



Business, Innovation and Skills Committee

Oral evidence: [The Digital Economy](#), HC 571

Tuesday 12 January 2016

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Written evidence from witnesses:

- [Airbnb](#)
- [Barclays Bank PLC](#)
- [BusinessFinanceCompared.com](#)

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Members present: Iain Wright (Chair); Paul Blomfield; Amanda Milling; Amanda Solloway; Kelly Tolhurst; Craig Tracey; and Chris White

Questions 247-340

Witness[es]: **Patrick Robinson**, Head of Public Policy in Europe, the Middle East and Africa, Airbnb, and **Ufi Ibrahim**, Chief Executive, British Hospitality Association, gave evidence.

Q247 Chair: Good morning. Thank you for attending the Business, Innovation and Skills Select Committee. We are talking about the digital economy. For the purposes of the record, could you introduce yourself and tell us who you are representing?

Ufi Ibrahim: Good morning, I am Ufi Ibrahim. I am the Chief Executive of the British Hospitality Association. We represent 40,000 businesses across the United Kingdom—lots of SMEs operating in accommodation, attractions and other aspects of food, service, leisure and tourism.

Patrick Robinson: Good morning. My name is Patrick Robinson. I am the Head of Public Policy for a company called Airbnb in Europe. We are a global online travel marketplace. We are a platform that offers people the opportunity to rent space in their home to guests from around the world. We have about 52,000 hosts in the United Kingdom. We have welcomed about 2.2 million guests to the UK over the last 12 months.

Q248 Chair: Mr Robinson, may I start with you? Do you think Airbnb is a disruptor?

Patrick Robinson: I do not. Airbnb is providing more choice to consumers in what is already quite a busy space for tourism accommodation. We offer a platform that allows

people to upload a listing of their home or a spare room in their home and reach an audience of millions of guests from around the world. When we see guests travelling with Airbnb, typically they tell us that they are choosing to stay in somebody's home rather than in a hotel or a hostel or some other form of accommodation because they want to experience the UK like a local would if they were to visit friends or family. That is a unique offering in the tourism space. To the extent to which we are offering competition and choice in the market, I do not necessarily see that as disruptive.

Q249 Chair: Ms Ibrahim, can I ask the same question of you? Do you consider Airbnb disruptive? Do you consider them to be a threat to the existing businesses in your sector?

Ufi Ibrahim: On the one hand, Airbnb does provide a meaningful, worthwhile and very innovative offer to tourists, as Patrick has said. But on the other hand, unfortunately, it does seem that something like 40% of the listings on Airbnb at the moment are what we would term professional landlords operating multiple properties, rather than, as dictated by the short lettings regulation, homeowners, for example, providing a room or an entire property just for a few weeks of the year.

It does seem that the platforms like Airbnb are facilitating this 90-day rule to be broken, allowing pseudo-hotels, in a sense, to circumvent regulations regarding planning, health and safety, fire safety—and food, because the B&B part in “Airbnb” means bed and breakfast. If you are serving food in the United Kingdom as a business, you need to comply with food safety regulations. As I said, the positives are there, but we are very concerned there is a big, growing misuse of the platform, which the platform allows, by professional landlords effectively breaking the law, putting pressure on housing stock, which is already very stressed in London, driving up rents and inflating property prices. That is causing mass disruption, as is noise and nuisance behaviour, which has been reported by councils like Camden and Westminster, who are very concerned also about the disruption of these sorts of activities.

Chair: Mr Robinson, would you like to respond?

Patrick Robinson: Of course I would. The typical Airbnb host in the UK in the last 12 months earned £2,000 from hosting. They hosted for about 46 nights a year. This is not business activity; this is not activity that reaches any kind of threshold of professional activity. This genuinely is regular people who are using space in their home to generate some extra income.

If we look beyond London—Ufi has talked about London but I would just like to focus a little bit outside London—there is and has been a very long-established market for holiday lettings across the United Kingdom in some of the most beautiful and visited parts of the country. Airbnb is offering a platform for those established providers to reach new audiences through our platform. We certainly do have professionals on our platform and that is to be welcomed. They are not exclusive to our platform. They are using many other services to reach their guests too. But when we talk about the core of our audience, the core of our user base as borne out by the numbers, these really are regular people who are sharing their home occasionally.

In relation to London, yes, the law says that if you want to host for up to 90 days you can do so without the need for planning permission. As I demonstrated, the numbers

of nights being hosted in London is well within that limit. The typical host in London is hosting for about 50 nights a year and making about £3,500. Camden and Westminster are in constant contact with us. We have begun dialogue with them about how we help hosts to understand these new rules. They are very new and we want to ensure that they are enforced properly and appropriately. Many of the concerns that Ufi has raised are not borne out by the data and are things that we are already doing an awful lot to help tackle and deal with.

Chair: One of the major things of this inquiry is how technology can encourage disruption and innovation, but that can be at the cost of existing players who perhaps face disproportionate burdens on regulations such as fire, health and safety, food, as Ufi was mentioning. We are keen to explore in this session, if we may, that disruption, the using of technology, and the disproportionate impact upon regulation.

Q250 Amanda Milling: It is interesting that you said that you did not feel that it was a disruptive technology. How would both of you define disruptive technology?

Patrick Robinson: The reason I do not think that we are necessarily providing something disruptive is that, while there is the notion of the collaborative economy, the sharing economy or however many terms are used to describe this new economic force in the world, online marketplaces have been around for decades. eBay has been around for nearly 25 years now and there are countless business models that rely on marketplace models. Therefore we are very similar in many ways to those models.

The disruptive element, if you like, is the reinsertion of real people into the economy. It is a peer-to-peer model in many of these markets that is causing challenges to existing players. I question whether there is a zero-sum game going on here, especially in the tourism industry. If you look at the projections for hotel profits and hotel occupancy rates over the next year, the picture is very healthy, which is a testament to the strength of the professional sector in this country and how brilliantly the UK's hotel businesses have been run.

But we are well used to the introduction of new entrance to markets. In fact, even in a single market such as transportation, if I want to go from London to Edinburgh, I have a number of choices open to me: I could get the train, I could fly, I could drive myself, or I could use one of these ride-sharing platforms like BlaBlaCar to get me there. Each of those is subject to a different regulatory framework that takes account of the specifics of that model. Consumers are well used to the notion of different regulations that apply to different providers in the same space.

Ufi Ibrahim: On disruption, for example in the sporting or athletics world at the moment there is a lot of conversation about doping and the impact that has had, and whether world records should be swiped and there should be a complete fresh start. It is not necessarily the sport or the availability of these drugs but the application of one to the other. Similarly, I do not think that the technology necessarily is a disruptor in this case. I do not think that the whole principle of sharing is a disruptor because people have been sharing for centuries.

