

The role of FinTech(or TechFin) in decentralising and democratising finance

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Introduction:

Financial technology(FinTech) is a modern structure that is standing on the intersection of the traditional financial system and new emerging technology-driven innovations.¹ These technologies are also termed Decentralised financial technologies as they are gradually helping to reduce the intervention of centralised intermediaries like banks in case of risk-taking and giving more freedom to individual customers to manage their finance. Global investment in FinTech stands at US\$105 billion in 2020². With the invention of cryptocurrency in 2009, Fintech has democratized the use of financial products by reducing the cost, improving access to those facilities and knowledge on how to use them³. Fintech has strengthened

¹ Pwc, "Blurred lines: How FinTech is shaping Financial Services", (March 2016), Global FinTech Report, available at < https://www.pwc.com/il/en/home/assets/pwc_fintech_global_report.pdf > accessed on 24 May 2021.

² KPMG, "2020 was a game changer", (Februsry 2021), Pulse of Fintech H2'20, available at <https://www.pwc.com/il/en/home/assets/pwc_fintech_global_report.pdf> accessed on 25 May 2021.

³ Nasdaq, "Crypto Was Meant to Democratize Finance and It's Finally About To", (April 2020), Nasdaq available at <<https://www.nasdaq.com/articles/crypto-was-meant-to-democratize-finance-and-its-finally-about-to-2020-04-06>> accessed on 24 May 2021.

financial development, inclusion⁴ and increased efficiency. In the last 10 years, there has been a growth in the digital economy globally, high levels of smartphone adoption and internet penetration⁵. Fintech is expected to alter the financial sector which will have lasting implication for customers, firms, and regulators, but its disruptive nature can pose new risks and challenges for regulators and users.

The objective of this essay is to analyse how Fintech has been able to decentralise and democratise the use of financial services in the United Kingdom, the risks associated with it and in that respect also the role of the existing regulators and then argue how successful are they in creating a level playing field for both the consumers and the Fintech players. Finally, I will talk about the adoption of Fintech in some other countries before concluding with my thoughts on the position of Fintech in the UK.

1) Fintech segments

Before discussing the financial sectors, which have been revolutionised by Fintech, it is important to know about the technologies that have been used by the emerging start-ups of the UK. The three most important technological innovations are cognitive computing and Artificial Intelligence(AI)⁶, which helps in solving financial problems, previously done manually, much faster, and more accurately with the help of the computer. In simple terms, it can decipher complex models and systems and

⁴ The World Bank, "Financial Inclusion"(October 2018), available at <https://www.worldbank.org/en/topic/financialinclusion/overview>> accessed on 24 May 2021.

⁵ Irina Mnoghitnei and others, "Embracing the promise of fintech", (2019) Bank of England Quarterly Bulletin Q1, Available at <https://www.bankofengland.co.uk/-/media/boe/files/quarterly-bulletin/2019/embracing-the-promise-of-fintech#:~:text=The%20Bank%20of%20England%20is%20also%20applying%20new%20technology%20to,models%2C%20applications%2C%20processes%2C%20or>> accessed on 24 May 2021.

⁶ IBM Cloud Education, "Artificial Intelligence" (June 2020), IBM Cloud Learn Hub, available at <https://www.ibm.com/uk-en/cloud/learn/what-is-artificial-intelligence>> accessed 24 May 2021.

assist end-users with new advanced unbiased semi-autonomous advice.⁷ The next big thing, I believe, is the Blockchain technology.⁸, the simplest form of Distributed Ledger Technology(DLT)⁹.It is the main tool for making financial activities decentralised and brings back control to the individual consumers. The decentralisation of record-keeping can be permissionless(public) or permissioned(private) ledger system with access to a limited number of people¹⁰. The last is the application of Big Data Analytics and Internet-of-Things¹¹.

Payments and Lending

The Payments system in the UK saw in 2017 the largest shift from traditional cash transaction with the adoption of debit cards¹² to finally contactless cards and e-wallet technology like Apple pay. These have provided individuals and businesses with a wide variety of payment solutions. The introduction of Open Banking¹³ and the PSD2 has enhanced faster payments across the UK with the help of account-to-account

⁷ Sir Mark Walport, "FinTech Futures. The UK as a World Leader in Financial Technology"(March 2015), Government Office for Science, available at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/413095/gs-15-3-fintech-futures.pdf> accessed on 24 May 2021.

