

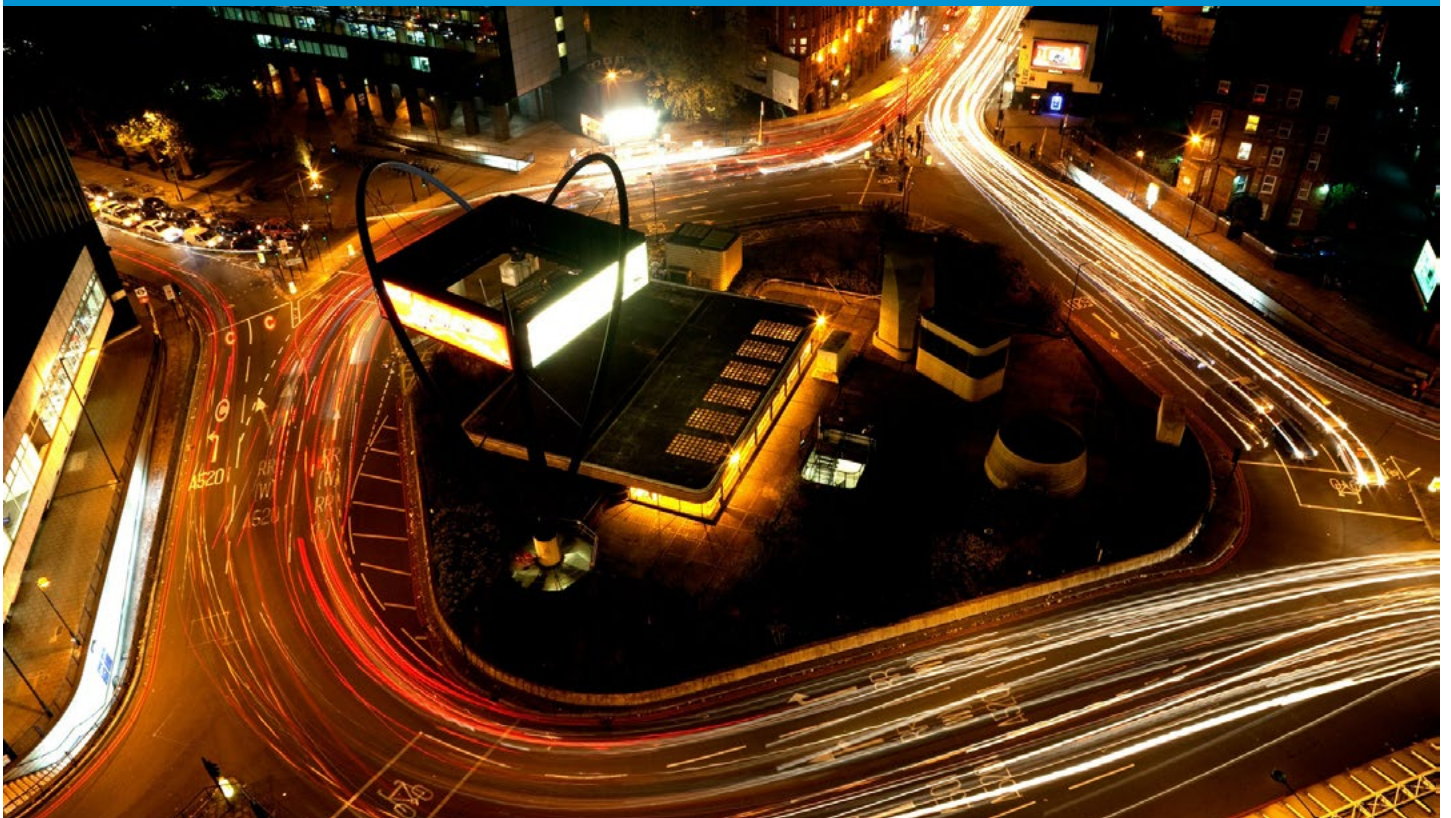
A REPORT ON FINEXTRA RESEARCH
IN ASSOCIATION WITH BSI

JULY 2016

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A ROADMAP FOR FINTECH STANDARDS: EXECUTIVE REPORT

FINDINGS OF FINEXTRA RESEARCH INTO THE POTENTIAL FOR
STANDARDS TO SUPPORT UK FINTECH GROWTH



Finextra

01 Executive summary	3
02 Priorities for fintech standards	4
03 Considerations and cautionary notes	7
04 Recommended next steps.....	9
05 Conclusion.....	11
06 About.....	12