What is disruptive is the way in which platforms like these do facilitate those who are operating as pseudo-hotels, for example, in all but name to effectively go about being able to provide services without complying with law and safety for consumers. That is

very disruptive. Some steps need to be taken towards that. There is a lot of evidence to that. If we were to compare specifics—I am very happy to share specifics with you if you would like me to—take the 90-day regulation, for example. Estimations show that almost half of the stays in platforms like Airbnb are in breach of this regulation. Inevitably this is due to these professional landlords operating multiple properties. There is evidence, for example, of one individual who lists 50 properties on the site. All of these apartments are identically furnished. They are not a hotel. They do not comply with any of the regulation but they are operating like that because the platform allows them to do so.

With the effective application of regulation, perhaps these things could be curbed. We have heard Camden Council, for example, and Westminster City Council saying that it is very difficult to apply these new regulations. Westminster City Council said it is about making sure housing in central London does not become a chain of default hotels with rooms rented at exorbitant prices to the highest bidder. The Housing Director in Camden Council has made similar comments about the fact that there does need to be a revisiting, for example, of the 90-days' letting regulation so that Camden Council and other councils can begin to apply to restrict the disruption that has been caused to housing and to the social structure and social systems within these local communities. That is where the disruption has been caused.

Amanda Milling: You are shaking your head. It might be useful for you to come back on this.

Patrick Robinson: The notion that people are subverting regulation is obviously something to be opposed, tackled and dealt with. We have good relationships with both Camden and Westminster City Council. I have met representatives of both councils to discuss their concerns and share information about what is going on in the boroughs. When we give them the true picture, as opposed to what might be written in the newspapers or what might be alleged by others, they understand what is going on. They understand that, within London, for example, half of the properties available on the site are somebody's spare rooms. Those are not properties that would be available for long-term accommodation were it not for Airbnb. It is very easy for somebody to take a guest into a spare room for a couple of weeks a year. They would not necessarily consider taking in a long-term lodger for that period of time.

Where councils bring us evidence that there are enforcement issues, we will take appropriate action, as we are required to do as a regulated online platform. In relation to fire safety, these are people's homes. They are subject to different levels of regulation from dedicated tourism accommodation. The Regulatory Reform (Fire Safety) Order 2005 makes it very clear that this is a risk-based approach. If a property is safe enough for me and my family to live in, it should be safe enough for a family to come and live in for two weeks during the year. I am required to mitigate the risks in my home. The conversations that we have had with the Chief Fire Officers' Association confirm that the advice that we are giving to guests and hosts is accurate, and that hosts are being given correct information so that they know what responsibilities they have.

Q251 Amanda Milling: We have had evidence in previous sessions. We had the London taxi situation and we talked a lot about taxis. There is an argument to say that there

is a little bit of pushback from traditional providers to new technologies. It could be argued that it is a little bit defensive. Are you closed to technology? What is the balance?

Ufi Ibrahim: The technology question for our industry is a very important one. We did a survey recently of about 100 of the top hotels, and 96 out of the 97 said that 50% of their sales came through online channels. Our industry has arguably been one of the first to embrace technology in a very active fashion. There are, however, issues emerging from the dominance and the abuse of power of online travel agents. Priceline, for example, occupies 47% of the online travel agents market. Expedia are a further quarter of that. That is two-thirds of the entire market dominated by two providers specifically. There is a lot of misuse of that dominant position: anti-competitive behaviour.

It is not that industry is pushing back or defending. If the industry is finding itself and particularly its SMEs in a position where they are being abused due to the anti-competitive behaviour of dominant players, of course you would expect that the industry must raise awareness of that—especially if that is having a direct impact on the customer and the customer's interests. I am very happy to provide more specific evidence of that and give examples.

Coming back to the sharing economy, it is in an absolutely similar position. Patrick talked about half of the hosts online. We have absolutely no issues or qualms with that half of the hosts online, who are these families who are providing this innovative, different offer to tourists. In fact we think it is a very meaningful and worthwhile offer. It is the other half that we do have an issue with. There is the other half, who are not complying with regulations and using this to circumvent planning regulations and to avoid taxes and other critical things, which has an effect on public safety, and evidence is showing that. God forbid something happens, because if something does happen it will have an impact on our entire industry and the reputation of the United Kingdom. You must expect, therefore, that we would have vested interests in trying to secure this and prevent that from happening.

Q252 Amanda Milling: Patrick, do you recognise that there are potential issues with disruptive technologies?

Patrick Robinson: Absolutely. We are a platform that is built on the trust that we generate with our users and the trust that is generated within the community of users. We have taken a really innovative set of steps over the last few years to tackle many of the issues that we know arise from these kinds of peer-to-peer transactions. We have learnt from the marketplaces of the past and we have introduced things that help to protect consumers in this new world. We have taken steps that go beyond those things that we are legally required to do, because we see the importance of trust.

Renting a space to a complete stranger from somewhere else in the world is quite a big step for somebody to take. It is incumbent on us to ensure that they are doing that as safely and as transparently as they can. Things like the insurance products that we offer, the customer care that we offer, the protection of people's payments that we offer and the various guarantee and refund promises that we have for guests are all things that we do to try to ensure that those challenges that are caused and created by these new marketplaces do not affect customer safety.

I would like to respond to this notion that half of our listings are great and half are not. That is simply not the case. The point I was making earlier was that half of the properties in London are a spare room rather than a whole apartment. Even the whole apartments and houses that we have are rented for small numbers of nights a year. It is genuinely when somebody is away for a few weeks on holiday themselves or they are moving house. Just because somebody is renting out the entirety of their home does not put it in breach of planning law, and to claim that is inaccurate.

Q253 Paul Blomfield: I want to explore the balance between rights and responsibilities for Airbnb as a company, Mr Robinson, and those you work with. First, I want to pursue this issue of professional landlords, because you brushed it aside saying, “Well, there are a few people but they use many platforms,” but you also said that you celebrated the fact that there were professional landlords using your platform. Is that right?

Patrick Robinson: Outside London, where there are people with holiday lets to rent out in the Lake District or Cornwall or somebody with a spare apartment that they use occasionally in Manchester that is unoccupied for six or seven months of the year—

Q254 Paul Blomfield: You did say you welcomed professional landlords using your platform.

Patrick Robinson: We allow and welcome people on to the marketplace and into the marketplace who have something genuinely unique to offer.

Q255 Paul Blomfield: You would acknowledge that it is an opportunity for professional landlords to bypass normal health and safety and consumer protection requirements, would you not?

Patrick Robinson: No, I would not accept that.

Q256 Paul Blomfield: Why?

Patrick Robinson: Because the rules are different. A professional landlord is, as you would suggest, responsible for a number of fire safety checks in their home and for whatever requirements are in the assured shorthold tenancy that they have. This Government and this Parliament are raising the standards in the private rented sector more generally. Tourism accommodation is subject to a different and unique set of regulations. The business of operating an Airbnb professionally is quite a labour-intensive task. In many of the cities where we have looked at the balance between being a professional landlord letting stuff out on a long-term basis and being a short-term landlord, that tipping point is reached after a very large number of nights in most cities that we have looked at so far. We have not done any analysis in London but we will be doing so at some point very soon. I do not recognise that incentive that you talk about there.

