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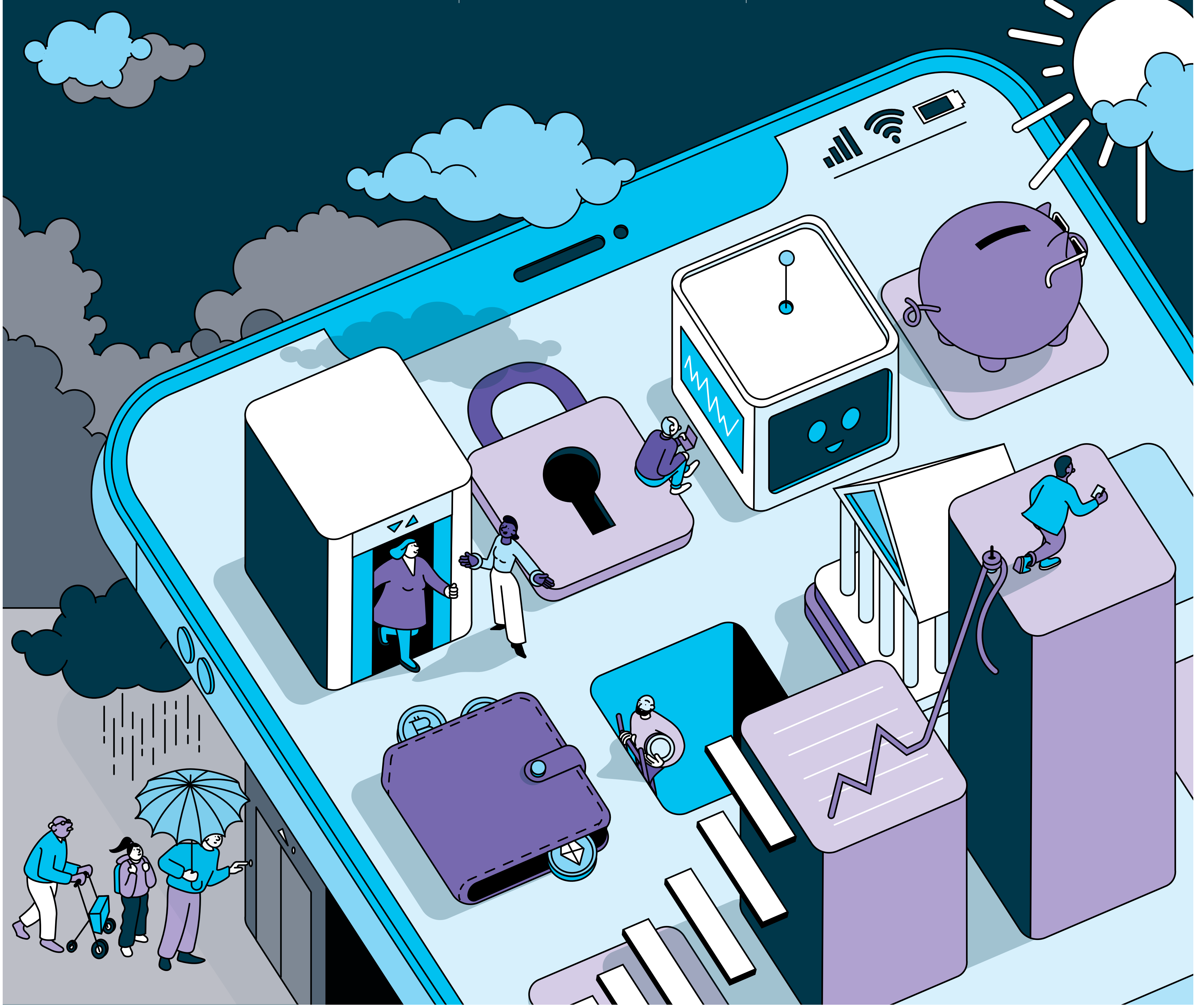
FUTURE OF FINANCE



FUTURE OF FINANCE

Distributed in THE TIMES

Contributors

Fiona Bond
A freelance journalist who covers all areas of finance and investing. She is the former commodities editor at *Interactive Investor*.

Simon Brooke
A freelance journalist with 25 years' experience writing about business and finance, wealth management and sustainability.

James Lawrence
A freelance journalist who specialises in enterprise technology, business strategy and financial services.

Charles Orton-Jones
PPA Business Journalist of the Year and former editor of *EuroBusiness*, specialises in fintech and high-growth startups.

Tom Ritchie
A business journalist, specialising in human resources, leadership and the future of work.

Sally Whittle
An experienced business and technology writer for national newspapers and B2B magazines.

Raconteur

Campaign manager
Zoe Anastasia Verouti

Reports editor
Ian Deering

Deputy reports editor
James Sutton

Editor
Sarah Vizard

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Sub-editor
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Colm McDermott
Samuele Motta
Sean Wyatt-Livesley

Illustration
Sara Gelfgren

Design director
Tim Whitlock

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INVESTMENT

How risky is private debt?

This fast-growing alternative asset class brings good returns for investors, while lenders like it for its flexibility

Simon Brooke

Private debt – and private credit, depending on whether you're the borrower or the lender – is expanding significantly. Interest in the private markets has been building as businesses seek new sources of funding and investors look for good returns amid high inflation.

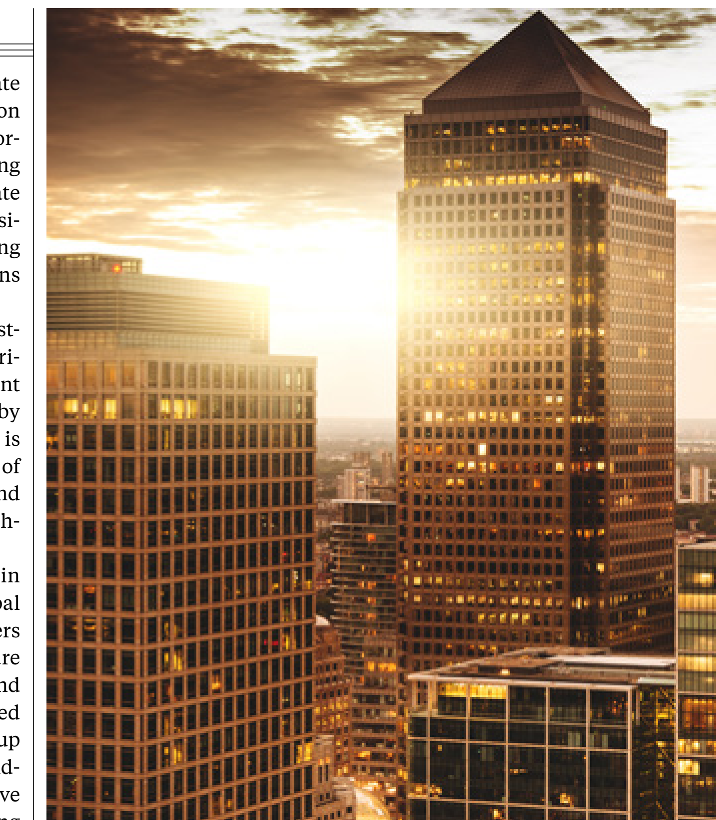
According to alternative investment data provider Preqin, total private-debt assets under management reached \$1.3tn (around £1tn) by March 2022. The asset class is expected to increase by a CAGR of 10.8% between December 2021 and December 2027, with a view to reaching a high of \$2.3tn in 2027.

This growth has been driven in part by the aftermath of the global financial crisis. Traditional lenders such as banks, burdened by pressure on tier-one capital ratios and increased regulation, have pulled back from lending, opening up opportunities for alternative lenders. Returns of 10% to 12% have grabbed the attention of a growing number of investors. With spreads widening and the base rates jumping from close to zero to 5% in the past 18 months or so, the yield on private debt has risen 500 basis points.

Currently, private debt appeals mainly to sophisticated professional investors who invest through institutions such as pension funds and insurance companies, explains Nick Holman, head of UK and Ireland at Kartesia, a European specialist provider of private capital solutions for small and mid-sized companies. "That said, as the market evolves, we see increased demand from sophisticated high-net-worth investors and family offices, which are looking to increase exposure to an attractive asset class that has outperformed public markets."

Private debt is becoming an asset class in its own right, according to Alice Foucault, managing director, private debt, at Barings. "In a low-interest environment, it's a great way to deliver higher returns," she says. "For the level of risk that you're taking, it's very attractive."

Private debt is, therefore, appealing to a wider range of investors. "It was originally very much for institutional investors such as pension funds, insurance companies and family offices," says Foucault. "But we're now seeing a lot of investment managers who are considering launching vehicles for high-net-worth individuals to diversify their product offerings for clients. It makes a lot of sense in portfolio construction for these investors to include private debt."



But how risky is private credit or private debt? It's an illiquid investment with a lifespan of five years or more, which might put off investors who need easy access to cash in these economically uncertain times.

What's more, private credit loans generally have implied ratings below investment-grade bonds. And, of course, investors will need to ensure that the investment target, be that a company or an infrastructure project, can service the debt they're taking on. Additional due diligence should cover the fund structure, the legal set-up and the incentivisation structure.

One of the downsides for companies is that private debt is more expensive than traditional lending – but with mainstream lenders retrenching, it might be the only show in town.

"If a borrower wanted more leverage, the route would be to find a second charge or mezzanine lender to sit behind their main funding partner," explains Rahul Thakrar, corporate and commercial partner at law firm Boodle Hatfield. "Private lenders are providing the whole loan with the greater leverage themselves. They borrow from a traditional lender and on-lend that, plus their own funds, to the borrower. The borrower then only deals with one lender."

There's an argument that if a company does experience difficulties, private-debt providers can be more flexible than a bank offering a traditional loan and can adopt a more hands-on approach to steady the ship. Foucault typically ensures that Barings is the sole lender, with certain instances where financing is shared with another lender.

But doesn't acting as sole lender increase risk?

Foucault says: "Risk is managed via diversification within a fund, which is why scale is so important. The bigger you are, the larger the funds and the more diversification you have in the funds. That is the best mitigant against the underperformance of a portfolio company."

Bill Sacher is global head of private credit at private markets firm Adams Street Partners. He believes that one of the reasons why private debt is becoming more popular, not just among institutional investors but also among high-net-worth individuals, is that it sits in the safest part of the debt capital structure. "It's firstly a secured term loan – it has collateral. It's also relatively safer than products such as high-yield bonds and mezzanine debt," he explains.

Pointing to the success of business development companies (BDCs) in the US, which are positioned for smaller investors, Sacher thinks we could soon see a democratisation of private debt investing. "In Europe we're already seeing funds similar to BDCs being offered to retail investors," he says.

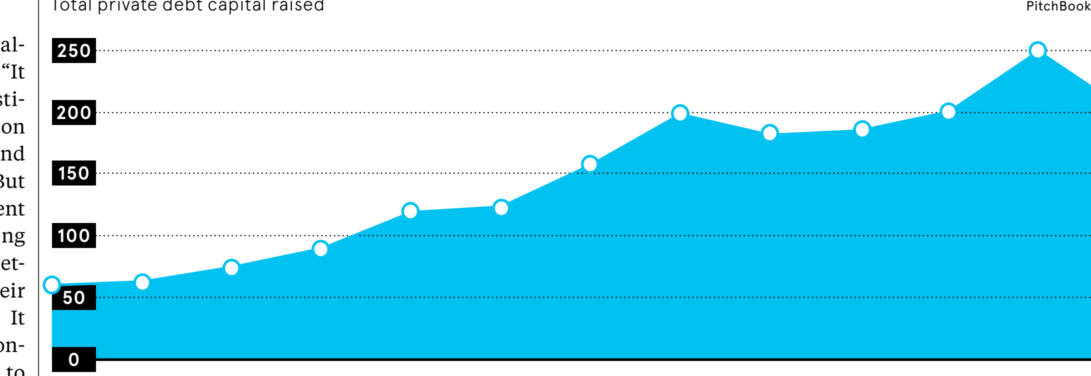
Diversification is more critical here than with any other asset class, especially given the higher risk of default caused by increasing interest rates. So says Joe Abrams, head of private debt, Europe, at consulting firm Mercer.

"Private debt looks like a good relative value at present. But you have to access the asset class in the right way. It's not just about buying lots of different asset management strategies. It's important for investors to find the right asset managers and to pick strategies that take different approaches in different sectors," he warns. "We feel very strongly that the best way of accessing private debt at the moment is to avoid putting all of your eggs in one basket – and to select the best eggs."