EXECUTIVE SUMMARY

The UK's fintech market is estimated to be worth around £20bn* in annual revenues, and it is the stated aim of the UK Government to further drive fintech's growth to benefit the UK's economy, financial services industry and consumers. At the same time, European regulation is pushing for more competition and more innovation in financial services. During the research period (that is, before the UK Brexit vote), participants were preoccupied with the implications of the Revised Payment Services Directive (PSD2), which will force incumbent players to share data with new entrants to underpin innovative, fintech-led financial services propositions. While the impact of a possible Brexit remains to be seen, PSD2 is still a potential driver for change, and in any case, through the efforts of the Open Banking Working Group, the UK is already attempting to front-run PSD2, encouraging all players in financial services, old and new, to share data through Open APIs to stimulate the development of innovation services for consumers and businesses.

In this context, the ability of fintech companies to flourish is clearly crucial. However, there are a number of recognised barriers to fintech growth, largely resulting from the challenge of integrating new thinking, technology and business models into an industry in which operational resilience and consumer protection are paramount. While from a regulatory standpoint the UK is taking the lead on creating an environment in which fintech innovation can blossom safely, there could also be an opportunity to complement regulation with voluntary standards to provide assurance around different aspects of fintech activity.

To explore the potential for standards in fintech, the BSI (British Standards Institution) commissioned Finextra to carry out a research project to determine the drivers for possible standards creation and to identify the areas in which standards would have the most impact and the most support. The research has involved extensive outreach through three workshops and 17 one-to-one interviews, soliciting the views of 80+ experts from fintech companies, banks, legal firms, industry associations, major financial technology vendors and others on the topic.

The research has identified three priority areas in which to take the standards work forward:

- Procurement and onboarding
- Integrating fintechs into the standards and language of the financial services industry
- Consumer assurance and gaining trust

This document provides further detail on the findings of the research and the recommended next steps. More detail on the research methodology and findings can be found in the full version of the research report. Please visit www.bsigroup.com/research/fintech to download this.

PRIORITIES FOR FINTECH STANDARDS

Procurement and onboarding

The research suggests the biggest short term opportunity for standards to make a positive impact is in the procurement and onboarding process. For fintechs, banks' usual approach to onboarding suppliers is too onerous and slow and they run a real risk of running out of money before the process is finalised. For banks, it is too big a risk to fast track fintechs through procurement (and compliance).

The research identified a will on both sides to explore how standards could help. One possible approach would be to tailor a package of standards for fintechs, potentially complemented by new standards that would confirm a fintech met a minimum level of requirements (for example, information security, disaster recovery, data protection, corporate governance, indemnity insurance) and could progress more rapidly. This approach could also consider common contracts, SLAs and NDAs, agreements around payment schedules and testing and certification of software, among other aspects.

Some contributors to the research envisage a 'single questionnaire' which covers all the requirements of every bank, which could be filled in once, and would then enable a fintech to say it was 'compliant' with a standard/range of standards, saving duplication of effort and enabling a buyer to have increased confidence. There was a clear call from many contributors to ensure that this effort would solve more issues than it created – it should result in no additional bureaucracy for fintechs, nor any large extra costs.

“If a bank has outsourced Anti-Money Laundering (AML) to a third party start-up and the start-up doesn't understand the rules properly and makes a mistake that means terrorist financing is allowed to take place, this would be a bad outcome. The rules are there for an important reason. They can only be 'watered down' if protections are in place”

A LEGAL EXPERT

It would be important for any standards effort in this area to be complementary to and work alongside regulation. It would also be essential to secure the involvement and support of the banks. Their culture is rules and compliance driven and while a minimum standard might be relatively easy to agree upon, if banks then tailor that on a case-by-case basis, the value of standardisation could be diluted. That said, the research identified strong support for work to be done in this area, within a three to six month timeframe.

