REPORT I PAPER THREE

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# Get Britain growing

How digital payments technologies enable growth: Powering the U.K.'s next economy – fintech innovation and the transition to net zero

# Contents

**Kelly Devine**
President, Mastercard,
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"Digital payments technology plays an important role in supporting fintechs...providing innovators with access to a secure global network, and scale that wouldn't otherwise be possible."

The pace of innovation increases with every year that passes. By the end of the decade, experts agree we will witness significant innovations that will reshape commerce and usher in 'the next economy'. These transformative changes include a reimagining of money, new ways to exchange value, intelligent experiences that cut across physical and digital environments, and enhanced principles of inclusivity and sustainability.

As commerce evolves, so too will digital payments.

And, importantly, the technologies that will enable these new ways to pay and be paid will also underpin key drivers of growth across the U.K. As the recent Future of Payments report acknowledged, 'a world class payments environment is vital for a world leading economy, and the economy cannot grow without the payments infrastructure to support it'[1].

Fintech innovation will play a critical role in this. Payments capabilities that support consumer access to appropriate and new financial services and support more conscious consumption choices, bolstering the U.K.'s transition to net zero, have already turned fintech into one of the U.K.'s most vibrant sectors. And there is much more innovation around the corner if we get things right.

In the U.K., the average fintech grew by 20% last year[2]. Digital payments technology plays an important role in supporting this sector, most importantly by providing innovators with access to a secure global network and expertise, as well as scale that wouldn't otherwise be possible. These are important elements in helping startups develop into scale-ups.

At Mastercard we're doing our bit to support this important sector. We are proud to be working with fintechs innovating to enable inclusion for unbanked individuals, for example through prepaid cards, and those addressing the needs of the underbanked by developing products and services that account for different income types, faiths, sexual orientations and social impact. We also continue to work closely with the Centre for Finance, Innovation and Technology (CFIT) as they look to unblock barriers to growth for fintechs, and we have invested in HM Government's FinTech Growth Fund.

The question now facing policymakers and the industry is how the U.K. can remain a leading fintech hub in the years and decades to come.

So we asked innovators, fintech industry experts and business representatives to set out ways in which we can support equitable growth by enabling the continued progress of the U.K.'s vibrant fintech sector, with a specific focus on supporting fintech innovation directed at tackling financial exclusion and advancing our net zero goals.

**Bankers for Net Zero, the British Chambers of Commerce (BCC), the British Retail Consortium (BRC), ekko , FinTech North, Innovate Finance, Pockit and Science Card** all provided their valuable insights and recommendations for this paper, which is the third in our Get Britain Growing series. Thanks to all our partners for sharing such specific recommendations to enable our economy to go from strength to strength.

# Executive summary and recommendations

"Maintaining our competitiveness as the pre-eminent centre for financial technology companies, or fintechs, to start and scale is crucial."

This is the third report in Mastercard's Get Britain Growing policy programme. It is a collection of views from across the financial services industry and from consumer, business and third-sector organisations on how we can create sustainable and equitable growth across the U.K. economy by better harnessing digital payments technologies and innovation.

This paper is focused on how we can enable growth and productivity by continuing to support digital payments innovation as the foundation of the next generation of fintechs, and maintain the competitiveness of the U.K.'s vibrant fintech sector, in particular creating the right ecosystem to boost fintech innovation in the ESG space.

The views and policy recommendations set out by the third-party organisations are their own and do not necessarily represent the views of Mastercard.

Maintaining our competitiveness as the pre-eminent centre for financial technology companies, or fintechs, to start and scale is crucial. This is for three broad reasons. Firstly, fostering this technology has the opportunity to revolutionise the way we do everyday transactions – increasing efficiency and security, thereby boosting productivity. Secondly, it will ensure that U.K. consumers and businesses can continue to take advantage of world-leading innovation that helps bring many underserved individuals and small businesses into the digital economy and can support consumers and small businesses in the transition to net zero, helping them to better manage their finances and grow their businesses. Finally, nearly all fintechs in the U.K. contribute to it's economic productivity and growth[3] both at a national level and via burgeoning regional communities like FinTech North, FinTech Scotland, and FinTech Wales. When the sector does well, so does the U.K. economy, so it's important to support the sector at both the U.K. and regional levels in a holistic way.

The challenge facing policymakers and the industry is: how can we continue to harness payments technology as the foundation of fintech innovation, and how can we remain a leading fintech hub, ensuring we continue to take advantage of the growth opportunities offered by this expanding industry in the coming decades, especially in the ESG space? How do we ensure that growth is inclusive and sustainable? And, in achieving that, what is the correct role for business, government, regulators and civil society?

A number of consistent themes have emerged in our discussions with fintechs, industry experts and business representatives:

- **The importance of partnerships, both private and public, across the U.K:** change is not something that industry can drive on its own, and government has an important role to play at a local and national level.
- **Fintech and digital payments have an exciting role to play in helping individuals and businesses understand and increase their impact on the drive to net zero,** but this can happen only if there is a coherent and unified approach by government, ensuring that different departments work together cohesively as part of a wider strategy to support fintech and create sustainable economic growth.
- **Government must build the foundations and infrastructure from which businesses can harness payments and wider innovation to create meaningful impact in tackling exclusion or supporting the U.K.'s net zero transition** – for instance, through a common framework for measuring carbon emissions, or through further and more targeted support for ESG-focused fintechs.

As part of our Get Britain Growing policy programme, we're asking policymakers to get behind the U.K. payments technology sector and back innovation to enable growth by:

1. **Being a champion for, and adopter of, digital payments technologies and innovation that's addressing exclusion, whether that's prepaid cards, account-to-account payments or new fintech solutions that help vulnerable and excluded individuals get access to financial services and build their financial capabilities and resilience.**

2. **Backing digital payments technology that's helping to power micro and small businesses, for example by helping them to release cash flow, improve their productivity or increase their trade across borders, enabling them to grow and thrive.**

3. **Backing digital payments technology and innovation that enables the future competitiveness of the U.K.'s fintech sector and helps support consumers and small businesses in their transition to net zero.**

4. **Adopting a bolder approach to building world-class talent. We need to tackle skills gaps, improve upskilling and create a learning system that's fit for purpose and prepares our workforce for the jobs of tomorrow.**

A summary of recommendations for policymakers:

| Recommendations | Organisation |
|---|---|
| **Building the next-generation world-class fintech industry in the U.K.** | |
| Create a national fintech strategy to deliver focused, long-term support for the next generation of fintechs, with an emphasis on ESG. The strategy should specifically include ideas to help:<br>• Close the funding gap for social-purpose fintechs to help them start and scale successfully.<br>• Introduce a regulatory sandbox to help social-purpose fintechs access funding, test their services in a controlled environment and navigate regulatory requirements.<br>• Forge and strengthen connections between regional fintech associations and industry partners. Organisations like FinTech North, FinTech Scotland and FinTech Wales, as well as other regional fintech clusters, should be supported further in their work to grow the sector across the U.K.<br>• Industry collaboration with CFIT to share best practices and private sector support to address broader economic and social challenges. | Mastercard |
| Progress plans for developing the digital pound, which could make the U.K. the world's first smart data economy. | Innovate Finance |
| Develop a united approach to fraud and financial crime, with consistency ensuring that both perpetrators and victims are equally aware of the consequences of such actions. | Innovate Finance |
| Create greater flexibility for fintechs to tell customers why their account has been suspended. | Pockit |

| | |
|---|---|
| Help channel unbanked customers towards fintechs promoting financial inclusion – encouraging and authorising larger banks that do not specialise in providing basic accounts to partner with fintechs to offer accounts tailored to this demographic, and encouraging Jobcentres and asylum seeker support services to look at fintech alternatives to the basic accounts they currently recommend. | Pockit |
| Consider creation of a fund to help smaller fintechs manage the financial burden of reimbursing customers for losses where a fraud has been committed, or a size threshold below which the liability rules change. | Pockit |
| Continue to support the development of CFIT, in particular its work on helping SMEs take advantage of open finance. | British Chambers of Commerce |
| Ensure the R&D tax credit system is robust, while also enabling businesses to benefit from this tax incentive. | British Chambers of Commerce |
| Channel investments towards innovation by introducing attractive incentives for investors, rolling out policies that favour eco-tech startups, and fostering a culture of innovation. | ekko |
| Foster an ecosystem that can support the growth of fintech innovation in the North of England. To do this, there are key issues that must be recognised and addressed, including access to regional, national and international markets, access to partnerships to help spur growth, access to the right talent with the right skills, access to data (real and synthetic) and access to funding, to fuel business growth. | FinTech North |