THE RISE OF PRIVATE FINANCING

Total private debt capital raised

PitchBook, 2023



TECHNOLOGY

The great bonanzAI

Smaller investors can invest in generative AI – but choosing the winners is no easy bet

Charles Orton-Jones


Laurence Dutton via iStock

A picture of the Pope in a fabulous oversized white puffer jacket recently went viral. His Holiness looked like he'd stepped off a Paris catwalk. It was, of course, a fake. The image was created using Midjourney, a generative AI engine which turns text instructions into pictures.

Midjourney. Dall-E. ChatGPT. These generative engines are a phenomenon. ChatGPT won 100 million users in its first two months. And the money-making potential is staggering. OpenAI, the creator of ChatGPT, raised $300m (£240m) in early May at a $29bn valuation. Google invested $300m in generative AI startup Anthropic and $100m in AlphaSense, a provider of financial information, to add an ability to summarise information with generative AI. US tech giant Salesforce is pouring $250m into generative AI startups that include Cohere, Hearth.AI, and You.com.

With all the big players pouring money into the industry, where does that leave smaller investors? Is there an opportunity to participate in the greatest tech boom of the decade?

"Plenty," says Professor Andy Pardoe, chair of the Deep Tech Innovation Centre at Warwick Innovation District and founder of Wisdom Works, an AI platform. "It's a fantastic period of innovation, and smaller companies can typically move faster than the bigger ones."

In his view, there are so many AI startups looking for capital that the chief problem for the investor is not finding a way into the market, but knowing where to put their cash. "It's challenging," says Pardoe. "But that's why investors typically have a portfolio of businesses they invest in. They hedge their bets by making multiple investments."

The data supports this view. Research firm PitchBook, which tracks tech deals, indicates a typical 60 to 80 generative AI venture capital deals a quarter – in Q1 of this year, a total of $1.7bn was invested. Some are primary providers of AI, and others harness an engine in a specific way or offer a user interface. It's a thriving ecosystem.

Some of the companies at the cutting edge are small. Midjourney has just 11 full-time staff but outperformed the generative AI teams from Google and Adobe. Rival company Stability AI, which produces the image generator Stable Diffusion, launched two years ago and, despite raising $101m from VCs in October, is still a startup by any definition. Small enterprises can indeed succeed.

Google, for one, is under no illusions about the threat from smaller rivals. A leaked note by an anonymous but verified Google researcher published in May declared: "We have no moat. And neither does OpenAI." The researcher went on to state: "We've done a lot of looking over our shoulders at OpenAI. Who will cross the next milestone? What will the next move be? The uncomfortable truth is, we aren't positioned to win this arms race and neither is OpenAI. While we've been squabbling, a third faction has been quietly eating our lunch. I'm talking, of course, about open source. Plainly put, they are lapping us. "

Open-source models are free to use. They can be run on phones or PCs and fine-tuned by the user. WizardVicunaLM, for example, is an open-source rival to ChatGPT which can be run on a laptop. The Google researcher noted: "People will not pay for a restricted model when free, unrestricted alternatives are comparable in quality." If open-source AI triumphs, the billions invested in closed-source companies will go up in smoke.

> **The returns are not guaranteed, and it's not easy to profile the investment in the way you might with other asset classes**

For the open-source alternatives, the quality is there. One leading authority on generative AI estimates it works at 97% of the performance of ChatGPT-3.5. "In the space of six weeks, we've moved to the Cambrian explosion," said the expert.

The opportunities may be big, but so are the chances of backing a dud, warns Sophie Lonergan, head of startup investment at Digital Catapult, which promotes new tech adoption and investment in the UK. "With early-stage companies, there's a risk. The returns are not guaranteed and it isn't easy to profile the investment in the way you might with other asset classes."

For the undeterred, there are many ways to invest. Lonergan points to angel investing groups and online fundraisers such as Crowdcube. The tax benefits are advantageous, too. The Seed Enterprise Investment Scheme and Enterprise Investment Scheme offer generous tax relief. Lonergan recommends studying the educational literature and masterclasses created by angel networks and other investment advisers.

Before rushing to invest in this booming sector, it may pay to listen to lawyers. Generative AI is new and there are potential pitfalls. Emma Wright, partner at law firm Harbottle & Lewis, comments: "AI is seen as a high-risk sector by the UK government for the purposes of the National Security and Investment Act. That gives the government the ability to block or apply conditions to certain transactions, including investment in AI startups at certain levels."

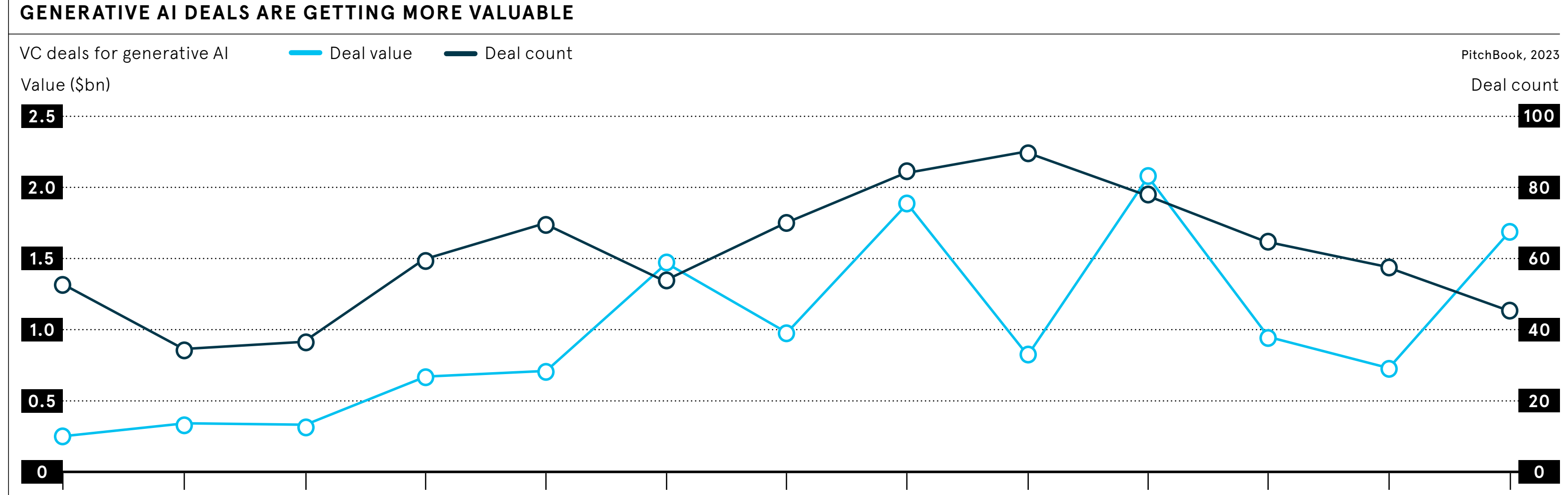
It isn't yet clear who owns AI or whether the models which build on existing work are permissible. Wright notes: "The position in relation to whether a third party's intellectual property has been infringed, or personal data exploited, when building these large language models, and then who owns the output, remains unclear. It hasn't been properly tested yet and could impact valuations either way depending on the outcome."

A sector this new is volatile. Disruptors can be disrupted. Google pioneered image generation, to be overtaken by NVIDIA's StyleGan, which itself was overtaken by Dall-E and Midjourney, and in September Meta announced Make-A-Video, a text-to-video model. Amazon and Baidu are investing in generative AI, and have the budget to back their ambition. The leader today could be an 'also-ran' by next year.

For the victors, the riches are there to be won. ChatGPT charges $20 a month for its premium service, and forecasts revenue of $1bn in 2024.

The opportunity to invest is clear. Public appetite for the products is sky-high. But investors need to ask: in this industry of illusions, how can you be confident of backing a winner and not a mirage?

GENERATIVE AI DEALS ARE GETTING MORE VALUABLE



Commercial feature

Insights from the cutting edge of startup leadership

Finance entrepreneur and former CEO, Christian Gabriel, outlines startup strategies for leaders to live by

Christian Gabriel faced many challenges as a chief executive. His tenure as Capdesk CEO from 2015 to 2022 was bookended by the rumblings of a shock Brexit vote and a cost-of-living crisis – hardly a straightforward term.

By then Europe's leading equity management software, Capdesk was acquired in September 2022 by Carta, its late-stage US counterpart with a value north of $8.5 billion. Gabriel assumed his new role as senior director, bringing his entire Capdesk team across with him and rewarding their collective triumph.

"We had grand ambitions," he says, reflecting on his premiership at Capdesk, now Capdesk from Carta. "We wanted to change finance for good, to ensure more people got their fair share, and to breed more future founders with each company exit."

It was a bold proposition. At the time, equity success stories like the so-called 'PayPal mafia' were practically nonexistent outside of Palo Alto. Rather than entering an existing market sector, Gabriel shaped a new one in the image of the US, relocating from his native Denmark to the UK in the process.

When it comes to advice for today's CEO, Gabriel stresses that business leaders don't achieve financial success in a vacuum. In fact, most organisations have done away with the concept of the heroic CEO acting as a *deus ex machina* against all obstacles. Leaders are there to challenge and be challenged.

"The ability to delegate is always crucial, but a strong sense of direction is essential for CEOs in the current fiscal environment. Yes, teams need leadership. But they also need to be empowered to deliver against financial goals," he explains.

He laments a myopic 'top-down' approach that imposes strict directives on people. "That's not the way to go," Gabriel continues. "If a rigid regime succeeds, everyone celebrates the CEO's clarity and vision. If it fails, their egocentricity is to blame." Galvanising teams in times of crisis begins and ends with the CEO's capacity to create a shared sense of responsibility in success and failure.

This is an approach that works, says Gabriel, because it provides employees with psychological safety around business-critical decisions. Employees feel comfortable speaking up, which can be make or break in a tough market. And the market is undoubtedly tough.

Double-digit inflation and rising interest rates are exerting substantial pressure on CEOs and CFOs alike. Access to funding is down, with global VC investment dropping by 32% to $483 billion. The maxim 'survival of the fittest' comes to mind.

"Companies are in wartime mode. To attract fresh investment, senior executives will need a laser-sharp focus on cost efficiencies," says Gabriel. "Even then, it will be tough for businesses to deliver against forecasts." A report by revenue intelligence platform Gong found that nearly half of UK companies missed their earnings targets at some point in 2022.

Although no longer CEO, Gabriel is still accountable for the company's commercial performance in Europe. Covid-19 marked an inflection point in his outlook, he recalls. The quick shift into survival mode that the pandemic initiated inspired an entirely new approach to uncertainty. "We learnt some big lessons during that time," says Gabriel. "It taught me to focus my energy on the important financial metrics as opposed to sweating the small stuff."

> **Companies are in wartime mode. To attract fresh investment, senior executives will need a laser-sharp focus on cost efficiencies**

In the early days of lockdown, Gabriel devoted a considerable amount of his time to adapting the business for remote work. Later, he pivoted, focusing solely on revenue and productivity growth. By prioritising key performance metrics and giving individuals personal responsibility for them, he found that culture and people issues became less of a concern naturally. "I didn't care if you were in Zimbabwe, Rio or London, you were accountable for your metric. It had to be clearly communicated and reported on regardless," he asserts.

"However certain you are of the figures that define your business," Gabriel continues, "as a CEO you learn to expect a degree of unpredictability from your people. People are irrational." That's as true of leaders as it is of employees. Even the best execs and investors share a natural aversion to change, despite bold moves being needed to deliver stronger results.

Gabriel says: "I think your job as a CEO is to get your board, execs, and people in on the big changes. That's really hard because everyone wants a promotion, everyone has their own agenda, and getting it all to line up is not easy. I had to learn over time that you can't please everybody."

So, how do you communicate financial targets to employees? How do you get people on board? "Say only a few things, and say them very clearly," recommends Gabriel. "If you convey exactly what you mean, you save time, remove distractions, and make systems more efficient."

It's here that leaders can lean on technology for support en route to realising financial targets – and they should. Building on the kind of big-picture thinking born out of the pandemic, tech enables those at the top table to deliver on their strategic vision rather than being caught up in administrative distractions and manual tasks.

Gabriel points to Google Drive, Looker and Salesforce as examples. "These platforms allow groups of people to share work more easily. Collaboration has come a long way," he says. "Everything can be uploaded to one server, and everyone can access one source of truth. You can then empower people by giving them a platform-based metric to answer for."

More than ever, the CEO is responsible for setting north star metrics and delegating so that everyone knows how to contribute and interact with them. It's about embracing innovations to create a culture of accountability, Gabriel explains. "You cut out a lot of uncertainty because people are taking individual responsibility, and it makes your job as CEO so much easier. Any technology which does that, I'm a fan of."

