Regulation

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
Nick Hall, MD, analytics, within Barclays' information business, gave an insight into the bank's thinking about 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.