| **Harnessing digital payments innovation to empower consumers in their transition to net zero** | |
|---|---|
| Consider the role of private- and public-sector collaboration in supporting consumers and businesses with a move to sustainable consumption, and to help drive the adoption of data-driven tools that support sustainable consumption among consumers. | Mastercard |
| Create a common process or framework for measuring carbon emissions. | British Chambers of Commerce |
| Payments data could be leveraged by both consumers and retailers to make more informed choices. For example, the industry could explore whether consumers could be presented with the carbon footprint of each payment type, allowing consumers to choose a payment type based on its environmental impact. | British Retail Consortium |
| Introduce regulatory oversight of the environmental activities businesses undertake, underpinned by a 'mark of quality' or similar accreditation system. | ekko |
| Create the mechanisms in government to better champion the stories of individuals and organisations that are the 'torchbearers' of net zero. | ekko |
| Create a prominent, visible government-level agenda to enable and push awareness of sustainability-focused startups in the UK. | Science Card |
| Create consistent government-level metrics relating to the UN's Sustainable Development Goals (SDGs), helping facilitate a government framework for monitoring and traffic-lighting businesses' ESG compliance. | Science Card |
| Make it easier for ESG-focused fintechs to navigate to where government support (nonfinancial as well as grants) is available, speed up the application process and spearhead ESG compliance, for example by making it a condition of grant approval. | Science Card |

# **Section 1**
# Supporting the next generation of U.K. fintechs

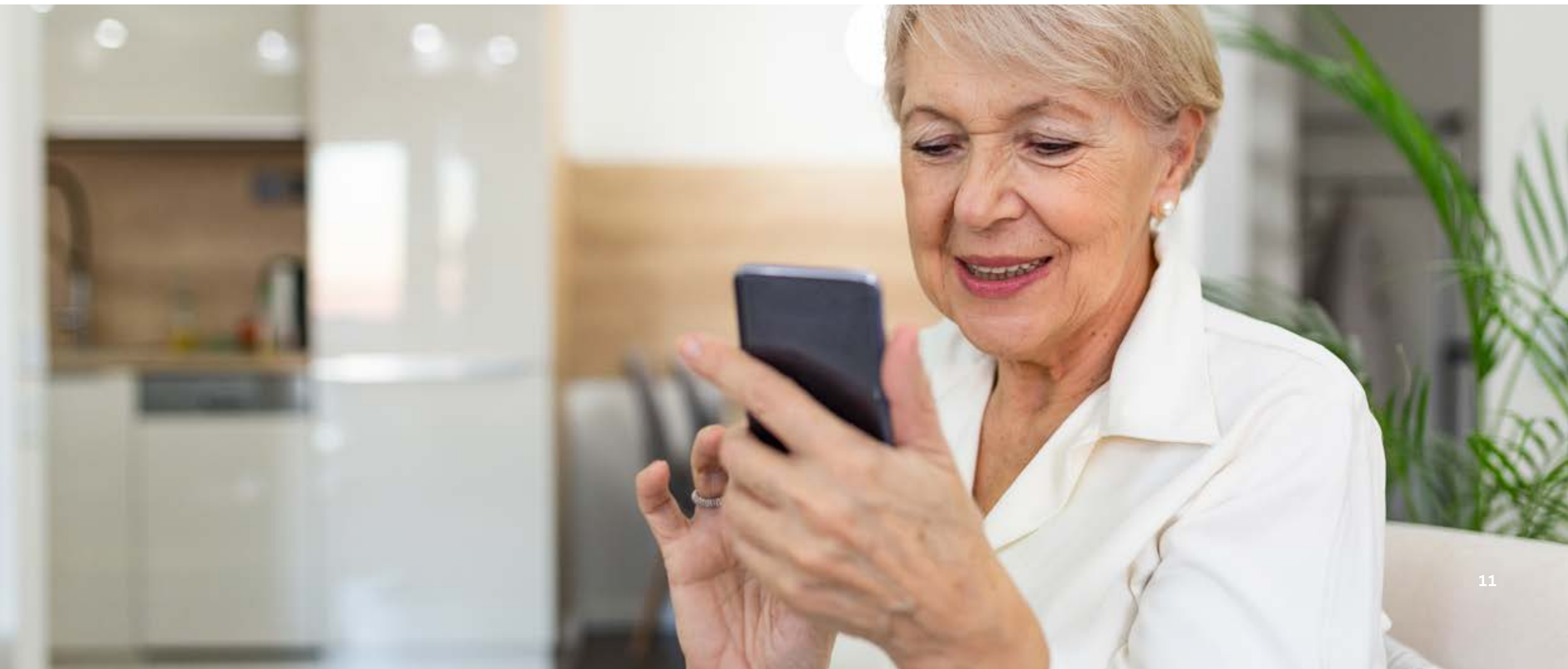
# Supporting the next generation of U.K. fintechs

"Respondents agree that there remain barriers to the growth of the fintech sector, in particular those looking to innovate in support of inclusion."

In the first part of this report, industry experts, fintech innovators and Mastercard explore the economic contribution of the U.K.'s vibrant fintech sector, how fintech innovation is helping to improve inclusion and access to financial services and supporting the U.K.'s transition to a more sustainable economy. As such, importantly, we consider how to ensure the U.K.'s thriving fintech sector continues to create prosperity and growth, not only for the U.K. as a whole but also at a regional level, by remaining globally competitive for years to come.

It has been good to see such a consensus develop on the benefits to society that have come from the rise of the fintech sector in recent years. One theme that has come through consistently is that it is often those most vulnerable that stand to benefit, for example through digital upskilling or through the provision of new and more appropriate financial services for the unbanked and underbanked.

Equally, respondents agree that there remain barriers to the growth of the fintech sector, in particular those looking to innovate in support of inclusion and the UN's Sustainable Development Goals, which government action could help knock down. These include a more agile regulatory framework, better access to funding at all stages of their growth and better connecting the national and regional fintech clusters. There is also consensus that this cannot be something that industry does on its own. Close collaboration is needed, between business, government, regulators and civil society, within a sufficiently flexible and supportive policy and regulatory framework. In particular, there needs to be a holistic approach from government so that each policy fits into a coherent overall strategy, including the recently announced National Payments Vision,[4] and different parts of government work smoothly together. It's also important that the government consider how to better support regional fintech clusters as a way of creating equitable growth across the U.K.



SECTION 1

# Mastercard

# The U.K.'s thriving fintech sector merits a national strategy that promotes growth and societal impact

**Ken Moore**
Chief Innovation Officer,
Mastercard

The U.K.'s financial technology (fintech) sector is a powerful engine for economic growth and social good. It consists of more than 1,600 companies that employ more than 76,000 people and contribute £11 billion annually to the U.K. economy. It's also a global force: the U.K. ranks second worldwide for fintech investment, behind only the U.S.[5] And a recent study found that 97% of the U.K. fintech sector has a positive societal impact when evaluated against the United Nations Sustainable Development Goals.[6]

Innovative solutions from fintech companies have expanded access to financial services and alternative methods of securing credit, bringing the benefits of the digital economy to underbanked people and communities across the U.K. They also help to improve financial resilience and education, enhance data security and regulatory compliance, reduce illicit flows of finance, reduce barriers to cross-border commerce and bolster businesses through the provision of essential digital infrastructure.[7] For example, more than half of small and medium-sized enterprises in the U.K. use open banking products and services to run their businesses and serve their customers.[8] Digital payment systems also play an important role in this sector, providing fintechs with a secure global network, a platform where they build and scale financial services, and access to global markets.

97%

of the U.K. fintech sector has a positive societal impact when evaluated against the United Nations Sustainable Development Goals.[6]

The value of the U.K.'s fintech sector is clear, which leaves policymakers and industry to ask: what's needed to ensure the U.K. retains its position as a global fintech hub and harnesses the technologies that will form the foundation of the next economy?

The answer lies in a clear, forward-thinking national fintech strategy.

## Forging the path

The U.K. government has already put fintech at the heart of its plans for a competitive financial services sector. In 2021, HM Treasury published the Kalifa Review of the U.K. fintech industry, which spurred initiatives designed to bolster this burgeoning sector. These include the establishment of the Centre for Finance, Innovation and Technology (CFIT) to drive U.K. financial innovation, the launch of a £1 billion FinTech Growth Fund, and enhancements to the Financial Conduct Authority's world-leading Regulatory Sandbox. We continue to work closely with CFIT as they look to unblock barriers to growth for fintechs, and we have invested in HM Government's FinTech Growth Fund.

