating and responding to suggestions." *2024 Financing Growth Report*

In its *Financing Growth* report, the Labour Party set out an ambition to reform financial services regulation to streamline the rulebook, with the resultant outcome-based regulatory regime underpinned by the Consumer Duty. For fintechs, this presents both an opportunity for greater simplicity, but also the risk of significant uncertainty if the Duty is not implemented well.

The Consumer Duty

Recommendation 4: A future government should provide more substance to the Consumer Duty, to create more certainty over what is expected of firms.

Firstly, outcomes-based regulations are only as good as the outcomes themselves. Outcomes-based regulation can ensure that good consumer outcomes are enshrined, whilst also enabling innovative products and services to thrive and compete with incumbents. This is distinct from prescriptive, rules-based regulation which sets out exactly how firms should act.

The Consumer Duty is the evolution of this approach to regulation, but should not be viewed as a silver bullet, particularly if it becomes a moveable feast. At a profound level, the Consumer Duty presents a challenge to policymakers and industry. Conceptually, the Duty requires "firms to act to deliver good outcomes for retail customers".[13] This is an ambition that Fintechs can endorse, but it is riddled with ambiguity. On the one hand, it enables innovators to experiment, iterate and improve their processes to optimise user experience and, potentially, maximise consumer satisfaction. However, on the other hand, what is a "good outcome" for a consumer? Financial services often entail risk-taking, and where there is risk, there is the chance of a negative *financial* outcome that comes alongside the opportunity for a positive one. We do not believe that the goal of the consumer duty is to remove all risk from financial services, and it is therefore imperative the regulator accommodate an environment of innovation where "good outcomes" work within inevitable financial services risk.

We've heard from firms that, today, this balance is not being struck, and there remains significant uncertainty over compliance with the Duty. For instance, there are concerns that the Consumer Duty will be used to define "price outcomes" for consumers, which would amount to scope creep and market distortion. Some firms voiced concern that this was part of a broader shift towards protecting consumers at all costs, and from taking personal financial risk of any kind. In this specific instance, aspiring to greater "price transparency" across financial services is an aspirational outcome that fintechs endorse - creating greater grounds for informed consumer choice, and therefore competition.

Further, there is a concern that the Consumer Duty could increase barriers to entry for smaller firms if compliance is deemed to equate to extensive (and expensive) controls for perceived consumer risk which may not come to pass, which will in turn stunt the agility and pace of the sector. If compliance with the Consumer Duty means different things at different times, this presents a regulatory risk to fintechs, which will practically entail more cost in monitoring FCA requirements and then updating processes. To mitigate this risk, it is vital that best practice is frequently shared, that guidelines are updated, and that the FCA facilitates proactive engagement from firms in a constructive and collaborative way. So far, the FCA has shared best practice in selected sectors, but therein lies the fundamental tension: "best practice" should be constantly iterated and improved upon itself.

At a conference in March 2024, FCA CEO, Nikhil Rathi, stated that the FCA was not looking to "trip firms up" with the Consumer Duty.[14] This is positive to hear, but needs to be backed up with actions alongside words. It is inherently impossible to define an exhaustive list of practices aligned with the Consumer Duty, but ensuring that firms feel able to experiment with processes to best meet the defined outcomes is important, as this is often how best practice is further improved. Perhaps one fundamental way of moving towards this better balance between "positive consumer outcomes" and financial risk taking under the Duty would be to introduce a formal mechanism for dialogue between the regulator and Fintechs, starting with an "office hours" facility. By encouraging fintechs to come forward with questions and proposals for regulator feedback, this would erode away at the uncertainty, whilst also enabling the FCA to iterate on "best practice" in a more agile manner.

[13] https://www.fca.org.uk/publications/policy-statements/ps22-9-new-consumer-duty
[14] https://www.ftadviser.com/regulation/2024/03/14/fca-not-trying-to-trip-firms-up-with-consumer-duty/

Regulator Resourcing

Recommendation 5: A future government must suitably resource the financial regulators.

"Now is the time to ensure our regulatory environment promotes innovation to deliver better customer outcomes, increase investment, and enhance the UK's competitiveness, whilst reinforcing financial stability and consumer protection." *2024 Financing Growth Report*

Another major caveat that fintechs shared with us is that in order for Labour's review of regulation to work, it is fundamental that the financial regulators are resourced adequately. From the failure of the Crypto Register, to a perception that enforcement of existing regulations is sporadic and inconsistent, we've heard frequent concerns about financial regulator capacity. This is a more prominent challenge post-Brexit, with the on-shoring of all financial services regulation. While the prospect of doubling down on outcomes-based regulation grounded in the Consumer Duty is excellent in principle, in reality this means placing even more onus on the FCA to police ambiguity. Many firms that we engaged with as part of this project do not think that the regulator is sufficiently resourced to take on more work. In tandem with this, we also heard that the inconsistent judgements and the increasing scope creep of the Financial Ombudsman Services (FOS) are compounding uncertainty.

