A Growth Vision for Fintech

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About Startup Coalition

Startup Coalition, formerly the Coalition for a Digital Economy (Coadec), is an independent advocacy group that serves as the policy voice for Britain's technology-led startups and scaleups. Startup Coalition was founded in 2010 by Mike Butcher, Editor-at-Large of technology news publisher TechCrunch, and Jeff Lynn, Chairman and Co-Founder of online investment platform Seedrs. Startup Coalition works across a broad range of policy areas that matter the most to startups and scaleups: Access to Talent, Access to Finance & Regulation.

Executive Summary: Growth Vision for Fintech

The UK's fintech sector stands as one of our greatest economic assets, having raised nearly £40 billion over the past five years, and produced more unicorns, privately held companies valued above £1 billion, than any other technology sector in the country. This remarkable success stems from the UK's position as a global financial centre, our world-class talent base, and a historically supportive regulatory environment.

Last year, ahead of the General Election, we partnered with the Tony Blair Institute to outline a blueprint for the government to harness the fintech ecosystem to support the delivery of progressive missions, including financial literacy, inclusion, and innovation. A year on, the first Labour Government in 14 years has an opportunity to put this plan into action, starting with its most urgent goal which underpins its other missions: the delivery of economic growth.

Our vision for unleashing fintech growth in the UK focuses on three strategic pillars that will enable the sector to thrive while delivering broader economic and social benefits.

Deliver Manifesto Commitments

The Government must quickly implement its key manifesto commitments: making Open Finance happen through a statutory instrument with clear implementation timelines; positioning London as the Green Finance Capital of the world through data standardisation and support for voluntary carbon markets; and ensuring startups have the access to finance they need through targeted reforms to investment schemes like SEIS and EIS and the British Business Bank.

A Regulatory Revolution

The financial regulatory system must be fundamentally reimagined to balance consumer protection with innovation and growth. We advocate clearing the regulatory backlog through a one-time authorisation initiative; implementing a 6-month authorisation guarantee with a "pay for speed" program; creating a dedicated Fintech Authorisation Unit at the FCA; establishing regular “office hours” for regulatory guidance; and reforming the Financial Ombudsman Service to provide greater certainty for innovative firms.

Make Payments Pay

The UK payments landscape suffers from opacity that undermines competition and stifles innovation. We propose mandating adoption by the data holders of currently optional API standards for Open Banking; establishing comprehensive transparency requirements for payment processing fees; creating standardised disclosure formats for comparing payment costs; implementing advance notification requirements for fee changes; and making the UK the best place for cross-border payments through specific FCA guidance on FX services.

Introduction: Progressive Growth Through Fintech

The financial services sector stands as one of the UK's greatest economic assets, contributing 10% of total economic output and employing over one million people across the country.[1] At its cutting edge, the UK's fintech ecosystem has emerged as a global success story, raising nearly £40 billion over the past five years and producing more unicorns than any other technology sector in the UK.[2]

Yet despite this success, the sector faces significant challenges that threaten to undermine its growth potential. Investment in UK fintech declined by 48% year-on-year in 2023, while regulatory backlogs and increasing authorisation rejection rates have created uncertainty for innovative firms. The FCA cancelled 1,261 firm authorisations in 2023-24 alone, signaling a system that is increasingly becoming a barrier rather than an enabler of innovation.

The UK's fintech sector represents a powerful tool for driving economic growth and addressing barriers to opportunity across the nation. Last year, in our Progressive Vision for Fintech report published in partnership with the Tony Blair Institute for Global Change, we outlined how fintech can fulfill this dual promise through targeted policy interventions.

We identified three core pillars for a progressive approach to fintech policy. First, fintech can fuel economic growth through both the continued expansion of the sector itself, and by enabling efficiencies across the wider economy. Second, fintech can break down barriers to opportunity - from increasing returns for savers and pension holders, to reducing costs for small businesses and enhancing financial inclusion. Third, Open Finance represents a transformative opportunity to build on the £4bn Open Banking ecosystem, empowering consumers while fostering innovation.

After extensive consultation with the sector ahead of this report through targeted roundtables and founder surveys, we heard that by optimising foundational innovation incentives, improving regulatory certainty, and cultivating competition, the government can position fintech as a catalyst for sustainable economic growth. Meanwhile, by developing a national financial inclusion strategy with financial innovation at its heart, unlocking pensions to invest in startups, and increasing choice for businesses, fintech can deliver on its progressive potential to create a more equitable financial system.

In our report, we established that financial innovation and technology are powerful tools for a mission-driven government - twelve months later, however, we're doubling down on the most enabling mission of them all: **economic growth**. Fintech has been a creator of jobs, innovation, financial empowerment, investment, and wealth across the country, and will be going forward. But the degree to

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1 https://assets.publishing.service.gov.uk/media/6735f4670b168c11ea82311d/Financial_Services_Growth___Competitiveness_Strategy_-_Call_for_Evidence_.pdf

2 https://api.startupcoalition.io/u/2024/03/Startup-Coalition-and-TBI-A-Progressive-Vision-for-Fintech-Final-Version.pdf

which this asset is exploited and deployed will be helped or hindered by the actions of the Government. So far, we have had warm words, but very little action.

The Government has a vision for the country based on sustainable economic growth. This report provides a vision for how fintech can help make this a reality.

Deliver on Manifesto Commitments

In July 2024, the first Labour Government in fourteen years was elected with a mandate for change. Importantly there were multiple commitments made during the election that set the stage for a Growth Vision for Fintech. For Startup Coalition, three of the most important policies that must now be delivered are:

1. To ensure Startups have access to finance they need to grow
2. Make Open Finance Happen
3. Make London the Green Finance Capital of the world

Ensure Startups Have Access to Finance They Need to Grow

The UK has done a superb job at creating a liquid early-stage funding ecosystem, especially for software companies such as Fintech. This is primarily due to the existing strengths of the market, deep pools of capital, the British Business Bank, and long-standing tax incentives. For example, London now ranks second best VC hub, behind San Francisco, for cheque sizes less than $15m, but this falls to fourth for cheques larger than $15m, with New York and Beijing overtaking.[3] In order to be successful into the future, the UK needs to defend its position as a top three destination for early-stage capital, as well as dramatically improve available capital at the later stages.