"HM Treasury should ensure that the national payments vision also brings together plans for supporting fintechs and enabling financial inclusion, so that innovation in the ESG space can continue to have meaningful impact where it is most needed."

"Since its inception in 2014, Mastercard Start Path has supported more than 370 companies from 52 countries – including 50 companies in the UK, 20% of which are founded by women."

We also welcome the recommendation in the recent Future of Payments Review to ease some regulatory burdens in order to accelerate the growth of the U.K.'s payments fintech sector.[9] And we support plans for a national payments vision and strategy for the UK.[10] As part of this, HM Treasury should ensure that the national payments vision also brings together plans for supporting fintechs and enabling financial inclusion, so that innovation in the ESG space can continue to have meaningful impact where it is most needed.

In pursuit of the same goals, the Mastercard Start Path[11] startup engagement programme provides opportunities for co-innovation and engagement with Mastercard's global network. Since its inception in 2014, Start Path has supported more than 370 companies from 52 countries – including 50 companies in the UK, 20% of which are founded by women. These fintechs include open banking partners, small-business enablers, blockchain companies, sustainable finance platforms and more. Today, many Start Path companies are entering the public markets, reaching unicorn status and entering into extended commercial engagements with Mastercard and its customers.

These initiatives from the public and private sectors demonstrate that cross-industry collaboration and partnerships are needed to address the barriers fintechs face as they strive to scale sustainably – including challenges accessing investment, navigating the regulatory landscape and securing strategic guidance from mentors and industry experts.

## Working together

In that spirit, Get Britain Growing – Mastercard's policy programme exploring how digital payments technologies and innovation can enable equitable growth – has brought together partners to set out their thoughts on how to continue harnessing payments technologies to support financial inclusion, small businesses and the U.K.'s fintech sector.

To ensure the U.K.'s fintech sector remains at the forefront of the U.K.'s long-term growth – and because regulatory requirements are only one piece of the support ecosystem – we suggest the government create a national fintech strategy to deliver focused, long-term support for the next generation of fintech companies, with an emphasis on those fintechs focused on supporting financial inclusion and sustainability.

A national fintech strategy would set out how to help with:

- Closing the funding gap for social-purpose fintechs to help them start and scale successfully.
- The introduction of a regulatory sandbox to support social-purpose fintechs to access funding, test their services in a controlled environment and navigate regulatory requirements.
- Forging and strengthening connections between regional fintech associations and industry partners. Organisations like FinTech North, FinTech Scotland and FinTech Wales, as well as other regional fintech clusters, should be supported further in their work to grow the sector across the U.K.
- Industry collaboration with CFIT to share best-practice and private-sector support to address broader economic and social challenges.

It is vital for policymakers to also consider broader, systemic and economy-wide changes required to ensure the U.K.'s fintech sector remains world-class – including competitive salaries to attract and retain the best talent, a stronger drive for digital and financial inclusion to improve adoption of key innovations, and a more proportionate regulatory framework that supports a pro-innovation ecosystem.

To ensure the U.K. economy grows sustainably and equitably, it's imperative to turbocharge its fintech sector's proven ability to generate growth, jobs and greater access to financial systems. A strategic policy framework is an essential part of the equation that policymakers and the industry can work together to deliver. Mastercard stands committed to help lead the effort.


SECTION 1

# FinTech North

# How the North's vibrant fintech ecosystems can power sustainable, inclusive growth for a more prosperous future

**Joe Roche**
Engagement Manager,
FinTech North

400

fintech firms are based in the north of England

Over the recent years, the fintech sector in the U.K. has evolved from being seen as a London-centric hub into a truly national ecosystem of financial services activity across the U.K.

Since 2016, FinTech North has been the focal point for fintech in the North of England. Starting life as a one-day event as part of the inaugural Leeds Digital Festival, FinTech North has to date hosted more than 110 events and regularly convenes and engages a community of over 5,000 people – all of whom are interested in or working in fintech. All of our activity focuses on bringing the northern fintech community together, developing the sector in the North, aligning that development with the national and international fintech landscape and promoting the North as a centre of excellence, doing so in a neutral way that promotes the North as one region.

Down the years, our work has brought us close to northern fintech entrepreneurs, who regularly share their challenges, as well as opportunities, with our community. We also occupy a unique position within the U.K. fintech landscape, being a conduit between the national sector and the disparate fintech ecosystems across the North.

Economically and geographically, the North is a vibrant and thriving place. If the North of England were an EU economy, it would be the ninth largest in Europe and one of the top 25 globally. Of around 2,500 firms nationally, we estimate that about 400 fintechs are based in the North of England , and these firms have deep sector specialisms and regional strengths.

In the Liverpool City Region, you can find specialisms in wealthtech, asset management and insurtech. A lot of the North's specialisms pertain to each city's past prosperity and industrial heritage. In Greater Manchester, long a centre of textiles trade and retail, there is a strong focus on payments and e-commerce. Manchester also has a mature funding landscape and is the second-largest private equity hub in Europe after London. In the Leeds City Region, there is heritage in banking, lending and regtech, which continues today with the Bank of England, the U.K. Infrastructure Bank and the Financial Conduct Authority (FCA) all establishing bases in the city.

In the North East , there's an innovation corridor springing up between Newcastle and Durham. Newcastle is home to Sage, the U.K.'s second-largest tech company, while Durham is home to Atom bank, a well-known challenger bank and pioneers of the world's first digital mortgage. The payments sector is increasingly prominent in the North East.

"It's critical that the government continues to foster an ecosystem that can support the growth of fintech innovation in the North of England."

"We encourage the investor community to look beyond London and to actively engage in the North and invest in northern companies."

It's critical that the government continues to foster an ecosystem that can support the growth of fintech innovation in the North of England. To do this, there are key issues that must be recognised and addressed; these include access to regional, national and international markets, access to partnerships to help spur growth, access to the right talent with the right skills, access to data (real and synthetic) and access to funding, to fuel business growth.

Over the past few years, we have been working to address these issues in whatever ways we can, and over the past three years the fintech sector in the North has doubled in size.

We have hosted international trade missions, both inbound and outbound, and we have developed a dedicated marketplace for northern fintechs to build products together and partnerships, featuring real and synthetic datasets. We also work closely with the wider industry. Mastercard has been one of FinTech North's partners for the past three years. Working closely with Mastercard, our community has grown, and we have been able to increase our support of northern entrepreneurs and further develop the North's thriving fintech ecosystems. We are also working on a talent and skills initiative – leveraging our connections and ability to convene to positively impact the skills issues faced within the sector – and we have hosted funding-focused events and regularly connect funders with those raising funds.

Despite our efforts, there is still more to be done by wider ecosystem participants and policymakers. This includes work on:

- Funding: We encourage the investor community to look beyond London and to actively engage in the North and invest in northern companies, solidifying what is all too often a fragmented and opaque funding landscape.
- People: We feel there is a clear case for more support developing fintech talent – and there are prominent roles to be played by academic and educational institutions, as well as established fintech, financial services and tech companies.
- Market access: We would love to welcome more international trade missions to visit the thriving fintech ecosystems across the North of England, where we can showcase thriving hubs in the North West, Yorkshire and the North East.

If we can successfully deliver this work, we can unlock the massive potential of northern innovators to drive growth.

SECTION 1

# Innovate Finance

# Why digital payments hold the key to driving growth for U.K. fintech

**Janine Hirt**
CEO, Innovate Finance

INNOVATE FINANCE

"The U.K. is a fintech market leader, with 10% of the world's market share and around £10 billion invested in 2022 – more than all European countries combined."

While post-pandemic Britain has had its fair share of financial turbulence, the fintech sector is one we can look to with optimism. The U.K. is a fintech market leader, with 10% of the world's market share and around £10 billion invested in 2022 – more than all European countries combined. London recently overtook San Francisco in the race to become the global fintech hub and is now second only to New York. And U.K. fintech continues to forge the pathway for the development of innovative solutions to global problems, with a measurable positive impact on the economy and society.

Contactless payments are an example of how both the economy and society have benefited from the fintech revolution. The ability to pay with a tap of one's card, phone or watch today has become normalised, from ticket barriers to card machines to online retail payments.

The digital payments infrastructure – one of the largest fintech verticals – has laid key foundations for the U.K. to be at the forefront of cutting-edge technology. Reduced costs and increased efficiency are at the heart of this growth, driven by increasingly tech-savvy generations. Operating across borders, these services are accelerating financial inclusivity and helping consumers save and manage their finances more effectively.