Integrating fintechs into the standards and language of the financial services industry

A second area of focus to come out of the research was how to better integrate fintechs with the standards and language of the financial industry – especially those coming from outside banking. Though there were voices cautioning against making life too easy for newcomers, there was certainly agreement that some of the underpinnings of the financial markets infrastructure (such as financial messaging) are opaque to new entrants, because a term in a data dictionary for ISO 20022 may mean one thing in payments and another in securities.

At a higher level, it was observed that even some standard financial services vocabulary can be a blocking factor for new entrants. The possible standards-based solutions suggested here range from a digital handbook of terms that fintechs could use to feed their systems (and themselves, presumably) to a high level data concept model unifying multiple underlying data dictionaries.

It would be important for this activity on ‘semantics’ to complement existing standards harmonisation efforts, without adding extra complication or reinventing the wheel. However, there was support for standards-based solutions to be explored in the short term and delivered in the medium term.

“The biggest challenge for fintechs is navigating the complex decision structures in big organisations. Fintechs have quite limited working capital. It can take months to find the right decision makers, get decisions, pilot, generate cash flow – it wears them down, they run out of money, they have to go back to their investors, there’s a loss of faith”

A UK CHALLENGER BANK

Consumer assurance and gaining trust

The third major priority to be surfaced by the research was the possibility for standards to support fintechs in providing consumer assurance and gaining consumer trust. Based on a strong belief that consumer fintech propositions are being held up by consumers' uncertainty about new business models and the underlying/enabling technology and key questions such as security, the research uncovered a number of areas in which standards could potentially ease this challenge, including demonstrating fintechs' credentials, tackling the challenge of digital identity, streamlining know your customer (KYC) processes, supporting robust risk profiling methods, underpinning the sharing of data in the context of open banking, enabling transparency on the use of customer data, smoothing onboarding and 'offboarding' processes, and improving interactions around e-wallets and e-money.

The challenges raised in relation to this priority centred on the potential for unnecessary overlap with existing regulatory and Government work (on KYC and AML) and existing standards (such as data protection), and the fact that in areas such as open banking, much still needs to be defined at the overall framework level, meaning that developing standards now could be premature.

That said, there were also strong arguments made for looking now at these future areas – before there is too much activity – in order to be ready with standards to offset any potential problems before they arise.

The recommended approach would therefore be to begin further investigative work into the potential for standards around consumer assurance and trust in the short term. The strongest opportunity in the short term for fintech standards may be in the areas of procurement and semantics, but as one participant put it, “the whole point of fintech is to deliver better services to the mass of consumers” – and in light of this, the consumer assurance aspect should be prioritised. Its complexity should be recognised and further time devoted to exploring the challenges and examining possible standards-based solutions, starting as soon as possible.

“What we are talking about is standard behaviours. There is no need to reinvent standards, but rather we should surface existing standards and make it easier for fintechs to take advantage of them.”

FINANCIAL EXPERT AT INDUSTRY ASSOCIATION

CONSIDERATIONS AND CAUTIONARY NOTES

Considerations and cautionary notes

While as outlined above the research has identified a definite appetite for standards to help drive the growth of fintech, there are some caveats. The standards must fit alongside regulation (existing and new), and must not clash with it: a standard cannot ‘permit’ something that regulation does not allow. There should not be unnecessary creation of new standards but rather an emphasis on investigating how existing standards can be better leveraged. There is work already under way around certain aspects of fintech standardisation, and it would be important to ensure any new work was complementary not contradictory or unnecessarily overlapping. The approach must keep things simple, and the emphasis should be on demonstrating quick results for an industry that is changing every day.

There are also some sensitivities to consider. Though this is lessening, there is still competitive tension between banks and fintechs. This tension came across in the workshops, and is also evidenced in wider industry discussions. Not all fintechs are aiming to compete with banks – but some are. There is a residual feeling in some quarters that banks would like to keep fintechs down and that avoiding standardisation could be a way to do this. There is also a sense among fintechs that standardisation by definition stifles innovation.

