# Financial services- present risks and future exposure of FinTech

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# Agenda

- What is going on in financial services: FinTech?
- Overview of regulated FinTechs
- The advantages
- What FinTechs need
- Challenges posed
- When it's all gone wrong

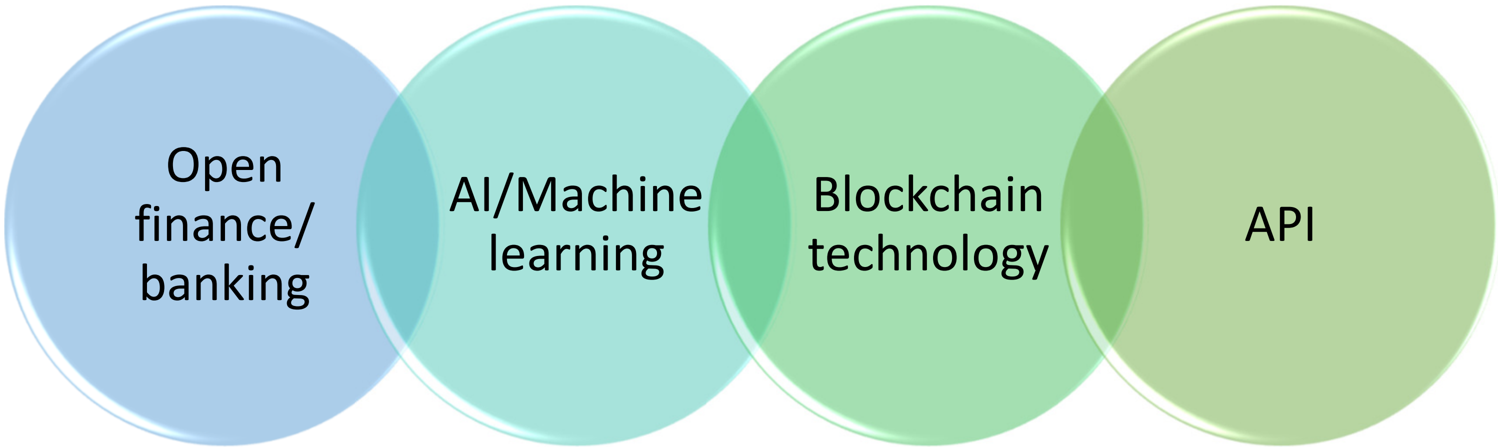
# What is a Regulated FinTech?

- Provision of financial services utilising innovation and new technology or
- Start-ups, disrupting the traditional FI space
- Huge range of types of service providing financial services in new ways
- Some are beginning to overtake their traditional competitors e.g. SumUp, Nutmeg and Monzo
- UK advantageous trusted and progressive regulatory environment, easy access to capital, a long-established higher education system and a supportive government
- $9.1bn investment 2022 (2nd in world)