Q257 Paul Blomfield: You do not think it is attractive to be able to bypass all the regulations and protections that those renting accommodation would normally expect when they are taking a break or going on holiday?

Patrick Robinson: People are not circumventing those regulations.

Q258 Paul Blomfield: But they are not subject to them, are they?

Patrick Robinson: No—they are subject to them.

Q259 Paul Blomfield: So they are circumventing them.

Patrick Robinson: No. As soon as anybody takes a paying guest in their home, they are subject to the fire safety regulations that apply to paid accommodation. The rules that apply to a small bed and breakfast down the road are exactly the same rules that would apply to me renting my spare room out for two weeks a year.

Q260 Paul Blomfield: Okay, let me explore another area then: insurance. We saw over the weekend in the press the case of Nigel Broome, who had let out his home for a new-year party and then found it trashed at a cost of about £12,000. Are you picking up the cost?

Patrick Robinson: Yes, we are.

Q261 Paul Blomfield: Will you pick up the cost in the case of every customer who faces any damage as a result of a letting?

Patrick Robinson: Absolutely. The host guarantee that we offer is automatically available and extended to every host on the platform, whether they choose it or not. It is there for them. Most incidents of property damage—a broken television, a broken cup—tend to be dealt with directly between the host and guest without us having to get involved. All hosts are protected up to \$1 million for any property damage that is caused by guests in their home.

Q262 Paul Blomfield: Is it automatic or optional?

Patrick Robinson: It is absolutely automatic. We now cover you for host liability as well. If, for example, your guest left a tap running and that damaged not only your bathroom but the bathroom in the flat below you, that would be covered to an additional \$1 million as well. Insurance is an area where we have moved a very long way over the last few years. I am incredibly proud of what we do to help people like Mr Broome who face those difficult circumstances, and his claim has been settled in full.

Q263 Paul Blomfield: You say, still on the theme of insurance, that you offer primary liability insurance to cover hosts, protecting them from claims from third parties for damage or personal injury.

Patrick Robinson: Correct.

Q264 Paul Blomfield: You offer that?

Patrick Robinson: It is available absolutely automatically to all hosts in the United Kingdom.

Q265 Paul Blomfield: Is it part of the deal or is it something you offer?

Patrick Robinson: It is part of the deal. As soon as you list on Airbnb, you are covered by both the host guarantee—

Q266 Paul Blomfield: Is there any charge for that?

Patrick Robinson: No, there is no charge for that. That is covered by the fee that we take for your listing. If you list your house for £100 a night we take £3 of that, and that goes towards the cost of processing your credit card fee and the cost of offering those insurances to you automatically. That is in addition to any insurance that you already might have under your contents or buildings insurance, or any specialist landlord's insurance that you might have.

Q267 Paul Blomfield: We are talking about a sector that has been described as the sharing economy. Is it really true that you rely on a labour force composed of individuals working as third-party contractors rather than employees, without proper rights, terms and conditions?

Patrick Robinson: Yes, we are part of the sharing and collaborative economy or whatever people want to call it, but in our case your activity as an Airbnb host is additional to anything that you might already be doing. The numbers I have shared with you already in terms of typical host earnings suggests that you really do need to be doing something else in order to make your money. This is additional income on top of what you earn as a teacher or a doctor or a nurse or whatever you might do as an Airbnb host.

Paul Blomfield: Or a landlord.

Patrick Robinson: If you went and spoke to our hosts, they would certainly not regard themselves as employees or contractors or as having any other form of employment relationship with us. They are genuinely adding to the income that they already generate from another job. The issue that you raise may be applicable in other areas of the collaborative economy. I know that you have spoken to a number of other players in this space too, but in the case of Airbnb that is not really an issue that we see arising.

Q268 Paul Blomfield: We did talk to other operators and one, Alex Depledge from Hassle.com, did not feel that the sharing economy was necessarily a good description of what was going on. She said that “we have adopted this phrase ‘the sharing economy’, which suggests a level of altruism which is not necessarily there in every case. We are very much commercial ventures”. This is not necessarily how you project yourself in terms of doing a favour for people who have got a spare room. How would you describe the sharing economy?

Patrick Robinson: I know Alex very well. For quite a while she has rejected the notion of a sharing economy as it applies to her business. She provides a platform for cleaners who were previously self-employed and are now able to find cleaning services on the app. Her very particular definition of the sharing economy would not include the unlocking of unused assets, which is one of the classical definitions of the sharing economies: an internet-powered platform that allows unused human physical capacity to be matched with demand. That is really what we are talking about in the collaborative economy here. In the case of Airbnb that unused stuff tends to be people's spaces: their

homes, their holiday properties. In the case of BlaBlaCar it is that spare space in somebody's car when they are travelling from London to Edinburgh.

There are other things that have often been folded into the umbrella of the sharing economy that feel a lot more like on-demand marketplaces and on-demand delivery services. Personally, I do not think we will be talking about the sharing economy much within a few years. It will just become part of the normal economy or we will be talking about a different definition that better reflects the way these companies have evolved. Yes, we are a commercial company; we make no bones about it. We make money from both guests and hosts, but really the people who are making the vast majority of the money on this platform are the hosts themselves.

Q269 Paul Blomfield: Alex Depledge described to us what felt like a fairly conventional cleaning agency that had simply outsourced risk on to what would otherwise be its employees. What do you think is the balance between risk and regulation that is appropriate? Should markets simply aim to provide people with as much choice as possible or do you think there is a responsibility to protect consumers from risk?

Patrick Robinson: Of course there is a responsibility to protect consumers from risk. Consumer protection law applies to everything that we do just as it applies to everything that Ufi's members do.

Q270 Paul Blomfield: You would not claim that people who booked accommodation through you were as protected as those who had booked through Ms Ibrahim's members, would you?

Patrick Robinson: No, I would not, but the issue is that consumers have different expectations—

Q271 Paul Blomfield: You would put the level of risk differently.

Patrick Robinson: The level of risk is different, and I think consumers appreciate that. British consumers are some of the most savvy e-commerce consumers in the world. They understand that, if they go to John Lewis and buy a television set, certain consumer protection regimes are going to apply to them and they are going to have certain guarantees and certain abilities to enforce those laws against John Lewis. If they bought the same television second-hand from a seller on eBay, they would not necessarily expect the same kinds of protections and guarantees.

The question is: what happens in those instances? In our case, we try to ensure that all of our customers are protected—that in the event that things go wrong, we are there to help and support them beyond what we are required to do legally. These are peer-to-peer marketplaces that work on the basis of trust. If consumers are unhappy and feel that they have been short-changed, they will not use these services anymore. We have seen huge growth both in the numbers of consumers that we have and in the satisfaction that they have with the services that they have received. This is a different kind of travel product from the product that Ufi's members provide to them, and I think consumers are well aware of that.

