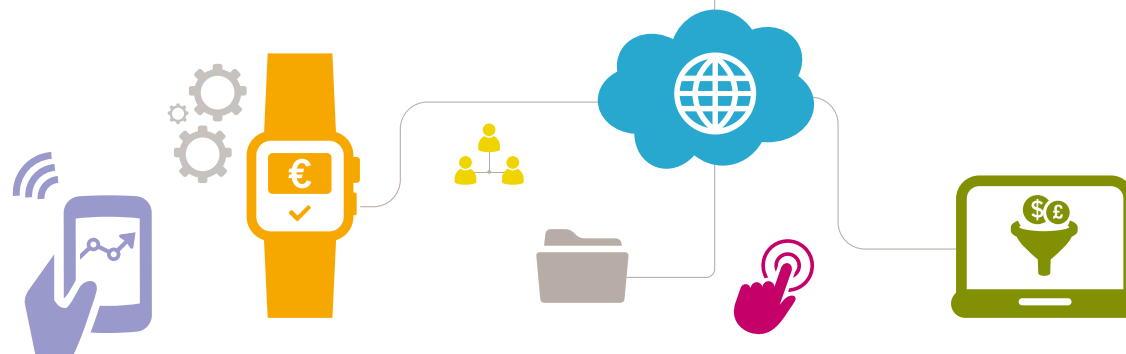




Fintech Week 2016



London's third annual Fintech Week took place on 15-22 July, and once again Linklaters was proud to be a lead sponsor.

“

Fintech Week reminded us all about the massive scale of activity and creativity taking place in London right now. Regulators, incumbents, innovators and advisers are all in the mix, helping to make new financial technologies a reality for consumers and businesses.

”

Richard Cumbley, Global Head, TMT, Linklaters

The term “fintech” has entered the mainstream, thanks to payment solutions by global behemoths such as Google and Apple, new and innovative solutions created by emerging players such as Nutmeg and also a major setback by an early star, San Francisco's Lending Club.

London's unique position as both a financial centre and start-up hub has placed it at the heart of the fintech revolution, helped in no small part by its unrivalled ability to attract the best talent in the world.

The UK's financial regulator, the FCA, has furthermore encouraged new businesses. Its highly regarded Sandbox programme supports disruption while helping innovators comply with rules from the beginning.

Some view Brexit as a potential threat to London's dominance, and speakers rightly addressed it.

While a Linklaters survey at the event found that 48% of respondents thought Brexit was negative for the UK's fintech sector, only 12% said they were as a result considering relocating to another EU jurisdiction.

This is despite articles in the press about Dublin, Paris and Frankfurt trying to lure financial services to friendlier shores, and despite Berlin's bold-faced (and compelling) charm offensive.

Eileen Burbidge, founder of Passion Capital and leading fintech investor, begged to differ, declaring: “London will continue to be the capital of fintech... and would remain a top priority in the government's Brexit negotiations.”

So, following a month dominated by Brexit, fintech is focused on the future. Undeterred by political challenges, the industry continues to harness developing technologies such as blockchain.

The smartest entrepreneurs are creating new security solutions, while existing institutions are looking to co-opt the best technologies and new ideas such as smart contracts.

We hope you find this review useful and that it conveys the innovative spirit that dominated the discussion throughout the week.

Do get in touch if you have any questions or ideas you would like to discuss.