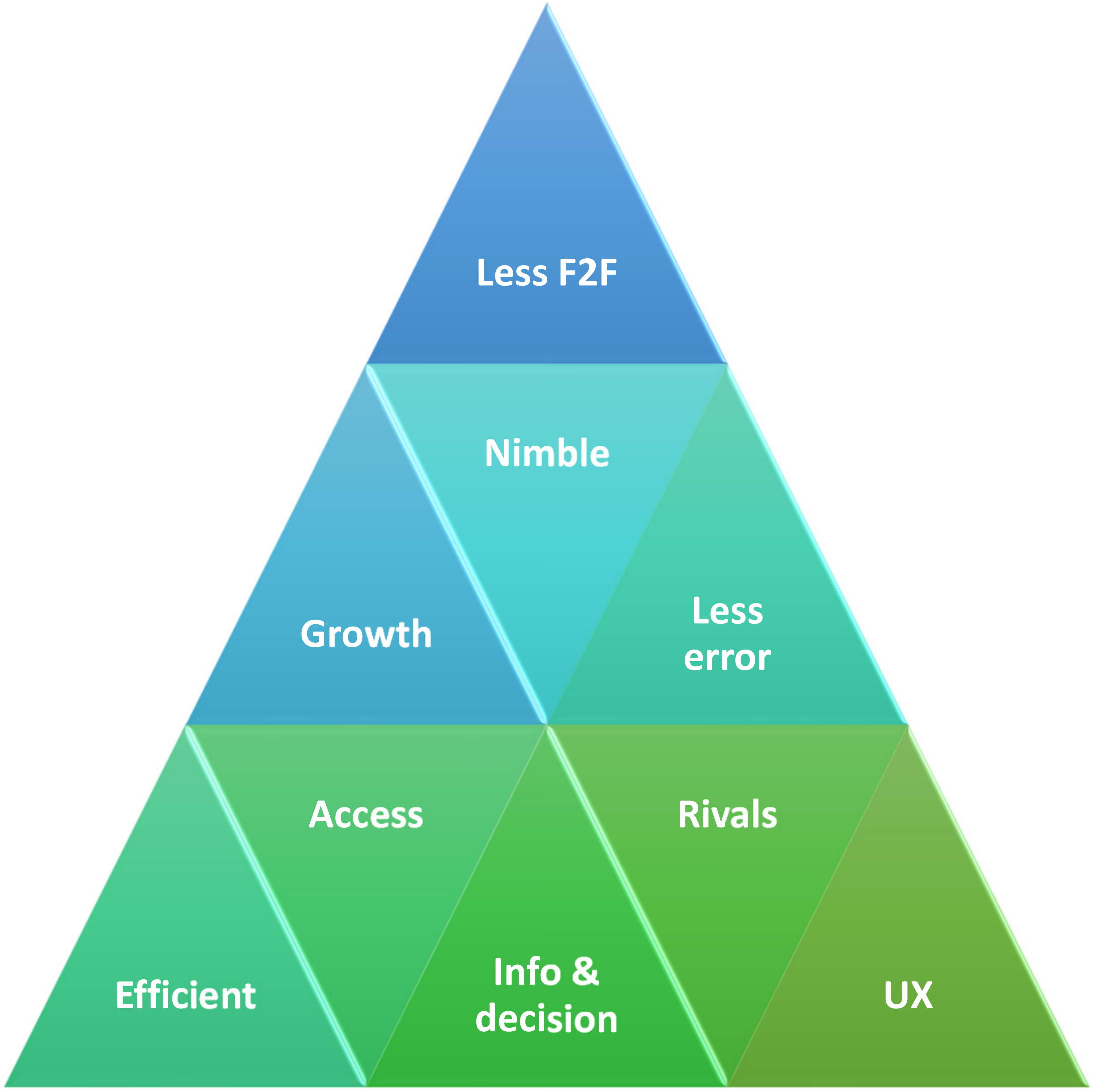
# Activities

| | |
|---|---|
| **Investment** | • Transactional platforms/ advisory/ wealthtech (inc robo advice e.g. Nutmeg) (37%) |
| **Banking** | • UX overlays, personal and current accounts, savings, mortgages. E.g. Revolut |
| **Finance** | • Often business banking services inc accounts/ finance/ payroll/ invoice management/ expenses e.g. Xero |
| **Payments/ PayTech** | • includes remittance, FX, money transfer, payment initiation, point of sale e.g Paysera |
| **Emoney** | • As above but also issuing of electronic money |
| **Lending/ AltFi** | • Consumer credit, P2P, crowdfunding- faster and better decisions. E.g. IWOCA, Klarna |
| **RegTech** | • Compliance work: scenario modelling, regulatory monitoring, ID verification inc AML and KYC, data analytics, credit scoring |
| **InsurTech** | • Sale of insurance digitally e.g Pie Insurance |
| **Comparison Sites** | • Aggregators of information- e.g. insurance/ mortgages/ loans |

# Facilitators



# Advantages


Less F2F
Nimble
Growth
Less error
Access
Rivals
Efficient
Info & decision
UX

# FinTech needs

- Cash- angel, VC, PE, loans
- Future exit plan- IPO/sale
- People: risk-takers, experts
- Satisfy client want/ need, trust
- Regulatory compliance- FinTechs are still subject  to this, many more constraints vs a tech company
- Nurturing regulatory and legal framework (UK- specific, project innovate launched 2014, Bank of England FinTech accelerator 2016, AR process)
- Insurance!