In their *Financing Growth* report, Labour set out plans to "in consultation with the sector, work to identify overlaps and gaps in regulatory mandates across bodies including the PRA, FCA, Competition and Markets Authority, The Pensions Regulator, and Payment Systems Regulator (PSR)." Labour has stated that "cross-sectoral regulatory coordination will be promoted through data-sharing and integration of technologies like RegTech and SupTech", and this is a positive, if vague ambition. Even more promising is the potential of the new Regulatory Innovation Office. Done well, this new entity could be the logical culmination of the in-flight Smarter Regulation Programme. In principle all of these initiatives would be useful in increasing regulatory efficiency, but none of them will work if the regulators themselves are inadequately resourced. If fintechs cannot be certain that the regulators are fit for purpose, this fundamentally undermines their ability to plan, develop products, attract investment and grow.

"Reducing red-tape" often makes for great rhetoric, but in practice it can mean uncertainty for startups - negatively impacting their growth. This is particularly acute for fintechs. To maximise the chances of success on regulatory reform, the next government must commit to adequately resourcing the financial regulators. The under-resourcing of financial regulators also risks undermining any Brexit dividend that could be achieved in the financial services sector; if the regulators cannot effectively enforce existing regulations, they have little chance of being able to strategically innovate to compete with the EU and other jurisdictions.

Fintech and Artificial Intelligence Regulation

Recommendation 6: A future government must combine the current pro-innovation approach to AI regulation with cross-sector regulatory innovation to better resource regulators and provide in-development solutions like the multi-sector multi-regulator sandbox as quickly as possible.

"The development of artificial intelligence will be profound for the future of financial services in the UK, and a key source of innovation in the sector." *2024 Financing Growth Report*

In the Government's response to its AI white paper, the Department for Science, Innovation and Technology (DSIT) highlighted some key actions they thought would help bring more AI technologies to market — building from the existing strengths of UK regulators, a pilot advisory service for AI innovators through the Digital Regulation Cooperation Forum (DRCF), sharing guidance on implementation, and building common regulator capability – but this isn't enough to bring about AI adoption in fintech.

Regulator capacity and regulatory convergence are consistent concerns for AI founders, many of whom also expressed the concern that the Government's strong focus on AI safety could overshadow other, equally critical regulatory needs if they enter financial services as well. That being said, financial regulators are definitely ahead of the curve in comparison to their counterparts when it comes to AI.

At its core, there is a growing disconnect between what DSIT wants from AI regulation and what the regulators in charge of the implementation are actually capable of. Financial services is a highly regulated sector already, yet the regulators in the space lack the resources, response times, flexible processes and consistent engagement with regulators of less-regulated markets to be able to push a clear narrative.

To succeed in turbocharging AI adoption in financial services, the next government should:

- Empower regulators to issue AI-specific guidance for compliance across the financial services stack
- Ensure that regulators are equipped with the right tools and resources including ongoing skills training, adequate staffing and consistent regulator collaboration
- Create clear benchmarks for regulators in regards to response time and what guidance should look like
- Introduce two sandboxes as quickly as possible – a multi-regulator, multi-sector sandbox and a fast-tracked AI financial services to market sandbox, with a clear path to off-ramp for participants

Recommendation 7: A future government should not hold financial services institutions' use of AI to a higher standard by default.

It is important that throughout the next government's approach to the use of AI, the financial services sector is held to the same standards as other sectors, given how highly-regulated the sector is compared to others, and not to higher standards unless that is merited for specific use-cases. For this, a context based approach will be needed so that, for example, the auto-categorisation of transactions and expenditure using deep learning isn't treated the same as the tracking of expenses for tax purposes which historically requires a significant amount of time to manually perform predictable and routine processes but tends to be more low risk.

In this vein, the Bank of England (BoE), Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) should take inspiration from their ongoing move from granular compliance-based regulation to agile outcomes-based regulation. In many areas there is little need for new regulation. Instead there is a need to apply and enforce existing laws and regulations, and help regulators develop the expertise needed to adapt to new AI scenarios.

Regulator Action

Beyond broad strokes to promote certainty across financial services, the next government has an opportunity to bring fintechs certainty where previously they have existed in limbo. There are two critical areas where the next administration could significantly support increasing certainty for firms: authorised push payment (APP) fraud, and regulation of Buy Now, Pay Later firms.