Q272 Paul Blomfield: If we were to offer people who booked accommodation through your service the same level of regulatory protection from risk as for Ms Ibrahim's members, is your business model sustainable?

Patrick Robinson: What kind of risk would we be managing here?

Q273 Paul Blomfield: I think you are fairly familiar with the protection that people using hotels and conventional tourist bookings would have. If that sort of protection was offered to those using your service, is your business model sustainable?

Patrick Robinson: It depends how that was delivered and how that was enforced. As I have said, many of Ufi's members are already subject to the same regulatory framework that Airbnb hosts are. Some of Ufi's smaller bed and breakfasts are subject to exactly the same fire safety rules as some of our users are. It is a little bit more complex than you are suggesting.

Paul Blomfield: So, no. Thank you.

Q274 Chair: Can I just push you on that point and an additional point if I can, Mr Robinson? You said earlier on, if I am right, that you ensure that the appropriate regulations are adhered to. How do you do that?

Patrick Robinson: We inform hosts of the regulations that apply. All hosts see the details that they need to check up on, the things that they need to check. That will involve contracts they might have with their landlords or with other people in the building. It will relate to their mortgage and to any insurance that they need to check out, notwithstanding the fact that we offer it automatically.

Q275 Chair: The risk lies with them.

Patrick Robinson: The risk does lie with them. This is a peer-to-peer marketplace. It is for them to understand the rules that apply to them and to abide by them and adhere to them. We do what we can to inform them and educate them. We have meet-ups with hosts where they can learn more about what is going on. We did a number of meet-ups when the new London law passed. We will be writing to all of our hosts in London in the coming weeks to wish them a happy new year and remind them of the laws that exist in London, and ask them to check, and raise any issues that they have, with their London boroughs. But only they can know what specific circumstances they have and what their particular circumstances are. Only they are therefore best placed to ensure that they are living up to those rules. That is the appropriate balance in an online marketplace. In business-to-consumer models, the balance is different.

Q276 Chair: Do you agree with that?

Ufi Ibrahim: No, I do not agree. It is very concerning to hear Patrick talking almost about an ignorance of any duty of care or responsibility and accountability for what the hosts are doing. Take Uber, for example. Uber interviews every single one of the drivers whom they provide an online solution for. They check all of the driving documentation and the car documentation before they accept that driver as part of their platform. Airbnb do not do that.

It is also very concerning that there is a lack of transparency. Airbnb do not provide any data or information for us to have a clear understanding of what the relationship is, how the hosts may or may not have problems, and how they are following regulations, particularly, as I said, food safety. It is not just fire safety; food safety is a great concern. Every operator that provides food to somebody must comply with food safety regulations. We are talking about B&B, as I said. These are very serious risks—very serious threats to public safety. There is no information for us to understand how Airbnb are ensuring that their hosts are taking this responsibility. Instead we are hearing comments to say, “That is their responsibility; it is not ours.” That is very concerning.

Q277 Chair: Can I ask Mr Robinson about food regulation? If I am providing a B&B, I am subject to food regulation. If I am going through you as a host and I say, “There is a chicken in the fridge; please eat it,” and then my guest gets food poisoning, what happens?

Patrick Robinson: That would be between the host and the guest. The host has clearly not lived up to their obligations, just as a restaurant has not lived up to their obligations. Again, food safety is complex. Most of our hosts are not businesses. One of the questions we have constantly with governments, and one of the discussions we have across Europe, is where this dividing line is between your activity as an individual and your activity as a business. Many regulations apply to business and trade activity and not to others. Most of our hosts are not providing food. Just because we are called Airbnb does not mean that we require anybody to provide food, and it is entirely at their discretion.

Q278 Chris White: Very briefly, on this discussion, Mr Robinson, you have said that you go further than what you are legally required to do. Beyond what is providing a service, can you give me a couple of examples of where you have gone beyond the legal requirement?

Patrick Robinson: As an online marketplace, nothing would legally require us to provide insurance on behalf of hosts.

Q279 Chris White: That goes under the heading of a service that would be provided.

Patrick Robinson: I am just trying to think what your definition of service would not include.

Q280 Chris White: For example, we have just talked about food safety, which you say is a complex issue, but something like that, where your members would have to comply with health and safety legislation. That would be what I would consider going above and beyond what you would be required to do. An insurance issue would be providing a service.

Patrick Robinson: I am sorry, Mr White, I do not understand the point. We provide information to hosts and we provide links to all the information they need to understand what the rules and regulations might be. That, again, is not something that we as a marketplace are required to do. It is information we provide hosts because we think it is important for them to understand the rules that apply to them.

Q281 Chris White: Fabulous. In that case, I will end my comments by saying that you made a clear statement that you go beyond what you are legally required to do, and you have not been able to provide examples of that. It was a very reassuring statement.

Patrick Robinson: It would be fair to recognise that there are an awful lot of protections and guarantees that we offer to our users that we are not required to under current consumer protection law but that we offer because we want happy customers. If a guest is unhappy with the service that they have received from another host, they have 24 hours before any money has passed between the guest and the host to raise those issues with us. In the event that they want a refund, we will trigger that automatically and where necessary we will assist them in finding somewhere else to stay. That is not something that we are required to do by consumer protection law but it is something that we recognise, as a responsible company, we want to do on behalf of our guests.

Ufi Ibrahim: I want to pick up on that very specific point. My understanding is that you are given an offer as a guest to say that you can share your negative review or you can have your money back but you cannot have both. You cannot get a refund for a poor experience and also communicate that you have had a very poor experience, for example arriving somewhere and finding that it is extremely dirty and in terms of sanitary requirements it does not meet the bare minimum. This is also very concerning. With systems like TripAdvisor and others, there is a lot of transparency around the real experience that everybody can have in a hotel, but again we are finding that there are restrictions being applied to transparency vis-à-vis people who are staying with Airbnb.

Patrick Robinson: I just want to absolutely reject that notion. The review system that we have in place is incredibly robust and gathers a huge amount of transparent data about how people have experienced listings and experienced one another. As a guest, I am reviewed as well so that when I choose to book with a host they can see everything that people have written about me.

Q282 Chair: That is transparent—that is online.

Patrick Robinson: Totally transparent.

Q283 Chair: Everything is online.

Patrick Robinson: Everything is online. Everything is available. You can send private feedback to your host, if you really want to flag something to them for them to fix that you might not want to broadcast to the world. In the event that somebody checks in and finds that the place is not up to snuff or unsafe, they contact us instantaneously. That listing is suspended immediately from the platform; as quickly as we can get it off, it comes off. The notion of leaving a review on a listing that we have already booted off the platform is missing the point: the feedback that people receive and give to one another on the platform is absolutely reliable. Unlike TripAdvisor, you cannot leave a review about a host or a guest unless that transaction took place.

Chair: I am conscious of time, but I am very keen to continue down the path of regulation.