Tax Incentives

Whilst these tax incentives have been the bedrock of the UK taking an early lead in the technology sector compared to European counterparts, other countries are now catching up quickly. In France's 2024 Finance Act they introduced a scheme similar to EIS and SEIS, targeting early-stage investments in "high-growth" (JEIC) and "disruptive" (JEIR) startups.

It's important that we do not rest on our laurels - there are several tweaks to the EIS and SEIS schemes which could improve how it operates and ensure it remains the most effective entrepreneurial tax support in Europe. These include:

1. Ensure all fintech firms are eligible for SEIS & EIS by changing the eligibility criteria to permit regulated fintechs to apply.

[3] https://startupcoalition.io/u/2024/12/Startup-Coalition-Report-The-UKs-Modern-Industrial-Strategy-.pdf

2. Introduce pre-Approved Contractual Language for SEIS to make the application process more efficient and lower barriers to firms accessing the scheme.

3. Reinstate Pre-2018 Speculative Applications to HMRC for SEIS Eligibility (“Advanced Assurance”) to tackle the ‘chicken and egg’ situation whereby investors seek SEIS eligible-startups, while startups must have investors locked in to understand if they qualify for SEIS.

4. Extend the Advanced Subscription Agreement Longstop for EIS & SEIS to at least 12 Months so that firms do not have to rush valuations.

The British Business Bank

The British Business Bank has played an essential role in building a thriving early-stage ecosystem by cornerstoneing VC funds, especially via its Enterprise Capital Fund - including spawning a host of successful funds such as Ada Ventures, Entrepreneur First, Episode 1, Form Ventures, IQ Capital, Jam Jar Investments.

However, it's evident that the cheque size has gotten too large to support truly emerging fund managers. In summary, it has ended up taking on less risk by providing average cheque sizes of £50m (rather than £20m), moving too far up the market. The Bank should be reformed in order to ensure it continues to support emerging fund managers, whilst also playing a better role in helping bridge the gap between funds looking to move further up the market.

This includes restructuring its governance and financing to reflect the journey of high-growth potential companies. Instead of organising Managing Director remits around types of investment vehicles (Direct, Fund, Managed Fund, Legacy), as it does now, **we recommend it refocuses its teams under the three key stages - Early, Venture, and Growth.**

Following its increased independence, the Bank has taken positive steps to bring British Patient Capital under its direct control. The Bank should take this one step further and absorb all programmes into broader pots of money under each of these startup stages. These larger pots would ensure the Bank can act flexibly to spot opportunities and deploy capital where it is most needed. Overall, the success of the Bank in pushing its own cash and those of British LPs (as per the government’s pensions reforms) towards the best fund managers is the key to improving access to finance at all stages of a startup’s journey.

Exit Here

Another opportunity to increase investment available is by improving **public markets.** Despite London being the European leader across almost every relevant metric, it falls down when it comes to IPOs, with the Amsterdam and Paris Euronext exchanges and the XETRA Trading Platform in Germany ahead in the rankings. We are supportive of the new Private Intermittent Securities and Capital Exchange System (PISCES) as a way to improve the sale of secondary shares and dynamism of the London Stock Exchange - but the government must act fast to create a more ambitious plan to allow scaleups to also raise capital (on top of trading) on the platform, as well as allow the selling of legacy employee share options.

Make Open Finance Happen

Over the last eight years, the UK has been at the vanguard of a financial services revolution. Powered by interoperable APIs that enable near real-time consumer directed data portability, Open Banking is now being used by over 12 million Brits. Open Banking is powering use cases from empowered financial planning to increase access to credit through enriched affordability assessments, from laying the foundations for carbon accounting, to accurate budgeting. It is, however, limited today.

Under the CMA Order and PSD2, only a handful of datasets are “open” for consumers to consent to share, with the remainder of financial information only accessible via imperfect, inefficient and expensive screen-scraping, where consumers consent to share data with third parties through credential sharing. This isn’t good enough.

The expansion to Open Finance was a Labour Manifesto commitment. This was unsurprising as Open Finance represents a transformative opportunity for the UK's financial services sector and the broader economy. By extending the principles of Open Banking to savings, investments, pensions, and mortgages, Open Finance would empower consumers while creating new avenues for innovation and competition.

The economic potential is immense. From an economic value-added perspective, Open Banking regulations have cultivated the creation of a £4bn startup ecosystem. UK Open Banking startups have raised more than £2.4bn, with more than 90% of this funding being secured after the introduction of regulations.[4] More than 5,000 people now work for Open Banking startups, and whilst the majority of firms are based in London, there are outposts of Open Banking innovation in Edinburgh, Manchester, and across the country.

But our data suggests that this economic opportunity is stalling. As seen in the below graph, annual investment in Open Banking startups has dropped off a cliff in recent years. Though fintechs experienced a post-pandemic boom, the sheer scale of the drop off from the 2022 high of over £800m in annual investment to less than £100m in 2024 is remarkable. The value of the sector has plateaued at between £4.2-£4.4bn. There is a real risk that this sector is about to witness consolidation, and whilst some of this may be a product of the market, the lack of regulatory clarity on the next steps for Open Finance does not help.

[4] https://coadec.com/wp-content/uploads/2023/03/Open-Banking-March-2023-For-Release.pdf