“The whole point for fintechs is to innovate ahead of the legacy that is already in place. If you force fintechs to integrate with old systems it defeats the purpose and the only people who win will be the big established vendors.”

A FINTECH

“If you want to offer a grown up service, you have to obey grown up rules.”

AN ESTABLISHED VENDOR ON THE VALIDITY OF ‘HELPING OUT’ FINTECHS

On the other hand, there is a feeling among more established providers of financial technology – the fintechs working in the space before it became known as fintech – that not too much should be done for today’s start-ups because all new providers of technology to banks and for banking need to experience growing pains. Some argue that there should not be too much ‘over-compensation’ for fintechs – with others saying that, given the over-arching goal of encouraging fintech growth, this is essential, and ultimately the whole industry (and its customers) will benefit.

In short, any ongoing effort to drive standards forward in this area would need to recognise these sensitivities and balance them, by ensuring a good spread of views and expertise is involved in onward standards creation activities, and making sure that any resulting standards benefit all parties – fintechs, banks and customers (businesses and consumers). The need for an open, consensus-driven approach to standards development, which involves all relevant stakeholders, cannot be over-stated.

It is also important to note that ‘fintech’ is a very broad church. Fintechs looking to work with banks to modernise their core infrastructures have a different set of challenges and priorities to fintechs with consumer-facing propositions, though both are important. Again, any ongoing standardisation work would need to recognise and reflect these differing requirements.

“There should be no extra bureaucracy: take underlying best practices and unify them so small players do not have to carry an extra burden”

A FINTECH

RECOMMENDED NEXT STEPS

Based on the findings of the three workshops and numerous interviews, Finextra proposes a plan of work to address the three priorities identified during the research. This is as follows:

Procurement and onboarding processes

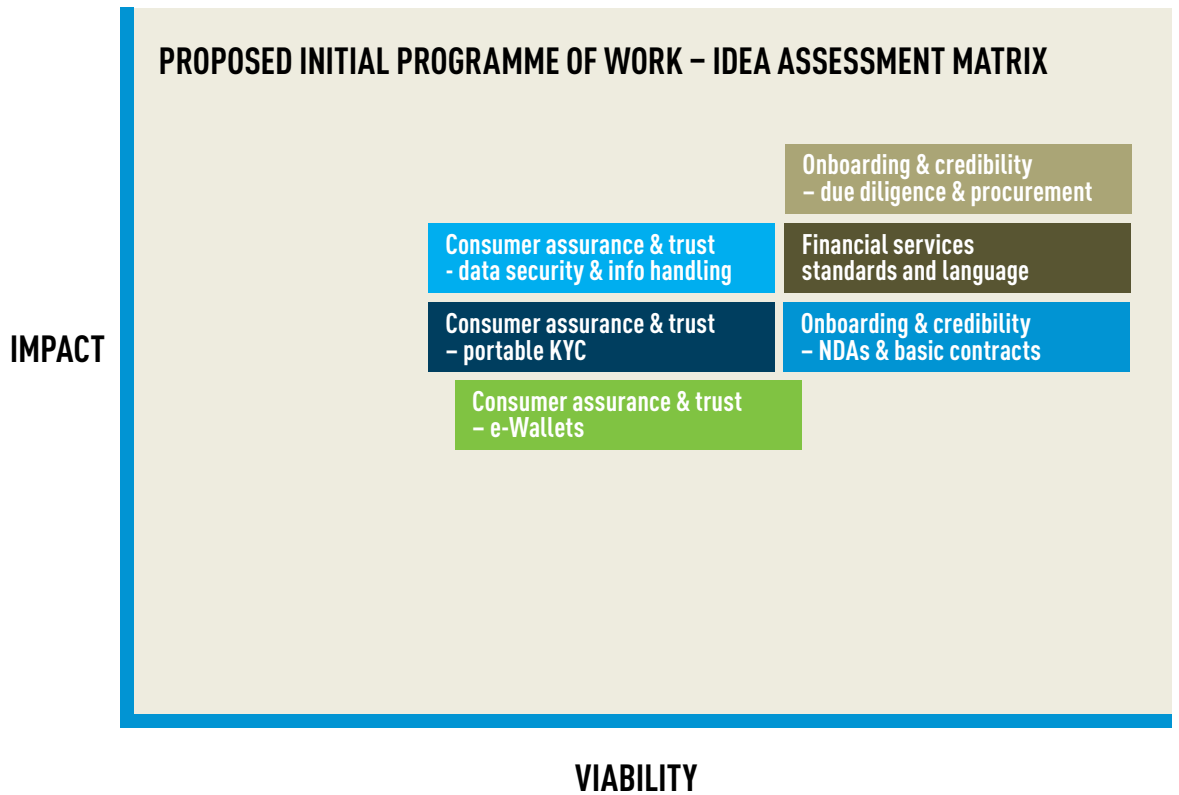
- A new standard covering this area should be developed and published within 6 months.
- The work should be led by a procurement expert and should convene a group of industry experts spanning banks and fintechs.