Q284 Craig Tracey: I would like to move back to the insurance side. I am quite interested in how you provide that. Do you have to be regulated to provide that offer? Are there any exclusions on that? For example, on a traditional policy, if somebody had a criminal conviction, it might exclude them from cover. Are there any exclusions like that that people need to be aware of?

Patrick Robinson: I am not familiar with the exact exclusions in the host liability insurance. I am pretty sure that the exclusions, such as they are, are minimal, because we want to offer it as automatically as we possibly can. I can certainly provide the Committee, if you would like, with a copy of the actual insurance policy that we offer. On the host guarantee side, that is about damage to property; host liability insurance is an insurance product, and that is offered by an insurer, and the policy is available to all hosts so that they can use it to satisfy any obligations that they have. The host guarantee is a self-insured product where we offer that guarantee, and it is backed by an insurer who will reimburse us if we claim on the policy. It is a slightly different kind of insurance product, so in relation to property damage, we pay, and then we would claim on our insurance. The host liability is extended absolutely to hosts.

Q285 Craig Tracey: In terms of the scope of cover on that—using Paul’s example, where the guy had the house trashed on New Year’s Eve—I understand that it covers the damage; I read through it last night. Like a traditional policy, in the worst-case scenario, where somebody caused a fire and the person had to move out of their house for six months, are you paying for alternative accommodation and bolt-ons like that to rehouse people, or are you just purely covering them for the tangibles?

Patrick Robinson: I am not absolutely certain what the scope of that guarantee is. I can, again, check that and write to the Committee on that. To be honest, I do not think it has ever arisen as an issue. We have been offering that product for a number of years now, and the number of claims on the host guarantee is very small, mainly because most issues get resolved very quickly between hosts and guests at the end of a stay.

Q286 Craig Tracey: I am quite interested in the impact on people’s own house insurance. My previous job before this was an insurance broker, so I have an interest in this, and it seems to me that there is a huge exposure for people on their own traditional house insurance, which specifically excludes their property being sub-let or let, even generally to family. I appreciate that you try to make people aware, but having looked on the website, I do not think that is strong enough in terms of how people are made aware of their responsibilities. There is the potential to be putting both the property owner and the renter at risk. Do you feel that is fair?

Patrick Robinson: This is one of the reasons why we have introduced the two products that we offer to hosts. We recognise that, in some cases, people’s own insurance may not provide the kind of cover that they need. We encourage people to speak to their primary insurer anyway, to check what coverage they might have. We are involved in discussions with the insurance industry—across the world and, in fact, within the UK as part of Sharing Economy UK, which is the new trade association for this sector of businesses—to make sure that they are updating their products to take account of the ways in which people are using their property differently.

In our experience so far, we have not seen any gaps arise between the cover that is provided by individual insurance companies and the two products that we have in place. We will constantly look at how effective these products are to ensure that people are adequately protected. We have no interest in running a platform where people feel that they are unsafe or that they are not being well-looked after by us. That is absolutely not our intention. It is something that we work very hard every day to deliver.

Q287 Craig Tracey: The point is more that, although you said you had not had anything like that, it is going to be a matter of time before something does arise. In terms of your liabilities for, say, a guest tripping down the stairs, what sort of limits are in place? Is that capped at £1 million as well?

Patrick Robinson: Yes, that is capped at £1 million.

Q288 Craig Tracey: Again, that does not seem an adequate amount for a long-term injury case.

Patrick Robinson: If you felt that you wanted to get more insurance than that, landlord's liability insurance is available to you and, again, we give you the details about what insurances you might need. For most people engaged in short-term activity on an occasional basis in their primary home, the level of risk people are prepared to take is appropriate to the kinds of products that we have available. As I say, we are not complacent about this in any way. We are never done with this. That is one of the reasons why we have supplemented the host guarantee with the host liability insurance in the last year. I am confident and sure that we will do more and more and more over time.

Q289 Craig Tracey: I take your point, but the issue is whether people are aware of the level of risk that they are taking. You say they are prepared to take that level of risk; my concern would be that they are not aware of the level of risk they are taking, because their house insurance could be void for a theft claim arising from something else if it came to light in the investigation that their property was being let out. It is not just within your time. But moving on from that, how do you resolve disputes? If there is a conflict about whether something is or is not covered, where does that balance lie? You said you pay up front for property damage claims and then claim it back off your insurer.

Patrick Robinson: Typically you have a three-stage process. The first is that—and I have had this unfortunate experience myself, where I broke a couple of plates in a listing—you let your host know that you have broken something, and typically either the host says, “Do not worry about it; it is fine,” or they may have taken a deposit from me from which they can take some money back before they refund me. Most stuff gets resolved at that level, because I know in my experience, when I am staying in somebody else's home, I am often a lot more careful with people's things than I am with my own.

At the next stage, there is an online resolution tool where, if the host and the guest either do not want to resolve the issue between themselves face-to-face or have not been able to reach a resolution, they can do that online. Again, that process that works through tends to deal with many of those issues. Where there cannot be a resolution, and where somebody's insurance fails, they can then trigger the host guarantee, and then the process

is fairly swift after that. The issue that was raised earlier is typified by the fact that that has been resolved very quickly.

Q290 Chair: How do you prevent fraudulent collusion, in the sense of hosts and guests saying, “Tell you what, I will say that I have broken the telly. We will split the difference.” Do you do checks on that, or is that just the sort of mind-set that I have?

Patrick Robinson: I am afraid, Mr Chairman, that might be the case. Again, I cannot see that happening.

Q291 Chair: Do you check that? There is a direct relationship between host and guest. What is to stop collusion, with people saying, “We do not have to pay for this; we will get Airbnb to do it”?

Patrick Robinson: Without going into the detail of the various fraud mechanisms that we have in place, one of the things that hosts and guests are all encouraged to do—and, in many cases, required to do—is link all of their existing social networks to their profile, so that there is additional transparency going on about who people are. It is quite possible to spot, therefore, links between individuals transacting on the site, because there is at least visibility.

Q292 Chris White: Ufi, I think it is fair to say that you seek further regulation of this new sector. Is that for the benefit of your members, or to the benefit of consumers?

Ufi Ibrahim: Both. I have a list here of, given the regulatory framework we have, some very simple steps that could be applied to improve the situation greatly. For example, Airbnb should share data with the Government, with local authorities and with HMRC, for example, to answer questions like: who is letting over 90 nights in London—who is breaking the 90-day letting regulations? How many people are letting out a second residence or multiple residences, and how much tax is due on the income? At the moment, there is no information about that. In fact, in New York, New York had to subpoena Airbnb to force them to provide that information.

Q293 Chris White: If you do have that level of information, maybe you would like to forward it to the Committee for our report.

Ufi Ibrahim: Absolutely, but the duty of sharing information, being transparent, providing data and not pushing away responsibility for the safety of the public who are staying—but also local communities, in terms of noise—would be a minimum requirement that we would expect to see.

