Regulators Choose the "Fintech Sandbox" Way

Governments and regulators have been hard at work in recent months to get the most out of the revolution happening in the financial services industry with the nascent fintech sector. Creating a regulatory sandbox, to mitigate risk and let innovation flourish, is the path they have decided to follow.

Harriett Baldwin, Economic Secretary to the Treasury, announced in April, at the 2016 Innovate Finance Global Summit in London, a fintech panel to set a strategy in the **UK** and a regulatory sandbox. As defined by the UK Financial Conduct Authority (FCA), a sandbox is "a 'safe space' in which businesses can test innovative products, services, business models and delivery mechanisms while ensuring that consumers are appropriately protected." Companies have still a month to apply for the first cohort of the regulatory sandbox, the deadline is set for 8 July 2016. The application form and instructions on how to apply are available here.

During the same period, the Australian Securities and Investments Commission (ASIC), announced a 'regulatory sandbox' for Australian fintech startups, allowing firms to "manage regulatory risks during the testing stage, reducing the cost and time to market", and with the aim to create a leading fintech innovation hub in the region. Again in April, the Monetary Authority of **Singapore** (MAS) announced new initiatives to boost the country's position as a global hub for the emerging financial technology sector. Last but not least it has been the turn of **France**, where the Autorité des Marchés Financiers (AMF), announced the launch of its Fintech, Innovation and Competitiveness (FIC) division, operational as of 1st June 2016, with the aim to enhance the competitiveness of the Parisian financial centre and to analyse new risk and opportunities.

Are these good news for the financial technology sector? We believe so, even though we will need to see how the details pan out in the various countries, as we don't have much information on the programs or their longer term impact. What's really positive is that governments and financial regulators of some of the most advanced countries are showing awareness and understanding that creating an infrastructure where fintech companies and products could bloom and grow, would help significantly the efficiency of the financial sector and the economy of the country as a whole.

Read the whole article at Crowd Valley News.

Photo: Wikipedia.

Brexit threatens to derail UK's fintech growth

Article and analysis by [Grow Advisors]() (a Grow VC Group company), originally published on [Grow Advisors Blog]().

The UK celebrates an in-out EU referendum on June 23. The financial services sector is a major backbone for the UK economy, and fintech an emerging sector within it. Today, London is arguably the world's premier fintech hub. How could a potential Brexit impact this?

Our analysis concludes that brexit poses a significant threat to London's fintech crown.

Firstly, the UK regulator, the FCA, has played an important role developing the fintech market. It has enabled a culture that allows and encourages innovation of new services; where regulations and guidelines are based on actual experience and industry feedback loops. In contrast, many countries have opted to define exacting rules beforehand, leaving much less room to innovate and often stifling the very sector they aim to grow.

Historically, London has held a strong position in the finance world. It counts leading professionals with world-class finance competencies. Looking closer at fintech, it requires a mix of several key skills including *1) finance, 2) Internet services, 3) technology, and 4) data science*. Other than strong finance skills, the UK's track record to build global technology and Internet companies is however not world class.

The London finance sector has a lot of foreign workers, including many EU immigrants. Cross border workforces represent an important topic in the whole EU membership debate. Recognising the importance of foreign labour skills, even the 'Leave' campaign suggests the UK could continue to take on foreign workers. It would however create systems to control and monitor who and how many are welcomed into the country.

In principle, a brexit would change at least the following for finance companies based in the UK:

1. no direct access to EU’s internal finance market,
2. greater complexity in hiring employees from other EU countries,
3. increase the odds that EU citizens start companies in EU countries, not in a post brexit UK.

The impact of these aspects depends on services, company resources and the development of digital finance services.

It is clear the debate and months leading to the referendum are already having questionable effects. Recruiting in the UK’s finance sector has slowed according to a recent Financial Times article (paywall) as companies see uncertainty and delay recruiting decisions until after the vote. If ‘Leave’ wins, the ensuing EU resignation process could take up to 2 years, though negotiations and developing new business frameworks are expected to take even longer. Companies however would be required to adapt to the new situation immediately while having to make investment decisions based on longer term plans.

Fintech companies are typically small and medium size enterprises, often startups. They also count among their workforces employees from EU countries. Many have EU founders or founding team members. With tight resources, faced with administration hurdles and visa processes, changes to immigrant workers could impact operations. Add to that the fact the UK has its own very particular visa types and rules, the panorama would leave many fintech startups with additional hiring stresses. In addition to visa complexities, UK based fintech would find it hard to operate in European markets, at least until new frameworks are established.

Without its immigrant professionals, the UK could face shortage of finance professionals. It would lack essential skills and experience in areas such as technology, internet and data science. Skilled workers from outside the UK often make up for the shortfall where highly analytically skilled professionals are needed. Though the UK has strong education establishments, it often lags other European countries when it comes to computer science, mathematics and other more analytical courses.

