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What is FinTech?

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Money never Sheeps...

Ask any history buff "when did human civilisation really start" and many will look to fix it to a point, shrouded in the mists of time, when we as a species were first able to cultivate food. That eventually enabled people to grow more than they needed – and lead to a key concept of "surplus".

Once there was a surplus of food, not only could we ride out the bad years, but people could trade it with each other. After a time, not everyone needed to be a hunter, gatherer, or a farmer or else face starvation. Some people could do other things which other people found useful, and exchange that for food. The stage was set for the emergence of trades, professions, even academia. Carpenters, builders, and, yes, even lawyers!

As an economy developed based on trading one thing for another – which may not have been the same and at least one of which may have been intangible (and certainly once some genius came up with the idea of taxing it all), there were problems to solve: How did it all get recorded and accounted for? How could your average sheep farmer go to market and trade for things, without having to bring an entire flock?

Solving those led to a series of innovations: the first "money" tokens, the first accounts, the first contracts, and even more impressive, arguably the first mathematics and even the first writing.

The fact that some of the oldest known examples of recorded human writing are bills of sale and invoices, is no coincidence. Possibly the oldest recorded written document is a receipt for clothing – dating back to around 3000 B.C. and originating in Ancient Mesopotamia. Even older than that is the 20,000-year-old "Ishango Bone" – an animal bone found near one of the sources of the Nile which bears etched tally marks believed to have been used by our ancestors for "correspondence counting".

In short, economics, finance and technology have grown up together – and they go back a LONG way.

Debit, Credit, or Face?

Fast-forward a few millennia and the circle of progress between finance and technology shows no sign of slowing down. From the development of early ATMs and global networks dedicated to the transfer of money and financial information across borders, to the advent of home computers and the smartphone, the pace over the last 50 years alone has been relentless.

Consumers are now well used to making payments with a tap of a card, phone or watch (often enabled by a fingerprint or facial recognition). Many of us also manage our bank accounts and investments through an app from wherever we are.

In fact, in recent years the momentum seems to have shifted. Instead of new technologies being developed to fill gaps in how we all want to manage money, the reverse has happened. How we manage money has been changed and influenced by the technology available to us. Don't believe us? One word. Bitcoin. And it goes futher than that. When bitcoin miners needed computers which could perform extremely high numbers of calculations very quickly, they turned to processors which had originally been designed to handle increasingly more realistic computer graphics –which could do just that.

Use of cash, and the number of "bricks and mortar" bank branches, is in steady decline and, according to the Bank of England, the question of whether the UK's currency becomes fully digital is not "if" but "when" (**Bank's deputy governor says digital pound likely this decade (thetimes.co.uk)**)

All of these represent, and are possible because of, "FinTech".

So What IS FinTech?

Depending on who you ask, the term FinTech can mean different things.

For some it describes the technology or tech-based methods, used in or around the modern financial services industry. For others it denotes a business or supplier which specialises in providing financial services through technology or which offers technology services to financial services providers. For others still it is a sector or an “ecosystem”.

In reality, as a concept, it spans all of these things. As the name suggests it is where finance and technology meet.

The roots of FinTech as we know it today are often placed in the aftermath of the 2008/9 financial crisis. Seen by many as the moment when “traditional” financial services failed, that era led to new regulation designed to force open the grip of traditional banks and institutions on consumer financial data. It also saw the rise of alternative, often utopian, tech-based ways to share and store money and “value”. Running on those rails and powered by exponential increases in computing power, connectivity and, consumer technology, a sense that things needed to be democratised and disrupted, and low interest rates and readily available investment, FinTech gathered steam.

Tomorrow’s World Today

Today FinTech is everywhere and encompasses financial, banking, insurance, pensions, wealth management, retail, e-commerce, mobility, and payment services (to name a few!). Advances in technology within these areas have transformed the way they are delivered and perceived. Some well-known examples of FinTech companies or concepts include:

- **Apple Pay/Google Pay –** the ability to pay by phone or other mobile device using links to bank accounts, payment cards, or more recent alternative payments .
- **Revolut, Monzo, Starling –** these are the three main UK “challenger” banks which were founded following the changes to the banking industry post 2008/9 to compete with the main, traditional banks (e.g. NatWest, HSBC, Barclays, Lloyds Bank) and which utilised technology to differentiate themselves.
- **Cryptocurrency –** a cryptocurrency is a digital currency which is not tied to a central issuing bank or authority but instead exists on an encrypted distributed digital ledger such as blockchain. Examples of the most popular cryptocurrencies by market capitalisation include Bitcoin, Ethereum and Tether and examples of popular cryptocurrency exchanges (companies which allow people to trade cryptocurrencies) are Coinbase, Binance and Kraken.
- **Robo-Advisors –** a robo-advisor is a type of investment platform which uses computer algorithms and mathematical models to create and manage investment portfolios. They are usually cheaper to use than traditional investment platforms. Popular robo-advisors include eToro, Nutmeg and Moneyfarm.
- **Buy Now, Pay Later –** the popularity and growth of online shopping created an opportunity for a new type of FinTech company: one which offered consumers the ability to purchase goods immediately but pay for them at a later date. There are many companies which offer this service now but it is Klarna who are often credited with playing a key role in the growth of this concept, particularly during the coronavirus pandemic.

Although the past few years have seen a cooling down in the levels of investment and activity, a shattering of the myths around some providers and models, and in some sense a stabilisation / consolidation, FinTech is here to stay. It remains a key focus of the UK Government’s economic plan for a new global Britain. It has forced even traditional financial services businesses to innovate and transform.

Today no business – at least not one which is in any way involved in receiving, handling, or sending money – is very far from FinTech, and, there is more to come. Digital currencies, transformation of new areas such as pensions and investments, the move from “Open Banking” to “Open Finance”, and the rise of AI mean there will be lots to navigate.

FinTech at Shoosmiths

Here at Shoosmiths, we specialise in all aspects of FinTech law and have the cross-functional expertise to advise clients on all of their FinTech needs including:

- Contracts and transactional
- Investment and Mergers & Acquisitions
- Regulatory
- Intellectual Property
- Data Protection
- Dispute Resolution
- Employment & HR
- Banking and Financial Services

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