The revolution in payments – from person to person, business to business and country to country – has powered innovation across the sector, and the UK, certainly for now, is in an advantageous position.

### Maintaining Britain's competitive edge: A future with multiple payment methods

The U.K. fintech sector has grown from strength to strength, and it is now gathering momentum. However, the U.K. must not fall behind in areas such as open banking and green technology as international competition intensifies. As an ecosystem, we must continue to work together with policymakers and regulators to ensure the sector keeps attracting investment, drives technological innovation and provides consumer protection.

With technological advancements emerging rapidly, from AI to quantum computing, fintech is uniquely placed to take advantage of digital tools. We are already witnessing the power open banking has in simplifying and speeding up payments processes; successfully utilising this can create a high-tech, supercharged, world-leading payments landscape.

"The digital payments infrastructure – one of the largest fintech verticals – has laid key foundations for the U.K. to be at the forefront of cutting-edge technology."

In addition, one of the most exciting opportunities for the U.K. to build on its competitive edge is to progress plans for developing the digital pound, which could make the U.K. the world's first smart data economy.

There are, however, several areas where faster, more effective regulation and policy are needed to fully unlock the potential of U.K. fintech. Critically, we need the development of a singular and holistic payments strategy for the United Kingdom, which will benefit not just our industry but the consumer at large. Fraud and financial crime can also be eradicated only by a united approach, with consistency ensuring that both perpetrators and victims are equally aware of the consequences of such actions.

Progress in these areas requires collaboration across the public and private sectors – industry, government and regulators must work together to continue to foster an environment here in the U.K. where new technologies and products can be developed and harnessed safely to transform financial services for the better.

The groundwork and infrastructure have been laid, and the commitment is there. Now is the time to move forward at pace – for the benefit of our industry, the consumer and the entire UK.

SECTION 1

# Pockit

# Fintech support can aid financial inclusion, bolster growth

**Virraj Jatania**
CEO, Pockit

Pockit

2.1%

of U.K. adults did not have a current account for personal use, and 1.3% had no day-to-day account at all.

Pockit was formed in 2014 to provide financial services to people unable to access even the most basic bank accounts. It now serves more than 800,000 customers in the U.K. with a digital account and a prepaid debit card that allows them to receive salary or government benefits, pay money overseas, receive salary advances and build their credit history through the provision of small loans.

At a time when households in Britain are suffering from a cost-of-living crisis, the need for this kind of product is greater than ever. Many people have irregular income flows because they work in the gig economy, work on zero-hour contracts, are on low wages, have poor credit histories or lack housing history because they have recently arrived in the UK.

This has a knock-on effect on economic growth, constraining both essential and discretionary consumer spending. According to the FCA's figures from May 2022, 2.1% of U.K. adults did not have a current account for personal use, and 1.3% had no day-to-day account at all. Not having a bank account makes it more difficult for people to receive their wages, pension and social benefits. Making payments is becoming challenging for some vulnerable groups as post offices, an alternative option for bill payments, are closing, for example.

There's also a cost to not having an account. We estimate that the 'unbanked' end up paying a premium of up to £485 a year for services like electricity and gas, because lower prices are offered to customers paying by direct debit.

Providing access to financial services drives down these costs for families and allows them to manage financial challenges without having to turn to unscrupulous lenders. It helps drive economic growth, too. Once people can access services – such as a payment account, savings, credit and insurance – it's far easier for them to manage a job or find a place to live. They are more likely to make an economic contribution.

While the banks in the U.K. have tried to achieve this kind of financial inclusion through the introduction of basic accounts, not everyone is eligible, and they can be difficult to access, especially for those without a local bank branch at hand. These accounts also lack other facilities, such as overdrafts and loans – and thus the ability to build a credit profile – and any way of making payments in a foreign currency.

This has left space for innovators to step in.

"Fintechs, particularly those serving financially excluded customers, face obstacles that risk holding back growth."

Across the fintech sector, entrepreneurs are finding new ways to support customers excluded from mainstream banking and provide access to essential financial services. These companies are part of a wider, thriving fintech sector in the U.K. As a proportion of GDP, it ranks second only to Singapore's fintech community, and is an important engine of growth and innovation for the economy.

Recognition of its importance – along with all the other innovative young companies emerging in the U.K. – has encouraged the government to create a range of measures helping startups access funding, scale up efficiently and contribute to economic growth.

Initiatives already introduced by the government to help innovative young companies are welcome.

But fintechs, particularly those serving financially excluded customers, face obstacles that risk holding back growth. With a few small tweaks, we can give these businesses, their customers and the U.K. economy a significant boost.

The UK, rightly, has tough rules ensuring that financial services companies move swiftly to report and prevent anyone from using their services illegally. Those rules ban businesses from 'tipping off' account holders under suspicion. Unfortunately, they mean fintechs sometimes cannot tell customers why their account has been suspended. That can mean people who have broken no rule find that they suddenly can't get access to their money, or anyone to explain what's gone wrong. A little more flexibility in that rulebook would make the process much easier to manage.

In addition, more can be done to channel unbanked customers towards fintechs promoting financial inclusion. Larger banks that do not specialise in providing basic accounts should be encouraged and authorised to partner with fintechs to offer accounts tailored to this demographic. Likewise, Jobcentres and asylum seeker support services should look at fintech alternatives to the basic accounts they currently recommend.

Most impactful is the practical implication of rules that require electronic payment service providers to reimburse customers for losses where a fraud has been committed. It's vital that we protect people from becoming victims of financial crime. Currently, fraudsters are getting ever more confident. They know that they are often unlikely to face criminal investigation, and that their victims may not even raise their voices to complain because their losses are swiftly compensated by financial services companies. This problem runs throughout the financial sector – from the largest banks to the newest fintech startups. All want to see more action to deal with the problem. But global companies with huge balance sheets are better able to absorb the cost than new entrants to the market.

"More can be done to channel unbanked customers towards fintechs promoting financial inclusion."

Beyond deterring fraud by ensuring that perpetrators are punished to the full extent of the law, we should consider a fund to help smaller fintechs manage the financial burden, or a size threshold below which the liability rules change. We should also review the impact of the compensation scheme on new fintechs and understand whether it is inhibiting growth, innovation and the provision of new services. Consumers must be fully protected, but we should consider which bodies are best placed to bear the cost of this criminality.

Taken together, these are relatively small changes to the way we support British business and the wider economy. But they can have a significant impact on individual life opportunities while helping to drive national economic growth and supporting new businesses.

We can unleash innovation and see newer fintechs stepping in to support customers who are not served by mainstream banks. Those fintechs can play their part driving forward one of the U.K.'s most exciting and important new sectors.

All this work can drive economic growth. The prize for consumers and business alike could be huge.