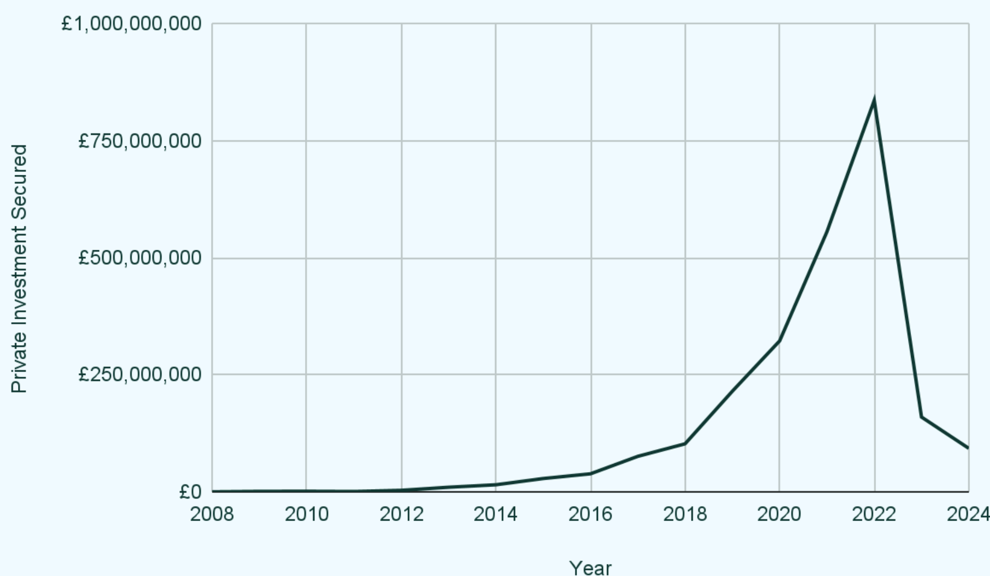

Figure 1, Annual Investment in Open Banking firms 2008-2024

The Opportunity of Open Finance

Expanding Open Banking to Open Finance would not only supercharge investor confidence in the startups bringing it to life for consumers. Open Finance would also address critical gaps in the current financial system. For credit access, research has found that 25% of marginally declined small businesses could have been granted credit with the additional insights provided by Open Finance. For financial advice, data sharing could enable around 150,000 more consumers annually to access tailored guidance, including some of the most vulnerable citizens in the UK.[5]

There are tangible benefits for users of different demographics, backgrounds and wealth, but many of the economic opportunities could not be accurately predicted. Open Finance does not enable any one use case – instead, it is a new capability that unlocks opportunity and innovation across financial services. As demonstrated with Open Banking, neither Government nor the regulators should try and predict why users will use Open Finance enabled services, this is for the market to decide.

Open Finance directly supports at least two of the Government's five missions: achieving the highest sustained growth in the G7 and breaking down barriers to opportunity. By unlocking the value of financial data, Open Finance would drive innovation, create jobs, and empower individuals to take greater control of their financial futures.

The Labour Government should approach Open Finance not as a technical regulatory change but as a transformative economic policy. By setting ambitious timelines the Government could create momentum that drives rapid innovation and adoption.

[5] https://cfit.org.uk/wp-content/uploads/2024/02/CFIT-Open-Finance-Blueprint.pdf

By making Open Finance a flagship policy initiative, the Labour Government would demonstrate its commitment to both economic growth and financial inclusion. It would establish the UK as a global leader in financial innovation while delivering tangible benefits to citizens across the country – from helping young people save for their futures to enabling retirees to better manage their pensions. This is precisely the kind of transformative, mission-driven policy that can define a progressive government's approach to financial services in the digital age.

Crucially, another reason to prioritise Open Finance is to establish the limits to regulation. One of the reasons that Open Banking has faltered in recent years is the ambiguity over elements at the edge of the regulation, including Variable Recurring Payments and certain data points. In clearly establishing what Open Finance is, the Government should also set out what it isn't, and therefore what can then be left to the market to compete on.

Make Open Finance Happen

The Government's opportunity is clear. The Data (Use and Access) Bill provides the regulatory foundation for implementing Smart Data schemes across the economy, starting with Open Finance. But having these powers is only the beginning – they must be used effectively and ambitiously. We believe that the UK Government should consult now on the introduction of the following Open Finance scheme in the UK through a Statutory Instrument as close to the Data Bill passing as possible:

The providers of savings, investment, pensions, and mortgage accounts should build interoperable APIs to enable real-time consumer directed data portability. It is aspirational for all providers of these services to be in scope, regardless of size – Open Finance must become a "cost of doing business" in these sectors of consumer finance, which would be more than justified by the value Open Finance will create. The in-scope data for these schemes should be the data held by these firms that would be made available to a user under a Subject Access Request under GDPR.

Whilst we anticipate some negotiation with the sector on the feasibility of implementation timelines, we believe that an Open Finance scheme covering all four of these product sets could be live within 18 months of the Statutory Instrument passing.

For implementation, we advocate a comprehensive approach that doesn't start from scratch but builds on the extensive foundation work already completed by industry. Any Open Finance scheme should include key data holders across savings, investments, pensions, and mortgages, with clear standards for data sharing and a streamlined authorisation process for third parties.

Make London the Green Finance Capital of the World

During its time in Opposition and over the first year of government, Labour has been clear that it intends for the UK to have one of the most ambitious, and growth-oriented, net zero agendas in the world. On the one hand, this has meant the UK committing to audaciously ambitious climate targets, including one of the most ambitious nationally determined contributions (NDCs) at the COP29 in Baku. The Government has also set out a new Overarching Principles Standard for the nature markets and progressed with new principles for high integrity Voluntary Carbon Markets (VCM). On the other hand, this also entails laying the foundations for the UK to be home to the low carbon economy of the future, including innovative ClimateTechs at the cutting edge of the green economy, and green finance powering the transition, driving forward investment, and creating jobs in the UK and abroad.

Making the UK the green finance capital of the world is a laudable goal. Despite current geopolitical headwinds and uncertainty, the net zero economy is surging, with ClimateTech innovation not just better for the planet, but often better for people, more cost effective in the short-medium term despite high upfront capital costs, and more efficient overall.

The UK has existing strengths with an established role as a leader in global financial services, a mature regulatory infrastructure, and a booming ClimateTech ecosystem. This means that, with some relatively modest policy interventions, it can chart a course for not just being the green finance capital of the world, but also the jurisdiction of choice for entrepreneurs looking to start businesses in the sector.

A UK "Project Greenprint"

Firstly, the UK must learn from other jurisdictions on how to provide fintechs with the right tools to deliver robust solutions, and then to access customers. The Monetary Authority of Singapore created Project Greenprint in 2020 to use data and technology to accelerate the development of a trusted, transparent, and efficient green finance ecosystem.

The project consists of three core components:

1. ESGenome - an ESG disclosure platform for businesses run in partnership with SGX (Singapore Exchange), aligned with global standards
2. Gprnt - the Greenprint Data Orchestration Platform is a central data-sharing platform connecting financial institutions, regulators, and ESG solution providers
3. Greenprint MarketPlace - a matchmaking platform for ESG solution providers and corporates

We do not need to build an exact replica of the Singapore model in the UK. Indeed, the in-flight work on the Transition Plan Taskforce Disclosure Framework, the UK Green Taxonomy, and the new Sustainability Reporting Standards provide a firm foundation on which to build. However, if the Government is serious about the UK being the home of green finance, it must seek to explore how the regulatory and digital sandboxes could accelerate innovation in green finance.

Specifically, this could be achieved through a dedicated focus on ESG data through the digital sandbox.