APP Fraud

"Reducing fraud in the UK requires an integrated approach across government, law enforcement, regulators, financial services firms, and tech companies to address the entire ecosystem which enables fraud to occur." *2024 Financing Growth Report*

Recommendation 8: A future government should introduce an APP fraud strategy within its first 100 days.

The UK's real-time payments system underpins significant financial innovation, efficiency, and has lowered the costs of paying in the UK. Unfortunately, the lack of friction that enables these benefits has also been part of the reason for the rise in APP fraud across the UK economy.

APP fraud led to nearly £500m in losses in 2022, with thousands of individuals bearing the costs.[15] While the latest data suggested a slight dip in gross losses, there was a 22% rise in the number of cases of APP fraud between the second half of 2022 and first half of 2023. This is justifiably a priority for regulators and policymakers in the UK. Labour supports the recent changes announced by the Conservative government to enable banks to delay the processing of payments for up to four working days where there is suspicion of fraudulent activity.[16] This is partly to give banks more time to investigate suspicious payments before processing, against the backdrop of the new mandatory reimbursement scheme which compels them to refund 100% of payments if fraud is found to have occurred.

In their *Financing Growth* report, Labour endorsed the changes but acknowledged that these payment delays could have unintended consequences. Labour plans to evaluate "the impact of mandated delays on customer retention", for example. We heard during conversations as part of this project that fintechs are also concerned that delays may be inconsistently applied across different payment methods, which should also be monitored. Open Banking payments firms have previously suggested that concerns about fraud have been used to justify stymying the growth of less commercially lucrative payment methods for banks. The commercial difference between the two? The banks receive a slice of every card payment through an "interchange fee" but receive nothing for open banking payments. This unreliability undermines certainty for payment Fintechs, and further measures to disrupt the reliability of Open Banking payments will damage consumer trust.

Beyond these concerns, however, there is a more fundamental question about where the responsibility should lie for combatting APP fraud. To really address this scourge, we must address where APP fraud

[15] https://www.ukfinance.org.uk/system/files/2023-10/Half%20year%20fraud%20update%202023.pdf
[16] https://www.gov.uk/government/publications/the-payment-services-amendment-regulations-2024-policy-note

originates and work collaboratively to stop it. As identified in Labour's Financing Growth report, we must aspire towards an anti-fraud regulatory framework where tech giants and telcos "participate in the fight against fraud, including through sharing data with financial services firms to enhance detection and prevention measures." Meanwhile, more foundationally, it is not clear that the UK currently takes fraud seriously in terms of policy resourcing. According to Home Office figures, fraud represents 40% of all crime but just 1% of police resourcing.[17]

We must ensure that we are not simply policing payments going forward but that we adequately police the fraudsters themselves. Identifying where the fraudulent payments are originating from, not just which bank accounts but the individuals involved too, will be vital for ensuring that consumers can trust payments and their financial institution. There must be a more cohesive, well-funded and joined-up approach to APP fraud and the serious and organised crime groups behind this threat.[18] The next government has a real opportunity to support people, but only if they can get it right.

Combating the scourge of APP fraud is not simple, but the current approach is precipitating uncertainty across financial services. The next government must expedite a more strategic approach to the issue, as a matter of priority.

BNPL Regulation

"Government has kicked reform into the long grass, leaving millions of consumers unprotected and the BNPL sector in a state of uncertainty" *2024 Financing Growth Report*

Recommendation 9: A future government should advance plans to regulate BNPL within its first 100 days.

The use of Buy Now, Pay Later (BNPL) has exploded in recent years. Over 14 million people, more than a quarter of the UK's adult population, used BNPL to purchase goods online in 2023. Yet despite its rapid rise, attempts to regulate BNPL have fallen woefully short to date. In February 2021 the Woolard Review stated that there was an "urgent need to regulate all buy-now-pay-later products". Three years later, the sector remains unregulated.

We contend that it should be possible to regulate BNPL in at least the early stages of the next government. Even better, the next administration can use regulation of the BNPL sector as the flagship for reform of the broader consumer credit regulatory regime, which must necessarily be undertaken over a longer time horizon and with significant consumer and firm engagement. By this we mean that the next government can introduce an outcomes-based regulatory framework for BNPL, via the FCA Consumer Credit Sourcebook, with these outcomes then applied to the broader credit sector iteratively, eventually resulting in the wholesale replacement of the Consumer Credit Act.