Fintech requires sound skills in these areas, could stand to lose out if fewer European applicants wish to (or are able to) enter the country.

Fintech and digital finance enables companies to operate globally. Though local licenses may still be required depending on the service offered, the UK has been able to benefit from the global appeal of its fintech ecosystem. In a post brexit environment, this may no longer hold true, and other cities more accessible may emerge as beneficiaries. This, as a result of an unclear trading environment where new frameworks need to be established.

As regulations develop around the world, the UK's relative strength could diminish unless it stays one step ahead. Today one can argue the UK offers better and more liberal regulation for fintech companies. However, companies wanting to operate in other countries must fulfil specific requirements in those countries too. Services built on fintech are different from say, traditional fund management and investment banking. Fintech, for example, allows more direct interactions and consumer engagement. Additionally, it has been said a non-EU UK may in fact operate as an offshore location. Certainly it is the case that some investment banking and fund management services operate in offshore locations successfully.

However, as offshore regimes attract greater scrutiny, and the need for more transparent financial services gathers pace, this becomes a remote possibility.

Further, some EU directives such as PSD2 also offer new fintech opportunities, and these would not be possible to non-EU UK.

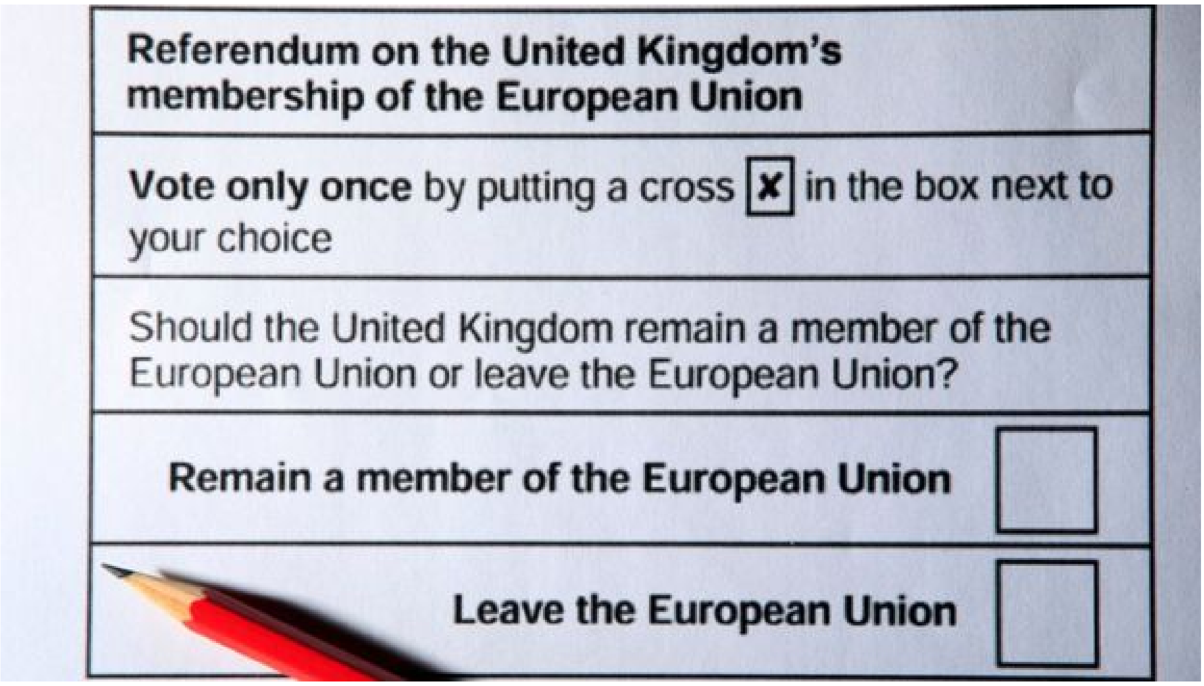
The UK has promising fintech startups, but they have yet to achieve significant success outside the UK. If we factor in the fact that there isn’t a strong history of UK businesses with significant international success in Internet, retail or technology, UK fintech success on a global scene is not a foregone conclusion. In contrast, other European countries such as Germany, Sweden and Spain, have created highly successful modern consumer business globally.

Although the UK and London have a strong position in fintech globally, the market is still in a very early phase and making predictions to which countries will dominate is a risky exercise. We have outlined several risks facing UK based companies when looking for growth in Europe and globally. A brexit would without doubt add to those risks.

The biggest brexit risk for British fintech is not necessarily access to other markets.

As all successful business leaders will attest, a critical factor underlying success is its ability to attract top level entrepreneurs, team members and employees. Add to that the importance of an environment conducive to grow business, one that encourages talents to come and innovate. For Europeans post brexit, it would be easier to go to hubs inside the EU. And for those willing to go through potentially complicated visa (or similar) processes, there are other options like the US and some Asian fintech hubs to compete with the UK.

