

Q&A with Lord Holmes on the impact of Covid-19 on the FinTech Sector

About Lord Holmes

Chris is Britain's most successful Paralympic swimmer winning a total of 9 golds, 5 silvers and 1 bronze. He was also Director of Paralympic Integration, responsible for the organisation of the 2012 Paralympic Games in London.

Chris is a passionate advocate for the potential of technology and the benefits of diversity and inclusion. He campaigns for more accessible environments for disabled people and headed an independent review for the government on how to encourage more disabled people to apply for public appointments.

To read more about Chris' work in Parliament and policy thinking more generally please visit LordChrisHolmes.com.



How significant do you think the impact of Covid-19 will be on the UK FinTech sector?

Inevitably – like many huge disruptive forces - Covid-19 has brought, and will continue to bring, both opportunities and challenges. I have been inspired and moved by the significant numbers of individuals and organisations who have responded to the crisis by proposing solutions to a vast number of Covid-19 problems - from tracking apps to supply chain to banking for charities and mutual aid groups. Thanks to a Whitechapel Think Tank meeting early in the crisis I learned about some of these solutions – such as a platform to distribute financial aid to those in need. Similarly, FinTech's with the power to process mass payments, through secure means, in fractions of a second must be fully understood and considered by the Government. Another company with an interesting proposal to provide secure immunity passports is Circular. It's fantastic to see such energy, enthusiasm and drive from the sector to respond to the crisis with such speed and creativity.

Another impact is that with the global scale of these events and the fact that the impact will be felt across every area of financial services, complacency or hesitancy is no longer an option. This crisis has served as a reminder that change and uncertainty are realities that can't be avoided and which are ignored at a company's risk. In terms of challenges, if you look at online lending platforms for example, there is the fear that non-bank lenders who depend on credit markets in individual investors for loan funding suffer during a crisis. As funders or investors disappear they cannot lend and earnings crash. I think it's too early to say what the landscape will look like as we continue through the crisis but this is something to watch.

Do you think the Government has gone far enough in ensuring there is the right support in place for FinTech businesses in the UK?

The fact that the British Business Bank included companies like Starling, Funding Circle, Ultimate Finance and ThinCats when selecting companies to process SME applications for the Government's business interruption loans is a good move - after a somewhat slow start. According to a recent report from TheCityUK and PA consulting there are 1,600 fintechs now operating across Britain. The role of Government and regulators has been fundamental to this success, in particular the sandbox approach, but that report argues – and I agree – that as the sector grows and matures a broader framework needs to be developed.

There is so much experience, innovation and passion within the industry that my key hope is that the Government asks for – and accepts – the benefit of that experience and good advice. I'm glad to see some attempts to engage with the industry and I know Revolut attended one of a series of roundtables set up by the Secretary of State Alok Sharma on the economic recovery. One question asked was how the Government can better identify and support the technological trends that will drive growth and productivity in the recovery.

I followed up on this with the Minister (Written Question HL6002) by asking how many responses they had received to this request for submissions. In the Minister's response I learned that BEIS has received over 450 documents from 285 stakeholders across the UK and they have said “they are working through these inputs, which will inform the Government's thinking”. My sincere hope is that they will listen to the advice – and perhaps even look harder for it – 285 stakeholders is good but with 1,600 Fintechs in the UK there is more knowledge and experience to tap in to. There is so much more that Fintechs can contribute to addressing the consequences of the current crisis and I hope that a great deal more is done to engage with them and get solving some of the problems we are facing.

Do you think the Government has realised the full potential of the sector in the economic response to Covid-19?

One of the most exciting ways that FinTech has the potential to change the world is in addressing the shocking, yet incredibly stubborn, problem of financial exclusion. Financial exclusion exists for a variety of reasons: too low or unreliable income, no fixed address, no credit history, past financial failures and the trouble with financial exclusion is that it is punishing. If you cannot use the banking system, how do you get a loan? How do you pay? One truth, which should never have been tolerated, is that those who have the least, have no choice but to pay the most.