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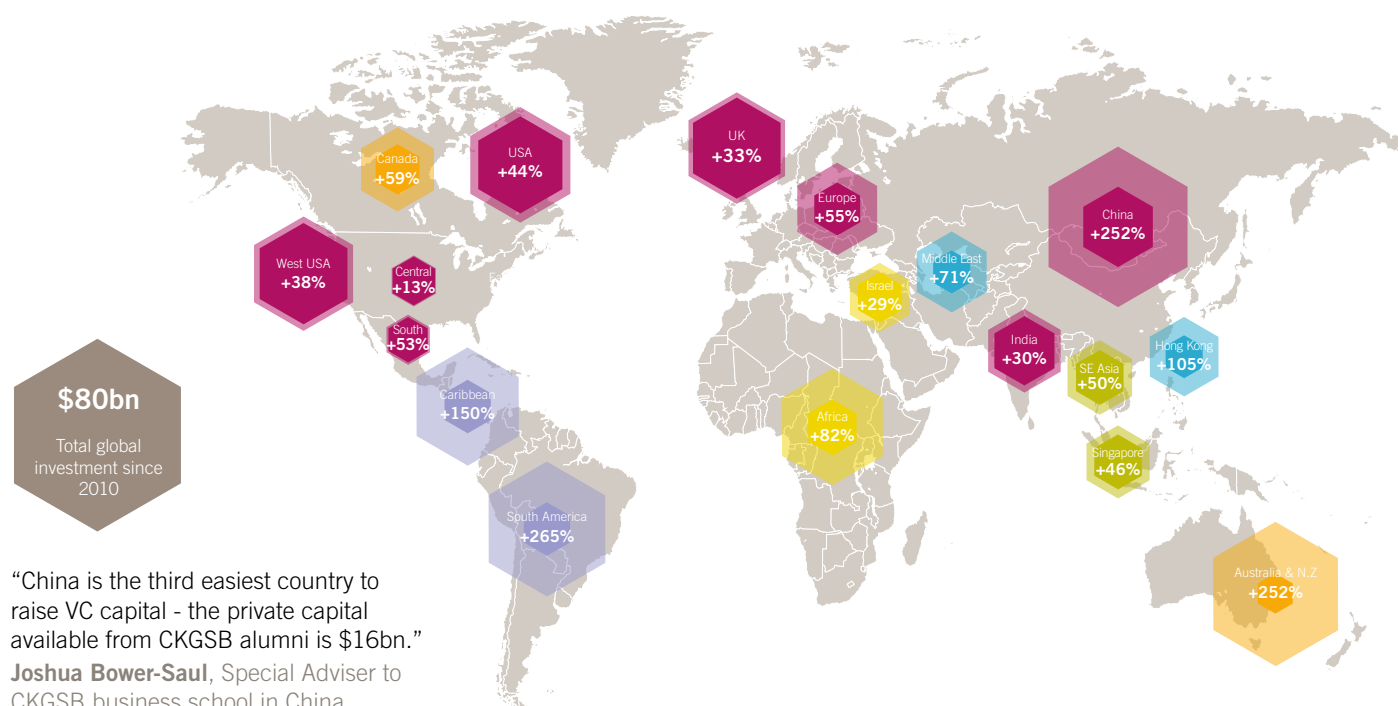


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London Fintech Week in Quotes

Fintech investment is a global phenomenon



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The door to fintech is open in London...

“London = the best city for fintech. 300 global banks, 350,000 knowledge workers, a central time zone, an outward looking history and the world’s most progressive regulator.”

Eileen Burbidge, Partner, Passion Capital & UK Treasury’s Special Envoy for Fintech

“London has 61,000 fintech jobs, more than NY and Singapore combined. Almost 20% of London’s workforce in tech are EU citizens, and they are welcome. London will appoint a Chief Digital Officer to demonstrate its commitment to tech.”

Rajesh Agrawal, London Deputy Mayor for Business

“Regulators are managing a balance to ensure that London remains a global fintech hub.”

Stuart Davis, Managing Associate, Linklaters

London Fintech Week in Quotes

... and the UK Government are taking a consultative approach

"Regulators are genuinely motivated to keep the momentum of fintech and avoid a second banking crisis," and "the FCA has asked for companies involved in RegTech and tech to come forward with ideas."

Eileen Burbidge, Partner, Passion Capital & UK Treasury's Special Envoy for Fintech

The Financial Conduct Authority have released a [summary of responses](#) following their RegTech consultation, announced by Christopher Woolard, Board Member and Director at the Financial Conduct Authority during his keynote speech on innovation.

London and the UK are not the only ones courting fintech companies and investment

"Berlin is open for business, and is the place where you can achieve your dreams."

Cornelia Yzer, Senator for Economics, Technology and Research, State of Berlin

The next fintech trends are within financial institutions

"I think the next trend in fintech will be within financial institutions themselves – progressing from consumer to B2B – in areas including fraud detection, regulatory compliance, service delivery, user experience, insurance and KYC (know your customer)."

Eileen Burbidge, Partner, Passion Capital & UK Treasury's Special Envoy for Fintech

Fintech has risen on consumer needs and customer demand is driving innovation

"Biggest components of fintech globally are payments, loans and P2P."

Ian Dowson, William Garrity Associates

FinTech and social enterprise can co-exist

"It's humbling to know people have real needs, and to touch those needs. But it's also a business."

Faith Adesemowo, co-founder and CEO, Social Lender

We have a new definition of wealth

"Wealth of data is the new wealth."

David Roche, Director, Financial Services, Pramerica Systems Ireland Ltd.

For fintech to succeed, companies must deploy smart data and cyber security solutions

"The financial services sector has a duty to protect clients as blockchain shifts from a high volume, low value business to one that is high value with lower volumes."

James Chappell, co-founder and CTO, Digital Shadows

"We must be smarter with IT budgets; we can't just keep throwing money at them. Businesses need to learn to spend smarter."