Q294 Chris White: Please submit that, if you do not mind, to the Committee. That would be helpful.

Ufi Ibrahim: We certainly will.

Q295 Chris White: Do you want a quick chance to respond?

Patrick Robinson: I just want to respond on the tax point. The accusation that we are facilitating tax avoidance on a global scale here is resolutely unfair. The numbers that

we have been talking about today in terms of people's income are well below any kind of personal allowance threshold. There is a range of tax relief available to people who are renting spare rooms, who are renting property, or who have furnished holiday lets. This is a great example of where an individual is going to be best-placed to know what tax is due on their earnings.

We send out a tax reminder every year to people to check their amount and pay the relevant amount of tax, and we provide them with links to all of the relevant government guidance on that. HMRC have the powers they need to come after tax avoiders. We co-operate with all law enforcement and all tax authorities around the world that ask for our help with this stuff, and in fact HMRC are consulting right now on extensions to those powers so that that is being done on a legal basis. I do not recognise the picture that Ufi is painting of this platform and our responsibility as a company.

Q296 Chair: I am going to bring Amanda in, but I have two very quick questions to you, if I may. First, you want a level playing field in respect of regulations.

Ufi Ibrahim: Yes, absolutely.

Q297 Chair: That is a given. What does a level playing field look like in the field of regulation? If I am running Hilton Hotels, should I be subject to the same level of regulation as if I am running a small pub in Northumberland that provides rooms? What is your suggestion to the Committee, in respect of the proportionality of regulation when it comes to your industry?

Ufi Ibrahim: There are a number of areas. For example, one, as I said, is the planning regulations that apply, and there are things called use classes. Hotels have a use class to be a hotel or a guesthouse. You have to comply with regulations around one use class, and that does have an impact on investors who are investing in hotels, and sometimes the process can be quite long and the amount of time that has to be allowed to recoup investment is very long. There is a discrepancy here in terms of the way in which these professional landlords are circumventing or fast-tracking, so they do not have to have this time delay in recouping their investments, by using platforms such as Airbnb. As I said, we are talking specifically here about the professional landlords who are abusing the system to be able to bypass, and there we do not have a level playing field.

Q298 Chair: On that, Mr Robinson, do you think Airbnb should stop listing professional landlords?

Patrick Robinson: It depends on the place that we are talking about. Professional landlords in certain parts of the country are providing absolutely the kind of tourist accommodation that people want to provide. In other areas, it is different; we recognise that they are causing a strain on London's housing stock. That is not something we want to see, and it is something that we are working with the councils to resolve.

Q299 Amanda Solloway: Just going back a couple of questions, my first question is to you, Mr Robinson. I am thinking about your consumer. Is it fair to say that your consumer is both the host and the guest?

Patrick Robinson: Sometimes. We find that hosts are quite likely to be guests, but it does not necessarily go the other way. The vast majority of our users are mainly guests, and not hosts.

Q300 Amanda Solloway: But the service you provide is to hosts, and the service you provide is to guests.

Patrick Robinson: That is right.

Q301 Amanda Solloway: Is there a conflict there? As an example, we were talking about New Year's Eve, when so much damage was done. In that instance, do you get any claw-back from the guest?

Patrick Robinson: The guest has paid the host, so that money goes to the host. The host has received that money, and then the host is also clawing back the cost of the damage from us through the host guarantee. In that particular case, the police are involved, so it is not appropriate for us to be mediating between the host and the guest.

Q302 Amanda Solloway: Is there a danger that guests could always cause that kind of damage, because the insurance will cover it?

Patrick Robinson: No, because if you do that and hosts then give you a bad review, or we boot you off the platform, you are far less likely to get accepted as a guest again in future. Clearly, having an unauthorised New Year's party and causing that level of damage is something that we do not tolerate at all; it is really breaking the terms of our service, and that guest has been removed from the platform. Where a guest was inconsiderate or breached noise regulations after 10 o'clock, and caused nuisance for neighbours and got a bad review, a host is much less likely to accept that guest into their home again, because the review will say, "This person caused a stink and my neighbour complained about it."

Q303 Amanda Solloway: But "less likely" does not mean to say that you would stop it. It is just less likely because they are recognised as a bad guest.

Patrick Robinson: Yes. Hosts are making decisions every time about who they choose to welcome into their home. They make that decision based on the information they have available to them.

Q304 Amanda Solloway: You mentioned landlord's insurance. I just wondered where the tipping point comes between somebody being a host and being a landlord; I guess that is a slightly different definition. Where is that tipping point for your business?

Patrick Robinson: That would not be for us to decide; the question would be what UK landlord/tenant law would say about that. In the main, our hosts are not facilitating tenancies. It is a relationship of short-term accommodation; it is not a landlord/tenant relationship. At a point where somebody is renting for three, four or five months, it is perfectly possible that they have become a landlord and a tenant, but that would depend on the facts and circumstances concerned, and it would depend on the nature of landlord/tenant law, which I am afraid I am not an expert on.

Q305 Amanda Solloway: That is interesting. Just a quick question, because we are really short of time: what should the Government be doing? Is there anything the Government should be doing that it is not doing at the minute?

Ufi Ibrahim: There should be pressure placed upon platforms such as Airbnb to share more data, because at the moment there is a lack of transparency. Airbnb, for example, could directly restrict hosts from letting out for more than 90 days. The system should be able to accommodate this type of change, so that there can be an automatic restriction on people circumventing the law, and for a company valued at \$25 billion it should be quite easy to make such a change. The Government could put pressure on this platform to make such changes to ensure that the system itself can help to prevent others breaking the law.

There are other things that the Government could apply pressure on, particularly in terms of ensuring that there is not tax avoidance, for example. HMRC has the powers to be able to demand that information, and it is good to hear that they are in discussions to exercise those powers and to be able to get that information. There should be more pressure applied to ensure that there is a level playing field, particularly to protect the customers in terms of food safety regulations and fire safety regulations. These are things that are in the interests of the public, and the Government should ensure that a level playing field is applied to ensure that we protect the consumer and the interests of businesses—the large number of SMEs operating across the country and trying to do their best to comply with the law.

Amanda Solloway: Thank you. I put the same question to you.

Patrick Robinson: The Government is doing an awful lot in the digital economy space generally. They are recognising that this kind of technology and these kinds of innovations are driving real benefits for consumers; providing consumers with a lot more choice, additional options, and providing people with access to valuable additional income that they can generate from stuff that they already own. The focus of the Government on the possibilities of the sharing economy and the collaborative economy has been really constructive.

We are having very good discussions at all levels of government about where regulatory gaps might be emerging; what the most appropriate ways of filling those gaps are; the role of self-regulation; the way that companies are deploying responsibility; and the new dynamics in these marketplaces that mean that some kinds of regulation that currently apply to incumbent business are not necessarily appropriate for these new models. Let us innovate here. Let us find new ways of regulating these things. Let us find new ways of protecting consumers, and let us focus on where the risks really are.