High Quality, High Integrity, High Tech Voluntary Carbon Markets

From startups removing CO2 from thin air, to firms using satellites to monitor tree planting, the UK is home to a carbon markets startup ecosystem that has raised over £790m in investment, and today employs over 1,500 people across the country. But today the growth and climate impact of these startups is being stalled by a lack of Government action, and if the Government wants the UK to be the green finance capital of the world, it must rectify this policy uncertainty.

Carbon markets exist to solve the challenge of pricing in the cost of emissions, and governments around the world have introduced carbon taxes for the most emitting sectors, such as the UK's Emissions Trading Scheme. For all emissions outside of these schemes, however, there is the Voluntary Carbon Market. Here buyers purchase "carbon credits" that equal one tonne of carbon dioxide removed from the atmosphere. Ensuring that a carbon credit does what it claims to do is critical, and this is where the UK's world-leading carbon markets startups come in, with firms like Sylvera and Abatable providing much-needed integrity and accountability.

After laying the foundations in November 2024, the long-overdue consultation on the role of the Voluntary Carbon Market in the UK's net zero transition was launched in April 2025. This consultation elaborates on the Government's Six Principles for Voluntary Carbon and NatureMarkets Integrity. Startup Coalition will be responding to this consultation shortly, with the support of the Carbon Markets Innovation Forum.

Critically, we are seeking the following outcomes from this consultation:

- Firms should have clear guidance on when and how to use carbon credits to support their decarbonisation efforts
- They must be able to make robust and defensible claims about their credit use, with confidence
- Technology must be a core enabler of the voluntary carbon and nature markets in the UK

Novel Retrofit Financing

In order to reach net zero, we need to reduce the environmental impact of buildings in the UK. Today, the greenhouse gas emissions of the built environment constitutes 20% of the total emissions we produce in the UK annually. In 2023, the UK was home to a £878m Built Environment ClimateTech sector, employing over 2,500 people across the UK and contributing 12% of all ClimateTech exits over the last 14 years.[6]

One of the major obstacles to retrofitting the domestic built environment is cost. Indeed, Social Market Foundation research from 2022 found that over a quarter of households that had not insulated their homes stated affordability as the main obstacle. In practice, the costs of retrofitting measures are wide ranging, from as little as £440 for insulating the loft of a semi-detached house, to over £9,000 in fixed up

[6] https://startupcoalition.io/u/2024/09/Startup-Coalition-Built-Different-Final.pdf

front costs for the installation of a ground source heat pump. This barrier to financing is one of the reasons that the percentage of homes with cavity or solid wall insulation installed has barely increased over the last decade.

Fortunately, there are a number of fintechs exploring ways of combatting this challenge, including through salary sacrifices and novel financing models. Further, the Green Finance Institute (GFI) has trailblazed with highlighting the potential opportunity presented from innovative green home financing models, including the Green Mortgage. They have also outlined the potential opportunity presented by property-linked finance. In essence, the challenge of retrofit financing is often a challenge of access to low-interest, long term capital, combined with homeowner uncertainty about the return on investment presented by retrofitting a property. If a homeowner plans to sell within a few years, it is uncertain whether retrofit investments will payback in time, or if the retrofit investment will break even with an uplift on sale price.

To remedy this, the GFI suggests creating loans attached to properties rather than individuals, or property-linked finance. The concept is similar to the Property Assessed Clean Energy (PACE) Programs in the US which has financed over $5bn in domestic retrofits to date. For households this would mitigate the risk of investing in retrofitting measures, and in practice the net-increase in the cost of a home would likely be marginal.

To accelerate this work, the Government should explore whether enabling legislation is required to accelerate the use of property-linked finance mechanisms to fund retrofits.

Sparking A Regulatory Revolution

The UK Government has made it clear that it expects regulators to play a collaborative role in cultivating economic growth in the UK. Since 2007, the UK has pursued a world-leading approach to outcome-based regulation, which has paved the way for the sector's continued success over the last two decades, but this comes with some risk, particularly when regulators are explicitly given competing outcomes to maximise.

The Financial Services and Markets Act 2023 introduced a new secondary objective for regulators to consider international competitiveness and growth, meaning that the financial regulators in the UK now have to constantly manage consumer risk, with innovation and growth. These outcomes are not inevitably at odds, and indeed at Startup Coalition we are clear that fintech innovation is a catalyst for consumer choice, empowerment and wealth building. However, we are not blind to the friction and challenges this creates for regulators in a fast-paced market.

On the one hand, in practice outcomes-based regulation presents opportunities for founders to innovate, push the boundaries of established processes, and conjure up new ways of delivering financial services to users leveraging best in class user experience and cutting edge AI. On the other hand, ambiguity creates uncertainty over the limits of regulatory tolerance for novel processes and products. As we will outline below, this tension has materialised most pressingly with consumer redress through the flailing Financial Ombudsman Service (FOS).

To limit this uncertainty, and maximise the growth opportunity for fintech innovation, it is vital that regulators are clear, consistent, proportionate, and collaborative. In turn, firms must be transparent, compliant, and proactive with their engagement with regulators. Over the first quarter of 2025, we have seen a concerted focus from the Government on how the regulators should contribute to economic growth, with each regulator submitting an action plan to the Government. To optimise for outcomes that truly drive growth and consumer protection, we think three key things were missing from the Regulatory Action Plan, which combined could spark a financial services regulatory revolution:

1. Clear the regulatory backlog
2. Connect innovation and regulation
3. Reform the FOS

Clear the Regulatory Backlog

Creating a One-Time 'Clear the Backlog' Authorisation Initiative

The growing backlog of firms awaiting regulatory clearance is creating significant market entry barriers for innovative fintechs and delaying the introduction of beneficial services to consumers. A dedicated initiative to address this backlog would unlock substantial economic growth by enabling a large number of new firms to enter the market.

The FCA should embark on a one-off "Clear the Backlog" campaign, hiring additional resources for a limited time to wipe the slate clean.

This initiative would require temporary additional resources dedicated to processing the current pipeline of applications. The Treasury should provide one-time funding for a significant increase in authorisation and registration staff at the FCA, implementing a triage system to identify and fast-track straightforward applications. Digital authorisation tools, powered by AI, should increase processing efficiency, while standardised authorisation pathways for common business models would streamline the process.