In practical terms, tech tools like Capdesk from Carta enable CEOs to manage and monitor company ownership, from the big-shot institutional investors to the employee option holders. Every stakeholder on the cap table sees a snapshot of their equity through a personalised dashboard, providing real-time, interactive information that frees up leadership's time for working towards commercial goals, strategic planning or securing additional funds.

Gabriel's last word of advice to CEOs? "Make collaboration the hallmark of your leadership style." He's put this into practice in his own career. The shared vision behind Capdesk and its parent company Carta – to create more owners – echoes his philosophy of empowering employees to access the wealth they helped to create.

GROWTH STRATEGIES

Banking on technology

Traditional banks are keen to partner with fintechs for their knowledge. But what do the digital players get out of the deal?

Tom Ritchie

Traditional banks are facing up to big challenges. Buffeted by soaring inflation and interest rates, their customers are keen for new features to help them manage their money yet many of these financial institutions are looking to reduce their operational spend due to the same headwinds.

New research by financial software provider Finastra suggests that banks will turn to fintechs to solve the problem. Its poll of almost 750 banking leaders from across the globe found that 56% of respondents want to make use of a network of integrated fintech solutions, with only 6% preferring to build functionality in-house. Some 75% of banks plan to engage with an average of three fintechs over the next 12 to 18 months.

"The main takeaway from our research is that financial institutions recognise they cannot operate in this challenging environment by working alone. And that fintechs can play a valuable role in helping them thrive," says Isabel Fernandez, EVP for lending at Finastra.

Asked for their core motivations, 46% of banking leaders reported they wanted to reduce operational spend, while 43% wanted to deploy technology with greater ease.

"Building new functionalities or enhancing existing processes in-house often puts a strain on resources and on the teams of people who have the relevant expertise," explains Fernandez. "Fintechs provide ready-to-use solutions, which are built by specialists and often use the latest technology to fulfil a specific challenge or demand."

Fernandez cites labour-intensive but critical processes such as anti-money laundering, know-your-customer checks and trade documentation, where fintechs have been particularly helpful. Banks have quickly leveraged the AI-powered automation offered by smaller companies, saving them time and money, and enabling a speedy authentication process for the end customer. But there are a few possible innovations available across all aspects of a bank's digital offering.

German neobank N26 has built an ecosystem of partnerships – both with fintechs and a host of other service providers and retailers – to provide added value to their customers wherever possible.

"It's about a lot more than cost savings. In our partnerships, we look at cost efficiency, speed of deployment, increasing functionality and the contribution to increased personalisation for our customers," says Thierry de La Salle, director of global banking operations at N26.

N26's position as a chartered digital bank built on the cloud puts the institution in a best-of-both-worlds position. It is able to build relationships with big incumbents like Mastercard, while at the same time leveraging the innovation of fintechs, such as the international money-transfer application Wise, more readily than traditional banks.

The bank recently launched a crypto product that allows customers to manage and trade within the bank's app, integrating Bitpanda's crypto exchange platform.

"We're always looking for interesting partners that align with our vision to change the world's relationship with money for the better," comments de La Salle. "This can mean deepening existing relationships to roll out products like N26 Crypto, which we built with partners in additional markets, or leveraging new and exciting solutions to solve financial challenges for our customers."

While the potential benefit for banks is clear, there is an added imperative for fintechs to expand their partnership strategies with larger financial institutions. The recent slowdown in venture-capital spending has hit the fintech sector particularly hard. A recent report by Innovate Finance shows that investment in fintech globally fell by 30% in 2022 compared to the year before.

David Brear is CEO of fintech consultancy 11:FS and suggests these relationships will become increasingly important for the survival of smaller players. "The market – and the lack of investment – is going to make it hard for organisations that either haven't raised funds already or don't have a significant customer base or profitability."

Fintechs also benefit from the regulatory knowledge of their banking partners and should be able to leverage their trust and credibility. It can also help to raise their profile.

"Big banks have a large and established customer base, which can provide fintechs with access to a wider audience," says Brear. "This offers fintechs the opportunity to form strategic partnerships, helping to expand their product offerings, access new markets and gain valuable industry insights."

For Wise, the benefit of partnering with banks is to expand its customer base by reducing the journey to access its services. Wise now partners with several banks, including N26, Monzo and ZA Bank.

"We have 16 million customers who are choosing us over their former provider – usually their bank – to move money across borders," explains Steve Naudé, head of Wise Platform. "But we want to be as convenient as possible for customers, and that means going to where they're used to banking."

Naudé anticipates these partnerships to grow over the coming years, with customers now expecting premium services from their financial institutions. As such, fintechs should be actively seeking out partnerships to provide those features.

"Embedded finance and as-a-service products are the future of financial services," says Naudé. "Taking unique products directly to customers is more efficient and a better customer experience than waiting for customers to come to you."

There are, though, various hurdles that banks and fintechs need to overcome to create a successful relationship. A study by EY-Parthenon found that 40% of such partnerships fail before operationalising; 75% of the banks surveyed reported a misalignment in operations and processes as a key stumbling block.

"As with any partnership, strong communication is essential," says Fernandez. "Banks and fintechs can have entirely different ways of operating, business models and cultures. Sometimes this can cause misalignment in terms of what's feasible, sensible timelines and ways of working together."

> **As with any partnership, strong communication is essential. Banks and fintechs can have very different ways of operating, which can cause misalignment**

This invariably means that fintechs must learn how to work with slower organisations and interact with legacy systems that aren't built for collaboration or interoperability.

"Fintechs are often known for their agility, innovation and flexibility," says Naudé. "Partnering with banks often means working with legacy systems that aren't always compatible with more modern solutions.

"We have dedicated implementation and product teams to solve this. And when we're building products, we develop flexible and scalable solutions which can integrate with different platforms."

Naudé explains that Wise has a team of compliance experts on hand, which ensures that both parties follow the regulations of their operating domain. This should assuage the fears of banks that work with Wise, as de La Salle reports regulatory alignment as the most important hurdle to overcome before N26 enters into any partnership.

"As with all digital business models, there is a field of tension between fast-paced technology and slower regulatory frameworks. So, for us, this field must be mapped out comprehensively to ensure we're firmly compliant at all times."

Beyond these concerns, de La Salle says there are few problems between the two parties. Instead, there are "complexities" which, once navigated, "will almost certainly result in great products and outcomes".

> **Financial institutions recognise that fintechs can play a valuable role in helping them to thrive**

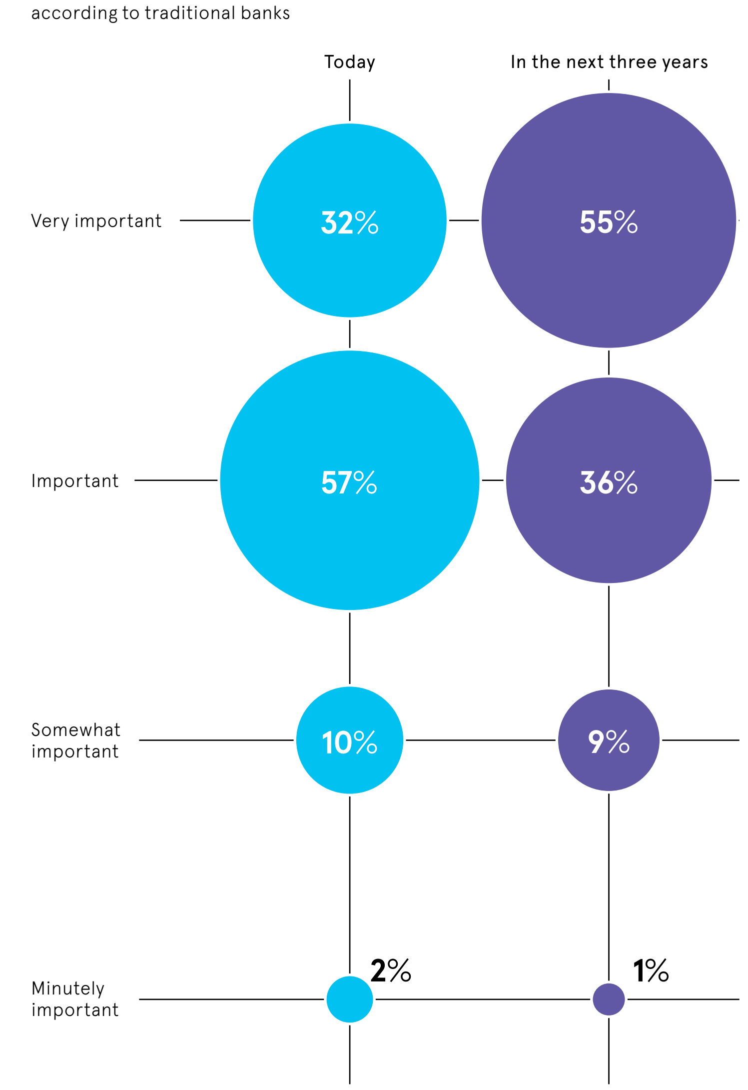
Ultimately, says Brear, partnerships such as these can improve the customer experience. He cites several successful collaborations, including one between Santander and Kabbage. This allows the bank's business customers to access a lending platform powered by machine learning, significantly reducing the time until a customer can access capital.

Fernandez agrees. She points to the fact that by reducing the time to value of new features, the end customer is served better outcomes, which are faster and more efficient, improving customer satisfaction.

"When banks and fintechs come together, it can help solve problems, enhance loyalty and deliver a better customer experience," she says. "All of which is critical to the long-term success of fintechs and banks."

FINTECH PARTNERSHIPS ARE THE FUTURE

Importance of fintech partnerships to overall firm strategy, according to traditional banks



EY, Parthenon, 2022

Q&A

Tackling fraud with mobile intelligence data

Consumers face ever more sophisticated online crime, with fraudsters increasingly impersonating bank staff to trick people into handing over their hard-earned savings. **Clare Messenger**, head of fraud protection services at telecoms firm JT Group, says rich mobile intelligence data is key to banks establishing stronger defences

Q For bank customers, how has fraud evolved over the past five years?

A Fraud attacks have become more sophisticated as a result of organised crime. With smartphones playing a role in almost every aspect of our lives, they're a prime target for fraudsters. Criminals obtain sensitive data through social engineering and trafficking it on the dark web, then use it to impersonate individuals or their banks.

With SIM-swap fraud a growing threat, criminals contact an operator to move a person's number to a new SIM card – then they can take control of accounts by receiving one-time passwords to approve purchases or transfers. Smishing and phishing attacks are also commonplace, with fraudsters masquerading as banks or offering prizes to encourage people to click links or call numbers, enabling information theft or phone hacking. At the cutting edge, authorised push-payment fraud involves criminals impersonating a bank's anti-fraud staff and insisting that unwitting customers move money to a 'safe' account.

Q Are banks able to tackle these threats?

A Banks are taking important steps but there is a long way to go. In the UK, many banks have signed up voluntarily to the Contingent Risk Model Code to refund customers who lose money to fraud, but interpretations vary of where the responsibility lies in different instances. Naturally, refunding people is a reactive position, and preventing fraud is better where possible. Banks generally look to regulations such as PSD2 (payment services directives) for guidance. But they still face the significant challenge of having to quickly authorise the right transactions while blocking fraudulent ones, without interrupting consumer experiences. This is tough, given the increasing sophistication of criminal techniques.

Q How can banks improve their responses?

A It starts with the right approach. In the banking community, there is still hesitancy around fraud when there needs to be greater transparency and proactiveness. We know fraud is a huge problem and costs the economy billions of pounds each year, so finding an impactful response is essential. I believe banks can achieve a more coherent approach to tackle these threats – they still often have different departments working in silos with varied information points. In addition, using the right data well requires a strong orchestration platform that comprises interoperable solutions and smart analytics, to identify and prevent fraud effectively.

Q How does JT Group help?

A As a mobile network operator, owned by the Jersey government, we have well-governed access to rich mobile intelligence data that enables increasingly accurate, real-time identification of fraud. By interrogating data from a global network of partner operators, we can provide the opportunity to spot transactional red flags in real time. We work closely with banks to integrate this into their workflows, flagging potentially fraudulent transactions, while minimising false positives. JT is able to access real-time, up-to-date information relating to the device, the SIM and the mobile account, which is essential in determining if a customer is who they say they are, and helping businesses protect their customers against fraud. Also top of mind is providing a seamless experience so that consumers' digital experiences are not interrupted in any way.

Q Looking ahead, how do you see mobile data being used to protect consumers?