# Section 2
## Helping to power the transition to the next, net zero economy

# Helping to power the transition to the next, net zero economy

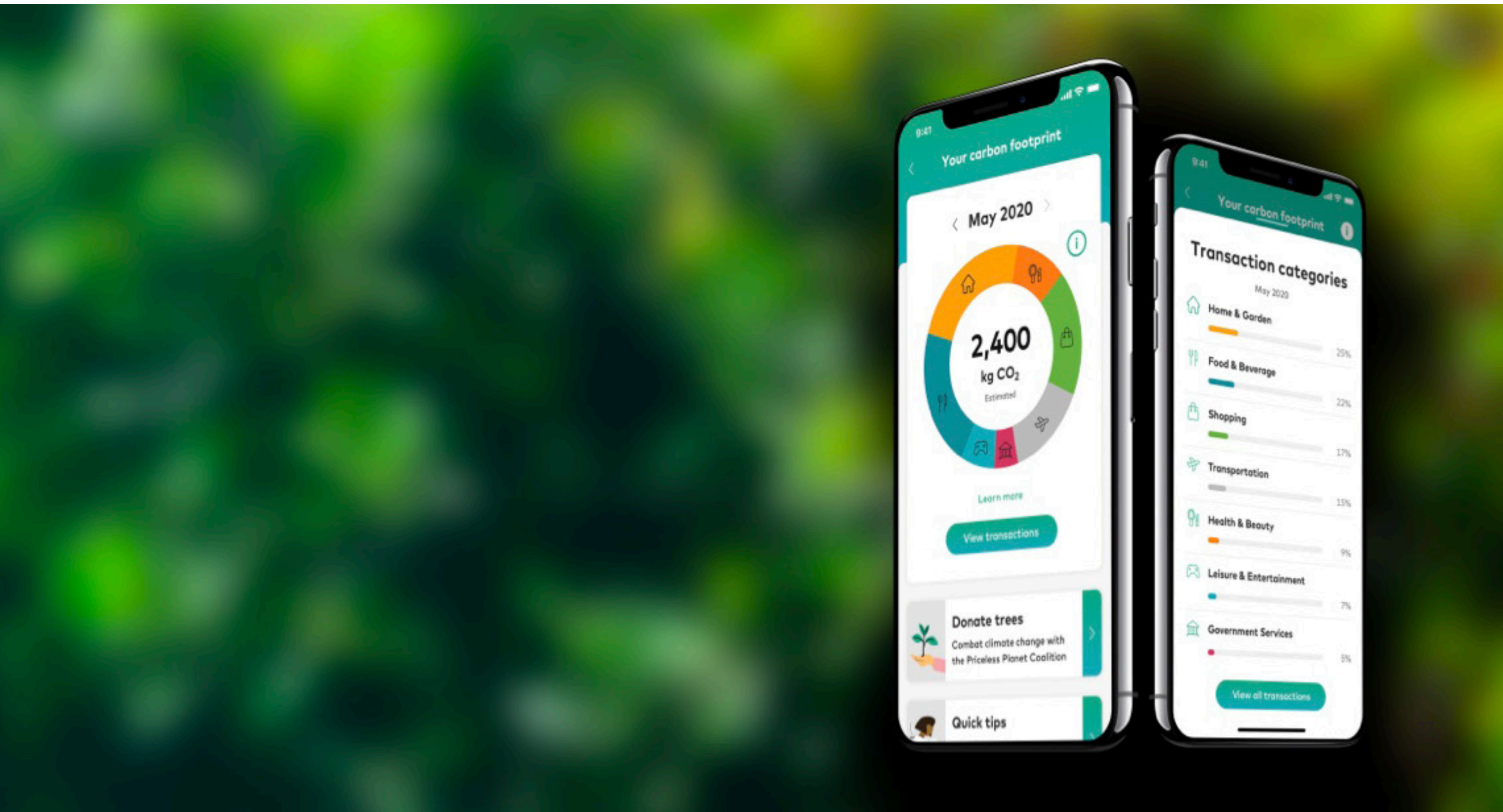
> "Respondents have especially observed the potential for digital payments technologies, including the point of payment, to report the carbon footprint of a transaction and to be a flash point for the carbon-offsetting process."

In the second part of the report, industry experts, business representatives, fintech innovators and Mastercard explore how the U.K. can take advantage of the unique and important opportunity to become a world-class fintech ecosystem in the ESG space by supporting homegrown fintechs creating solutions that will be essential to our transition to net zero and, in doing so, powering our next economy. Our respondents were unanimous that the U.K. should seek to be a world leader in this area.

The excitement within the fintech community about the potential for technology to further drive net zero has been notable. We are delighted to be active in this space already through the Mastercard Carbon Calculator.

There is also recognition that government has a major role to play and that, though recent years have seen major achievements, there is considerably more that can be done to build on this. Respondents have highlighted the importance of maintaining the right regulatory and tax environment, ensuring that businesses can access capital and creating a stable framework for calculating environmental impact – ideally, a framework that can work on an international level.

But, crucially, they have also highlighted the vital importance of government as a champion and thought leader – whether that's communicating the success of individuals and businesses committed to making a difference in this space or moving the conversation on to further measures of sustainability.



SECTION 2

# Mastercard

# The U.K.'s next economy must be a net zero economy and account for environmental and social costs

**Ellen Jackowski**
Chief Sustainability Officer, Mastercard

"We need to equip consumers with the knowledge and data to make more informed purchasing decisions, and to understand the impacts of their purchasing decisions."

We know that the only logical and sustainable economic growth moving forward must account for environmental and social costs. We have seen more than 30 countries[12] decouple their carbon emissions from their economic growth. It's evident that where policies and consumer choices have moved fastest to deliver the clean economy, the results have been new investments in efficiency and innovation, which drives economic growth, as well as first mover advantages in new sectors.

This is evidence that sustainable development and economic consumption do not need to stand in conflict. Businesses simply need to help drive consumption in a more sustainable direction. Tackling this is key to creating a world where purchasing decisions can drive more sustainable, equitable outcomes. Digital payments technology and innovation, including in the fintech space, are already an important enabler of more sustainable consumption, and will be for years to come.

If the U.K. is committed to creating sustainable economic growth, including higher wages and better opportunities, then the transition to net zero emissions must be a central pillar of those plans; and how we support consumers and businesses with a move to sustainable consumption must be a key part of that.

We need to equip consumers with the knowledge and data to make more informed purchasing decisions, and to understand the impacts of their purchasing decisions.

For Mastercard, we find that we're in a unique position to collaborate across industries and sectors to develop and adopt data-driven tools that support sustainable consumption – like our Carbon Calculator[13] – by informing, inspiring and enabling a new movement of sustainable consumers. Mastercard has increased its efforts over the past few years to equip consumers with information about the impact of their choices, focusing on an education-first approach. We developed the Mastercard Carbon Calculator with our partner Doconomy to help consumers track the estimated carbon footprint of purchases they make with their card. With this data in hand, consumers and companies can see where they are having the greatest climate impact, then make changes that lead to more mindful spending.

Mastercard is also working with social-purpose fintechs like ekko, which in 2021 launched a first-of-its-kind proposition by combining fintech, marketplace, open banking and retail into one transformative app that makes it effortless to make a tangible difference on climate change, without

> "Mastercard has increased its efforts over the past few years to equip consumers with information about the impact of their choices, focusing on an education-first approach."

> "What's needed is a national fintech strategy for the U.K. which puts the growth of environmental and socially focused fintechs at its heart."

the consumer needing to do anything different. Every five transactions a customer makes using the ekko debit card will pay for one plastic bottle being collected before it enters our oceans, and every 50 transactions will pay for the planting of a tree on behalf of the customer.

Customers can track their own personal forest or how many bottles they've collected and even monitor their own personalised carbon footprint using their Carbon Meter in the ekko app. The app also gives customers access to a curated list of sustainable partners offering climate-friendly goods and services as part of the wider 'enviroconomy'.

We know that helping drive the wider decoupling of emissions and growth is part of our responsibility as a business. With our vast network of more than 100 million merchants and with 3 billion cards in circulation, Mastercard sees a world where each swipe, click or tap provides consumers with the opportunity to make choices that help in the fight against climate change.

While such innovation is already helping consumers and the wider U.K. economy on the journey to net zero, a more supportive policy and regulatory ecosystem is needed to make this type of innovation mainstream. This is vital if the U.K. wants to not only maintain the global competitiveness of its fintech sector but also be a world-leading centre for sustainable innovation that drives the transition beyond net zero.

The current economic model will not drive the shift we need towards more sustainable consumption. That's why collaboration is vital – we need to share learnings and insights and combine our resources across sectors to support entrepreneurs and innovators with partnerships and routes to market.

Specifically, what's needed is a national fintech strategy for the U.K. which puts the growth of environmental and socially focused fintechs at its heart. There should be a focus on understanding and then removing the barriers that ESG-focused innovators face either when starting or trying to scale their business.

Every business has a part to play.

Let's work together to bring transformational solutions to our customers and partners so that everyone, everywhere, will be able to make more informed decisions today and create a more sustainable and equitable future for tomorrow.

SECTION 2

# Bankers for Net Zero

# Driving Sustainable Growth: the role of digital payments and assurable data in the UK's path to net zero

**Elena Pérez Celis**
Head of Policy and Public Affairs, Bankers for Net Zero

The United Kingdom is currently navigating a path towards sustainable growth and innovation. At the core of this transformation lies the intersection of digital payments technology, data-driven insights, support for small and medium-sized enterprises (SMEs) and collaboration with traditional banks. This integrated approach not only empowers consumers towards net zero living but also strengthens the competitiveness of the U.K.'s fintech sector, thereby driving sustainable economic growth. However, whilst payments data is helpful, we need assurable data.

## The benefits of digital payments for consumers, SMEs and banks

The journey towards a net zero future begins with individual choices. Digital payments technology, with its innovative features, emerges as a powerful tool for empowering consumers to make sustainable decisions . Features such as cash-back rewards for eco-friendly transactions, real-time carbon footprint tracking and personalised insights into sustainable choices create a symbiotic relationship between consumers and their environmental impact.