By establishing clear timelines and public reporting on backlog reduction progress, with aggressive but achievable targets for processing all applications within 6-12 months, the regulator could effectively reset the authorisation system and create a more sustainable process moving forward. This would send a powerful signal that the UK is serious about becoming the premier destination for fintech innovation.

A 6-Month Authorisation Guarantee

Beyond this short-term fix, however, it is clear that the current authorisation process at the FCA has become a significant barrier to innovation in the UK's fintech sector. In 2023-24, a staggering 1,261 firm authorisations were cancelled, demonstrating a system that is stifling rather than enabling growth.[7]

To address this, the government should implement a six-month authorisation guarantee for fintech firms, ensuring that innovative businesses can enter the market in a timely and predictable manner.

This guarantee would be complemented by a "pay for speed" programme that allows firms to opt for expedited processing in exchange for additional fees. This approach would generate revenue for the FCA while ensuring that firms with market-ready innovations can launch without unnecessary delays. Importantly, this would not compromise regulatory standards, but rather allocate resources more efficiently to process applications that are ready for review.

To implement this, the Economic Secretary to the Treasury should mandate the creation of a dedicated Fintech Authorisation Unit at the FCA, specifically designed to handle novel products and business models such as cryptoasset services and Buy Now, Pay Later offerings. This specialised unit would have

[7] https://www.fca.org.uk/publication/annual-reports/annual-report-2023-24.pdf

the expertise needed to evaluate innovative business models fairly and efficiently, replacing the current one-size-fits-all approach that often fails to accommodate new technologies and service models.

Connecting Innovation and Regulation

The above step is designed to fix the short-term mess, and then embed higher standards of certainty for aspiring fintech founders, but it's aspirational for the Government to go even further. If the UK is serious about fintech driving economic growth, it must make the authorisation process work for the most innovative firms.

Linking the Authorisation Process to the Digital Sandbox

The FCA's 2025–26 Work Programme signals important progress in streamlining the authorisation process for innovative firms.[8] The commitment to assign dedicated case officers to Regulatory Sandbox participants represents a significant shift toward more personalised regulatory support. This change acknowledges that innovative business models require tailored guidance rather than one-size-fits-all approaches.

While this development is promising, a critical gap remains. Currently, there's no formal mechanism to translate successful sandbox testing into expedited authorisation outcomes. Firms that have demonstrated their product's safety, compliance, and viability within the controlled sandbox environment must still navigate a separate authorisation process with limited recognition of their prior validation work.

This disconnect creates unnecessary friction that delays market entry for proven innovations. A truly effective system would recognise sandbox testing as substantive evidence toward meeting authorisation requirements. The FCA could implement a graduated authorisation model, where sandbox graduates receive conditional approval to operate under specific parameters while completing full authorisation, creating a smoother transition from testing to market without compromising consumer protection.

To maximise the UK's competitive advantage in financial innovation, the government should direct the FCA to establish a formal "Sandbox-to-Authorisation" pathway with:

- Clear documentation of how sandbox testing results satisfy specific authorisation requirements
- Streamlined information requests that avoid duplicating previously submitted evidence
- Continuity of regulatory oversight by maintaining the same case officers throughout the journey
- Target timelines for decisions on applications from sandbox graduates

By connecting these currently separate regulatory processes, the UK would demonstrate its commitment to balancing innovation and consumer protection,strengthening its position as a global fintech leader while helping well-tested products reach consumers faster.

[8] https://www.fca.org.uk/publications/business-plans/annual-work-programme-2025-26

Enabling Innovation Through Enhanced Regulatory Dialogue

The FCA's commitment to smarter regulation represents progress, but a critical gap remains in how firms, particularly innovative startups and scaleups, access practical regulatory guidance. While digital initiatives like “My FCA” and expanded pre-application support have improved access to information, they haven't adequately addressed the need for direct, timely guidance when navigating principle-based frameworks like the Consumer Duty.

This gap creates real consequences: regulatory uncertainty delays product launches, increases compliance costs, and drives excessive caution that can stifle innovation. The impact falls disproportionately on smaller firms that lack the resources to maintain extensive compliance teams but are often driving the most innovative solutions in financial services.

A Model for Proactive Regulatory Engagement

To address this challenge, the FCA and Prudential Regulation Authority (PRA) should implement structured “regulatory office hours” - a system that would transform how firms engage with regulators:

- **Tailored Expert Access**: A digital booking platform would connect firms with specialists in specific domains such as consumer protection, payments infrastructure, or digital assets.
- **Predictable Availability**: Regular, scheduled sessions would provide certainty for business planning and reduce the current ad hoc approach to guidance.
- **Documented Outcomes**: While maintaining appropriate limitations on liability, sessions would generate clear guidance that firms could reasonably rely upon when developing compliance frameworks.
- **Knowledge Sharing**: Anonymised insights from these sessions would create a living repository of regulatory interpretations, promoting consistency across the sector and reducing duplicative inquiries.

This approach would strike the crucial balance between principles-based regulation and practical implementation. By documenting interpretations while preserving regulatory flexibility, it would create greater certainty without reverting to rigid, rules-based frameworks that can quickly become outdated. For the UK to maintain its position as a financial innovation leader, regulators must move beyond being gatekeepers to becoming active enablers of responsible innovation. Regulatory office hours would represent a tangible commitment to this collaborative vision - reducing barriers to entry for innovative firms while maintaining robust consumer protections through earlier, more effective regulatory engagement.

Strengthening Metrics for Regulators' Secondary Objectives

While regulators have secondary objectives around growth and competition, there is limited accountability for delivering on these goals. The FCA and PRA are required to promote effective competition and consider the UK's growth and competitiveness, but these considerations often seem secondary to their primary consumer protection mandates.

The Treasury should require regulators to develop and publish detailed key performance indicators for these secondary objectives, with an independent panel reviewing and assessing their performance. Regular public reporting specifically focused on growth and competition outcomes would create transparency and accountability.

A cross-regulator scorecard comparing performance on secondary objectives would highlight best practices and areas for improvement. Tying a portion of senior regulatory staff compensation to achievement of these metrics would ensure these objectives receive appropriate attention throughout the organisation. By elevating the importance of these secondary objectives through meaningful metrics and public accountability, regulators would be incentivised to find the optimal balance between consumer protection and market growth, rather than defaulting to the most risk-averse position. This balanced approach would support the government's growth agenda and maintain the UK's reputation for robust financial regulation.