A Banks will act increasingly assertively because fraud is constantly advancing. As analysis improves around operators' data, we will be able to prevent emerging threats more effectively. We can support banks in better educating consumers, so they can spot suspicious signs, protect themselves and report fraud without embarrassment. At the same time, pressure is mounting on governments to focus more resources on cyber threats: of all crime in the UK, almost 40% is now fraud but less than 1% of police officers are dedicated to tackling these crimes. As we see a stronger police response and greater adoption of innovative technologies – such as mobile intelligence for fraud detection – we'll undoubtedly see a reduction in financial losses.

> **We can provide the opportunity to spot transactional red flags in real time**

To find out more about how mobile intelligence is used to stop financial fraud, visit jtglobal.com/fps

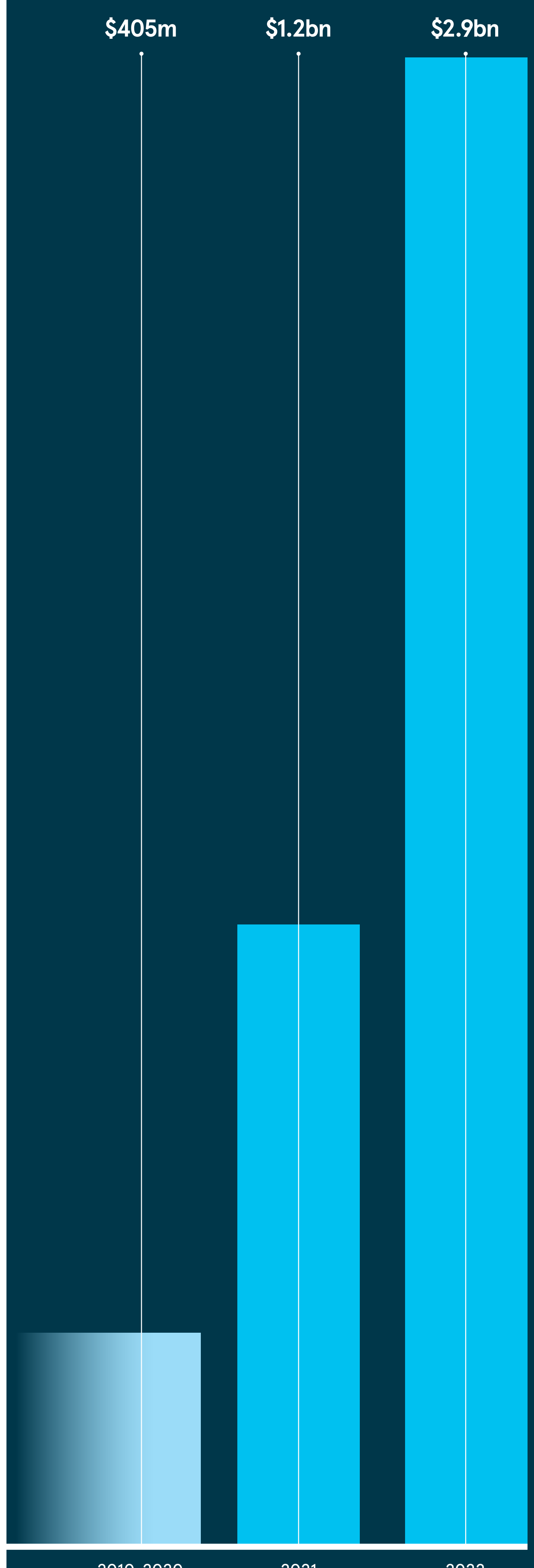
JT

THE RISE OF CLIMATE FINTECHS

Climate fintech is an emerging cross-section of financial technology that also works toward decarbonisation and other wider climate goals. Since 2020, climate fintech startups have attracted a tremendous amount of venture capital financing, with a 140% funding increase from 2021 to 2022

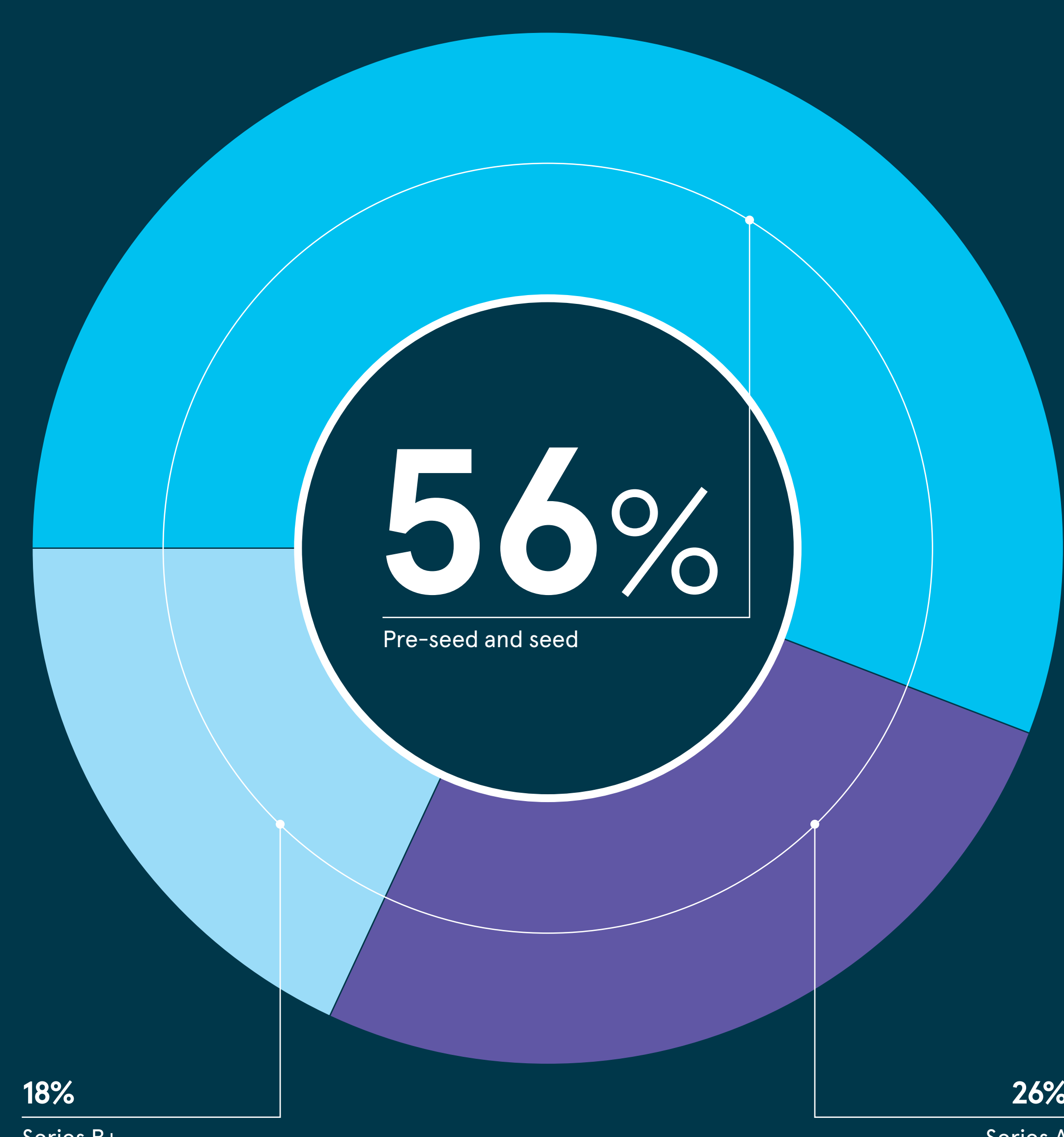
THE MAGNITUDE OF THE FUNDING BOOM

Funding volume for climate fintech startups primarily in the US and Europe, but including select operators in Israel, Australia and Africa