The benefits of digital payments technology extend beyond consumers to SMEs and banks. Insights derived from digital payment data prove invaluable for understanding consumer behaviour and market trends. This data is crucial for SMEs and helps them to optimise operations, minimise waste and make informed decisions in line with their sustainability objectives. Digital transactions can utilise the generated data to enable financial institutions to customise investment products that support green initiatives. This data-driven approach not only facilitates green investments but also enhances financial inclusion. SMEs, often pioneers of innovation, can secure funding for sustainable projects, contributing to a more diverse and eco-conscious economic landscape.

Through collaboration with organisations, banks can harness digital payment data to provide targeted financial solutions, supporting SMEs in adopting sustainable practices. Analysing transaction data allows banks to gain insights into SME spending patterns, enabling personalised advice on resource optimisation, carbon footprint reduction and eco-friendly initiatives. This data-driven approach empowers banks to offer tailored financial products, fostering a mutually beneficial relationship between financial institutions and small businesses committed to sustainability.

"Digital payments technology, with its innovative features, emerges as a powerful tool for empowering consumers to make sustainable decisions."

"Insights derived from digital payment data prove invaluable for understanding consumer behaviour and market trends."

"Despite the numerous benefits, SMEs face numerous challenges in accessing green products and loans, and often need to meet specific sustainability criteria."

## Obstacles for SMEs and banks to leverage the power of data

Despite the numerous benefits, SMEs face numerous challenges in accessing green products and loans, and often need to meet specific sustainability criteria. This requires them to provide data disclosing their emissions to qualify for innovative financing. Banks, on the other hand, are grappling with reporting on their Scope 3 or 'financed' emissions, and obtaining data from their SME customers is time- and resource-intensive.

While the U.K. boasts more than 5.9 million SMEs, there is currently no dominant standard for SMEs to report greenhouse gas emissions. Leading international frameworks often prioritise large companies, leaving SMEs overlooked and underrepresented in climate policy and regulation. The absence of standardised reporting hampers the flow of ESG-related data between banks/asset managers and their customers/clients, impeding effective decisions and hindering the investment needed to accelerate the transition to net zero.

"Bankers for Net Zero (B4NZ), in collaboration with net zero data nonprofit Icebreaker One, is creating Perseus to automate GHG emissions reporting for SMEs across the country, making it easy to share accurate, assurable data that sits behind emissions calculations. "

## Perseus: Bridging the data chasm

In response to these challenges, the Perseus[14] programme emerges as a transformative solution. Bankers for Net Zero (B4NZ), in collaboration with net zero data nonprofit Icebreaker One, is creating Perseus to automate GHG emissions reporting for SMEs across the country, making it easy to share accurate, assurable data that sits behind emissions calculations.

This project, the first of its kind in the world, eases the challenge SMEs face in finding and sharing the reliable data they need to calculate their own emissions and comply with complex reporting requirements. Building off the digital frameworks of open banking, the goal of Perseus is to facilitate the flow of primary and accurate data into the system, moving away from proxy data and empowering banks, corporations and carbon accounting platforms to make strategic investment and business decisions based on real, at-source data.

The U.K. government has already recognised Perseus in the recently published Green Finance Strategy as the pathway to lead the country towards its decarbonisation goals. Through this partnership, Bankers for Net Zero is working with policymakers to build awareness and understanding through tools and advice on SME decarbonisation and provide incentives to encourage SMEs to take net zero action.

## A whole-of-economy approach

Ensuring the success of banks and large enterprises in achieving their net zero targets requires a crucial focus on providing robust support to the SMEs within their portfolios. This support should extend beyond incremental measures, encompassing both gradual and transformative solutions aimed at reducing emissions. Failure to provide this essential support risks banks falling short of their own commitments, thereby exposing themselves to potential reputational risks, as well as leaving them vulnerable to transition and physical risks associated with climate change impacts.

In this context, Perseus presents a unique opportunity for these entities to contribute significantly to the creation of assurable ESG data. Through Perseus, banks and large enterprises can play a pivotal role in building a foundation for assurable ESG data, aligning with global sustainability goals and enhancing the resilience of their portfolios in the face of climate-related challenges.

"While digital payment technology is essential in helping the economy towards net zero, we need to ensure that the obtained data is assurable and reliable. Perseus presents a unique opportunity for financial institutions to contribute significantly to the creation of assurable ESG data, but this can only be done through pre-competitive collaboration across the market. "

SECTION 2

# British Chambers of Commerce

# Delivering growth: Harnessing digital payments technology to deliver net zero and position the U.K. as a global fintech superpower

**Alex Veitch**
Director of Policy and Insights,
British Chambers of Commerce

British Chambers of Commerce

Across our network of thousands of businesses, we are seeing digital technologies driving transformational change and shifting economic paradigms. New technologies are profoundly altering how business operates, while the latest advances in artificial intelligence and related innovations are expanding the frontiers of the digital revolution.

At the heart of this, digital payments technology and innovation is set to play a defining role in driving the future of the economy, providing a basis on which the U.K. can grow, and helping respond to some of our most pressing challenges. From ramping up the transition to net zero to enabling the growth of the U.K.'s burgeoning fintech sector, its continued development offers huge opportunities for the U.K. But to deliver success in both of these areas, a new approach is needed to help businesses take advantage of technologies like digital payments and propel their expansion.

## Opportunity 1: Delivering net zero

First, while the transition to net zero is an inevitable trajectory for economies across the world, a key obstacle standing in the way is effective measurement of emissions. There are more than 5.9 million small and medium-sized enterprises (SMEs) in the UK, accounting for around half of the country's non-household greenhouse gas emissions. However, there is no common process or framework for them to follow when reporting emissions, and many reports are based on inaccurate estimates. In 2021, our research showed that just one in ten SMEs were accurately assessing their carbon footprints. Faced with competing priorities, we need to harness the latest technological developments to help SMEs make more sustainable spending decisions without adding further burdens to their already mounting pile.

> "Digital payments technology and innovation is set to play a defining role in driving the future of the economy, providing a basis on which the U.K. can grow, and helping respond to some of our most pressing challenges."

A key advantage of the rise of digital payment technology – which can capture the daily economic activity of businesses in real time – is the rich data and insights it can offer. By assigning and keeping track of the carbon footprints of these transactions, digital payment platforms can provide businesses and customers with an automated measure of their energy consumption and $CO_2$ emissions and, in turn, inform and catalyse change. We sit on the steering group of Project Perseus, developed by the Icebreaker One organisation, which is developing solutions to enable automated, comparable and actionable emissions reporting. For our members up and down the country, this can inform investment decisions, enable targeted decarbonisation interventions, reduce reporting burdens and unlock green finance. We are working with Bankers for Net Zero (B4NZ) and Icebreaker One through a cross-sector coalition to collaboratively shape the future of emissions reporting, ensuring that the needs of businesses of all sizes and across all sectors are met.

But it's not just through reporting that digital payments technology can contribute to the transition. Carbon offsetting can also be incorporated into payment processes, enabling users to calculate and offset their carbon emissions when making digital payments. Fintech solutions can also incentivise green choices, by rewarding customers through cash back or discounts for making sustainable choices and eco-friendly purchases. Examples in the payment sector include the Mastercard Carbon Calculator, the AmEx Carbon Emissions Tracker and the Visa Carbon Impact Index.

## Opportunity 2: Propelling the U.K. fintech sector

Second, at a time when the U.K. is experiencing sluggish economic growth, the continued evolution of digital payments technology and disruption can further propel the U.K.'s fintech sector and ensure it remains a hotbed for innovation. The U.K. maintains its position as a top destination for fintech investment, second only to the US, and accounts for nearly half of all investment in Europe. Contributing an estimated 76,000 jobs and £11 billion investment to the U.K. economy in 2021, the sector continues to punch well above its weight on the world stage, controlling 10% of the global market share of fintech investment.[15]

However, faced with economic headwinds, the U.K. fintech sector has seen a notable drop in activity. Other countries looking to expand their fintech infrastructure and offerings are now hot on our heels, with the EU looking to introduce an instant payments directive. Innovative measures such as the UK-Singapore FinTech Bridge, announced by the government last year, are helping to keep us ahead, but we must continue to be bold if we are to ensure that the U.K.'s head start is not squandered and the country remains competitive.

The regulatory structure in the U.K. has been adaptive, allowing fintech startups to innovate and operate more easily. Regulatory sandboxes have provided a space for experimentation, enabling fintech companies to develop and test new solutions, thereby creating a path to success for a lot of startups. But momentum has slowed, with regulators becoming less agile. Digital payments technology remains a focal point for investors looking to support fintech startups. Access to venture capital, private equity and government grants is needed to fuel innovation in the sector. So far it is private initiatives that have filled this gap – namely the £1 billion FinTech

"Government should ensure that its R&D tax credit system is robust, while also enabling businesses to benefit from this tax incentive."