⁸ Christian Catalini and Joshua S. Gans, "Some Simple Economics of the Blockchain." (2016), NBER working paper No. 22952, available at https://www.nber.org/system/files/working_papers/w22952/w22952.pdf> accessed on 25 May 2021.

⁹ CPMI, "Distributed ledger technology in payment, clearing and settlement: An analytical framework" (February 2017) BIS, 2, available at <https://www.bis.org/cpmi/publ/d157.pdf>>accessed on 24 May 2021.

¹⁰ FSB, "Decentralised financial technologies: Report on financial stability, regulatory and governance implications."(June 2019), available at <https://www.fsb.org/wp-content/uploads/P060619.pdf>>accessed on 23 May 2021.

¹¹Sir Mark Walport, "FinTech Futures. The UK as a World Leader in Financial Technology", (March 2015) Government Office for Science,pp. 61, available at https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/413095/gs-15-3-fintech-futures.pdf> accessed on 25 May 2021.

¹² UK Finance, "UK Payments Market Summary 2018." (2018), available at <https://www.ukfinance.org.uk/system/files/Summary-UK-Payment-Markets-2018-1.pdf>>accessed on 24 May 2021.

¹³CMA, "Retail banking market investigation: Final Report." (2016), available at <https://assets.publishing.service.gov.uk/media/57ac9667e5274a0f6c00007a/retail-banking-market-investigation-full-final-report.pdf>>accessed on 25 May 2021.

payment transfer. With the Bank of England now opening access of its RTGS platform¹⁴ to the non-bank payments service provider(NBPSP), they can now open settlement account in the Central Bank without relying on a third party and compete with the high street big banks and gain direct access to the broad customer base thereby help customers by offering diverse payment options with reduced risk as opposed to the traditional banks¹⁵. It has been estimated that remote banking payments via faster payments will rise to almost 2.4 billion by 2027¹⁶. Two of the biggest fintech firm thriving in this space is WorldPay and Revolut. The payments section brings our attention to the rise of new digital, mobile-only banks that has gained massive popularity in recent years. They focus on fixed narrow targets as compared to the large banks and grow with the customer experience in mind.

The use of peer-to-peer(P2P) lending is one of their main attributes going beyond the traditional step. P2P lending¹⁷ helps firms to avoid the intermediary cost and time to reach out to the banks. Three of the largest digital banks of the UK that are using these technologies are Revolut, Monzo and the Sterling Bank. They rely heavily on the investments from individual to institutional VCs. P2P lending has heavily democratised finance in the UK with its contribution in lifting the SMEs financially¹⁸. Another form of democratisation of finance, I feel, is the Crowdfunding concept in

¹⁴ Bank of England, "Real-Time Gross Settlement (RTGS) system and CHAPS Annual Report" (July 2020), available at <<https://www.bankofengland.co.uk/-/media/boe/files/payments/rtgs-chaps-annual-report-201920.pdf?la=en&hash=91655CB9BF168652BE610E7A0530ED0B0030E9A3>>accessed on 24 May 2021.

¹⁵ Ibid 5

¹⁶ UK Finance, "UK Finance Response to the Access to Cash Review.", available at <<https://www.accesstocash.org.uk/media/1141/uk-finance.pdf>>accessed on 25 May 2021.

¹⁷ Ibid 11

¹⁸ Ulrich Atz and David Bholat, "Peer-to-peer and financial innovation in the United Kingdom." (2016), Bank of England WP. No. 598(2016), available at <<https://www.bankofengland.co.uk/-/media/boe/files/working-paper/2016/peer-to-peer-lending-and-financial-innovation-in-the-uk.pdf?la=en&hash=731A6951C1EEFF82BEB281516E464139D996743>> accessed on 25 May 2021.

which more investors are backing UK start-ups rapidly¹⁹. Crowdcube is one of the biggest platforms which has a mission to make finance available for everyone. It allows entrepreneurs to keep their business ideas afloat by securing funding from the public against the holding of a certain portion of their business²⁰.