This would allow the next government to both quickly regulate BNPL while providing a template for the wider reform of the Consumer Credit Act (CCA). Importantly, we contend that the next government could achieve the regulation of BNPL via a statutory instrument. The Treasury has powers under the Financial Services and Markets Act (FSMA) to specify that any particular activity is a regulated activity and it has

[17] https://committees.parliament.uk/writtenevidence/128562/html/

[18] https://www.rusi.org/explore-our-research/publications/commentary/fraud-emergence-uk-epidemic#:~:text=While%20APP%20fraud%20often%20hits,doubled%20over%20the%20same%20period.

specified which activities are regulated under the Regulated Activities Order (RAO). The Treasury can amend the RAO through a statutory instrument to provide exemptions and confer powers on the FCA including authorising the making of rules for BNPL. It's important to note that the Treasury has previously indicated that this statutory instrument would be required to be laid before both houses of Parliament.

Regulating BNPL in this way would be both feasible and efficient. This is one crucial area where greater certainty can support growth in the innovative lending fintechs, and demonstrate the next government's commitment to supporting the sector.

The fintech sector can be the engine of growth in the UK under the next government, but it can also precipitate opportunity across the UK economy, for consumers and businesses. It can be a vital tool for a mission-driven government to drive progressive change.

Part 2: Fintechs and Breaking Down Barriers to Opportunity

"I promise you this: whatever the obstacles to opportunity, wherever the barriers to hope, my Labour Government will tear them down." *Keir Starmer, Leader of the Opposition, Speech to launch Labour's Opportunity Mission in July 2023.*

"A strong financial services sector isn't just an engine for growth. It helps Britons reach their financial goals, save for their future, and support their families." *Rachel Reeves, Shadow Chancellor of the Exchequer, and Tulip Siddiq, Shadow City Minister, Foreword to 2024 Financing Growth report.*

Labour's fifth mission for government will be to expand opportunities for the people of the UK of all ages, and across the entire country. Here, financial innovation and technology can be critical enablers.

Financial Inclusion

"We will champion financial inclusion to ensure all people have access to affordable products and services to support their financial wellbeing." *2024 Financing Growth Report*

A Financial Inclusion Strategy

Recommendation 10: A future government should deliver a Financial Inclusion Strategy within its first six months.

Today, the government defines financial inclusion as that "individuals, regardless of their background or income, have access to useful and affordable financial products and services". A mission-driven government should add "to support their financial wellbeing" to this. Unlocking the role of fintech in eroding disparities in financial inclusion starts with a National Financial Inclusion Strategy.

An incoming government has the opportunity to deploy fintech as a catalyst for improving financial inclusion. Fintechs flourish in the gaps left behind by incumbent financial services firms, from improving user experience to meeting the needs of customers deemed unworthy or too complicated for incumbents to serve. Fintechs can also oil the machinery of traditional finance, streamlining processes and injecting efficiency which can save money, time, and deliver significant economic and social value across the UK.

According to the "The FinTech Impact Report" from Innovate Finance, Accenture's FinTech Innovation Lab London, Vested Impact and The Data City, when measured against the Sustainable Development Goals, fintechs do not have the same reach as traditional financial services incumbents in terms of supporting financial inclusion and reducing economic inequality, but they have a greater impact intensity whilst also driving productivity and growth.[19] Fintechs exist to serve markets not served by the traditional players – they represent a fundamentally progressive agenda, and must therefore play a key role in producing the strategy and then bringing it to life. So key is this strategy in outlining the tangible steps that the next government will take to break down barriers to opportunity, that we recommend that it be delivered within the first six months after the General Election.

A Financial Inclusion Sandbox

Recommendation 11: A future government should launch a Financial Inclusion Sandbox that is designed to appeal to a high calibre of participants, to optimise the quality of consumer outcomes.

Labour has outlined its ambition to "establish a regulatory sandbox to test financial products to reach underserved communities". Sandboxes are a well used concept within regulated sectors to facilitate firms wishing to trial new services and products for a limited time under the scrutiny of the regulator but exempt from full regulatory requirements. Both the FCA and Ofgem have deployed sandboxes with some success. Critically, feedback from fintechs that we spoke to as part of this project are supportive of the concept but highlighted two critical features that the next government will need to address.

Firstly, to justify firms engaging with the sandbox, and maximise the calibre of participants, it will be vital that the participation enables access to tools that the firms would otherwise struggle to secure, to demonstrate the full potential of their product or service outside of the sandbox environment. A straightforward justification for participation would be access to datasets, including synthetic datasets, that enable firms to accelerate their product development. Access to customers is another key opportunity that a sandbox environment could present, though the nature of the financial inclusion objective means that this will have to be done thoughtfully. Importantly, this sandbox must not occur in a silo and it will be vital that consumer groups, policymakers and regulators are engaged in its work.