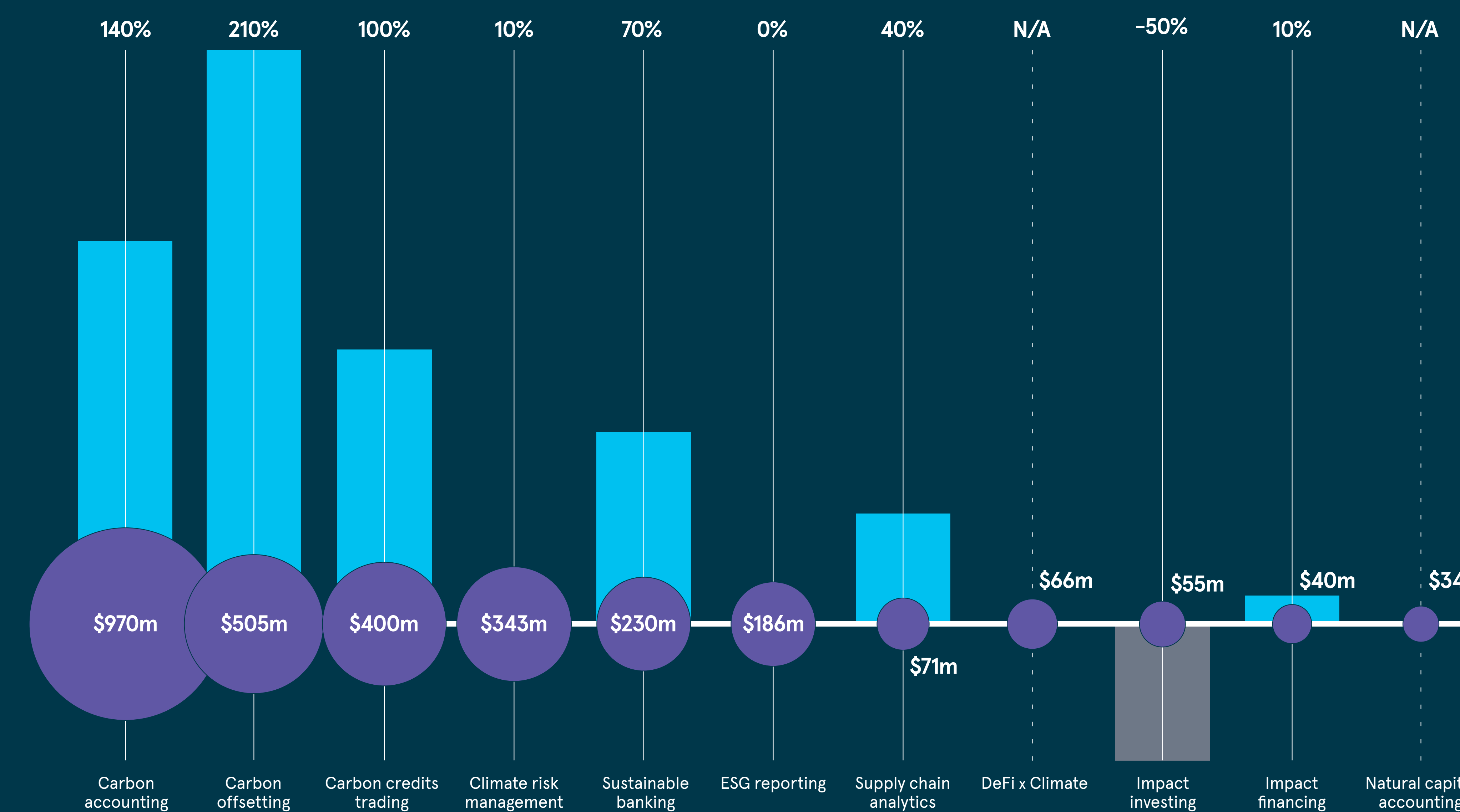
MOST CLIMATE FINTECHS ARE EARLY-STAGE STARTUPS

Funded companies by stage of development



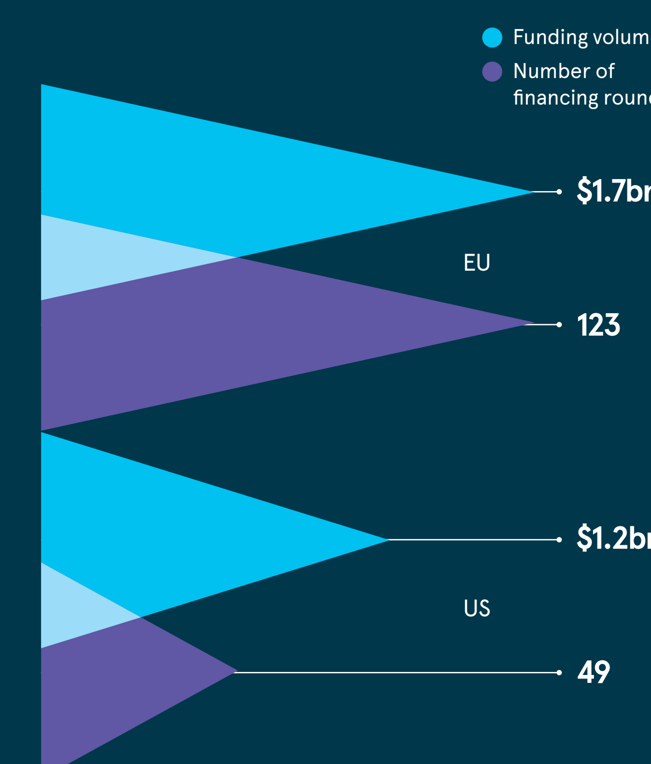
CARBON ACCOUNTING COMMANDS A HUGE MARKET SHARE

Funding volume and year-on-year growth by market subsector



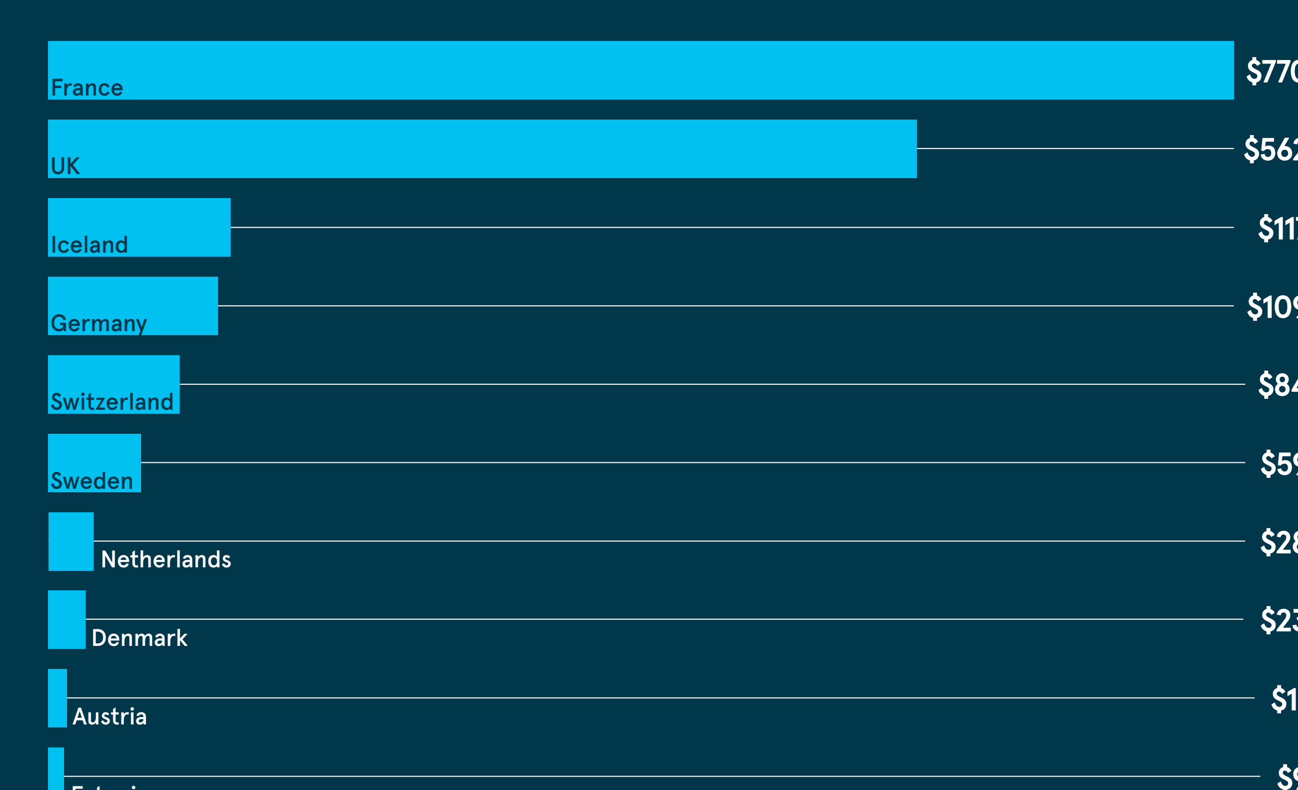
EUROPE LEADS THE WAY IN CLIMATE FINTECH

Funding volume and number of financing rounds for EU climate fintech startups versus US climate fintech startups



FRANCE AND THE UK HOST THE MOST CLIMATE FINTECH STARTUPS

Funding volume for climate fintech startups based in select European countries (top 10)



CommerzVentures, 2023

ONLINE BANKING

Towards frictionless payments

Financial services companies must strike a balance between experience and security to meet consumers' expectations

Sally Whittle

Frictionless commerce has shifted from being a novel retail strategy to a core requirement in many sectors.

From retail to transport, food and travel, organisations are racing to strip time and complexity from the consumer journey to create seamless, convenient experiences.

It's a model that makes sense in the current landscape. According to PwC, 43% of consumers will pay more for a service that is convenient, while half will actively change retailers if a company offers a more frictionless experience. What does that mean for banking, financial services and insurance companies?

"Consumer expectations have changed in finance, driven by retail, commercial and ecommerce sectors. People expect to access almost everything online and without needing to jump through hoops," explains Jason Lane-Sellers, EMEA director, fraud and identity, at LexisNexis Risk Solutions.

The challenge is that finance isn't a sector that naturally lends itself to being a frictionless experience, adds Lane-Sellers. "If I'm accessing my bank or buying an insurance policy or checking my mortgage statement, those are serious transactions and they won't look the same as, for instance, buying a film on Apple TV."

In some cases, friction might be a requirement from industry regulators or designed to minimise fraud, adds Lane-Sellers. "If I want to make a large payment through my banking app, it might ask me to authenticate again or push a message through SMS. I might be trying to make a purchase online and the retailer asks me to authenticate the payment via my banking app. In many cases that extra validation is required by the regulators, but it adds to the process and customers find it frictional."

> **The question is what's the right level of friction – so that people get value but are protected**

But while banks might not be able to emulate, for example, Amazon's one-click purchasing, there are other ways to reduce friction in the financial services sector, says Phil O'Neill, financial services director at consulting firm Kin and Carta. "Banks hold enormous amounts of data on customers. It's possible to use that data to power personalised experiences and suggest products before the customer even realises that they need them," he says.

For example, banks could pre-approve customers for certain products, provide 'embedded' services such as insurance, or make a timely recommendation for a service based on data that it already holds, says O'Neill. "This all reduces friction because it saves the consumer time, and that's probably more important for financial services than trying to emulate 'one-click' models.

"Gen Z are positive about frictionless experiences. But I suspect if you asked a gen-Z person who had been attacked by a fraudster how important it is in finance, you'd get a different answer," says O'Neill.

One firm that has taken steps to reduce customer friction is Legal & General, which has implemented several changes to its insurance and pension products. For example, L&G has created a range of dashboards and calculators to help customers understand complex financial products more easily. Recently, the firm has created personalised, animated video messages that are emailed to workplace-pension customers.

"The video explains how much their pension is predicted to be, what annuity they could buy, and a 'click here' option if they wish to increase their contributions," explains Bernie Hickman, chief executive, Legal & General Retail.

This small service reduces the friction typically involved in reviewing pension projections, as it makes it easy for customers to make a change. The video campaign generated engagement from almost 30% of recipients, which shows the appetite for frictionless services, says Hickman.

But consumers don't necessarily want zero friction from their financial services providers. Legal & General Retail has deliberately added 'pauses' into certain consumer journeys, to give customers time to consider what action they're taking. This is important when considering products such as pensions, which can have a long-term impact on the customer's financial wellbeing, says Hickman. "Yes, we want to make ourselves easy to do business with – but it's important that customers have every opportunity to provide honest and complete information when they're taking out a life insurance policy because they will depend on it," he says.

The goal for most financial service providers is to minimise the type of friction that makes customers frustrated and walk away, while adding just enough 'positive' friction to make them feel protected, comments Kate Frankish, chief business development officer at Pay.UK. "We have to balance the desire for things to be quick and easy with a massive increase in things like APP (authorised push payment) scams," she says. "The question is finding the right level of friction so that people get value but are protected."

A good example of positive friction is the introduction of 'confirmation of payee' in online banking. When consumers in the UK make a new bank transfer payment, the bank can check that the account name of the payee matches the account number and sort code. The system can identify a close match and suggest the correct details, or it can confirm that the details do not match and advise the customer not to proceed. Pay.UK's research shows that 70% of consumers felt positive about the introduction of this service, and the service has significantly reduced this type of fraud, says Frankish. "That's an important point of friction and it's slick, so people quickly got used to it," she says.

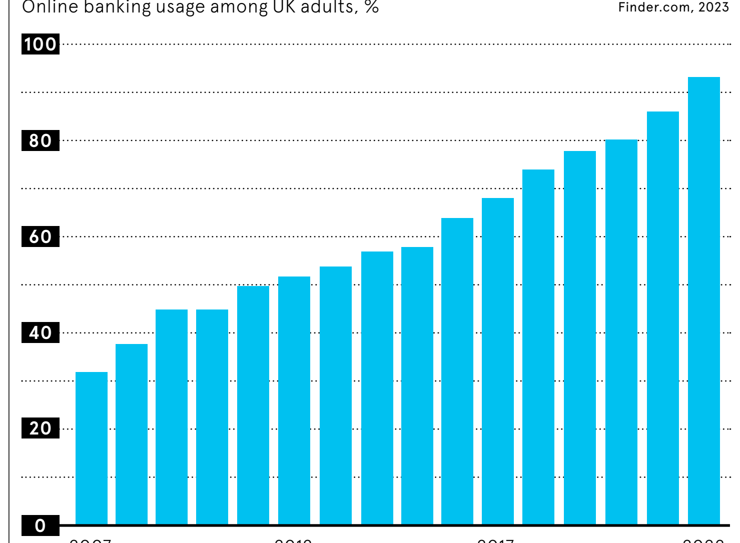
Sometimes, positive friction can mean not doing things as quickly as might be possible, adds Lane-Sellers. "Banks can identify customers in milliseconds using behavioural biometrics, and knowledge about your location and device, but they will often 'hold' customers for a second or two and suggest they are authenticating your details," he says. "That's an artificial pause to make you feel that you aren't getting access to your account too easily. That holding page gives you the feeling of security that you're being validated before you can access the app."

Getting the balance right between positive and negative friction isn't simple but it is critical. In today's marketplace, banks can't afford to ignore the customer experience, says O'Neill. "Banks and insurance providers are commercially sensitive, and they don't want customers dropping out of the process or to see negative net promoter scores," he notes. "People have the option to go elsewhere, and they will do just that if you can't provide a seamless, frictionless experience."