Reform the FOS

The Financial Ombudsman Service (FOS) stands at a critical juncture in its two-decade history. By design, the FOS sits in a complex position as it is charged with reaching clear judgements against the backdrop of deliberate ambiguity created by outcomes-based regulation to incentivise innovation. When something goes wrong, however, it is vital that its practice is clear, consistent and robust – and where there is ambiguity, there should be processes to navigate complexity and maximise accountability.

The FOS is not performing optimally today. Resolution timelines far exceed international standards, with 37% of cases taking more than six months and some languishing for over two years.[9] The absence of a user-friendly tracking system or modern digital interface leaves complainants in the dark about their case status. For consumers, these delays cause significant financial and emotional stress, while businesses face unpredictable decisions and disproportionate case fees that lead to overly cautious behavior, stifling innovation and potentially raising costs across the sector. Meanwhile there is no clear route to minimise scope-creep and ensure that the FOS becomes a quasi-regulator through precedent setting.

To remedy this, our report proposes a comprehensive set of reforms to transform the FOS:

1. **Multi-track Case Categorisation**: Differentiating between simple and complex cases to enable more efficient resource allocation and processing, enabling tiered case fees based on complexity and firm size, with incentives for good practices and efficient complaint handling.
2. **A Complex Case Category**: Establishing consistent decision-making across precedent-setting cases to provide greater predictability for all stakeholders, empowered by coordination between the FOS and the FCA to ensure decisions complement rather than contradict regulatory approaches. There should also be a formal appeals system for complex or high-value cases as a safeguard against inconsistent decisions.
3. **Digital Transformation**: Rapidly implementing a customer-facing portal for real-time case tracking, automated updates, and streamlined communication.

[9] https://www.financial-ombudsman.org.uk/files/324537/Financial-Ombudsman-Service-Annual-Report-and-Accounts-2023-24.pdf

For Fintech firms, the current FOS framework presents significant challenges, starting with the threat of quasi-regulation if the FOS finds against them, with no recourse to appeal to the actual regulator, the FCA. Many innovative financial products operate on thin margins and high volumes, making them particularly vulnerable to the costs of FOS complaints. But the consequences extend beyond business impacts: an ineffective FOS fundamentally undermines financial inclusion and consumer empowerment. Those living paycheck-to-paycheck cannot afford to wait months for the return of disputed funds, forcing them to accept unfavorable settlements or abandon legitimate complaints altogether.

Addressing these issues is crucial for the UK's financial future. A reformed FOS would support fintech growth by providing the regulatory certainty needed for innovation while simultaneously empowering consumers through swift, transparent, and consistent dispute resolution. By strengthening this vital institution, the UK can reinforce its position as a leader in financial services that truly works for all stakeholders in the digital economy.

Make Payments Pay

The UK payments landscape is characterised by opacity that undermines both competition and innovation. This lack of transparency represents a significant barrier to economic growth, imposing hidden costs on businesses across the country and ultimately harming consumers through higher prices and fewer choices.

Fortunately, fintech innovators are already challenging this status quo, enabled by foundational regulation that is unlocking new ways to pay. Today, however, too often these payments entrepreneurs are butting up against a system rigged in incumbents' favour.

To truly unlock the potential of the next generation of payments technologies, the Government will need to be bold, starting by addressing a chronic challenge that businesses face every day: they just don't know how much they're paying for payments.

The Current Transparency Crisis

The UK payments landscape suffers from a profound lack of transparency that directly undermines competition and stifles innovation. Based on data from the British Retail Consortium, 85% of payments made in the UK by value are processed through cards. Cash accounts for just over 11% of payments by value, while all other forms of payment—including direct debits and innovative methods like open banking payments—represent only 3.2% of payments by value, down from 4% in 2020.

In this card-dominated market, merchants face deliberately complex and opaque fee structures when accepting payments. We've found that scheme and processing fees lack transparency, which is itself a clear symptom of insufficient competition. Without visibility into these costs, merchants cannot effectively compare services between acquirers or fully understand what they're paying for.

The fee structure for card payments includes multiple components that are difficult to disentangle:

- Interchange fees (capped at 0.2% for debit and 0.3% for credit cards for domestic transactions, but significantly higher for cross-border)
- Scheme fees paid to Visa and Mastercard (which have increased substantially in recent years)
- Processing fees charged by acquirers
- Additional charges for specific transaction types or services, often to Visa and Mastercard

These fees are further complicated by various classifications—some labeled as "mandatory," others as "optional" or "behavioral" - though our research and the PSR's investigations indicate that many

supposedly "optional" fees are practically unavoidable for most merchants.[10] Small and medium-sized businesses particularly struggle to navigate this deliberately complex landscape, lacking the resources to comprehensively analyse and challenge these fee structures.

The Cost of Payments

This opacity in payment fees directly translates into higher costs for UK businesses. Visa and Mastercard's 99% dominance of the UK card market, combined with their "must-take" status, leaves merchants with virtually no choice but to accept whatever fee increases come their way. We've seen this play out in real time - the PSR's analysis shows cross-border interchange fees increased fivefold despite declining transaction volumes, extracting approximately £150-200 million annually from UK merchants without providing any additional benefits.

Perhaps most damaging is how this opacity fundamentally undermines any possibility of genuine competition. The PSR during its market reviews has noted that merchants have little to no choice but to accept cards regardless of fee levels - they have ‘must-take’ status. Without clear visibility into costs, they simply cannot make informed decisions about payment acceptance or negotiate effectively with the card networks themselves.

The opaque market particularly disadvantages alternative payment methods. Account-to-account (A2A) payments through Open Banking could potentially offer merchants a more cost-effective alternative to cards. However, with poor transparency around the true costs of different payment methods, it makes it nearly impossible for merchants to make strategic decisions about which payment options to promote or invest in.

Without addressing this fundamental lack of transparency, we cannot hope to create a truly competitive payments ecosystem that drives innovation and delivers value to businesses and consumers alike.

The National Payments Vision: A Mandate for Transparency

The National Payments Vision represents a critical opportunity to address these issues, and it should establish comprehensive transparency across UK payments, including through:

1. Standardised, clear disclosure of all fees associated with payment processing
2. Consistent metrics for comparing costs across different payment methods
3. Advance notification requirements for all fee changes
4. Regulatory oversight ensuring that supposedly “optional” fees can be genuinely opted out of without penalty
5. Transparent reporting on payment success rates across different methods

By establishing these transparency measures, the UK can create an environment where merchants can make truly informed choices about payment acceptance, driving genuine competition and innovation in the payments sector.