Q306 Chair: I am very conscious that we have overrun, but I would like to ask a final question of you, Ufi, if I may. What would you like to see, if possible? Would it be more regulation on Airbnb, or less regulation on your members?

Ufi Ibrahim: In the interests of consumer safety, there is a role for regulation. We should not be removing these requirements. I am not sure what these innovative ways of protecting people in terms of food safety, fire safety or health and safety could be. There is absolutely a role there for that regulation to be applied across the board.

Q307 Chair: Mr Robinson, would you agree?

Patrick Robinson: I am not a hotelier and I do not run a restaurant, so it is difficult for me to say whether the current regulatory framework that applies to Ufi's members is too high, too low, or just right. It is right that governments continue to look at regulations that apply to all sectors of the industry, to take account of market dynamics, and really focus on the things that affect consumers.

Chair: Thank you very much for your time. It has been incredibly helpful to us and very stimulating, and we really welcome your contributions.

Examination of Witnesses

Witnesses: **Russell Gould**, Chief Operating Officer, Everline, **Gareth Mann**, CEO, Digital Contact, **Matt Hammerstein**, MD, Customer and Consumer Engagement, Barclays Bank, and **Olly Betts**, CEO, businessfinancecompared.com, gave evidence.

Q308 Chair: Good morning, gentlemen. Thank you for your patience; we overran slightly with the first panel. That was very interesting; I have the impression that this will be interesting, as well. For the purposes of the record, could you tell us who you are and where you have come from?

Gareth Mann: I am Gareth Mann. I am the CEO of Digital Contact. We are a big-data company, focusing on the financial service industries, generating trading signals from online content and media.

Matt Hammerstein: I am Matt Hammerstein, Managing Director from Barclays. We are a bank. We have been serving the UK and many other markets for 326 years.

Russell Gould: I am Russell Gould. I am the Chief Operating Officer of EZBob Ltd, which operates as Everline and EZBob. EZBob provides small business loans online to SMEs.

Olly Betts: I am Olly Betts. I am CEO of a company called businessfinancecompared.com. We are an online marketplace that helps small businesses get connected to the finance they need to grow their business.

Q309 Chair: We have a lot to get through with this panel, but I will kick off with a broad question, if I may. How is digital technology changing financial services?

Gareth Mann: From the financial institutions we are working with, it appears that it is complementing existing services. I would not say that digital contact is a disruptor; it is a complements. There are many methodologies of trading, looking at data across the industry, and adding other value-added services to support them and make them profitable

is an area where there is probably some of the biggest growth. That is where we are seeing most of the uptake.

In the financial services industry, turning up with a new technology and saying that it is going to revolutionise things is always a bad idea. You need adoption. When you are dealing with this kind of money and this size of market, the complementing services are always the ones that will grow, especially with what we are seeing within our market space.

Q310 Chair: That is very interesting, because Antony Jenkins, former chief executive of Barclays, said that we are about to embark upon the Uberisation of financial services, where there will be massive disruption. You tend to disagree with that.

Gareth Mann: Sorry, was that aimed at me?

Chair: I wanted a brief comment from Gareth, and then I was going to come on to what Barclays thinks.

Gareth Mann: We deal with the active trader, rather than the big corporations, and we are finding that the adoption of new tech is easier when it is a complementary service, rather than trying to change someone's whole data activities in how they trade in the market.

Matt Hammerstein: My interpretation, Chairman, of Antony's comments is as follows: on the one hand, we have already seen, and are going to continue to see, a very significant shift in consumer expectations, whether it is individuals or businesses, in terms of what they want from a financial services provider. That is both in terms of products, the nature of services, and how those are delivered. More specifically, every institution is going to have to fundamentally reinvent the way in which it works.

We as an organisation are facing challengers, particularly new digital start-up organisations like Atom Bank, for instance. The chairman and chief executive of Atom Bank are very open about the fact that they will operate on a cost-to-income ratio—one of the key metrics of a financial services institution—of around about 25%. We operate at around about 52%. We have to respond to the fact that that is a very significant difference in cost that is going to make it easier for them to invest in providing better services, and we have to match that.

Q311 Chair: You referred to Atom Bank; the chairman said that, in terms of high street banks and traditional banking providers, trying to keep pace with the digital revolution was like “putting lipstick on a pig”. Was that unfair?

Matt Hammerstein: I do not really understand the analogy. I understand the point he is trying to make.

Q312 Chair: It is irrelevant; it is all going to be unnecessary, because these new people are going to sweep away the incumbents. You may have been on the high street for 326 years; you might not see 350.

Matt Hammerstein: It is up to us to make sure that he is wrong, on behalf of our organisation and our customers, and clients are pretty happy at the moment with the nature of the services they get from us. Someone recently referred to that challenge as follows, which resonates very well with me: we have to figure out how to innovate faster than someone like Atom Bank can get to the scale that we have, because we have 15 million existing relationships in the individuals space and a million existing relationships in the business space. He has zero in either, so if we can reorganise and reinvent the way in which we work before he can catch up, we will be in a good place. That is our challenge.

Q313 Chair: Russell, how is digital technology changing financial services?

Russell Gould: It is changing everything, every day, and it will continue to do so. We are a digital lender. We are a lender. Lending has been around for hundreds or thousands of years. We are not changing the process of lending money; we are just changing how it is done. We are using technology to do it in faster, better, more informative and much more customer-friendly ways. I honestly think it will change the entire banking sector. It has already started: you are seeing payment providers, lenders, digital banks and e-wallets. It is changing and it is changing very quickly, and it is difficult for some of the banks to keep up with that process, because they are tied to old ways of doing things.

Olly Betts: For me, it is about access for the customer to more choice and the customer getting more value out of the data that is, ultimately, theirs. In my business, we help a small business get access to more finance options that they would not otherwise be aware of and benefit from their data. Typically, what has happened historically or still happens to a certain extent in the market today is, if you are looking to get a financial product, you rely on the lender to review data that they are able to access about you and your credit history to make an assessment of you. Ultimately, though, that is your data, and I believe technology is going to help you get more benefit out of your data, either directly or indirectly, through a marketplace or a platform or an online lender, potentially, like Russell represents. Technology is enabling us, as consumers and then small businesses as an extension of that, to benefit from the data that is, ultimately, about you—about how you have performed from a credit perspective and how you transact day-to-day. For me, it is about access to a wider set of choices in terms of products and, ultimately, better products through innovation.

Chair: That is very helpful, because one of the key themes of technology is big data, and we would like to probe you on that. Craig is our resident expert on big data.

Q314 Craig Tracey: First, could you briefly tell me what big data your organisations work with, how you get it and what you do with it?