ONLINE BANKING ON THE RISE

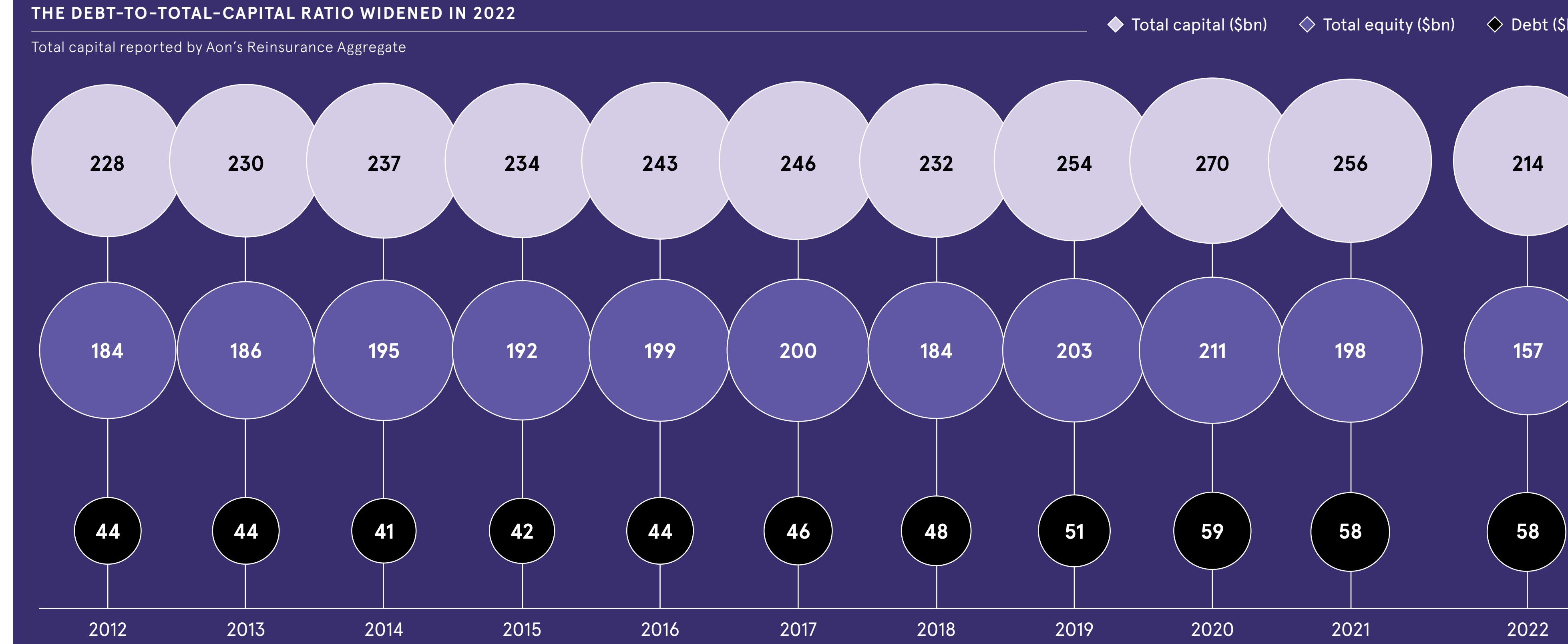
Online banking usage among UK adults, %

Finder.com, 2023



THE DEBT-TO-TOTAL-CAPITAL RATIO WIDENED IN 2022

Total capital reported by Aon's Reinsurance Aggregate



How insurers plan to optimise capital in 2023

Reinsurance capital availability hit close to a 10-year low at the January renewals. Now businesses are maintaining a disciplined, data-driven approach to deploying their surplus

The capital market felt its fair share of shocks in 2022. The double whammy of increasing interest rates combined with equity and bond market portfolios trading well below historic averages has generated a material mark-to-market negative adjustment to company financial statements. And the result? Substantial unrealised losses across the board.

The economic slump that set in last year was compounded by heightened natural catastrophe exposures and loss experience resulting from an active US storm season headlined by Hurricane Ian. Paired with rising interest rates, this translated to lower investment yields across the board. Meanwhile, currency fluctuations in foreign exchange also restricted the amount of capacity being deployed.

"It was the perfect storm," says Kelly Superczynski, head of capital advisory at Aon's Reinsurance Solutions. "We had the biggest loss of capital in recent history, coupled with the fact that capital hasn't flowed back into the market like it normally does after an event, which has created a very challenging situation."

She explains that these interconnected challenges prompted reinsurers to withdraw certain coverages and increase rates by as much as 50% at the January 2023 renewals. Pricing for US property catastrophe and global property retrocessional businesses, in particular, peaked at multi-decade highs.

According to Aon's April 2023 Reinsurance Market Dynamics report, the net effect was that available global reinsurance capital declined by 15% - or $100bn – over the year to December 2022.

All that's to say that insurers needed to be extremely careful about how they deployed the limited capital at their disposal coming into the January renewals. So, with 2023 well underway and a complex risk environment still to consider, how is the insurance sector adjusting its investment portfolios?

Superczynski suggests that some insurers are leaning towards a big-picture approach which allows them to process challenges with an emphasis on outcomes that can temper risk appetites. This often means bringing together data-driven modelling and stress testing to determine the impact of multiple scenarios on investment portfolios at once. As macroeconomic shifts threaten to disorient decision-making, forecasting exercises can set the table for clearly defined strategic direction.

Given the ongoing volatility of the current economic cycle, it can be easy to fall into the trap of adopting an episodic outlook. Regardless, Superczynski urges insurers to focus their access to capital on delivering a consistent and stable outlook. She defines this outlook as one that requires a single source of truth, and that takes a long-term view of risk. The alternative - shoehorning data into a predetermined narrative to fit with the consensus at a particular point in time - is a zero-sum game.

"We saw that play out at the January renewals," says Superczynski. "Because reinsurers were able to be selective in who they provided capacity to, those companies that had solid data and consistent results and, as a result, could tell their story most effectively, secured the limits they needed. Those that didn't had a much more challenging time."

> **Companies that had solid data and consistent results secured the limits they needed. Those that didn't had a much more challenging time**

On route to developing a consistent outlook, companies have had to adapt their strategic approach to risk management, taking a more considered view of their capital allocation and being led by the data.

"The ability to demonstrate thoughtfulness and a data, fact and experience-driven approach and eliminate volatility ultimately leads to greater stability," says Sherif Zakhary, CEO of Aon's strategy and technology group. "That also enables companies to tell their own compelling story to differentiate themselves from the competition when it comes to securing capacity."

The insurance sector is heavily regulated and frequently assessed by rating agencies, meaning a conservative approach to managing capital and risk often takes precedence. This dynamic requires insurers to hold a large amount of capital to cover their exposures while trying to get a consistent return on their assets.

To optimise their capital, insurers need to first carefully think about the type of capital they want to use, whether that's traditional or structured reinsurance, debt or equity. That may include using a vehicle such as a sidecar or a captive. By the same token, they must also be realistic about the capital pools they can access.

The next step is to consider the risks they have to cover and decide how to allocate the capital. Once that capital has been deployed, its performance must be monitored regularly, and adjustments to the placement can be made if necessary.

"Companies need to get the right balance between different types of capital if they are using more than one," says Superczynski. "Then they need to decide how they are going to best align their risks with that capital, which will determine how it is deployed most effectively."

Most of the capital that is still coming in originates from the legacy market, according to Superczynski. "That market has grown exponentially from $5bn to $20bn in the space of just six years. It represents a huge opportunity for companies seeking capacity," she says.

As Superczynski sees it, the bottom line is that collaboration, resources and financial analysis solutions will play a critical role in allowing insurers to navigate a complex capital market in 2023. Effectively calculating how much economic and regulatory capital is required in real-time lets organisations make more informed decisions, respond nimbly to market shifts, and take advantage of new opportunities.

"Ultimately, capital is the glue that holds organisations together," Zakhary says. "So knowing how to deploy it effectively, particularly in these difficult economic times, is paramount to a company's success." He concludes with the assertion that understanding the true cost of capital, including the volatility of its returns, is the bedrock for any business to optimise its long-term returns.

$41bn

The reduction in total equity in reinsurance during 2022

That reduction was driven by unrealised losses of

$48.1bn

$9.6bn

of net income into reinsurance could not offset those losses

Aon's Reinsurance Aggregate, 2023

For more information, visit aon.com

DIGITAL ASSETS

From outlier to mainstream?

Cryptocurrency has recently been marked by extreme volatility. Could it ever make the leap from trading asset to serious investment?

Fiona Bond

Cryptocurrency has had something of a 'Marmite effect' on the financial world. While some investors have been enthralled by its revolutionary qualities, others have dubbed it a dangerous development.

At times in the past decade, investors flocked to cryptocurrency in the hope of making a handsome profit, with the price of bitcoin soaring to a record high of close to $69,000 (around £55,000) in November 2021, a far cry from its $2 price tag just 10 years earlier. But while some investors have enjoyed impressive gains, others have lost significant amounts and its volatility and unpredictability have attracted heavy criticism.

Last year was arguably the most turbulent for cryptocurrency investors. After soaring to record highs in 2021, bitcoin then lost 60% of its value in 2022. The announcement in December that cryptocurrency mining company Core Scientific was filing for bankruptcy and the very public demise of cryptocurrency trading platform FTX highlighted its vulnerabilities and spooked investor confidence.

For critics, the challenges of the past year have reinforced the argument that cryptocurrency is simply too risky in comparison with traditional forms of investment.

"Cryptocurrencies that are not backed by major national currencies are very volatile. They cannot be used to buy things from most service providers and they are not a reliable store of value as their prices fluctuate so much," says John Redwood, chief global strategist at Charles Stanley.

"Because they offer no store of value or the prospect of systematic return, buying them for any other reason than as a medium of exchange is pure speculation," he says. "Individuals who can afford to risk some of their money might make large profits by managing to buy a cryptocurrency when it is low and sell it when it is having one of its highs but it is also possible to lose very large sums as well," he warns.

Governments are equally sceptical. China has become the most vocal opponent, starting with a ban on local cryptocurrency exchanges before slowly progressing to a complete ban of cryptocurrency in 2021.

Chris Clothier, chief financial officer and co-manager at CG Asset Management, says: "Bitcoin, and most other cryptocurrencies, have a fundamental value of zero. They are only valuable because, collectively, people have decided they are valuable. Can we be certain investors will feel the same way 10 or 100 years hence? We cannot."

There is also the environmental, social and governance (ESG) question to consider. ESG investing has climbed the investment agenda and cryptocurrency stands out for all the wrong reasons.

> Cryptocurrencies are only valuable because people have decided they are valuable. Can we be certain investors will feel the same way in 10 or 100 years?

"Bitcoin is an ESG disaster," says Clothier. "That alone is sufficient to ensure that we will never own it for our clients. Bitcoin has a carbon footprint of a small country and facilitates criminal payments of all kinds."

Despite this, cryptocurrencies and other digital assets have gained at least a small degree of acceptance among some institutional investors. A recent report by Fidelity showed that 58% of institutional investors already invest in digital assets globally, while 81% view them as having a role in investment portfolios.

Nigel Green, CEO and founder of financial consultancy deVere Group, reports an increased appetite from institutional investors and expects demand to grow exponentially.

"These investors, who bring enormous capital, expertise and influence, appreciate the inherent value of digital, borderless, global, tamper-proof, unconfiscatable currency in a tech-driven world," he says.

A study by deVere Group found that 82% of high-net-worth clients, with between £1m and £5m of investable assets, sought advice on cryptocurrencies last year.

"Wealthy investors, a typically conservative cohort, understand that digital currencies are the future of money," he adds.

Haydn Jones is global lead of blockchain and crypto solutions at financial advisory and risk group Kroll. He agrees that the breadth of investors continues to grow.

"There has been a recent wave of institutions making high-profile investments in digital-asset infrastructure and partnering with cryptocurrency-focused organisations," he says. "The technology is being used to explore new forms of tradable assets and securities, which can take advantage of the efficiencies and reduced frictional costs that digital-asset technology allows."

Crypto evangelists say that despite the recent troubles, the shift to a digital payment system is inevitable. But there will need to be significant changes to its current form if cryptocurrency is to become a viable, globally accepted investment. Regulatory oversight will be key.

Earlier this year, the UK government set out ambitious plans to regulate cryptocurrency activities.

Green says: "The UK's decision to regulate the sector will help crypto become a viable investment for mainstream investors. Digital currencies are set to play an ever-greater role in the domestic and international financial system and should be held to the same standards as the rest of the system."

One of the key advantages of many leading cryptocurrencies is that much of the data associated with them is publicly accessible.

For Jones, this accessibility means that the FCA, or any other regulator, should be able to test the regulatory compliance of transactions or holdings at any time.

"Many digital currencies are traceable, making use of the underlying blockchain ledger to examine the hygiene rating of the assets and undertake due diligence – criteria that any serious investor will be looking to meet. It is this traceability feature with the ability to link them to financial crime that makes them interesting from the regulatory perspective. In theory, with exceptions, cryptocurrency should be easier to regulate than many other traditional types of assets."

But Jones notes that resourcing is still a major issue for any regulator.

"The current war for talent is fierce and the reality is that the number of people who understand crypto is small relative to traditional finance. The number of people who truly understand crypto and also understand why and how the UK's regulatory regime works is even smaller.

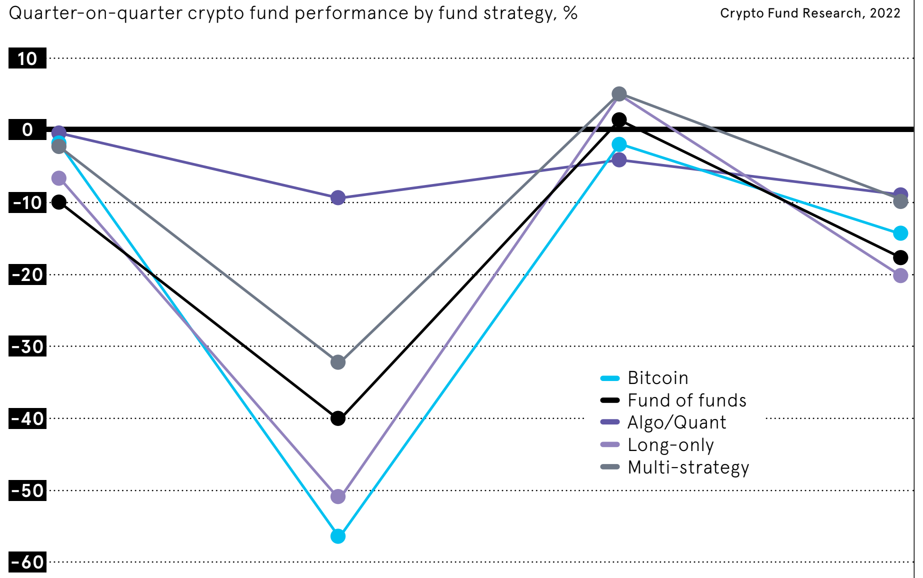
"Regulating cryptocurrency is a major challenge. But that doesn't mean it can't be done," he says.