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10 https://www.psr.org.uk/media/sogjjvl4/mr22-110-card-sp-fees-mr-final-report-publication-redacted-mar-2025-updated.pdf

With transparent pricing, alternative payment methods like account-to-account transfers could compete more effectively with established card networks, potentially reducing costs for merchants and ultimately consumers. This would align with the National Payments Vision's stated goal that “seamless account-to-account payments – enabling consumers to pay for goods and services in shops and online directly from their bank account – are developed.”

As a member of the Axe the Card Tax coalition, representing 240,000 businesses across the UK, we've highlighted how the lack of transparency in card fees functions as a hidden tax on merchants and ultimately consumers. The PSR has responded with two significant market reviews - examining both scheme and processing fees, and cross-border interchange fees - which have already uncovered concerning evidence of substantial fee increases without corresponding benefits. Their initial findings align with our campaign's position that the current market structure fundamentally lacks competitive pressure, allowing card networks to increase fees with limited constraint. The National Payments Vision should leverage these investigations to establish comprehensive transparency across UK payments, including standardized disclosure of all fees, consistent metrics for comparing costs across payment methods, advance notification requirements for changes, and transparent reporting on success rates.

Ultimately, transparency in payments is not merely a technical or regulatory issue – it's a fundamental requirement for a properly functioning market that drives innovation, reduces costs, and supports growth across the UK economy.

Special FX

While card payments represent the most visible part of the payments landscape, they aren't the only financial transaction system plagued by a lack of transparency. As UK businesses increasingly operate globally, another critical financial service demands our attention - foreign exchange (FX). Just as with card payments, the FX market suffers from significant opacity that extracts unnecessary costs from UK businesses and consumers alike, particularly affecting small and medium enterprises trying to compete internationally.

Foreign exchange remains one of the least transparent corners of the UK's financial services ecosystem. For British businesses and consumers, this opacity translates into hidden costs and inefficiencies that ultimately hamper economic growth.

Since taking office, the Labour government has signaled intentions to improve transparency across financial services, but concrete action on FX markets has been limited. This represents a significant missed opportunity, as greater FX transparency could deliver immediate economic benefits while aligning with Labour's broader mission to break down barriers to opportunity.

The UK's approach to FX market regulation currently involves the Financial Conduct Authority (FCA), which oversees conduct in FX markets but it has focused primarily on wholesale markets rather than retail and SME transactions. The FCA's 2016 findings on conduct risks in FX markets highlighted issues with mark-ups and time-stamping, but follow-through has been limited. The Consumer Duty,

implemented fully in July 2023, theoretically requires firms to deliver fair value and good outcomes including transparency. However, its practical application to FX services remains unclear and inconsistently enforced. The UK also supports the voluntary FX Global Code framework, but without regulatory teeth, adoption has been patchy across the industry, particularly among providers serving smaller businesses.

Impact on UK PLC

The lack of FX transparency poses significant challenges for UK businesses. A 2023 MillTechFX report revealed that 62% of UK corporates perceive a lack of transparency in the FX market, with many relying on a limited number of counterparties. Additionally, 69% of UK corporates reported negative impacts on their bottom lines due to GBP volatility, exacerbated by transparency challenges in obtaining competitive rates. UK small businesses are particularly vulnerable, lacking the market power of larger corporations to negotiate better rates. This directly impacts their ability to compete internationally and manage costs effectively. Additionally in 2025, SMEs are estimated to lose £5.4 billion to hidden FX fees according to analysis by Edgar Dunn & Company.[11] This is projected to increase to £7.5 billion by 2029 if we don't act.

Opportunities for Government Action on FX

The Government could take several targeted actions to address FX transparency. They could direct the FCA to develop specific guidance on how the Consumer Duty applies to FX services, with clear standards for price disclosure and customer communications. Establishing a UK FX Transparency Taskforce bringing together the Treasury, FCA, and PSR would help develop consistent standards specifically for the UK market.

Introducing a regulatory requirement for standardised disclosure formats that clearly include exchange rate as part of the total cost, tailored to the UK regulatory context, would bring much-needed clarity. The government could also leverage the UK's digital infrastructure to pilot an FX comparison tool built on Open Banking principles, enabling businesses to securely share transaction data for competitive quotes. Including FX transparency requirements in public procurement standards would use government purchasing power to drive market change within the UK financial system. Finally, connecting FX transparency initiatives to the Government's regional development goals would ensure businesses outside London have equal access to competitive FX services.

To move quickly on this agenda, the Government could task the Treasury with collaborating with the FCA on its Consumer Duty examination of the clarity of FX pricing in payment services. This market study should result in clear guidance on FX transparency under the Consumer Duty by the end of 2025. As the current rules and principles are split between the Consumer Duty and the Payment Services Regulations, a collaboration would ensure any loopholes get addressed. Launching a pilot programme with UK-based fintech companies to develop and test transparency tools for small and medium businesses engaged in international trade would harness existing innovation. Commissioning research

[11] https://wise.com/gb/blog/open-letter-transparency-hmt

on the economic impact of improved FX transparency on UK export performance would guide future policy development.

Addressing FX transparency would support several of the Government's core economic objectives. It would support UK exporters by reducing hidden costs in international transactions and help SMEs compete more effectively in global markets. It would strengthen the UK's fintech sector by creating domestic demand for innovative solutions and demonstrate the UKs commitment to tackling market failures that disadvantage ordinary businesses. Additionally, it would support regional economic development by removing barriers to international trade. From an international and reputational perspective, it would help the UK deliver on its commitments to the G20 Objectives set out in the Roadmap for Enhancing Cross-Border Payments, as eliminating hidden fees would put downward pressure on the cost of these payments.

By taking decisive action on FX transparency, the Labour government has an opportunity to deliver tangible economic benefits while demonstrating its commitment to a fairer financial system that works for businesses across the UK.

Making Pay by Bank Work

Account-to-account payments, also known as "Pay by Bank", represent one of the most promising innovations in the UK payments landscape. Built on the foundation of Open Banking, these payments allow consumers to pay merchants directly from their bank accounts without intermediary card networks. This technology promises significant advantages: lower costs for merchants, enhanced security through bank-level authentication, instant settlement, and reduced fraud risk.[12]

The government's National Payments Vision explicitly recognises this potential, stating that "it is crucial that seamless account-to-account payments—enabling consumers to pay for goods and services in shops and online directly from their bank account—are developed." Yet despite this clear policy direction and the underlying technical capabilities being in place, Pay by Bank adoption remains frustratingly low.