Secondly, the sandbox must be temporary, with a clear route to 'exit' and grow beyond. Whilst to improve FCA and Treasury resource efficiency it will be vital to have clear defined time limitations for participation in the sandbox, these limitations will also ensure that founders can plan ahead to secure an offramp back into the market, hopefully having successfully demonstrated the value of their product or service in improving financial inclusion. Linked to this "exit" route, it must also be clear to fintechs in advance how the data or resources they gain access to through participation in the sandbox can be used beyond the lifetime of the sandbox process, particularly if any new IP is created off the back of it.

In order to maximise the potential of a Financial Inclusion Strategy, and the solutions incubated in the sandbox, there needs to be a simultaneous focus on equipping individuals across the UK with financial literacy from an early age. Over 25 years ago, Tony Blair's New Labour came to power off the back of an agenda grounded in investing in and reforming the education system. Today, the next government has the opportunity to oversee a different kind of education revolution, one that will be critical in breaking down barriers to opportunity.

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19 https://ww2.innovatefinance.com/wp-content/uploads/2023/10/the-fintech-impact-report-working-through-the-worlds-to-do-list.pdf

Whilst financial literacy is a challenge facing countries across the world, evidence suggests that the UK ranks below the OECD average for adult financial literacy.[20] A recent study by fintech Wealthify and think tank The Centre for Economics and Business Research found that 73% of respondents fell below their financial literacy benchmark, lower than comparative scores in France, Canada and New Zealand.[21] This is a significant challenge, but an incoming government does have the opportunity to mitigate the issue at an early stage, by investing and reforming how financial education is taught.

The next government must double down on efforts to increase financial literacy across the economy. As part of its ambitions for a National Financial Inclusion Strategy set out in the *Financing Growth* Report, Labour committed to setting up a committee to work with "the Department for Education to increase access to financial literacy education in schools and colleges" across the UK. We implore the next government to explore how it can harness fintechs to optimise the effectiveness of these resources, perhaps using part of the Financial Inclusion Sandbox work to explore how fintechs could contribute.

Financial Opportunity

"Our financial sector can be a vehicle for growth not just from the top down, but from the bottom up and the middle out." *2024 Financing Growth Report*

Over the last twenty years, digital technology has led to enormous growth, but for too long the proceeds of this growth have been limited to a privileged few, with many consumers less financially engaged. We believe that fintechs can support a mission-driven government to unlock economic opportunity across society, starting with unlocking the main source of wealth that the majority of UK citizens will have in their lifetime: their pension.

Unlocking Pension Power

"Capital held in pension funds is vital for the growth of our most innovative companies. In the US, approximately 70% of venture capital funding comes from pension funds, while in the UK the figure is below 20%." *Tulip Siddiq, Shadow City Minister, Debate on Financial Services Reforms July 11th 2023.*

Recommendation 12: A future government should expedite the Mansion House Reforms.

The next government will not need to start from scratch: the current government has already begun to take action to increase the distribution of growth across society, most prominently through its ongoing Mansion House Reforms of the pensions sector, which looks to increase the proportion of Direct Contribution (DC) pensions invested into startups. There is cross-party support for this, with Labour stating in its *Financing Growth* report that it has an ongoing focus "to increase investment by institutional and individual investors in UK capital markets". Enabling more choice for savers is fundamental to financial empowerment and opportunity. This also means delivering the recommendation in the Startup Scaleup Review to "require [pension] schemes below a certain size to consider, as part of their fiduciary

[20] https://www.fincap.org.uk/en/articles/levels-uk
[21] https://www.wealthify.com/blog/what-is-the-uk-s-level-of-financial-knowledge

duty, whether they are large enough to deliver fully in their members' interests", as part of an effort to consolidate the sector.

Reforming pension regulations and the pensions market to incentivise diversification into longer-term assets like startups also has the obvious additional benefit of increasing the supply of patient capital into those startups. With assets in UK DC schemes expected to exceed £1 trillion by 2029, diverting just 5% of that to startups would equate to a £50bn funding boost for the sector, including in fintechs.

Increased Choice for Retail Investors

Recommendation 13: A future government should double down on steps to increase savers' ability to invest in startups, including fintechs.

To further unlock opportunities for investors and savers, the next government could go further, starting by delivering inflight reform including enabling ISA holders to invest in fractional shares, whilst also reviewing the regulations tax regime for share sales wholesale. Some fintechs that we spoke with as part of this project highlighted the opportunity presented by reducing or removing stamp duty on share transactions to stimulate trading volumes and capital inflows into UK markets. While there would be an initial revenue loss from stamp duty, this could potentially be offset by higher capital gains tax receipts from increased investment activity.

Unlocking Payments Innovation to Reduce Small Business Costs

"Deliver the next phase of Open Banking to unlock the potential for increased competition in retail payments" *2024 Financing Growth Report*

Recommendation 14: A future government should take steps to accelerate the adoption account to account payments across the economy.