Insurance

The insurance market driven by technology in the UK has been lagging in the initial days. But it is gradually picking up. Fintech through the application of DLT and AI has revolutionised the insurance industry. There are three ways in which fintech can facilitate growth for insurers: improving customer engagement, enable cost-efficient product offerings for emerging markets, and enabling the development of insurance products related to the Internet of Things²¹. In case of a peer-to-peer insurance policy, the use of smart contract²² along with blockchain adds more transparency to the insurance pay-out process, enable automation of claims handling and enforce contract specific rule to each insurance policyholder. In emerging markets application of insurtech is becoming widespread where the insurance to the people will be triggered based on verification of reliable data source regarding casualties and natural calamities. The claim underwriting will be automated and stored in the system based on the different probabilities of occurrence of different events. Up until

¹⁹ British Business Bank, "Small Business Equity Tracker." (2020), available at <<https://www.british-business-bank.co.uk/wp-content/uploads/2020/06/British-Business-Bank-Small-Business-Equity-Tracker-2020-Report.pdf>> accessed on 26 May 2021.

²⁰ Joe Bush. "The Rise of the Digital Bank." STARTUPS MAGAZINE, available at <<https://startupsmagazine.co.uk/article-rise-digital-bank>> accessed on 26 May 2021.

²¹ IAIS, "FinTech developments in the insurance industry" (February 2017), available at <<https://www.iaisweb.org/page/news/other-papers-and-reports/file/65625/report-on-fintech-developments-in-the-insurance-industry>> accessed on 24 May 2021.

²² Angelo Borselli, "Smart Contracts in Insurance: A Law and Futurology Perspective" (January 2020), Springer, pp.101-125, available at < https://link.springer.com/chapter/10.1007/978-3-030-27386-6_5> accessed on 26 May 2021.

now, only 75% of the Insurtech business has been used by UK retail customers²³. I feel the big factor lacking at the moment is the level of collaboration between the normal insurance industries and their tech counterparts. The insurance region which has been disrupted the most are the property insurance-the connected house, motor insurance- self-driving cars and lastly health insurance-connected lifestyles²⁴. Some of the popular insurtech firms that are gaining traction in the UK market are the Alphins, that harness Big Data technology to generate better deals and for faster underwriting policies. Anorak, the world's first fully automated insurance advice platform. Battleface, which provides customized insurance policies for travellers travelling internationally including challenging destinations. It uses API²⁵ and machine learning technology to study traditional travel insurance products and build a simpler insurance chart for the current generation of travellers. Finally, BDElite provides advanced digitally-enabled insurance for household and motor cars including electric vehicles²⁶.

Wealth Management

Fintech has also shaken up the wealth management sector that includes the asset trading part. Not just with the help of Blockchain, innovation in the field is starting to see the use of AI and ML to create robo-advisors instead of the traditional wealth managers offering their expertise based on their knowledge. So, these applications

²³ Pwc, "The Untapped potential within the UK insurance market"(July 2019), available at <<https://www.pwc.co.uk/financial-services/assets/pdf/insurtech-the-untapped-potential-within-uk-insurance-market-pwc-report.pdf>> accessed on 26 May 2021.

²⁴ Ibid 21

²⁵ Sir Mark Walport, "FinTech Futures. The UK as a World Leader in Financial Technology", (March 2015), Government Office for Science, pp. 60, available at <https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/413095/gs-15-3-fintech-futures.pdf>accessed on 26 May 2021.

²⁶ Insurtech UK, "Members: An ecosystem that's igniting"(insurtechuk.org, 2021), available at <<https://insurtechuk.org/members>>accessed on 26 May 2021.

