

House of Lords Financial Services Regulation Committee

Opening Statement by Janine Hirt, CEO at Innovate Finance

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Introduction

Lord Chairman, thank you for the introduction and thank you to the Committee as a whole for the opportunity to speak to you here today. It is a great privilege to represent the views of our diverse membership and the wider FinTech community to what is such an important inquiry for FinTech and wider financial services here in the United Kingdom.

My name is Janine Hirt, I am the CEO of Innovate Finance, the trade association for the FinTech community in the UK. Our membership comprises of start ups, scale ups, high growth and unicorn status FinTechs and covers a wide range of verticals across the sector, including Challenger Banks, digital assets, payments, RegTech and consumer credit. This means we predominantly engage with the Financial Conduct Authority, however our work does cut across the PSR, PRA, CMA and Ofcom.

UK as a leader in Innovation and FinTech

Over the past 15 years FinTech has become a UK success story. New entrants have transformed the financial services sector for the better, making it more effective, more accessible, and more transparent. It is now easier and cheaper for consumers to access and interact with financial services in their day-to-day lives, and adoption rates are proof of the positive impact FinTech has had. Today, 8 out of every 10 adults in the UK are regularly using at least one FinTech tool, and 59% of all SME lending across the UK is being done by FinTechs, Challenger Banks and other non-bank lenders.

The UK plays a global leadership role when it comes to financial innovation and technology. In 2023, despite economic turbulence, UK FinTech received more than \$5 bn of investment, second only to the United States and ahead of the next 10 countries in Europe combined. FinTech is also the crown jewel of our thriving tech sector, boasting 21 of the UK's 40 unicorns; that's a start-up company with a valuation of over £1 billion.

Why should we support innovation?

Our most recent research shows that 98% of FinTech companies have a significant positive impact on productivity in the UK, encompassing Economic Growth, Job Creation, and Infrastructure. UK FinTech contributes £11 billion to our economy and by 2030 is projected to employ over 105,000 people nationally.

39% of FinTechs are directly having a positive impact on social and economic inclusion and education and reducing poverty and inequality across the UK. Our members are shaping the

financial inclusion landscape by providing fairer and safer tools and services to vulnerable members of society and addressing the impact of over-lending and debt overburden.

This is the power and contribution of FinTech across Britain. But there is more that can be done by FinTechs and the regulators must play a key role in enabling them to do so.

Why deliver secondary objectives?

Innovate Finance strongly supported the Financial Services and Markets Act 2023 where we provided both written and oral evidence to Parliament expressing the FinTech sector's view that having a secondary competitiveness and growth objective for the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) would unlock the potential of FinTech and support further innovation.

Now that this objective is in place, it is imperative that the FCA and PRA meet their obligations as set out in the Act.

From our members, we know there is a belief that while UK regulators remain at the forefront of promoting innovation and competition in financial services through proportionate regulation, there is a risk that other jurisdictions are overtaking us. This includes areas such as tackling fraud, RegTech adoption as well as capital requirements for challenger banks where some decisions taken, or a lack of support offered, by our regulators have raised concern.

Our members are facing a number of challenges in today's regulatory environment from diverging approaches between the FCA and the Bank of England on the regulation of stablecoins to, the "Valley of Death" faced by high growth FinTechs as they move from the handholding of a sandbox to subsequently have to deal with multiple FCA teams and no dedicated regulatory contacts.

These are just two of the issues hindering the growth and competitiveness of our FinTech sector and wider financial services industry in the UK.

How to deliver the secondary objectives?

We have several suggestions as to how to push the regulators towards a FinTech positive mindset and thus allow them to deliver on their secondary objectives.

- As FinTech becomes the norm in financial services, we need a step change in regulatory approaches.
- 1. **Do things differently:** Improve how it regulates. Cost benefit Analysis to include consideration of impact on smaller firms and FinTechs and regulatory policy to consider how technology may help deliver better outcomes – treating tech as an

opportunity not a risk and actively promoting regtech. This can be supported by better understanding of, and support for, scale up firms – thought dedicated supervisory teams – Scale Up Units – and through more secondments and interchange with industry. Faster and better authorisation and approval is also high on the list of FinTech asks – starting with more detailed metrics so we can assess performance for scale ups.

2. **Do things faster and more strategically:** Prioritise regulation that will open up innovation and growth: – with a joined up strategy and accountability for delivering on areas that matter to growth and competitiveness. Key areas where we need faster progress and a strategic drive are on open banking payments, extending that to open finance, digital assets regulation including stablecoin and custody, identity verification, and a joined up approach to tackling fraud at source. This needs Government and regulators to act together - a whole systems approach from Government and regulators with HM Treasury also acting faster and setting clear direction and responsibilities.
3. **Removing outdated regulation and barriers to growth.** Scrap reporting requirements that are no longer relevant or duplicate other activity: Covid reporting and providing credit information that duplicates what firms provide to Credit bureaus. Streamline the consumer rule book, following the current review of legislation that duplicates or contradicts the Consumer Duty. There are numerous examples in Consumer Credit where tick box compliance requirements hinder innovation and deliver worse outcomes for consumers. One example would be in looking at affordability tests, setting an outcome based approach and avoiding prescriptive requirements based on a traditional Credit Reference Agency market. In terms of the PRA, this also needs to include a further look at how capital requirements impact on challenger banks, in final Basel 3.1 proposals and the review of MREL (“minimum requirements for own funds and eligible liabilities”) thresholds - for example in terms of the risk models required for SME lending and the MREL requirements for smaller banks including the transaction thresholds that are not suitable for scalable digital business models which can have high transaction volumes at low risk.

Our view is that we need joined-up regulators with clear leadership and responsibility, especially if the UK is to grasp the full potential on offer from FinTech opportunities such as, open banking, crypto and payments.

We need tech positive regulators who take into account specific circumstances of growing FinTechs before setting out regulatory proposals.

Moreover, FinTechs require more support from the regulators beyond the handholding of sandbox, just as the big incumbents have dedicated supervisory account managers.

We also wish to move to more outcomes-based regulation rather than prescriptive rules.

Finally, regulators need more industry experience and we need all supervisory and policy teams to embrace and champion innovation; so that regulation is delivered with speed, ease and clarity.

I look forward to delving deeper into the issues and solutions I have just outlined throughout this session, so thank you again for the opportunity to speak to you here today.