Matt Ridley, Investment Manager, Winton Ventures

"[Employee monitoring] requires a careful balance, and companies have to be transparent with staff and create a culture of safety and security within the team."

Dominic Mac, Global Head of Business Development, Risk Managed Services, Thomson Reuters

Blockchain is not yet regulated, but firms must still be aware of compliance

"3 basic ingredients for success:

1. good plumbing
2. favourable economic conditions and more certainty
3. a supportive regulatory environment."

Gary Chu, lead lawyer for UBS's FinTech Innovation Lab and **Stuart Davis**, Managing Associate at Linklaters

"Firms need to think about regulatory compliance – they could be at risk of fines and reputational damage, but also individual liability for directors and senior management."

Harry Eddis, Partner, Linklaters

"The Bank of England's main concerns centre around scalability, security, privacy and interoperability." The FCA is chiefly concerned about consumer protection, but also about whether blockchain can be used to get around regulation or break the law."

Harry Eddis, Partner, Linklaters

London Fintech Week in Quotes

Smart contracts are on their way

"[A smart contract is] an agreement which is automatable and enforceable."

Dr. Lee Braine, Investment Bank CTO Office, Barclays

"I predict the use of smart contracts within next 12 months."

Preston Byrne, COO & General Counsel, Eris Industries

"Writing smart contract terms is an art form, code must be very carefully constructed to govern our relationships."

Preston Byrne, COO & General Counsel, Eris Industries

Trends in InsureTech

"Most exciting thing at the moment is blockchain... AI, machine learning and predictive modelling using behaviour [leading to] intelligent underwriting decisions."

Parul Kaul-Green, Head of UK Strategy, M&A and Innovation, AXA

"Insurers are offering bundled insurance products and removing elements customers don't need."

Matthew Wardle, Co-founder, Kasko

"Data aggregation."

Matthew Churchill, Head of Futures, Hiscox

"Personal lines of insurance and on demand."

Cameron Shearer, Chief Executive, Digital Risks

"Large, 100+ years old insurance companies are fintech legacy companies. [For the industry to develop, we] need partnerships between old legacy companies with new ones to create new products."

David Roche, Director Financial Services, Promerica

Challenges to InsureTech

"Might cannibalise annual insurance premiums."

Cameron Shearer, Chief Executive, Digital Risks

"Innovators working with insurers are finding it a very slow – very heavily regulated industry and requires getting FCA approval as an intermediary."

Parul Kaul-Green, Head of UK Strategy, M&A and Innovation, AXA

The Internet of Things (IoT) will allow insurers to reduce risk

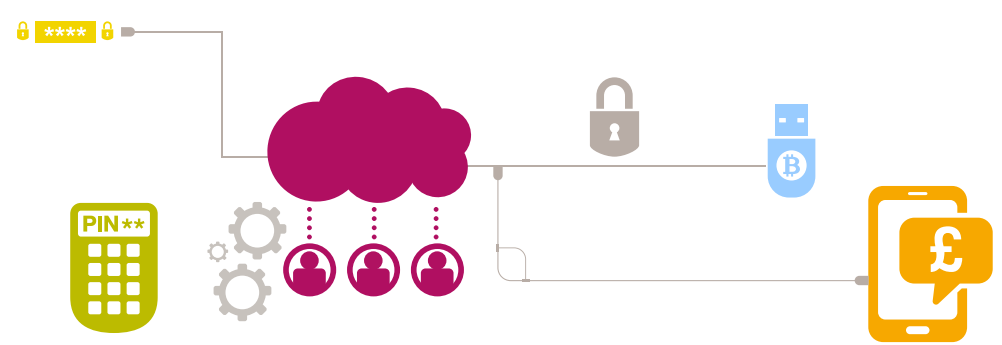
"The issue with the IoT is there is a lot of noise. The data is there but the information is not yet correlated."

Tim Buchanan, Group Digital Officer, Hiscox

"Insurers need to use IoT and data for retention and customer engagement as a starting point, then build over time to use for risk and pricing."

Patrizia Cozzoli, COO, Domotz

Linklaters' Data and Cyber Security for Financial Services Panel



As fintech heats up, experts point out that, without strong data and cyber security, even the most advanced solutions will be worthless.



Linklaters' Global Head of Telecoms, Media & Technology and Intellectual Property, Richard Cumbley, hosted a lively panel discussion on the key security challenges facing the sector. Speakers also shared their experience with regulators, which they said had responded to threats in a way that was both proactive and innovative.

According to **James Chappell, co-founder and CTO of cyber awareness company Digital Shadows**, the financial services sector has a duty to protect clients as blockchain shifts from a high volume, low value business to one that is high value with lower volumes.