use algorithms to calculate the risks, choice and objective of the individual investor and tailor an investment solution for the person. It also allows retail investors to invest in small amounts over a longer period of time which allows the customer to invest sensibly keeping his savings amount in mind. So, customers do not have to pay a large amount upfront. Apart from the digital brokerage or High Frequency Trading(HFT) applications²⁷ that provide access to the stock market and investment options, some apps help investors to carry out research on different financial instruments and draw a comparison between them. The UK was one of the first countries to test its robo-advisors and made a head-start in the wealthtech industry. Three popular firms featured in the WealthTech 100 list for the 2020 edition. They are Embark, WealthWizard and EValue²⁸. Embark is a robo-advice digital platform that has disrupted the UK investment savings and wealth management market to a great extent. WealthWizard was the first online digital advisor platform in the UK. EValue mainly focused on personal finance advice and suggestions. Undoubtedly, online digital trading platforms like eToro, markets.com, capital.com etc. brought millions of young Brits into the world of trading for not just regular equities, but also cryptocurrencies²⁹. All of these has successfully been able to make investing in stocks more seamlessly easy and at a much-reduced cost as compared to the traditional way.

²⁷ "What is high-frequency trading and how do you make money from it?"(theguardian.com, December 2019), available at <<https://www.theguardian.com/business/2019/dec/19/high-frequency-trading-explainer-bank-of-england-breach>> accessed on 24 May 2021.

²⁸ WEALTHTECH 100, "WEALTHTECH 100 COMPANIES 2021", (fintech.global, 2021), available at <<https://fintech.global/wealthtech100/#Companies>> accessed on 27 May 2021.

²⁹ Eva Szalay and Siddharth Venkataramakrishnan, "What are cryptocurrencies and how do they work?" Financial Times(London, n.d.), available at <<https://www.ft.com/content/424b29c4-07bf-4612-b7d6-76aecf8e1528>> accessed on 26 May 2021.

2) Risks

Although the application of decentralised financial technologies may reduce the operational cost and the time needed to conduct the financial activities, they can at times adversely impact the structure of the financial system. Fintech firms, with their limited workforce and narrow service offering, are susceptible to **systemic shocks**. In times of economic stress, the firms are prone to hacking which can be in the form of a system malfunction, data theft and programming vulnerabilities³⁰. Information asymmetry is another high-risk area, where fintech firms are not obliged to disclose operational details which might prove fatal for an individual³¹. Apart from the traditional risk associated to products and services it can pose an operational risk as well as data privacy, consumer protection and financial stability risk, money laundering and terrorist financing risk.

Sometimes consumers do not understand fully the nature and extent of the risk associated with certain products and hence they are disadvantaged. Adoption of new technologies can lead the providers to intentionally mislead the consumers that might expose them to fraud activities.

With an increased level of competition with the entry of new participants in the world of fintech that firms who fail to innovate cease to exist after some time. The management team who lacks the basic understanding will find it difficult to control and manage the responsibilities which will ultimately lead to the downfall of the firm. Firms these days are outsourcing their work to third party organisations. This will

³⁰ FSB, “Financial Stability Implications from FinTech: Supervisory and Regulatory Issues that Merit Authorities’ Attention”(June 2017), available at < <https://www.fsb.org/wp-content/uploads/R270617.pdf>> accessed on 26 May 2021.

³¹ Ibid 10

lead to a high amount of external cybersecurity risk and control over them. In the case of cross-border transactions, firms have to be careful as to whether they are not breaching any national legal or regulatory frameworks. In the case of P2P lending, as the credit provision is completely digital and automated based on previous built-in models, there can be cases of uneven swings in the lending allocation³². I feel overuse of decentralised technologies can reduce the efficiency level of BoE conducted RTGS facility as people will start to lose faith in them and the government might have to add changes to the existing model to keep them competitive with the existing fintech firms³³. Decentralised financial services have seen a rapid increase in a cross-border transaction, which means that geographical boundary will no longer apply. This will pose a threat to the UK governments' relevant law and regulation for that fintech sector.

In gist, I can divide the risks due to decentralization of finance by fintech into 2 categories namely Microfinancial risk and the Macrofinancial risk. Microfinancial risk comes from financial sources and operational sources. Financial sources consist of maturity and liquidity mismatch. Operational risks consist of governance control, cyber risk, third-party reliance, and legal risk. Macrofinancial risk comes from contagion, procyclicality, volatility and systemic importance³⁴.