# Insurance needs

- Confidence that their insurer understands them
- Fall between tech and FI
- They need tailored coverage that adequately provides protection for the activities that they undertake
- Fast growth/ change
- Change of activities
- Specific insurance requirements e.g. AIFM Directive, Regulatory/ Principal/ PSD2- may need other covers too- PI/D&O and Cyber, with Crime

# Insurance exposures

- Traditional PI losses-negligence
- Fraud
- IP, contractual liability
- Regulatory compliance- activity dependent (e.g. safeguarding/ segregation of funds/ suitability/ affordability/ risk warnings/ mis selling)
- Cross-border (overseas regulation, sanctions etc.)
- AML/ KYC detection of suspicious trading
- AI: Automating processes: data entry and analysis. Bias, discrimination, transparency
- Economic downturn- loans, performance of investments, assets, property, defaults

# FinTech challenges- can all affect PI exposure

- Funding- investment, higher interest rates, inflation, valuations (KPMG: investment dropped by 56% in 2022 vs 2021)
- Growth driven- investors want results. Growth vs quality pressures
- Regulation- focus on consumer outcomes, market integrity and financial stability. Edinburgh reforms, Consumer Duty, PSD3, consumer credit overhaul, crypto regulation
- FOS
- Corporate governance
- Inexperienced/ stretched staff
- Pain of growth- cultural
- People- retention/ dilution/ escaping FI
- Outsourcing- oversight (works both ways)

# Insurance exposures- especially relevant to FinTech

- Automated processes- relying on technology, overriding personal judgement
- Overstepping when unregulated
- Principal/ ARs- new FCA dept, 10 principals *'consumers are at risk of being mis-led and mis-sold, with a disproportionate number of claims relating to ARs being made to the ombudsman and FSCS.'*
- Cryptocurrencies
- Payments- APP (Dear CEO letter- fraud risk management, weak systems, currently complicated complaints handling process). Moving towards mandatory reimbursement. Requirement to warn of possible scams. Lots of voluntary codes currently.

Dear CEO March 2023

*"We remain concerned that many payments firms do not have sufficiently robust controls and that as a result some firms present an unacceptable risk of harm to their customers and to financial system integrity. We consider that the risk of customer harm is heightened by the tightening economic conditions and the cost-of-living crisis."*

- FOS- broadened remit, >£400k awards. 'Fair and reasonable'

# Where it's all gone wrong

- Lendy

Peer-to-peer funder Lendy collapsed last year, leaving 9,000 P2P loan investors owed nearly £152m. Its administrators claim the founders channelled £6.8m offshore for their own benefit.

The company has become the poster child of how not to run a peer-to-peer platform, where investors replace financial institutions to loan money to other individuals or businesses, via P2P lending websites that connect borrowers directly to lender-investors.

ICAEW

- IDT- Guernsey Regulator
- Amigo

FCA censures Amigo for failing to conduct adequate affordability checks

Press Releases | First published: 14/02/2023 | Last updated: 14/02/2023 |

The FCA has publicly censured Amigo Loans Ltd for failing to conduct adequate affordability checks on borrowers and guarantors.

- Wirecard

**Wirecard: a record of deception, disarray and mismanagement**

Documents reveal the German payments company was chaotic, byzantine and often ineffective

# Where it’s all gone wrong

- **Emoney**: **'World’s most secure card’ Lanistar unregulated and possibly a scam, warns FCA**
- Growth vs compliance- **Revolut**- delayed filing of accounts. Regulated in Lithuania, investigations into Russian links, has been penalised for EU regulatory failings, data breaches and accounting delays. Suggested that there is an aggressive working environment, FCA investigation into whether correct money laundering checks were taking place) ‘the chief executive refused to listen to the compliance team’
- **Minibonds-** Sold via platforms- now no longer permitted to promote them to mass market retail investors as high-risk investments. (No FSCS protection, some accusations of fraud, some not enough risk warnings. ISA wrapper giving impression of more pedestrian investments.
- **Technology failure**- mission critical/ live trading- data migration (Bank >£60m)
- **FX-** relying on systems for back office, circumvented by rogue employee- cost clients
- **Crowdfunding**- Tax…..