"Data controls are important," he noted, advising companies to prepare an incident plan "so you can recover quickly, and recover well".

Matt Ridley, Investment Manager at Winton Ventures, specialises in cyber security start-ups and repeated the need to plan. "There is not enough planning in creating a layered defence. We must be smarter with IT budgets. Businesses need to learn to spend smarter."

Companies must think "beyond the basics," said Ridley, in risk planning. Adding to that, Chappell pointed out that companies must also be aware of future threats.

Adrian Black, founder and CEO at risk scoring firm Contego, noted that the biggest threat to security is in fact internal – especially as systems move to the cloud. "The insider threat is still often overlooked, and we are beginning to see incidents of new threats such as extortion and data sabotage."

It is therefore vital that companies educate their staff. "All members of your team need to have the right attitude when it comes to data." When in doubt, Black recommends erring on the side of caution: "Ensure that everyone understands there is a culture of safety and security."

This cultural theme was echoed across the panel. But there is an understandable concern is that monitoring staff could create a culture of fear.

According to **Dominic Mac, Global Head of Business Development, Risk Management at Thomson Reuters**, "it's a careful balance, and companies have to be transparent". He advises that companies limit highly stringent levels of oversight to those with access to critical data such as financials.

Ridley also recommended restraint, suggesting that companies implement "creative solutions" such as tools to help "well-meaning employees avoid making mistakes".

The speakers agreed that regulators are taking the time to understand increased cyber and security threats, and then actively responding to combat them. In return, they "want to see that you understand the threats you're facing," said Ridley.

"Regulators are allocating funding and directing innovation efforts towards this, signalling that this is a priority on both a country and a global basis," said Mac.

There was broad praise for UK authorities, particularly the FCA and CMA. Black described the FCA as "proactive" and providing "great guidance" – especially on the cloud. Both are engaging with innovators, he concluded.

“The insider threat is still often overlooked, and we are beginning to see incidences of new threats such as extortion and data sabotage.”

Adrian Black, Founder & CEO, Contego

Linklaters' Blockchain Q & A: Regulatory Perspectives



Linklaters hosted a session on the regulation of blockchain, featuring a Q&A session with **Gary Chu, lead lawyer for UBS's FinTech Innovation Lab** and **Stuart Davis, Managing Associate at Linklaters**.



Harry Eddis, regulatory partner at Linklaters, introduced the session with a brief overview of blockchain, which he emphasised is “itself not regulated”.

“However, if a firm uses blockchain as a platform to carry out a regulated activity in Europe, that activity will be regulated and the firm will need a licence to carry it out.” Examples of regulated activities include reception and transmission of orders, execution of orders on behalf of clients, portfolio management, investment advice and operating trading platforms.

So a firm that uses blockchain to record property ownership would not be regulated, but a platform for dealing in shares or bonds would be regulated, and this would require a licence.

According to Gary Chu, for blockchain to succeed as a technology, there must be three basic ingredients. First, “good plumbing, meaning a common infrastructure – or payment system – to enable banks to be joined up”. The second two, which are outside their control, are favourable economic conditions and a supportive regulatory environment.

From the regulators' perspective, authorities need to understand what exactly blockchain technology does before developing a policy around it, pointed out Stuart Davis.

“Their challenge is reconciling how to apply existing regulation to new products and services that came after the regulation was drafted.” Another challenge is balancing their two principal aims: ensuring consumer protection while fostering competition.

To this end, the FCA is supporting Fintech through two initiatives: **Project Innovate**, which helps innovative firms meet regulatory guidelines with proactive guidance from the FCA, and **Regulatory Sandbox**, which enables businesses to test innovative products, services, business models and delivery mechanisms outside the regulatory system.

When it comes to blockchain, the FCA's main concerns are consumer protection, the risk of creating a regulatory vacuum, how resilient the technology is, and the potential to lead to crime.

The Bank of England, for its part, is evaluating blockchain's scalability, security, privacy and interoperability, through its FinTech Accelerator programme said Davis.

To this end, UK regulators had even before Brexit begun reaching out to counterparts in other jurisdictions such as Australia and Singapore to establish ‘fintech bridges’ to share knowledge and promote international expansion, noted Davis.

Looking at other areas of fintech, regulators have devised a new framework to govern peer-to-peer lending. But regulating blockchain is more complicated, noted Eddis, since “there is no one entity in control of the system” and given the challenge of monitoring which software people choose to install on their computers.

As such, it will most likely be easier to regulate the businesses that deal with blockchain, as has been the case with Bitcoin.

No matter what the outcome, firms that deploy blockchain will need to consider compliance, warned Eddis. “Not only is there a risk of fines and reputational damage, but there may be individual liability for directors and senior management.”

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