3) Regulations

The UK as of date does not have a separate body dedicated towards the regulation of the Fintech industry of the country. The Financial Conduct Authority(FCA)³⁵ and

³² Ibid 10

³³ Ibid 5

³⁴ Ibid 30

³⁵ FCA, "About the FCA"(April 2016), available at < <https://www.fca.org.uk/about/the-fca>> accessed on 27 May 2021.

Prudential Regulation Authority(PRA)³⁶ created through the Financial Service and Markets Act 2000 were tasked with regulating financial services and businesses in the UK. As the Fintech sector gradually boomed in the country, the two bodies although being technology-neutral concentrated on greater knowledge and regulation of technology-driven cryptoassets and the UK's AML regime. According to me, the biggest push to the growth of Fintech in the UK happened in 2014 when the FCA introduced the 'Project Innovate'³⁷. There were, I feel, 3 main objectives behind it. First is to help test the beta version of new products of budding firms through their 'regulatory sandbox'³⁸. The second is giving technical and regulatory advice to the select firms who need them and finally a scope for innovation which no doubt is carrying the industry forward³⁹. FCA has identified the InsurTech segment as one of the important regions that need to be regulated or taken care of both from the insurer's and the customer's point of view. Just as the use of big data and AI helps the insured to hide information to reduce policy price, it also paves a path for concerns related to data privacy, cybersecurity, and fairness. FCA intervention to settle matters between both parties had been a good step for a healthy growth of the business⁴⁰.

³⁶ BANK OF ENGLAND, "What is the Prudential Regulation Authority(PRA)?"(bankofengland.co.uk), available at <<https://www.bankofengland.co.uk/knowledgebank/what-is-the-prudential-regulation-authority-pra>> accessed on 27 May 2021.

³⁷ DIT,HMT and INNOOVATE FINANCE, "UK FinTech: State of the Nation"(April 2019), available at <https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/801277/UK-fintech-state-of-the-nation.pdf> accessed on 25 May 2021.

³⁸ FCA, "Regulatory sandbox lessons learned report"(October 2017), available at <<https://www.fca.org.uk/publication/research-and-data/regulatory-sandbox-lessons-learned-report.pdf>> accessed on 26 May 2021.

³⁹ EY, "UK FinTech: Moving Mountains and moving mainstream"(2020), available at <https://assets.ey.com/content/dam/ey-sites/ey-com/en_gl/topics/emeia-financial-services/ey-uk-fintech-2020-report.pdf> accessed on 24 May 2021.

⁴⁰ Ian Mason, Sushil Kuner and Samantha Holland, "Fintech 2020: United Kingdom"(globallegalinsights.com, 2020), available at <<https://www.globallegalinsights.com/practice-areas/fintech-laws-and-regulations/united-kingdom>> accessed on 26 May 2021.

The immutable nature of DLT has increased concerns for customer data protection. The General Data Protection Regulation (GDPR) was enforced and regulated by the Information Commissioners Office (ICO) in the UK with the sole purpose of maintaining high standards of privacy of customer data and the firms are required to produce evidence that they have not misused customer data and if found guilty are liable to large fines, damage claims from customers or even criminal liability⁴¹. Without any argument, Cryptoassets are the single biggest decentralising factor of finance, which can also lead to several forms of money-laundering and terrorist financing activities and so FCA has laid out clear guidelines related to the regulation for firms dealing in the digital currencies⁴². The Money Laundering, Terrorist Financing and Transfer of Funds regulations 2017 (MLRs)⁴³ compel firms in the country to abide by certain risk-based policies and detect situations where there can be a connection of money-laundering⁴⁴.

4) Are These regulations doing enough

From my point of view, although the FCA and PRA are one of the most advanced regulatory bodies of the world overlooking the functioning of the firms, there are still several loopholes in the way new fintechs are functioning. The buy-now-pay-later (BNPL)⁴⁵ has gone over the roof in the UK market especially with the firm Klarna which follows this model and I believe the FCA should set tighter restrictions to regulate their work as it is raking up a huge debt on the consumer's shoulder and

⁴¹ Ibid 40

⁴² FCA, "Guidance on Cryptoassets Feedback and Final Guidance to CP 19/3" (July 2019), PS 19/22, available at <<https://www.fca.org.uk/publication/policy/ps19-22.pdf>> accessed on 26 May 2021.