Growth Fund, announced in August 2023 by market participants including Mastercard. Building on our existing sandboxes would also create renewed opportunities for fintech companies to collaborate with traditional banks to expand their reach and services, to provide consumers with a wider range of financial options and better data.

Our members consistently tell me that with the right approach, digital payments technologies can help them deliver growth. Whether it's ensuring that SMEs are able to take advantage of these developments to drive forward the delivery of net zero or providing funding to help our emerging fintech sector go for growth, the government must support businesses to act.

## Calls to action

The government should continue to support the development of the new Centre for Finance, Innovation and Technology (CFIT), in particular its work on helping SMEs take advantage of open finance. More broadly, government should ensure that its R&D tax credit system is robust, while also enabling businesses to benefit from this tax incentive. Enabling business to invest in R&D is a key way to boost productivity and uptake of digital solutions, whether payments and accounting or operations.

SECTION 2

# British Retail Consortium

BRITISH RETAIL CONSORTIUM

# How digital payments innovation can help the fintech sector remain competitive and how payments data can help in the transition to net zero

**Hannah Regan**
Finance Policy Lead,
British Retail Consortium

"We are seeing more choice and empowerment for merchants and their customers."

"Innovation in payments can bring even further benefits as both consumers and retailers look to make more sustainable choices."

Innovation is critical for driving competition and choice through empowerment, for both merchants and their customers.

Payments are integral to every part of our daily lives, whether it's nipping out to buy milk or a long-planned purchase of a new kitchen. Consumers and merchants rely on payments systems when conducting everyday activities, but they also need them to adapt to and meet ever-changing needs, while trying to remain affordable for retailers .

The world of payments has come a long way, from the barter of goods and services to exchanges of coins to the rapid growth of digital technologies in the past few decades. However, in the UK, payments have long been stuck in a place where consumers have primarily two choices when paying retailers: cash or card. The digitisation of our environments has led to cash usage declining dramatically over recent years, and reliance on cards continuing to increase. But this digitisation and development of new technologies means that consumers are finally starting to see new payment options appearing, and with this come great opportunities for everyone in the ecosystem.
Finally, we are seeing more choice and empowerment for merchants and their customers.

Competition in retail is fierce, and retailers are ultimately led by their consumers. Our Payments Survey data shows a trend of consumers shopping around more in the recent cost-of-living crisis, looking for deals and wanting to maximise their potential savings while also considering their impact on the planet. Retailers are therefore having to do everything they can to keep existing customers and win new ones. Two ways to do this are being fully flexible with payment options and making the checkout process as seamless as possible.

Payments innovation is therefore more critical than ever before.

Consumers are evolving, preferences are changing, and retailers must change with it. And innovation in payments can bring even further benefits as both consumers and retailers look to make more sustainable choices . Payments innovation is beginning to add options that empower end users to make choices that suit their budgets as well as their sustainability goals, such as allowing users to round up transactions to donate to charity. But more could be done.

# 91%

of consumers know that climate change is an issue, but only 33% of consumers have a good understanding of the contributors to it.

Research from the BRC and OC&C Strategy Consultants showed that 91% of consumers know that climate change is an issue, but only 33% of consumers have a good understanding of the contributors to it ,[16] so data and information are key. There is a huge amount of information presented in other areas of retail shopping, such as the percentage of materials that have been recycled or the carbon footprint of the shipping, but information on the green impact of payments has further to go.

Payments data could be leveraged by both consumers and retailers to make more informed choices. As innovation progresses and alternative payment methods gain traction, consumers could be presented with the carbon footprint of each payment type, for example, allowing consumers to choose a payment type based on its environmental impact. Or if retailers were able to utilise data showing the impact of different payment choices and were allowed to route transactions via alternative means, they could make choices based on sustainability choices or budgetary constraints.

"Payments data could be leveraged by both consumers and retailers to make more informed choices."

The birth and subsequent growth of new payment methods over the past few years has brought a welcome injection of competition to the U.K. payments ecosystem. But the U.K. needs to fully embrace payments innovation to keep us internationally competitive. As the recent Future of Payments Review states, 'if the U.K. is to thrive in a competitive global economy, it is important that U.K. consumers and businesses have access to world leading payment solutions in a secure and reliable environment'.[17] While we stormed ahead with digitisation in card usage, chip and pin, and contactless, that has made it more difficult for us to keep that front footing as new payment types develop.

# 88%

of consumers want brands to help them live sustainably.

Payments are an integral part of the ecosystem, and innovation in payments could ultimately lead to a more positive experience for all, with increased choice, competition and flexibility. Consumers want to be empowered to make more sustainable choices. Nearly four out of five consumers say they have changed or will change their purchasing preferences based on social responsibility, inclusiveness or environmental impacts, and 88% of consumers want brands to help them live sustainably.[18]

But we are living through economically challenging times, with a cost-of-living crisis affecting consumers and a cost-of-doing-business crisis affecting businesses. As consumers navigate difficult times, they also want payment options that allow them more flexibility or loyalty benefits. For retailers, they want to find ways of minimising the economic burden of these payments. Either way, greater choice through innovative technologies is essential.

To ensure we don't fall behind, it is critical for innovation to be supported without barriers to entry. For retailers, innovation can only be a good thing: more competition, more transparency and more choice. Ultimately, this will benefit us all, but retailers can only embrace new payment types if they are functional, trustworthy, and easy for their consumers to use. For this to happen, the whole ecosystem needs to get behind them. As the Future of Payments Review found, PiX has been so successful in Brazil as the whole market is onboard; 'merchants are provided with an integrated model ... for person-to-person and consumer-to-business and banks are supportive given the wider financial inclusion benefits'.[19]

With both consumers and retailers looking for ways to make more sustainable choices, payments need to be part of that conversation. There are clear avenues ahead for us to make a difference, and we continue to support and encourage the Payment Systems Regulator, HM Treasury and the Financial Conduct Authority to take necessary steps to make it a fairer environment where both consumers and retailers are empowered to make choices that align with their needs, and to keep the U.K. fintech sector internationally competitive.

SECTION 2

# ekko

# Innovating our way to a net zero future: A perspective

**Oli Cook**
CEO and Co-Founder,
ekko

"At the intersection of finance and technology, fintech companies hold a distinct advantage: they have unparalleled insights into consumer financial behaviour."

Across fintech we've been part of a transformative era where powerful algorithms, user-friendly interfaces and detailed analytics have revolutionised personal finance management for the better. The question now facing the industry is: can these proven tools be used to steer the world towards sustainability?

As a passionate advocate, here are a few reasons why I think fintech has an incredible opportunity to empower consumers and businesses around the world to make more sustainable choices and in the process support sustainable economic growth.

## The unique vantage point of fintech

At the intersection of finance and technology, fintech companies hold a distinct advantage: they have unparalleled insights into consumer financial behaviour. By analysing data, we not only understand where money is spent, and other consumer behaviour and patterns , but can also gauge a consumer's environmental footprint from the things they buy. While much is rightly spoken about traditional banks' involvement in non-green ventures, fintech offers an alternative narrative. Our tools, successfully designed for money management, can equally be used to promote sustainability, allowing consumers to learn about their current impact and make positive changes through small everyday actions.

## History as the evidence of change

I often think about the influence fintech has had on traditional banking and finance models. From pioneering advancements in foreign exchange to building compelling app-based banking, fintech's innovations have constantly prompted legacy financial institutions to upgrade their services just to keep pace with the expanding customer demand for something better.

Now, fintech can play a vital role in sustainability. As more stakeholders – consumers, investors, businesses and even their own employees – advocate for eco-conscious decisions, fintechs are using the technology and empowering experiences that have been proven to work before to embed sustainability into their propositions and how their operations function. More traditional financial institutions now must up their game and take on the challenge by partnering with brands that can help them empower their customers and meet this demand.

This has many similarities to our digital evolution. However, this time it's different. Fintechs and traditional players now partner together to make things better for our customers at a faster pace, so this is not a journey brands need to do on their own, but rather an opportunity to foster the broader community to create faster and more impactful change.

"At ekko, we've partnered with Mastercard's Priceless Coalition, an initiative that doesn't just plant trees but ensures they're strategically placed for maximum biodiversity impact."

"By introducing attractive incentives for investors, rolling out policies that favour eco-tech startups and fostering a culture of innovation, we could lead the world in birthing technologies that hold the key to our planet's future."

