The great innovation debate

A crowd of regulators has digital payments technology and fintech players in its sights. Will it help or hinder innovation?

Innovation in digital and mobile payments is an area drawing a high level of attention from regulators. Opening a discussion on the impact that regulation is having, James Allan, head of UK cash management at Barclays, asked whether this regulatory interest is likely to be helpful when it comes to driving simplicity in the UK payments space.

The message from the panel was that UK regulators are generally positive towards the potential for improved choice and greater cost-effectiveness that innovation brings in its wake. However, the sheer breadth of regulation that banks and fintech operators face is far from helpful.

James Whittle, director of industry policy at Payments UK, pointed out there are some 22 European consultations affecting the banking and payments industry. These range from discussions on data-protection legislation right through to local legislation and market reviews of the regulators themselves.

Offering a perspective from the fintech sector, Mike Laven, CEO of payment platform Currency Cloud, said that technologists like him tend to start a focus on changing patterns in demographics and within consumer expectations. "I represent a technology perspective and way of looking at things that says: we start with mobile, social and data. If you're a fintech start-up, you can't spend a lot of time railing against regulation; you'd never get off the ground," he said.

"Actually, the technology is pretty simple," he went on. "It's the compliance that's the hard part. The know your customer and identity management – that's where there is not enough innovation."

The issues that the regulators face – complexity, data, competition and transparency issues among them – are common to banks, corporates and fintech players, Whittle pointed out. Nevertheless, identifying one area or a clear set of priorities among 22 live consultations is far from straightforward.

"Some of those are very broad: they go from data-protection legislation right down to local legislation and market reviews of the payments regulator. All of these things are interconnected: unless we work together, we're poorly involved and we make fewer good decisions on how to implement these things," said Whittle. "Even from a regulatory standpoint, some of these objectives are perhaps not at odds with one another, but they certainly have overlapping interests and scope."

Regulatory interest is inevitable, Laven pointed out: "There is always a regulatory tension between consumer protection and

transparency when you open up markets. The more you can open up the market, the more you can open up competition and drive down prices, and the more you expose people to various kinds of fraud."

Greater innovation has an important role to play in addressing business needs, increasing choice for the customer and improving the experience for the payment collector, said David Baker, head of card payment innovations at The UK Cards Association. "It has huge potential to create some of those seamless transactions that certainly, from a retail point of view, are exactly what's wanted." But not all innovations have served the customer well, he continued. "Key to getting that right is collaboration to find out what is the common objective." The regulators could perhaps do more to outline their concerns. "Having some outcomes explained might help us develop products and services that meet the spirit of the regulation," he said.

Banking and financial services remain rich hunting grounds for the innovators, Rich Wagner, CEO at Advanced Payment Solutions, said. Within the vast array of activities covered by banks, there are often many opportunities for fintech operators. "A retail bank has a huge remit," he said. Operators, such as Currency Cloud and Advanced Payment Solutions, have gained ground by focusing on niche activities within banking. Some banks, such as Santander and BBVA, have responded by buying particular fintech solutions, he noted.

What the innovators and fintech operators lack compared to the banks is consumer trust, Wagner said. Survey after survey have pointed out that, even among millennials, trust in the high street banks remains high. Consumer banking is an area where new players, particularly those technology companies that have put a toe in the water, have conspicuously failed to make an impact, he said. For all the expertise and financial resources that Google has to deploy, for instance, GooglePay has been a notable failure, he said. Banks will stay relevant and pivotal to the payments landscape.

In the financial services world going forward, brand may start to play less of a role, however, according to Laven. "In the world of Uber and Airbnb, the cash element of that is not branded. Your interaction with that entity has a degree of trust, but the brand equity [of the payment mechanism] may not be worth that much." ◆

BUILDING A BUSINESS WITH BIG DATA

Nick Hall, MD, analytics, within Barclays' information business, gave an insight into the bank's thinking on how big data can be unlocked to extract its commercial applications. "The best way of thinking about unlocking the potential of Big Data is to think about the commercial application," he said.

There are three key characteristics of big-data analytics that are helpful to keep in mind, Hall said.

- **Firstly, advances in data storage and processing power mean that we are able to look at patterns in consumer or customer behaviour, rather than just statistics – and from those patterns, we may be able to construct value propositions.**
- **Secondly, the output from big data is often a piece of software or a dashboard, rather than a report, which gives businesses the potential to move on findings very quickly.**
- **The third characteristic, Hall said, was the rise of the data scientist and a new skill set within IT.**

He described three businesses that have used big-data analytics to produce heavily populated data streams that didn't exist before. One, iKeg, uses a sensor mounted underneath beer kegs to provide inventory data on craft-beer consumption – information useful for independent brewers, their retailers and distributors. Another, 23andMe, is a DNA-sequencing business that can provide health information to individuals based on a simple saliva test. And the third was from a designer of an app that tracks mobile use in individuals who have experienced depressive episodes in an effort to predict the onset of another episode and use this to alert their network of carers and friends.

Cool or creepy?

What are the implications? At least two of these businesses bring up questions and sensitivities on how we use and monetise personal data, Hall pointed out. Potentially, they might fail an informal 'cool or creepy?' test.

Banks, like their corporate customers, hold huge amounts of data, Hall said – vast data sets that can help companies understand their customers better. "We deliberately set up [the information and analytics business within Barclays] as a separate profit and loss division to ask: can we set up a brand-new business potentially outside financial services around creating value based on the data we look after on behalf of our customers?"

For all corporates, handling vast repositories of data on customers comes with considerable responsibility. Staying on the right side of data-protection laws is only part of that. There is additionally a huge reputational risk attached to looking after data, particularly personal customer details. But the potential to arrive quickly at evidence-based commercial decisions or business models has great possibilities for creating value for customers and developing your business.

"It's about how we enable our business to make better decisions and how we help our customers do that," he said.