Integrating fintechs into the standards and language of the financial services industry

- A research project into the need for standards-based solutions in this area should be started immediately and report its findings to BSI within 3 months.
- The work should look at the potential benefits from a range of options including the production of a digital handbook for fintechs and a high-level data concept model unifying multiple underlying data dictionaries.
- The project team should comprise a broad representation from across the financial services industry including banks, established and start-up fintech suppliers, industry bodies, etc.

Consumer assurance and gaining trust

- Further investigation work into the potential for standards in this area should be undertaken within 6 months.
- This work should look at a number of areas in which standards could potentially ease this challenge, including: demonstrating fintechs' credentials, tackling the issue of digital identity, streamlining KYC processes, supporting robust risk profiling methods, underpinning the sharing of data in the context of open banking, smoothing onboarding and 'offboarding' processes and improving interactions around e-wallets and e-money.
- Again, it is essential that the project team comprises a broad representation from across the industry.



The chart represents Finextra’s assessment of each idea in terms of likely impact and viability.

‘Impact’ reflects the degree to which the research suggested an activity would help accelerate growth and development of fintech. ‘Viability’ reflects the level of consensus around how easily the challenge could be addressed by standards.

Finextra suggests work starts immediately on all priorities, with the initial output varying from standards outline development for priority one through to further investigation for priorities two and three by means of a series of focused workshops involving representatives of all key stakeholders.

CONCLUSION

The research has concluded that there is an appetite among key stakeholders to further explore and progress work on standards to help tackle a number of blocking factors for fintech growth in the UK. Based on the research findings as described in this paper, Finextra recommends moving forward in a timely fashion to address the three priority areas outlined above.

As emphasised previously, the importance of broad industry stakeholder contribution to the ongoing activities (from fintechs, banks, industry associations and others) cannot be underestimated. An open and consensus-driven approach to standards creation, similar to that applied by the BSI, will be essential.

In light of this, the most efficient and effective way to galvanise and secure the support of the right participants to ensure the relevance and success of any standards initiatives that ensue could be to convene a fintech standards community via which to spearhead the ongoing investigation and standards creation work.

Finextra

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Founded in 1999, Finextra Research covers all aspects of financial technology innovation and operation involving banks, institutions and vendor organisations within the wholesale and retail banking, payments and cards sectors worldwide.

Finextra's unique global community consists of over 30,000 fintech professionals working inside banks and financial institutions, specialist fintech application and service providers, consulting organisations and mainstream technology providers. The Finextra community actively participate in posting their opinions and comments on the evolution of fintech. In addition, they contribute information and data to Finextra surveys and reports.

For more information:

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About BSI Group

BSI (British Standards Institution) is the business standards company that equips businesses with the necessary solutions to turn standards of best practice into habits of excellence. Formed in 1901, BSI was the world's first National Standards Body and a founding member of the International Organization for Standardization (ISO).

Over a century later it continues to facilitate business improvement across the globe by helping its clients drive performance, manage risk and grow sustainably through the adoption of international management systems standards, many of which BSI originated. Renowned for its marks of excellence including the consumer recognized BSI Kitemark™, BSI's influence spans multiple sectors including aerospace, construction, energy, engineering, finance, healthcare, IT and retail. With over 70,000 clients in 150 countries, BSI is an organization whose standards inspire excellence across the globe.

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