For now, it would seem crypto's allure lay in its trading capabilities and the possibility of big wins when the market jumps. But with the digital evolution showing no signs of stopping and regulators turning their attention to the sector, there's a real possibility that cryptocurrency could become mainstream.

VOLATILITY IS THE WATCHWORD WITH CRYPTOCURRENCY

Quarter-on-quarter crypto fund performance by fund strategy, %

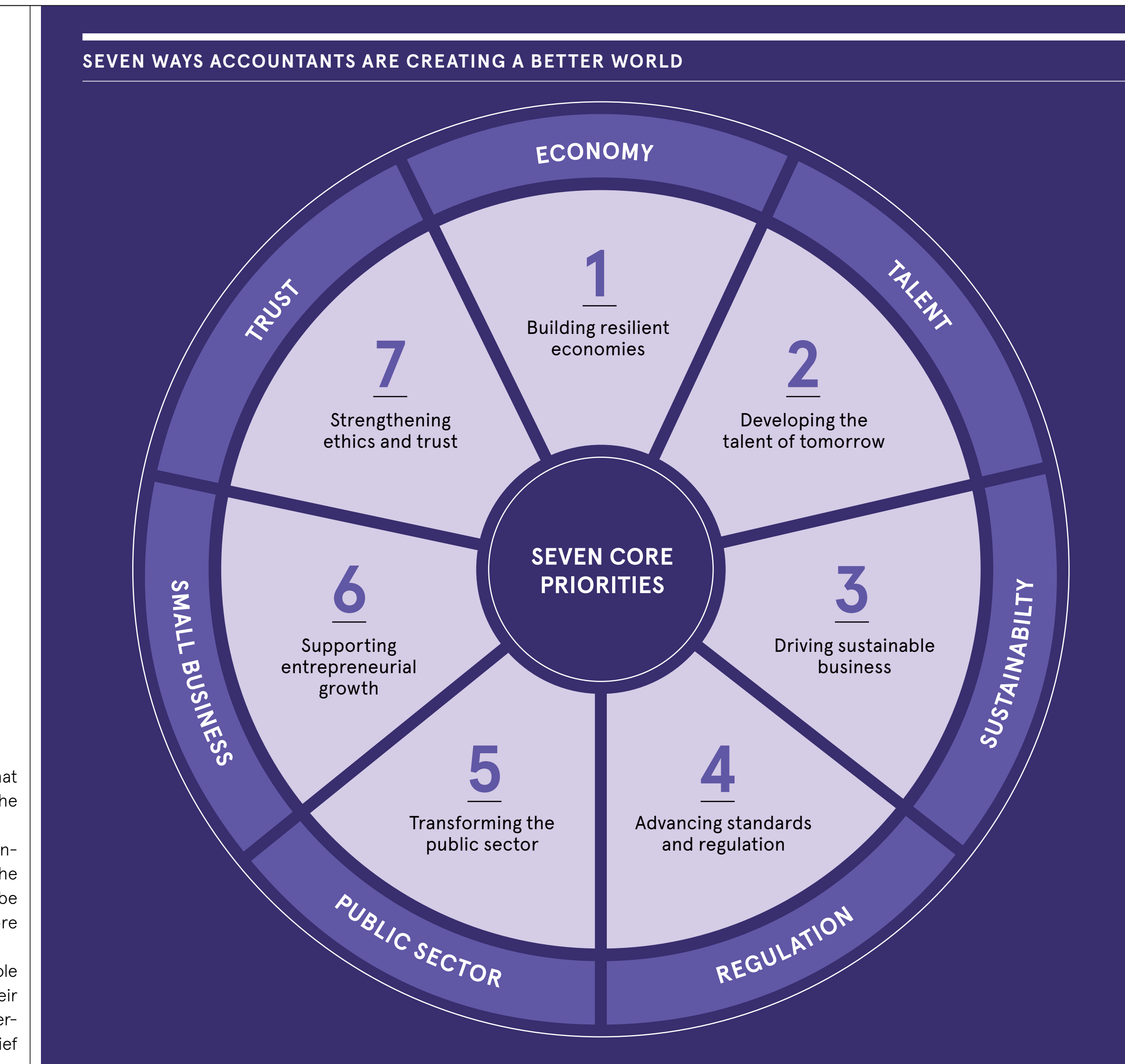
Crypto Fund Research, 2022



Commercial feature

How accountancy is making a more sustainable world

The broadening role of the CFO is driving sustainable change and opening up new career opportunities



The role of the chief financial officer is rapidly changing. The role, which was once focused solely on finance and accounting, has broadened to encompass more centrally strategic areas. But a sharpened focus on sustainability and the impact of businesses on society is widening the role of accountancy professionals still further, as businesses face more complex decisions and measure and report performance in new ways. This is shaking up current job descriptions and making the profession more appealing to new generations.

This fundamental shift has been brought about by a dual challenge faced by companies: creating a long-term, sustainable business for the future while managing to stay afloat in the near-term in the face of huge inflationary pressures, cost crises and supply chain problems. As a result, the CFO has to balance both sets of demands to ensure the organisation makes a profit and drives growth at the same time as delivering sustainable value.

That means delivering on the firm's environmental, social and economic goals. These can range from delivering on eco-friendly initiatives such as reducing carbon footprints to leading on diversity, equity and inclusion. This includes ensuring ethical supply chains that meet not only their own environmental, social and governance (ESG) targets, but also align with needs of shareholders, regulators, suppliers and consumers.

"CFOs are having to bridge the gap between surviving during these economically turbulent times and building for a sustainable future," says Clive Webb, senior insights manager at the Association of Chartered Certified Accountants (ACCA). "They also have to advise the CEO on the right steps and investments to make to achieve that long-term aim while maintaining the immediate viability of the business."

Tellingly, 82% of finance professionals surveyed by ACCA said that the concept of reporting needed to be expanded and considered from more than just the financial terms.

"Finance professionals play a vital role in guiding organisations towards their strategic goals through highly uncertain times," says Helen Brand OBE, chief executive of ACCA. "In a rapidly challenging economic environment, with increasing urgency to reach net-zero targets, finance teams need real-time, organisation-wide data to rapidly identify and respond to changing circumstances.

"Performance drivers are no longer just financial – sustainability and non-financial disclosures need to be integrated into planning and performance processes to create a multi-dimensional picture beyond the constraints of annual planning cycles. For many organisations, this will mean transformation of planning and performance-management processes and culture."

The push towards greater sustainability, which has been prompted by greater awareness of the climate change crisis, is being strengthened by two new standards set to be brought in by the International Sustainability Standards Board in 2024. As companies gear up for these major changes, CFOs will have to step up and take the lead to ensure their successful implementation.

Consequently, the CFO – and those aspiring for senior finance roles – are having to broaden their knowledge and skills. This has been enabled by the use of data and technology to explore the opportunities that are becoming increasingly available and advanced, all through an ethical lens.

44%

of accountancy employees expect to move to their next role within 12 months

ACCA Global Talent Trends Survey, 2023

New green skills

Among the key skills they will need are in green finance, which provides the funding required to enable companies to follow through on their environmental pledges by reducing their carbon emissions. These skills will be essential as banks and financial institutions come under increasing pressure from governments, regulators and other key stakeholders to move towards a more sustainable business model in the push towards net-zero carbon emissions by 2050.

> Sustainable business and finance professionals will be essential in helping organisations in all sectors create long-term value that benefits all stakeholders

ACCA is supporting this initiative through the green-finance skills guide, which helps to equip accountants with the insight and expertise they need to help bring about this change. By having the skills to consider both financial and non-financial business drivers, this will enable them to take the lead in training staff and developing the talent needed to effect the transition.

"Finance professionals need to understand not only sustainability, but also technology and data, advanced analytics, artificial intelligence and machine learning as an essential part of their toolkit," says Webb. "In addition to the technical side, they need to be able to communicate and tell a story, be a strategic thinker and deal with conflict, among other skills."

These skills comprise the seven core capabilities that all accountants need. They include: core expertise (in corporate and business reporting, taxation, risk management, advisory and consultancy, audit and assurance, and performance and financial management); ethics; insights (critical thinking, planning and project management, innovation, business acumen, and governance and control); sustainability; collaboration (engagement, communication, inclusion, influence and stakeholder focus); digital; and drive (lifelong learning, determination, change orientation, authenticity and leadership).

This broadening remit makes the accountancy profession much more attractive to potential candidates considering it as a career. It also presents them with an opportunity to drive positive and meaningful change.

"CFOs are becoming more like chief value officers by looking at how their organisations can deliver value across a range of metrics to a diverse set of stakeholders," says Webb. "Many of these metrics are non-financial, but provide a broader view of the company's performance."

Accountancy and finance has traditionally been the go-to career during tough times as people look for secure jobs. And because of the wide range of roles available across multiple industries and disciplines, there are now greater long-term prospects, with 44% of employees expecting to move to their next role within 12 months and 69% over the next two years, according to ACCA's Global Talent Trends Survey 2023.

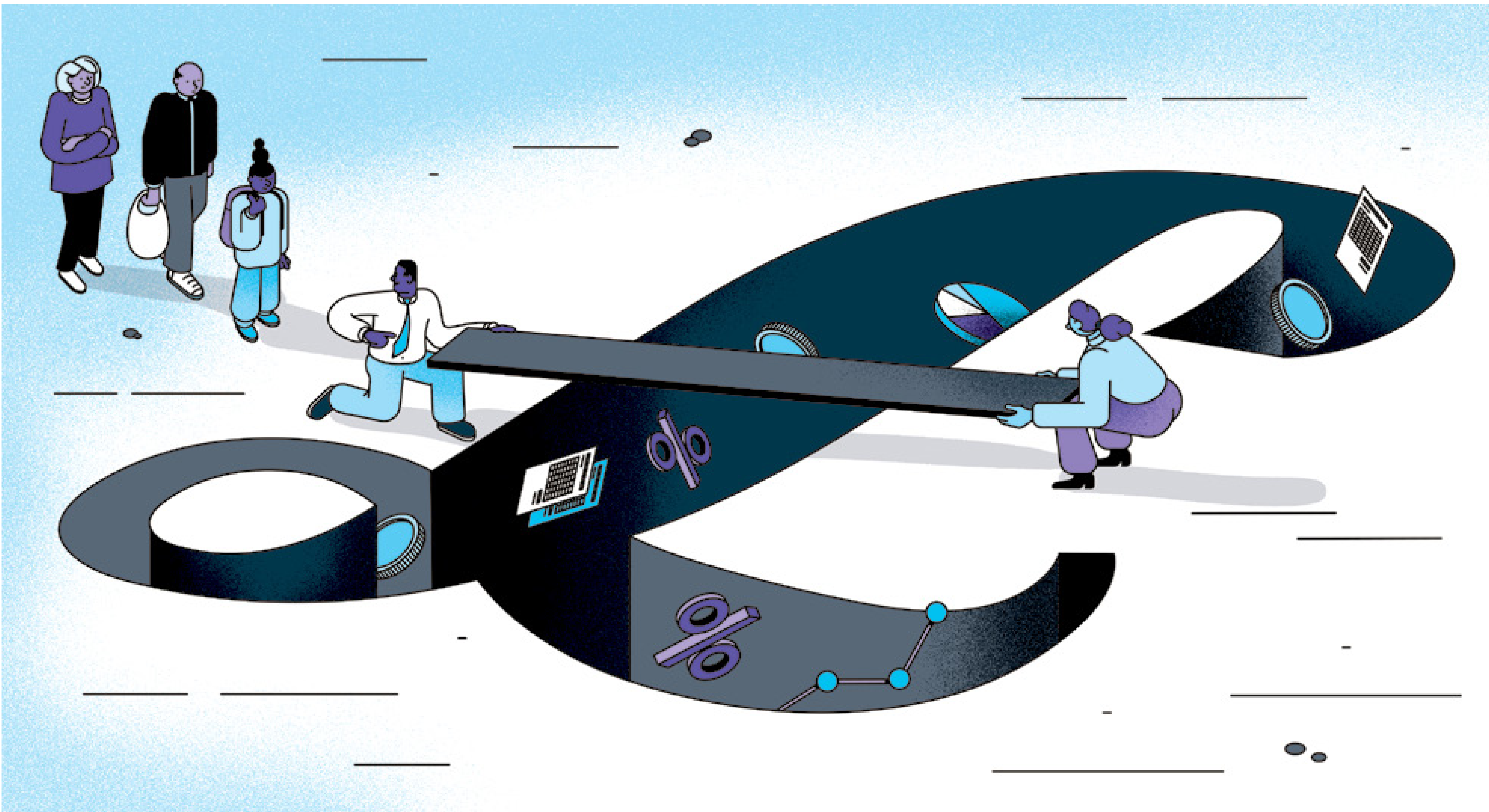
Moving forward, finance professionals are shaping ACCA's Accounting for a Better World agenda, which is focused on building a more sustainable planet. ACCA research shows that the contribution that the profession makes to this sustainable future can be defined in seven domains. The programme's aim is to help build resilient economies, develop the talent of tomorrow, drive sustainable business and advance standards and regulation, as well as to transform the public sector by delivering the right sorts of policy and spending decisions, supporting entrepreneurial growth and strengthening ethics and trust.