How consumers pay for goods is a fundamental part of our economy. Over two-thirds of retail payments happen on the card networks, and as cash payments decline, this will rise even further in the future. For many retailers in the UK, accepting card payments is a cost of doing business, and these costs rose by 13% between 2015 and 2023. The next government should strive to take action that enables the payments sector to be as competitive as possible. Competition will drive value for retailers, and therefore for consumers. This competitive landscape should be underpinned by the efficient and effective enforcement of existing regulation, and also proactive steps to enable alternative, more nascent technologies, to meaningfully compete.

Over the last five years, we have seen account to account payments increase in popularity as Open Banking, and its development into variable recurring payments (VRPs), enables retailers to offer an alternative, secure way to pay. The long term viability of VRPs must be ensured with a sensible pricing model. Currently the PSR is looking to set the price that banks can charge the Payment Initiation Service Provider as zero. With no financial incentives for the banks, we are concerned that the banks will be unlikely to invest or innovate within this space. We believe this may lead to poor customer experiences and the creation of an artificially low-priced competitor to Direct Debit when one of the PSR's strategic objectives is to promote account to account payments as a competitor to cards.

Competition can also be enabled through the continued support of Open Banking payments themselves: Joe Garner's *Future of Payments Review* flagged that Near Field Communication (NFC) has only been opened for card payments, not Open Banking journeys in the UK.[22] If NFC remains only open to cards, it will be difficult for any open banking journey to rival the contactless experience at point of sale. Open Banking faces significant challenges, not only in becoming widely adopted, but also in ensuring that the UK is competing across the globe on its service. Yet the benefits of open banking as an alternative to traditional payments will help foster competition and drive down costs to both businesses and to consumers. It is vital that open banking continues to be supported by any potential government.

[22] https://assets.publishing.service.gov.uk/media/6557a1eb046ed400148b9b50/Future_of_Payments_Review_report.pdf

Part 3: Open Finance and Mission-Driven Government

"Labour recognises the potential for Open Finance to improve financial inclusion, support household saving and investment, and create a new pipeline of data to spur innovation, including personalised solutions for customers." *2024 Financing Growth Report*

Of all the policy levers at the disposal of the next government, few offer as much opportunity as Open Finance to quickly and effectively progress its stated missions for government. In essence, Open Banking refers to the ability of individuals to consent to share their financial information with regulated third parties for specific purposes. The change to Open *Finance* merely implies the broadening out of the products in scope. Open Banking just included "payment accounts", while Open Finance involves all kinds of financial products. In practice, this could mean anything from aggregating your pension pots into one place, to enabling vulnerable customers to be given personalised financial advice in real time by consenting to share the savings data.

As identified in Labour's *Financing Growth* report, the in-flight Data Protection and Digital Information (DPDI) Bill "will enable the government to provide the regulatory foundation for the future Open Finance infrastructure". Known as a "smart data scheme" under the powers included in the Bill, Open Finance would compel financial data holders to build technical infrastructure to enable real time data exchange. The scheme would also define how third parties, including fintechs, could then apply to become a regulated provider of services built off of this data exchange.

Open Banking, which was introduced in 2018 after a competition intervention by the CMA, is the only equivalent scheme that exists today. It has fuelled innovation in the UK fintech sector: over 8m consumers and 50% of SMEs have now used open banking services to gain a holistic view of their finances, support applications for credit, and pay securely, quickly and cheaply.

Startup Coalition analysis last year found that the Open Banking ecosystem in the UK was worth more than £4.1bn in the UK, with Open Banking firms raising over £886 million in 2022 alone. This sector is the product of pro-innovation regulation, with 92% of all money raised by the Open Banking firms in the sample coming since 2018 when regulation went live for the first time. More than just money raised, the sector has created over 4,800 skilled jobs.[23] Updated analysis for this report in the figure below shows the sector is still worth over £4bn today, despite a tough economic climate for fintechs.

The Joint Regulatory Oversight Committee (JROC) has been working with industry to consult on the future of Open Banking. Their extensive work now means that the Government is well placed to put the Open Banking regime on a long-term sustainable legislative footing, however this does not equate to progressing Open Finance. Similarly, the coalition convened by the Centre for Finance, Innovation and Technology (CFIT) published a useful report that further vindicates the need to progress Open Finance, but still requires political will to make it happen.[24]

[23] https://startupcoalition.io/news/the-4bn-open-banking-ecosystem/
[24] https://cfit.org.uk/wp-content/uploads/2024/02/CFIT-Open-Finance-Blueprint.pdf

Labour committed to embracing "the potential of Open Finance to improve financial wellbeing" in its *Financing Growth* report, and we believe that, if elected, they could introduce a scheme as a priority, and not have secondary legislation introduced not far off the first 100 days in office.