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## Mis-Sold Mini-Bonds

Whenever you invest in financial products such as mini-bonds, you put your trust in the professionals providing you with advice. Unfortunately, there are occasions when advisers are less than honest with you about the risks associated with investments.

If you were lied to or misled over your mini-bonds, you might be able to claim compensation. But what is a mini-bond, and how do you know if you're a victim of mis-selling?

Speak With A Claims Handler

## Mini-Bonds Claims

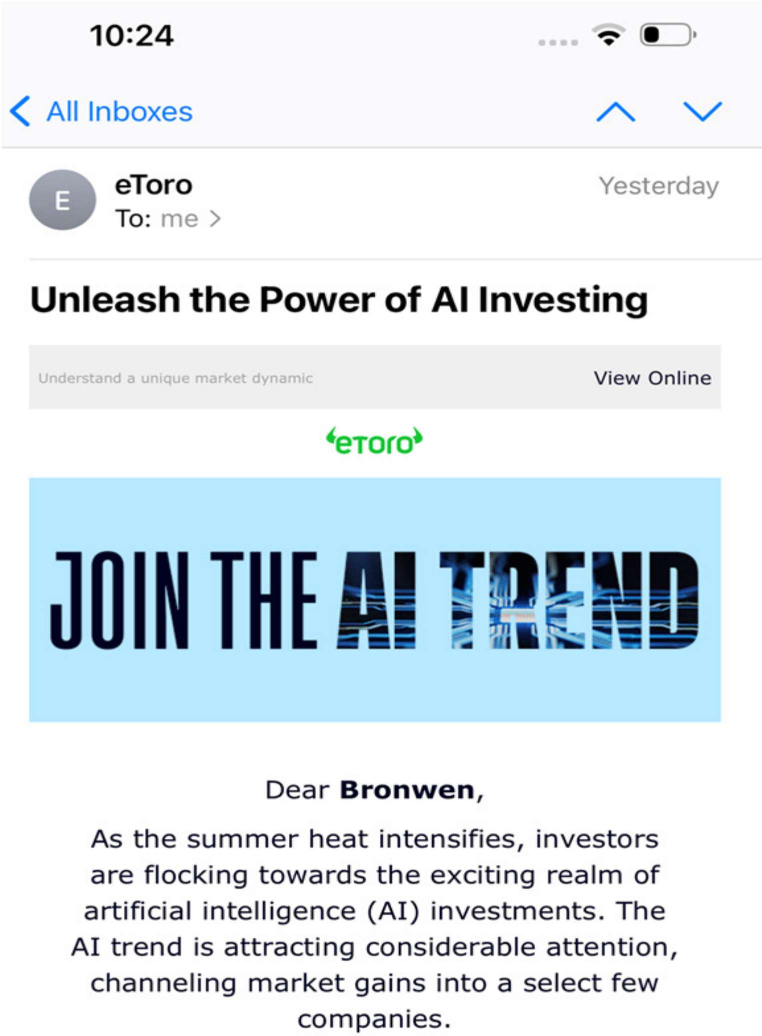
Unfortunately, businesses offering this type of financial product in England and Wales are not authorised and regulated by the FCA. This means that you'll not be entitled to anything should the company become insolvent.

This doesn't mean that the way that your treatment was acceptable. You may still be able to make a claim if you were misled into investing in bonds you weren't suited to or given mis-leading advice.

Our team of experts have experience helping numerous customers claim compensation where they've been the victims of mis-selling. If you think this applies to you, get in touch today and speak to one of our experts.

Get Started

# Where it all went wrong



# Summary

- Fast-moving sector
- Growth and pushing boundaries
- Specific needs and challenges
- Not without risk!

# Questions?