## The crucial role of regulation

While the industry's intent is clear, regulators and policymakers can also help to accelerate genuine, widespread change. For instance, consider the various environmental initiatives businesses undertake. To create trust in the industry's activity, regulatory oversight of these activities and a mark of quality will only accelerate adoption.

Take tree planting, for example – not all trees are equal. More trees are a good thing, but they need the science behind the planting and the correct nurturing by experts to have the impact we all want, and that customers expect. At ekko, we've partnered with Mastercard's Priceless Coalition, an initiative that doesn't just plant trees but ensures they're strategically placed for maximum biodiversity impact and are subsequently maintained and audited for half a decade.

To give an example of where regulatory bodies can play a pivotal role, introducing an accreditation system or universal mark for genuine sustainability efforts will not only instil confidence among consumers but also drive businesses to raise the bar, perpetuating a cycle of increasing quality in eco-conscious endeavours. This is crucial if we're to meet our net zero targets and, importantly, take consumers with us on this journey.

## Channelling investments towards innovation

Fintech drives sustainable finance, while funding fuels its momentum. We must ensure that the next generation of innovative companies and leaders who are taking on the challenge are given the space and the tools to accelerate our change.

What if the U.K. could be the global nucleus for such investments? By introducing attractive incentives for investors, rolling out policies that favour eco-tech startups and fostering a culture of innovation, we could lead the world in birthing technologies that hold the key to our planet's future , with an important by-product : sustainable economic growth for the U.K.

## Championing the torchbearers

Every revolution has its heroes, and the green movement is no exception. Innovators, working behind the scenes, dedicate their lives to solutions that shape a sustainable future. Yet their work often goes unnoticed. Big businesses, governments, regulators and media houses hold the megaphone that can spotlight these individuals and organisations. By celebrating their achievements and broadcasting their stories, we not only honour their dedication but also inspire countless others. After all, every large movement starts with individual steps, and by showcasing these trailblazers, we set millions on the path of green innovation.

## In conclusion

In the vast landscape of finance, fintech is a fresh entrant. Yet its influence is undeniable. As we grapple with environmental crises, the fintech sector holds a unique opportunity to do more. With collaborative efforts from all stakeholders – innovators, investors, regulators and the public at large – fintech can play its role in a better future and play its part in enabling the financial services sector to move towards a more sustainable future. This does not mean that fintech can solve the climate crisis – it can't. But fintech can make a difference, driving change and empowering people throughout the world to make better choices. That's what excites me and gets me out of bed every day to continue to drive ekko's impact.

SECTION 2

# Science Card

# Building an ESG fintech industry in the UK: A call to action

**Daniel Baeriswyl**
CEO and Founder,
Science Card

Science Card

"With ESG-focused fintechs, the U.K. has the same opportunity to develop a world-class ecosystem."

The U.K.'s thriving, world-leading fintech ecosystem didn't come about by chance. A potent combination of the City of London's centuries-old pre-eminence in banking and finance, the U.K.'s educational establishments, a talented workforce, a business environment conducive to funding startups and technological innovation and, critically, government policy and a regulatory system that have recognised the value of fintechs to the country's economy and its status on the world stage has brought us to this point.

How, then, do we apply the same approach to environmental, social and corporate governance (ESG)?

ESG is taking centre stage globally, particularly at a policy level, and again the U.K. is seeking a leading role. With ESG-focused fintechs, the U.K. has the same opportunity to develop a world-class ecosystem by building on the country's existing highly advanced and innovation-focused digital payments infrastructure, and a payments network that provides global reach, resilience and baked-in trust. Furthermore, the U.K. has a consumer base that expects choice and innovation from its finance providers and is increasingly seeking both ESG products and evidence of sustainable behaviours from them.

If, however, nurturing ESG businesses is strategically important for U.K. plc, both in terms of building globally relevant businesses, with a focus on sustainability, and in enabling the country's businesses to operate more sustainably, then it needs to be treated as such – and have the same prominence and level of government support that the fintech industry has already significantly benefited from.

## Systemic issues hold back the growth of an ESG fintech startup ecosystem

ESG-focused fintechs have a material role to play in targeting the adoption of UN Sustainable Development Goals (SDGs) in the wider economy.

The EU Horizon programme, which the U.K. has very recently rejoined, selects specific topics of focus, and makes it clear that funding will be directed to where business objectives align with that agenda. This creates simple landmarks to steer towards: for example, a fintech can direct credit to a company making farmer-friendly products to enable them to adopt technologies that align with the 'Life on Land' SDG, or to firms enabling improved healthcare.

Fintechs have the agility and focus to be able to provide bespoke credit products designed for specific sectors and use cases such as these, but they need support coming to market because of the particular risk profile of verticals such as agriculture and tech.

"There is seemingly no prominent, visible government-level agenda to enable and push awareness of sustainability-focused startups in the U.K."

However, although government strategy and implementation papers covering the ESG startup framework exist, including an FCA ESG agenda and rules for ratings, there is seemingly no prominent, visible government-level agenda to enable and push awareness of sustainability-focused startups in the U.K. – whether fintechs or otherwise. This contrasts directly with the significance of what the sector is setting out to achieve, and its relevance to the government's broader commitment to ESG.

What agenda there is, is distributed through the U.K. Research and Innovation (UKRI) framework. The UKRI framework does have an ESG angle; however, the details change frequently, which can make it extremely challenging for small businesses to be able to keep up to date.

Compounding this, there are no consistent government-level metrics relating to the UN's SDGs, a cornerstone of ESG policy-setting. A data-driven approach would bring clarity and consistency, removing any ambiguity from an otherwise vague approach, and would facilitate a government framework for monitoring and traffic-lighting businesses' ESG compliance.

## Funding the U.K.'s ESG-focused future

What we allocate capital to can – and must – grow the economy. In the UK, the level of government funding available for businesses with a broad ESG remit superficially appears to be so low that it gives the impression of not being a long-term strategic objective. As a result, the nascent sector is not given a chance to demonstrate its capacity for value creation and the positive impact on the economy that it has the potential to generate.

Grant funding is available for sustainable businesses. However, the funding landscape is opaque – the government is at the centre of the funding circle, but with well over 100 entities surrounding it. In the absence of an identifiable 'sustainable business' vertical (on the basis that ESG-focused startups generally operate to apply ESG principles to established verticals), which state entities do sustainable businesses approach for grant funding? More broadly – and this is not an issue specific to ESG-focused fintechs but is one that stymies their growth nonetheless – applying for government grants is a long, time-consuming process that is out of sync with the reality of the capital requirements of early-stage startups. It can take a year for funding to reach its goal.

For startups, speed is essential, and a year's wait for funding could be terminal. The ambiguity, opacity and lack of pace of the granting process has generated its own sub-industry of administrative services claiming to be able to assist with the process. These further obscure the pathway through the grant applications, diminishing their accessibility and ensuring that, aside from the administrative services themselves, nobody wins.

To return to the point made earlier about government-level metrics relating to SDGs, these would mean that startups would be able to quantify and demonstrate ESG compliance. This would in turn free up access to funds distributed by industry councils, which have been granted leeway by the government to do so more freely when firms can demonstrate ESG compliance.

"Make it easier for ESG-focused fintechs to navigate to where government support (nonfinancial as well as grants) is available."

## How government can help

Our request to the government to help facilitate the growth of the strategically vital ESG-focused fintech ecosystem has three parts:

1. To generate awareness and support of ESG-focused fintechs, making it easier for hard-to-categorise ESG startups to thrive.

2. To make it easier for ESG-focused fintechs to navigate to where government support (nonfinancial as well as grants) is available, and to spearhead ESG compliance, for example by making it a condition of grant approval.

3. To extend the conversation beyond climate change, building awareness of a broader range of UN SDGs. Combating climate change is a justifiably well-established priority in the public mind, but it's not the only SDG-aligned issue. Other pressing issues, such as food security, sustainable use of terrestrial ecosystems and equity in health and well-being, would benefit from the same level of government promotion.

## END NOTES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## About Mastercard

Mastercard is a global technology company in the payments industry. Our mission is to connect and power an inclusive, digital economy that benefits everyone, everywhere by making transactions safe, simple, smart and accessible. Using secure data and networks, partnerships and passion, our innovations and solutions help individuals, financial institutions, governments and businesses realise their greatest potential. Our decency quotient, or DQ, drives our culture and everything we do inside and outside of our company. With connections across more than 210 countries and territories, we are building a sustainable world that unlocks priceless possibilities for all.

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