⁴³ Ibid 40

⁴⁴ Ibid 40

⁴⁵ Aisling Finn, "Fintech regulation to watch out for in 2021" (altfi.com, 25 January 2021), available at <<https://www.altfi.com/article/7490-fintech-regulation-to-watch-out-for-in-2021>> accessed on 24 May 2021.

with the pandemic it got a huge boost. Debt charity StepChange warned that a £6bn personal debt tsunami⁴⁶ has been already created in the country. After Brexit was announced many notable fintechs like Revolut, who were using the EU passporting channels to operate across Europe, had shifted their base out to mainland Europe. Although FCA assured the firms that they could work with the passport until proper authorisation is brought out, I believe that those firms will return back to the UK after the final Brexit was announced in December 2020⁴⁷. Thus, UK could lose out on the payments business operation.

The Payment Services Directive II (PSD2)⁴⁸ which started as an EU directive and made open banking a huge success in the UK needs to find a new set of regulation for the UK after the Brexit. As the industry is expanding regulators should look more into their handling of third-party data besides encouraging more new entrants into the market. I believe it will be beneficial if the FCA can formulate their regulatory policy post-Brexit for the healthy growth and competition of the payments sector and not only that they can ride on the success of the open banking and look towards moving to open finance which will give the firms, controlled access to a vast variety of financial product details of their customers⁴⁹. I think FCA did good progress by launching the AML TechSprint in May 2018⁵⁰. The sole aim of it was to identify the

⁴⁶ Margaret Taylor, "Regulation could destroy Klarna. But it could also save it"(wired.co.uk, 22 February 2021), available at < <https://www.wired.co.uk/article/klarna-survive-pandemic>> accessed on 25 May 2021.

⁴⁷ Ibid 46

⁴⁸ FCA, "Regulator Assessment: Qualifying Regulatory Provisions"(November 2017), available at <<https://www.fca.org.uk/publication/impact-assessments/psd2-revised-payment-services-directive.pdf>> accessed on 26 May 2021.

⁴⁹ Ibid 39

⁵⁰ Ibid 37

opportunities the regulators can garner from adopting new technologies like RegTech⁵¹ to detect and prevent financial crime from happening.

With the number of international transactions rising at a rapid rate, the FCA must look to improve its Global Financial Innovation Network (GFIN) which was created to create cross-border collaboration to innovation. It needs to increase its global network and work closely with other international regulatory bodies⁵².

Although many people now believe that UK regulatory bodies are one of the most tech-friendly organisations in the world⁵³, as more and more organisations are turning fintech it's time for the country to set up a completely different body apart from FCA or PRA to overlook issues such as authorisation and regulation of new firms in the industry. They can hold workshops where the senior firms can share their experience with the new entrants on how they managed the regulatory waves and grew. This body can separately create a digital hub for the entrepreneurs and regulators to test the financial product backed by advanced technology. The FCA sandbox should be updated in way that it can serve the purpose for fintech of different sizes and needs. It will not only benefit the new entrants but also help the midsize firms, who have just crossed the seed stage and came out of the sandbox, to stay afloat in times of economic downturns and pandemic like covid. I also believe that the FCA regulators should have a better understanding of the current fintech trends as they are quite different from the existing financial products. They need to understand that new firms like Monzo and Sterling, although they have got full

⁵¹ Ibid 37.

⁵² FCA, "Global Financial Innovation Network (GFIN)"(August 2018), Consultation Document, available at <<https://www.fca.org.uk/publication/consultation/gfin-consultation-document.pdf>> accessed on 26 May 2021.

⁵³ Caroline Binham, "UK regulators are the most tech friendly" Financial Times(12 September 2016), available at <<https://www.ft.com/content/ff5b0be4-7381-11e6-bf48-b372cdb1043a>> accessed on 25 May 2021.

banking licence, if the same kind of banking regulation is applied to them it might be too strict for them to follow or they can find easy loopholes in the law and can break the trust of the customers.