"Sustainable business and finance professionals will be essential in helping organisations in all sectors create long-term value that benefits all stakeholders, playing their part in building a more prosperous future for wider society," says Brand. "From driving good business decision-making as business leaders, partners and analysts, and helping to execute better strategies and activities that deliver more sustainable value, through to championing the ESG agenda.

"From emerging practices in audit that help strengthen the integrity of business performance, through to evolving assurance practices that support organisations in grappling with the challenges of climate change."

By embracing sustainable change and green finance skills, CFOs can drive the agenda going forward. That way they can help tackle the climate crisis and create a more environmentally sustainable and equitable world.

For more information please visit accaglobal.com



RESPONSIBLE BUSINESS

Bridging the UK's financial literacy gap

Too many Britons know far too little about their financial wellbeing. Can financial institutions change this worrying state of affairs – and is it their responsibility to help?

James Lawrence

There is an alarming disparity in the UK between those who are capable and confident in managing their money and those who are not. This is resulting in added pressure on the financial services sector to take on a bigger role in helping to fill it.

The Institute for Fiscal Studies (IFS) recently reported that almost one-fifth of private sector employees in the UK (3.5 million people) aren't saving towards their pension in a given year. For self-employed people, who do not benefit from the behavioural nudge of auto-enrolment, the figure is fewer than one in five.

The same IFS study found that 61% of those who work in the private sector and regularly save into a pension contribute less than 8% of their income, which may not be enough to give them a comfortable retirement income. And about a quarter of UK adults have less than £100 in savings, according to the Money and Pensions Service (MaPS).

The cost-of-living crisis might be one of the reasons behind such concerning data. But it is increasingly apparent that too few people are either sufficiently knowledgeable or suitably aware to make a reasonable assessment of their financial situation and to take appropriate action.

Given that the vast majority of non-public sector workers have defined contribution pensions, which require a level of financial knowledge and engagement, there is a risk that the UK is storing up a heap of trouble. (Only 12% of private sector employees had a defined benefit pension in 2020, according to the IFS.)

Jonathan Cribb is associate director at the IFS and co-author of its pensions report. He is keen to point out that the UK compares reasonably well with wealthy nations when it comes to basic financial competence. "However, a higher level of financial literacy for retirement savings is more important in the UK than many other countries because we are more reliant on private pensions," he says.

"Automatic enrolment does nudge people into pensions but it's important to make active saving decisions during working age to ensure a similar standard of living in retirement."

A major factor in making such active decisions is having at least a basic level of financial literacy, says Sarah Porretta, an executive director at MaPS with responsibility for money, pensions and debt policy and the UK Strategy for Financial Wellbeing. "We definitely need to be much more savvy consumers."

This needs to start with better education in schools. So says Catherine Winter, managing director of schools programmes and community outreach at the London Institute of Banking & Finance, which recently published a report which revealed that 85% of 17- and 18-year-olds want to learn more about money in school.

Winter is deeply concerned about the standard and coverage of financial education in the UK. "We're not in a great place," she says. "What we've got is education about economics. But financial education is not economic education – it's about becoming a critical thinker and understanding how the system works so that you can ask the right questions and make the right decisions."

Winter believes financial education should be a compulsory part of the national curriculum for primary and secondary pupils. It is currently only taught in PSHE lessons in secondary schools and coverage is "piecemeal", largely due to a lack of time and training among teaching staff. The financial services industry has a crucial role to play, says Winter, both as a source of funding for better quality teaching in schools and in providing better support to adults.

This is a view supported by the Lord Mayor of London, Nicholas Lyons. In a recent speech calling on the UK's financial services industry to do more about this, he encouraged firms to consider "how they can ensure everyone in society is aware of, understands, and can access products and services to help them manage their money long term."

This gathering sentiment, combined with the FCA's consumer duty regulations, means the financial services industry is likely to have little choice but to up its game.

Russell Winnard is chief operating officer at Young Enterprise, a charity that specialises in business and financial education for young people. He thinks that many organisations are already doing a reasonable job in helping to turn the tide.

"The large majority of the high street banks and building societies, for example, have got an offer that speaks towards financial literacy and capability," he points out. "But there is always more they could be doing."

That includes, he suggests, playing a part in ensuring every young person receives adequate financial education, as well as the adults who have missed out.

"We've got 24 million adults who don't feel confident in managing their money," he says. "We need to effect a change. But that doesn't necessarily mean there's a need to pump in huge amounts of money. Instead, it could be about how banks could work more collaboratively."

> You might want to nudge people into the right behaviours first and they might catch up with financial literacy afterwards

Winter is calling for a more strategic, better coordinated approach. "I would very much like to see a long-term strategy, one with the banks fully involved and wanting an understanding of what their role is – which, in all likelihood, is to contribute financially," she says.

She proposes a system that is "a bit like the apprenticeship levy where, if your profits are over a certain amount, you pay a percentage." This could be used, for instance, to fund better financial education training for schoolteachers.

Smarter thinking is also required, for which the financial services industry could leverage its considerable talent and expertise, thinks Porretta. "There is already some great work being done around this, but there is definitely more to do," she comments.

"We need to design products, services and journeys that help people to make better decisions. And it isn't always just about financial literacy.

"You might want to nudge people into behaviours that you know are the right thing for them, and then they might catch up with financial literacy afterwards. The best example of that right now is pensions auto-enrolment."

There is, though, a potentially darker side: a point of view that some financial businesses might profit from less financially capable customers, for example by encouraging them to take on more debt than they can reasonably afford.

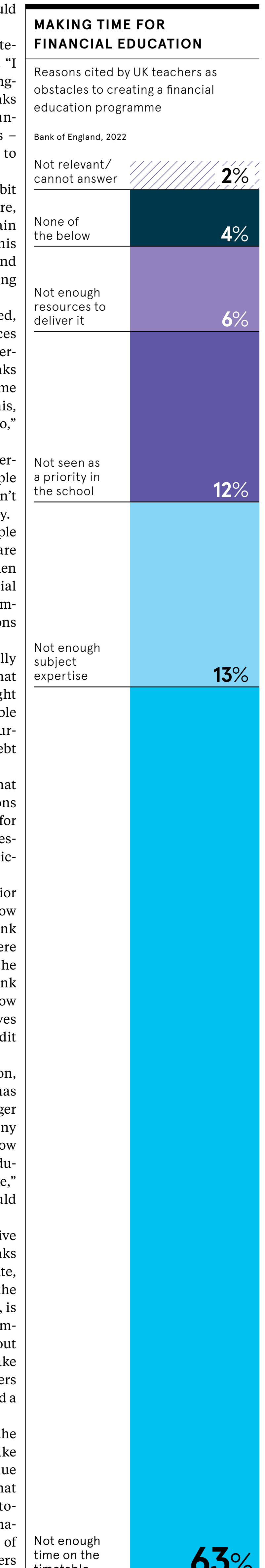
"It worries me to an extent that there could be certain organisations where consumers are taken for granted because they aren't necessarily able to make informed choices," says Winnard.

He points to payday lenders prior to regulation as an example of how things can go wrong. "I don't think people who engaged with them were not understanding entirely what the deal was," he says. "Instead, I think they didn't understand just how different that was to alternatives that they hadn't explored, like credit unions, for example."

Looking at the present situation, though, he believes the industry has moved on. "I think there's a danger but I'm not sure there are many financial services organisations now that would want to prey on individuals who are not financially capable," he says. "The business model would be hugely risky."

Porretta, who is a former executive at Lloyds Banking Group, thinks that a win-win of financially literate, empowered customers, boosting the fortunes of the financial industry, is achievable. "If customers are disempowered, you can make money out of them. But I think you can make money out of empowered customers in a completely different way – and a better way," she says.

"There's no point in criticising the companies for trying to make money. They have to provide value to their shareholders – that's what they are there to do. But working together on a business model that enables them to make money out of things that are better for consumers is within their gift."



Fuelling productivity growth with B2B payments disruption

B2B embedded payments have the potential to change how businesses use payments within their software platforms as innovations, regulations, and new platforms generate a shift in strategy and demands

Embedded payments – the integration of payment processes directly into a company's software – have revolutionised the ecommerce market, challenging the status quo and transforming consumer experience.

But while embedding payments has become common in consumer-facing platforms, the adoption of embedded payments in the business-to-business segment has, until now, lagged.

"There's an increasing expectation of a consumer-like experience in B2B payments," says Andrew Griffin, CFO at embedded payments provider Modulr. "Yet most assume there's no alternative to bank-provided payments which are restricted to business hours, provide little or no software automation, require batch rather than real-time payments, and involve manual processes fraught with errors."

This demand for 21st-century payments, and the legacy constraints inhibiting banks from providing them, are common across the globe. But, in the UK and Europe, regulatory change has powered fresh competition. "It's no longer true that the corporate bank is the only source of payments for businesses," Griffin explains.

> Economic slowdowns have been shown to drive the adoption of digital solutions .... Embedded payments will be another prime example of that

The opening up of competition in the EU and UK payments world to regulated but non-bank Electronic Money Institutions (EMIs) has paved the way for businesses to think differently. Griffin points out that this trend has created the opportunity to shift the centre of gravity from corporate banks to business software platforms which are becoming payment control centres.

Expanding payment network access to EMIs has reimagined corporate transaction banking by bringing it into the tech stack itself, with accounts and payments being delivered through API integrations. Now, any business running on a software platform can embed payments into that platform. And the regulatory standards required of an EMI enable this to be delivered in a strong, secure and compliant way.

Myles Stephenson, Modulr's founder and CEO, believes this shift is only just beginning. "Embedded payments have been a key enabler across financial services, making inroads in areas such as lending, savings, current accounts, insurance and more. Now it's set to transform business software platforms across many other sectors," he says.

"The opportunity for productivity and economic growth is huge. Embedding payments allows software platforms to provide more efficient and secure workflows, as well as giving them a competitive edge and the opportunity to create new revenue streams. Any business can now become a payments business by partnering with embedded payment platforms like Modulr." Stephenson continues.

Griffin offers up the example of a partnership between Modulr and money management app HyperJar which allows the company to make and manage payments 24/7, with 99% of those payments fulfilled within 90 seconds. Similarly, he remarks on lettings platform Goodlord which uses Modulr's embedded payments capabilities to collect and pay out rent in a much easier way, with over 70% of its core payments now automated.

"From neobanks to lending businesses, to accounting software providers, and non-financial businesses such as travel and car dealership networks, embedded payments eliminate slow processing and friction, which means a smoother customer experience and new revenue opportunities."

Managing cash flow has become a key priority, while many are seeking the most cost-effective way to scale, improve customer retention, and drive new revenue. "Economic slowdowns have been shown to drive adoption of digital solutions as businesses look to improve productivity and efficiency. Embedded payments will be another prime example of that," says Stephenson.

"Business technology stacks were built first on the connectivity provided by the internet; then models evolved driven by cloud computing and then mobile. Now a fourth tech stack layer is emerging: embedded payments. They're set to transform the way businesses receive payments, reconcile and pay out over the next five years," he continues. "Right now, we're at the tip of the iceberg of what's possible, and the future looks very exciting."

For more information please visit modulrfinance.com/embedded-payments

Modulr