Recommendation 15: A future government should introduce Open Finance within its first 100 days.

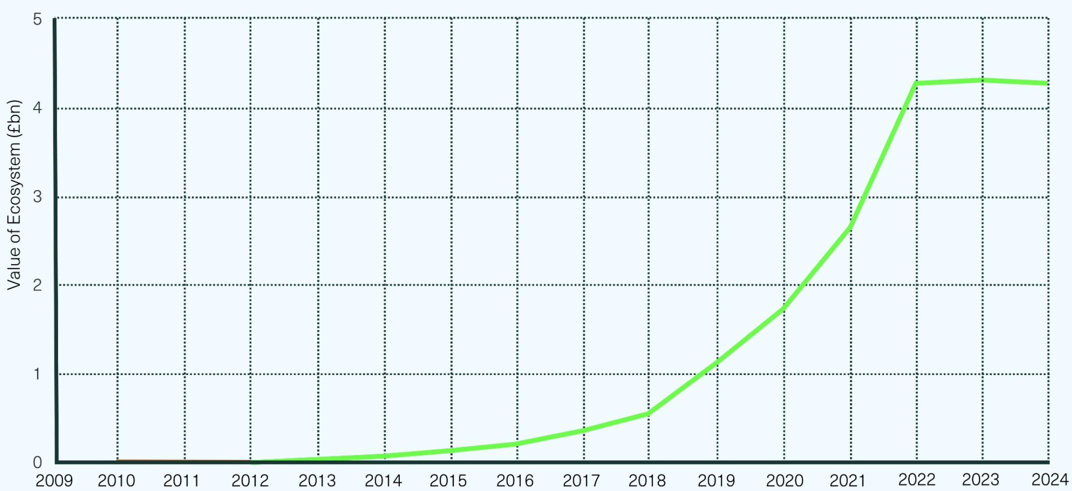
Open Finance and Growth

The introduction of Open Finance would materially progress at least two of Labour's five missions for government. Open finance will grow fintechs in the UK, directly increasing economic value and jobs across financial services and supporting Labour's mission to deliver the highest sustained growth in the G7. A £4bn sector was created off the back of the opening up of payment account data through Open Banking, which is just a small sample of the data that would be emancipated through Open Finance.

Just as with Open Banking, there are fintechs that are providing services today that look like Open Finance, including aggregating savings accounts, investments, and pensions, but they are having to do so through "screen-scraping", an expensive technology that requires account holders to share their username and password with third parties. Screen-scraping is not a regulated activity, leading to legal ambiguity for consumers, data holders and fintechs.

Regulating Open Finance as a matter of priority would unlock the next stage of growth for these firms as it would significantly reduce the barriers to entry and growth within the sector, as accessing the data after the consumer has consented becomes much more straightforward. 92% of the funds raised by startups in the UK's Open Banking sector were raised after the introduction of regulation, demonstrating the power of pro-competition regulation.

Value of the Open Banking startup sector[25]



[25] Startup Coalition data, based on the post-money valuations of 90 UK headquartered Open Banking firms, data from Beauhurst

Beyond growth, however, Open Finance presents a truly powerful way to break down barriers to opportunity across the UK. Open Finance can underpin financial inclusion, financial literacy and financial opportunity.

Open Finance and Opportunity

Firstly, Open Finance can supercharge financial inclusion, as evidenced by the success of open banking in supporting access to credit. Open Finance will further erode financial exclusion through providing additional means for individuals and businesses to evidence “affordability”. CFIT’s research found that 25% of marginally declined small businesses could have been granted credit with additional insight fuelled by open finance.[26] Further, there is untapped economic opportunity in increasing consumer awareness of their ability to switch service providers to seek better value. Citizens Advice maintains that despite regulator intervention since 2018, there remains a £1.3bn loyalty penalty in the UK.[27]

Furthermore, the ability to consent to share data in real time presents a multitude of use cases that can empower individuals to understand and take back control of their finances, improving financial literacy. For instance, aggregating disparate data sets across different providers can empower individuals to take back control of their finances. CFIT’s research showed that data sharing under an Open Finance scheme could enable around 150,000 more consumers annually to access tailored financial advice, including some of the most vulnerable citizens in the UK.[28]

Increasing the connectivity of personal financial data presents a huge financial opportunity for individuals. One of the core use cases that have proliferated in recent years across Fintech providers, for instance, is round-up saving, whereby individual transactions are “rounded up” to the nearest pound, with the amount being diverted to a savings account. The introduction of variable recurring payments as part of Open Banking has introduced the ability to “round up” or “sweep” funds between providers. Adding other financial accounts to this use case could be even more empowering, enabling individuals to have more visibility over multiple savings or investment accounts.