The incidents such as the debacle of the German digital bank Wirecard had left millions of Britons in the UK with frozen e-money accounts. I strongly support the FCA initiative of warning other semi bank organisations in the UK on the need to strictly regulate the movement of electronic money as on the event of a similar situation it will be very difficult to retrieve the money which can be a disaster for a certain group of people⁵⁴. So, after Brexit, it will be a massive opportunity, for Britain to sit down and discuss the type of regulation for the digital money and according to me they should go for a new separate regulation rather than the EU based PSD3 or PSD4. FCA regulators should also get a wake-up call from the recent GameStop saga. After the global pandemic hit the world, the number of retail investors flocking in the stock market increased manyfold, all thanks to the high-frequency digital trading houses which allowed customers to buy and sell stocks from the comfort of their home. An online gaming retail store, GameStop was performing very badly so much so that big institutional investors and hedge funds like Melvin Capital started short selling on the stock. Following some infamous tweets from Elon Musk and some suggestions from public platforms like Reddit, retail investors plunged on the stock and started buying its stock and drove up its price massively in a week. This made the rich investors and hedge funds lose billions of dollars as they all bet

⁵⁴ Nicholas Megaw, "FCA warns UK fintechs against comparing themselves to Banks" Financial Times(London, 19 May 2021), available at <<https://www.ft.com/content/23a3bc74-a742-451a-9c1e-b17ee1819360>> accessed on 26 May 2021.

against the price rise⁵⁵. The people who had been buying stocks, or wanted to buy stocks, realized that their access to the particular stocks was being controlled. Robinhood, a fintech company whose name is very popular when it comes to democratization of finance, blocked people from buying GameStop stocks, only allowing them to sell those stocks. Many believe they did this because of third parties that put a bit of pressure on them. Clearly, Robinhood had taken advantage of the uninformed nature of its users. Several lawsuits were filed against them, but they forcefully kept the stock blocked. This clearly shows the attempt to manipulate the market through collusion and bullying its customers. Although FCA had set out regulatory policies to block loopholes such that the broker houses cannot impact the customers, it is necessary according to me that regulators should lay down guidelines and warn new-age retail investors to be sensible while investing in high-risk investments like crypto.

5) Decentralisation and Democratisation of Finance in other Countries⁵⁶

India:

It has a fintech adoption rate of 87%, 16% higher than that of the UK as of 2019. The biggest success factor for India, which the UK can learn from, is its introduction of the national digital identity named Aadhar. This helps firms in the case of payment services and also improve the large scale adoption of e-KYC verification. India has

⁵⁵ Ian Smith and Robin Wigglesworth, "GameStop's wild ride: how Reddit traders sparked a 'short squeeze'" Financial Times(London and Oslo, 29 January 2021), available at <<https://www.ft.com/content/47e3eaad-e087-4250-97fd-e428bac4b5e9>> accessed on 27 May 2021

⁵⁶ Ibid 39

also made a massive progress in the account-to-account-to-business real-time payments with the help of the government backed Unified Payment Interface(UPI).

USA:

It has been a hub for financial activities for decades. Although it has a low fintech adoption rate, UK can learn to build a strong pipeline of talent who will help drive the growth of the industry from it. Also, the USA has abundance of capital more than any other countries in the world, backed by aggressive VCs and PE networks who have envisioned massive growth of fintech in the country.

6) Conclusion

I would like to conclude that the UK is doing a great job in decentralisation and democratisation of finance. It is a leader in technology usage and capital development. Also, it has the worlds most advanced regulatory frameworks. But as I have said, it has a lot of room for improvement in the real-time digital payments section. It is a good time post-Brexit for FCA to formulate their regulations that will help their already successful open banking and not depend on EU based regulations. Fintech is based on trust and customer experience, so I feel tech-friendly regulators should formulate stricter laws to protect customers from cyber-attacks and fraud and stop firms from doing any financial malpractices that might break the trust of the people. The FCA should relax its conditions on further assistance to the fintech players so that they don't have to face the full force of the regulations the moment they come out of the regulatory sandbox. A lot of its

regulations regarding AML and CTF depend on its handling of the highly volatile cryptoassets. Regtech should be the top priority for FCA as a regulatory instrument and also innovation instrument as it will make the verification process seamless and cost-effective across the country for payments and lending, insuretech as well as wealth-management.

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