The problem isn't with the concept but with the execution. While the UK pioneered Open Banking regulation, the implementation has been hampered by inconsistent standards, poor user experiences, and a lack of regulatory enforcement. These practical barriers have prevented what should be a transformative payment technology from fulfilling its potential. To understand why Pay by Bank hasn't yet revolutionised UK payments, we need to examine the specific shortcomings in the current implementation.

[12] https://www.openbanking.org.uk/wp-content/uploads/OBLs-Financial-Crime-Report-Dec-2024.pdf

The Shortcomings of Current Open Banking Payments Standards

Open Banking in the UK was designed to increase competition, empower consumers, and encourage innovation in financial services. To achieve this, regulators mandated certain foundational elements, such as standardised APIs for account data access and payment initiation, among the UK's largest banks. These mandatory features ensure interoperability, security, and a baseline user experience across providers. However, beyond these core requirements, much of Open Banking's development has been left to the market. This includes value-added services and enhancements to user experience, which remain optional and inconsistently implemented across institutions.

Despite the UK's pioneering approach, which has created a £4bn ecosystem and is used by over 12 million consumers, the current implementation falls significantly short of what's needed to revolutionise the payments landscape. The divergence in standards and uneven execution across banks have resulted in a fragmented environment where the user experience varies dramatically, undermining confidence in the system and limiting broader adoption.

When examining the actual user journeys documented in research, the disparities become starkly apparent. While some banks offer relatively streamlined experiences with just five screens to complete a payment, others force users through a labyrinthine 14-screen process. Some providers take this to an extreme with 16 separate screens, including multiple loading screens, authentication steps, and repetitive scam warnings. This inconsistency makes it impossible for merchants or payment providers to set accurate expectations for their customers.

The impact of these poor user journeys cannot be overstated. When consumers encounter significant latency, multiple authentication steps, or confusing interfaces during their first attempt at an Open Banking payment, they rarely give the technology a second chance. As industry experts note, "a consumer's first interaction with the technology is key." These negative first impressions have severely limited the potential of account-to-account payments in the UK.

The problems extend beyond just user interface issues. The communication between banks and Third Party Providers (TPPs) is often unclear, leaving users in the dark about whether a payment has failed and why. This creates confusion and frustration, further eroding trust in Open Banking as a payment method. Additionally, widespread bank API outages remain a persistent issue, with success rates for open banking payments hovering around 70% compared to card payments at 99%. This reliability gap makes Open Banking payments untenable for many merchants who cannot afford to lose nearly a third of their transactions.

This means that even where the costs of Open Banking payments, as a cheaper alternative to traditional card payments, are made clear to retailers and merchants some will not return to or prioritise a potentially unreliable service. This means that Open Banking slows in its move to becoming a ubiquitous payment method, retailers and merchants don't think about how to bake a cheaper payment solution into their future products, releases, stores or plans. It is this that ultimately slows the adoption and success of Open Banking payments throughout the UK.

The National Payments Vision sets an ambitious goal of making account-to-account payments ubiquitous across the UK economy, but this simply cannot happen without significant improvements to these standards. The current optional approach has demonstrably failed to deliver the consistent, reliable experience necessary for widespread adoption. Without mandatory minimum standards for user

journeys, communication protocols, and system reliability, Open Banking payments will continue to be viewed as an interesting but ultimately impractical alternative to cards.

The Transformative Potential of Pay by Bank

To unlock the full potential of Pay by Bank and address the implementation challenges that have limited its adoption, we propose a focused action plan that targets the most critical barriers to success.

First, the Treasury should push for the FCA to establish and enforce mandatory minimum standards for the Pay by Bank user journey. The current fragmented approach has allowed some banks to implement unnecessarily cumbersome flows requiring up to 16 screens to complete a simple payment. By mandating streamlined journeys with standardised authentication flows and strict performance requirements and messaging requirements, we can ensure that consumers have a consistently positive experience regardless of which bank they use. This standardisation is essential for building consumer confidence and driving adoption of this innovative payment method.

Second, broader payment transparency measures will empower retailers to make more informed choices about the payment methods they accept and promote, as trailed in the ongoing investigations into the Card Schemes led by the Payment Systems Regulator. By requiring clear disclosure of all fees associated with different payment types, merchants will be able to see the substantial cost advantages that Pay by Bank offers compared to traditional card payments. This transparency will enable retailers to confidently invest in promoting Pay by Bank options to their customers, knowing precisely what savings they can achieve. Furthermore, greater transparency will allow merchants to demonstrate to consumers how their payment choices affect the overall costs of goods and services, potentially creating market-driven incentives for consumers to select more efficient payment methods.

By implementing these targeted measures, we can transform Pay by Bank from a promising but underutilised technology into a mainstream payment method that delivers significant benefits across the economy. The resulting competition in the payments market would reduce costs for businesses of all sizes, accelerate innovation in financial services, and strengthen the UK's position as a global leader in fintech. Most importantly, it would create a more balanced payments ecosystem where both traditional and innovative methods can compete fairly on their merits, ultimately benefiting consumers through greater choice, enhanced security, and reduced costs.

Our Growth Vision for Fintech

Deliver Manifesto Commitments

- Make Open Finance happen through statutory instrument, with clear implementation timelines
- Make London the Green Finance Capital of the world
- Ensure startups have access to the finance that they need to grow

A Regulatory Revolution

- Launch a one-time initiative to clear the authorisation backlog
- Implement a 6-month authorisation guarantee for fintech firms with a “pay for speed” programme
- Create a dedicated Fintech Authorisation Unit at the FCA for novel products with regular ‘office hours’ for firms to receive guidance on complex issues

Make Payments Pay

- Mandate adoption of currently optional API standards for Open Banking and establish further performance standards for API availability and response times
- Establish comprehensive transparency requirements for all fees associated with payment processing, create standardised disclosure formats for comparing payment costs, and implement advance notification requirements for all payment fee changes
- Make the UK the best place in the world for cross-border payments through specific FCA guidance on how the Consumer Duty applies to FX services, and through standardised disclosure formats that clearly separate exchange rate margins from other fees

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