Personal financial data connectivity can significantly shift consumer thinking and behaviour, including in how they interact with their finances. The ability to interact with different products can promote a consumer’s active engagement with their own finances, while simultaneously providing access to a variety of products they may not have considered before. Open Finance can play a pivotal role in this by providing the consumer with both better access to their personal financial data and visibility of a variety of financial products and services they may not have been aware of before. This is vital for improving financial literacy. Open Finance can bring previously inaccessible financial products to the masses while enabling them to make more informed decisions about these financial products

Smart Data

However, as with Open Banking, Open Finance is just a stepping stone. Though its introduction will equip fintechs to offer a range of new use cases to consumers to drive growth and break down barriers to opportunity, moving further to combine this information with non-financial data is where the

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[26] https://cfit.org.uk/wp-content/uploads/2024/02/CFIT-Open-Finance-Blueprint.pdf

[27] https://www.citizensadvice.org.uk/Global/CitizensAdvice/Consumer%20publications/Loyalty%20Penalty%20and%20Cost%20of%20Living%20Report%20August%202022%20(2).pdf

[28] https://cfit.org.uk/wp-content/uploads/2024/02/CFIT-Open-Finance-Blueprint.pdf

transformational opportunity emerges. The powers introduced under the DPDI could feasibly be used to enable individuals to consent to share their data across the economy, from their energy use as recorded on a smart meter, to their spending patterns logged through retail loyalty platforms. Indeed, analysis from Ctrl Shift for the UK Government quantified the economic opportunity of the Smart Data at a £27.8bn increase in UK GDP.[29] This is a ginormous opportunity for individuals, for fintechs, and for the UK.

The true potential of Smart Data, however, is the unknown innovation and opportunity that it will unlock beyond the intuitive use cases above. Indeed, it is conceivable that Smart Data could drive progress across many of Labour's missions for government. For instance, Labour has an ambitious target to reach net zero in the electricity sector by 2030, with its mission to "Switch on Great British Energy", a new state-funded entity, a large part of this. We have already seen how Open Banking data has been used to support individuals with measuring their carbon footprints, through fintechs like Cogo and Tred. Project Perseus, run by Icebreaker One in partnership with a coalition of firms across financial services, is seeking to automate the carbon footprinting process for small businesses. To achieve this, multiple data sources will need to interact, including a business's smart meter data, underlying data from the Distribution Network Operator, and potentially a business's financial services provider too. This task will be made significantly easier with the introduction of Smart Data, reducing barriers to connectivity and increasing reliability. If consumers and small businesses are able to more accurately measure their carbon footprint, including the footprint of their energy consumption, this can accelerate Labour's mission.

[29] https://assets.publishing.service.gov.uk/media/5be5b8dbe5274a0829c9fb96/Data_Mobility_report.pdf

Recommendations

- **Recommendation 1:** A future government must ensure foundational innovation incentives are optimised for fintechs across their growth journey.
- **Recommendation 2:** A future government must build export opportunities for fintechs into its Trade agency, starting with open banking regulatory bridges
- **Recommendation 3:** Under the next government, the Treasury should publish a bi-annual Policy Initiatives Grid to promote a stable regulatory environment
- **Recommendation 4:** A future government should provide more substance to the Consumer Duty, to create more certainty over what is expected of firms
- **Recommendation 5:** A future government must suitably resource the financial regulators
- **Recommendation 6:** A future government must combine the current pro-innovation approach to AI regulation with cross-sector regulatory innovation to better resource regulators and provide in-development solutions like the multi-sector multi-regulator sandbox as quickly as possible
- **Recommendation 7:** A future government should not hold financial services institutions' use of AI to a higher standard by default
- **Recommendation 8:** A future government should introduce an APP fraud strategy within its first 100 days
- **Recommendation 9:** A future government should advance plans to regulate BNPL within its first 100 days
- **Recommendation 10:** A future government should deliver a Financial Inclusion Strategy within its first six months
- **Recommendation 11:** A future government should launch a Financial Inclusion Sandbox that is designed to appeal to a high calibre of participants, to optimise the quality of consumer outcomes
- **Recommendation 12:** A future government should expedite the Mansion House Reforms
- **Recommendation 13:** A future government should double down on steps to increase savers' ability to invest in startups, including fintechs
- **Recommendation 14:** A future government should take steps to accelerate the adoption account to account payments across the economy
- **Recommendation 15:** A future government should introduce Open Finance within its first 100 days

STARTUP COALITION

TONY BLAIR INSTITUTE FOR GLOBAL CHANGE