The figures are stark: 6.5 million (13%) of UK adults have no cash savings; a quarter of UK adults (24%) have less than £1,000 as a savings buffer; a fifth of UK adults (19%) hold between £1,000 and £5,000; and younger adults are most likely to have few or no savings, with 57% of 18-24 year olds holding less than £1,000, out of which one fifth (20%) have no savings whatsoever. This is connected to another shocking statistic related to the UK having the lowest level of financial literacy in the developed world.

The really frightening thing at the moment – as we face mass lay-offs, the end of the furlough scheme and bankruptcies - is wondering how many more people will fall into the poverty trap. And it's a trap that turns into a cycle. Once you fall into poverty you take more risks; you're more likely to be overdrawn; you're more likely to use lenders who charge more; you find yourself stuck outside the system wondering how to get in. Fintech has the potential to address the array of issues which add up to financial exclusion, they must all be thoroughly considered and those that really nail it, adopted.

What barriers might exist to accelerating the use of FinTech solutions that can help people address their financial difficulties? What is the role of the Government in supporting this?

Ironically I think one of the biggest barriers to accelerating the use of FinTech solutions might be the Wirecard collapse and subsequent FCA decision to suspend Wirecard Card Solutions following insolvency filings by its German parent company. There are 70 FinTech clients who rely on Wirecard Card Solutions (WCS) who had to suspend operations, simultaneously freezing hundreds of thousands of customer accounts. I think the key question is what else may unravel and how could this shape the sector's long-term future? The FCA may have feared 'flight of consumer funds' at the hands of Wirecard's German liquidators. Sifted have reported that there was a small risk that savvy, parent-company administrators could have overridden e-money safeguarding rules and claimed a right to customers' money, citing UK trust law. By suspending WCS, the FCA has guaranteed consumers' funds cannot be "co-mingled" and seized. Arguably it may ultimately be a positive development in terms of improving regulation but customers having their accounts frozen and cards reissued are unlikely to be sympathetic and a loss of trust in FinTech providers would be devastating for the industry and the wrong response.

What further steps would you like to see the Government take in providing support to the FinTech sector?

Three million SMEs have been unable to access any form of government support during the Covid-19 pandemic (e.g. businesses with under 2 years of operation, businesses excluded due to the nature of the entity by which they operate and/or businesses concerned about the prospect of personal debt). The campaign group Excluded has been set up to draw attention to the problem.

I'm working with colleagues to see what can be done to address this gap and find a creative and sustainable way of restarting and supporting the SME economy through the covid crisis. We are looking into creating SME hubs – by building a platform to enable SMEs to connect and access support to access alternative finance and navigate the tax maze – and reduce the tax gap for HMRC. Such a proposal would need the support of HMRC and BEIS and the ability to obtain real time assured data about the health and collective activities of the SME sector. But a government backed SME recovery Hub with the right level of government support and funding could be potentially up and running within 45 days.

Are there any particular market trends or final thoughts that cause you particular concern on optimism?

The China situation should concern us all in so many ways. However, I'm completely convinced that in spite of the serious issues at hand, isolation is never the right response. I think a real area for growth and inclusion will come from FinTechs who can offer solutions to mass micro payments at speed. Such solutions could offer so much in the current crisis but also, you can imagine how such an approach could have such a transformational impact to almost any sector of the economy: it is exciting stuff.

I'm optimistic around the Bank of England's approach to the CBDC possibilities. We have a real opportunity here and it ties very much with the Bank's work on the future of payments. What gives me unremitting optimism is the passion, sense of purpose, value led, inclusive approach of our FinTech community. It's positive energy, it's innovation, it's a heck of a lot of hard work and every founder, every business which has committed to the mission to use FinTech to make a real difference to people's lives deserves our support.

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