While it is hard to evaluate a post brexit landscape as it would be a new paradigm, we can assume it will create uncertainties for fintech companies and especially small and medium sized companies. Business needs certainty with which to plan for the future and unfortunately, a brexit would present particularly high hurdles.



UK Treasury Publishes Results from Consultation on ISAs for Investment Based Crowdfunding

The UK Treasury published the results and conclusions of the public consultation on whether to extend the list of ISA-eligible investments to include crowdfunded debt securities and equity. As a result, the Treasury has decided that debt securities made available via crowdfunding platforms will be eligible for ISAs, while for online equity investments the authority opted to keep working with sector's stakeholders to further explore this possibility.

ISAs stand for Individual Savings Account and are a class of retail investment arrangements available to residents of the United Kingdom, subject to a favourable tax status. As part of government’s commitment to increase the choice of investments available to ISA investors and to improve competition in the banking sector, the UK Treasury wanted to evaluate if the growing crowdfunding sector could be part of the ISA scheme.

Therefore, a consultation on ISAs for crowdfunded debt and equity securities was launched back in March and saw the participation of several actors active in the sector. In particular, respondents were invited to provide insights on whether crowdfunding investments respect the following principles:

- are consistent with ISA’s reputation as a trusted savings brand
- protect the consumer
- support a sustainable tax system
- are simple to administer.

In general, although many respondents did not see many differences between crowdfunded equity and debt securities and believed that the current legislation, requiring registration with FCA, is strong enough to guarantee a sustainable development of the sector, several others thought that equity crowdfunding poses higher risks than online lending. The main justification was that the equity crowdfunding market tends to cater for riskier businesses and is less likely to provide individuals with regular returns on their investment.

Nevertheless, the UK Treasury concluded that it prefers to wait that the equity crowdfunding market matures further, while closely collaborating with the interested parties to explore the possibility of introducing ISAs for crowdfunded equity investments. With regards to debt securities, instead, the Treasury stated that it will legislate in autumn 2016 to allow certain debt securities issued by companies and offered via a crowdfunding platform to be held the ISA.

This is certainly a big step for the UK crowdfunding sector and once again a strong signal of the local government's intention to support it.

Read the whole article on Crowd Valley Blog.

Research Show Data on Crowdfunded Businesses in the UK

UK is one of the most established and promising markets for alternative finance worldwide. However, data on the performance of the funded companies is still lacking, especially because the sector is still deemed not mature enough to provide reliable data. However, last week, Altfi Data, a research consultancy on alternative finance in the UK, released a report framing the state of companies that have to date raised money in the UK through the medium of equity crowdfunding.

The analysis was conducted focusing on 5 major British equity crowdfunding platforms, for a total of 367 platforms that have been financed on these portals to date. In particular 82 were successfully financed in 2013, which, according to the authors, is a statistically significant sample, as enough time has passed since funding to allow business plans to have been executed.

The research also highlights that the average volume of single equity crowdfunding campaigns has been steadily increasing since 2013. The internal rate of return on equity crowdfunding investments via the five major platforms since February 2011, instead, averages just 2.17 per cent. However, the authors estimate that, assuming that SEIS and EIS tax reliefs are fully utilised, that return increases to 33.79%.

Although, valid and reliable data are still difficult to obtain in such a young industry, this is a good first temptative of shedding some light on the trends and performance of companies finance via online investing, in order to understand better the impact of this new source of finance on local SMEs. **Real time, historical, and index data is now also available on DealIndex dashboard.**

Read the whole article on Crow Valley Blog.

New Data Confirm UK as Main P2P Lending Market in Europe

The UK has one of the most established and promising peer-to-peer lending markets in the whole world. Its incredible growth, which finds no comparison in the rest of Europe, seems almost unstoppable. The UK P2P Finance Association (P2PFA), which includes among its members some of the leading lending marketplaces in the country, has released the data collected among members for Q3 2015, revealing that in all likelihood the £2 billion loans threshold will be hit by the end of 2015.

During the past quarter, new lending among P2PFA members increased 19.7% to £607.3 million from £507.3 million in Q2 2015. Altogether for 2015, £1.58 billion has been lent, making it very likely that the amount will grow up to £2 billion by the end of the year. It is also to take into consideration that this data does not reflect the entire UK online lending market, but just a part. Therefore, it is reasonable to believe that the total amount of p2p lending in the UK will be much higher that the £2 billion of P2PFA members. According to a report of NESTA, UK P2P market was already worth almost £7,5 billion in 2014.

The outstanding growth of the British sector is also the result of effective policies that the government has adopted towards it, for example the ISAs which will enter into effect next April. As the London City Minister, Harriett Baldwin, has publicly stated at Lendit Europe last week, the British Government has included a “Fintech strategy” in its agenda for the past couple of years, because it is one of its objectives to make London the world Capital of Fintech. And until now, it seems London and the UK have all the requirements to be the best candidate.

Read the whole article on Crowd Valley Blog.