Gareth Mann: Our data is predominantly open, common data that you find in blogs' content and social media. We consume that content and we process it in real time, effectively. The power of the big data processing for us is to identify the signals in a real-time manner and pass them up to a trading desk or a set of traders for them to make an action on—to make a trade or understand the market. For us, that is the kind of big data. The scale of processing is what we call big data. The storage is one thing. There are lots

of companies and sectors that can store huge amounts of data, but processing that in a real-time manner to give the most accurate signal is the key to what we do.

Matt Hammerstein: Of course, we sit on top of a lot of very substantial information and data on behalf of our customers and clients. As Olly rightly says, it is their data, but we are the custodians of it. The opportunity, from our perspective and in many of the ways that Gareth just described, is to understand what that data tells us about their preferences and proclivities in a way that helps us add value back to them.

I can give you a specific example. We have a partnership with a company called energyhelpline.com. Through the direct debits and other transaction information that we see on our customers and clients, we know what they pay for their energy bills. We can help them compare that on an anonymised basis with other individuals within their postcode or across the country, to understand whether or not they feel like they are paying more for their energy than they should. To the degree that they do, we can introduce them to our partner to help them switch and save them money. Many of you would sit around, I suspect, and ask what that has to do with banking. In my view, much to Russell's point, everything, because that is just about us making sure that we make the most of the relationship we have with those customers and provide the most value back to them that we can.

Russell Gould: It is probably worth me explaining exactly how we operate, because it answers that question. We took a view that the business-lending model was broken, so we did not want to follow the traditional way of underwriting. We started looking at all the data that was available regarding a small business that might help inform making a decision on providing lending. We looked at properties, the individual worth of the entity, the individuals involved in the business and its e-commerce data—how it was transacting right now, today, yesterday, not 18 months ago. We looked at the bureau data, which is typically 18 months old, Companies House etc., HMRC and social—whatever data we could find—and we built a way of underwriting using that information.

That means we look at businesses in a different way and are able to approve a lot of businesses that some of the banks would be a bit hesitant about, because they do not have the eBay data or they do not know how to use it because it is so new, for example. The more data we can access and the more open data that is available to allow us to utilise that to help inform decisions, the more times we can say yes and the fewer risky decisions we make. For us, big data is everything. It is what our business model operates on.

Olly Betts: For us it is an extension of what Russell has said, effectively; we are doing quite a similar thing. Big data in our business model is about building a very granular profile of a small business to understand everything about how they have traded historically and forecasting how they might trade in the future. We are effectively doing what probably Russell's business is doing but across multiple lenders. With big data we are pulling in all the data we can get access to on the small business, with their consent, and then building a profile of that small business, which we match and assess against the lending policies of, currently, around 40 lenders that we work with, one of which is Russell's business.

We will look at all of the information we can understand about the small business, the policy and the decisions that a lender would make. The proposition to the customer is

then presenting them with an understanding of which products are available to them—which products they could be accepted for based on how they are trading, how their business operates and themselves as a director of that business. That is one part of the big data we do. To sum that up, there are potentially 1,000 data items on a small business we would use to build that profile of them.

Another part of big data we use is how customers interact in our marketplace. We use an awful lot of information around how they physically behave in the marketplace in terms of where they are clicking on a page, which pages, what content they are consuming, what products they are looking at and how they are interacting with information we put in front of them. That all goes into a big behavioural engine to understand whether, for example, if I put a green button at the top-right of the screen more people click on it than a brown button at the bottom-left, which is very commonplace: Barclays will be doing it on their sites. Everyone with an online website will be, to a certain extent, using big data to establish how customers interact with their journey.

Q315 Craig Tracey: How do you think it is possible to provide transparency about how data is collected? Is legislation the way to do it? How would that impact on your businesses?

Olly Betts: There is very robust regulation around how data can and cannot be used. We all have to comply with the Data Protection Act. We all have to register with the Information Commissioner's Office and we have to be very clear to customers how data is being used, through privacy policies and through terms and conditions of using our website. We are very clear with customers on the data that we are using and how we are using it, and there is an awful lot of regulation around that. From a regulatory perspective, there is good consumer protection around how data is used.

I will not go into the detail now, but there are some subtleties around where that is purely for limited companies; it can be different from a sole trader or proprietorship, which is covered by consumer data protection and consumer laws rather than limited companies being slightly different.

Q316 Craig Tracey: To pick up on a point you made before, and this was something that was suggested by a panel I was on, you specifically mentioned that the data is the customers' data. Should they be able to charge you for using their data?

Olly Betts: I would love that to be the case, as a consumer. There is a long way to go, from a regulatory perspective, and maybe a lot more disruption to happen in the market before that would be possible at all. It is about people, as I said before, getting benefit out of that, and that can be economic benefit. For consumers, rather than trying to sell their data to the highest bidder, it is more about whether their data is being used to provide value to them. In our business, the more data you can share with us, as a business owner, the more accurately we can find you the best-fitting product and, consequently, at the best rate. That would be how I would think about it.

Q317 Craig Tracey: I put the question about transparency to you, Russell.

Russell Gould: Matt made an interesting point that was very nice to hear coming from a bank, which was that they are a custodian of the customers' data, and that is key.

From our perspective, a customer should be able to access all of their data and to pass it to us if it is going to help benefit that customer. Whether it be banking data or HMRC data, whatever, we always ask the customer's permission. In fact, they log in for us to access the data or give us the ability to get the data or give us permission, with a cloud-based accounting platform, to extract all the data. I am a big believer that it is the customers' data and they should own it.

Whether they charge for it or not is a whole other question. From my perspective, that data helps us inform ourselves and make better decisions, offer better rates and say yes more often, so it is very powerful from that perspective.

Q318 Craig Tracey: Do you think it is realistic to be transparent in how we currently think about it, or do we need to move attitudes on about how data is going to be held, if it is going to be to the benefit of the consumer?

Russell Gould: We can always be more transparent about what is and is not kept. As a consumer myself, I would like to be able to access all information about me to see what is out there, but at the same time I am not saying that is the case. If there were some things I did not like, I would also like to have the ability to influence those.

Matt Hammerstein: Obviously, we have a very deep sense of responsibility because of the custodian role that we play with our customers' and clients' data around making sure that we handle it in the most appropriate way. It is absolutely right that consumers, individuals and businesses have a very clear understanding of what data organisations hold that is theirs, what they do with that data and, to the degree that they are working with any parties, what they are doing with those third parties and why.

To me, the challenge ultimately comes down to it being relatively easy to sit with a group of people, I suspect, like the four of us—we are probably at the very advanced end of understanding what big data and data analytics look like—as opposed to the general population, who I do not necessarily think have a very deep level of awareness and understanding of that. The experience for the individual or the small business in terms of being presented with questions that say, “Can we use your data to do this, that and the other thing?” can sometimes be very off-putting.

Consequently, there is a risk that we end up prompting people to exclude themselves from a part of the digital economy that is going to be fundamental in terms of making their life better and providing very significant value back to them. We need regulation and we need standards, but we also have to make sure that we use the technology as best we possibly can to make that experience as easy as it is and as intuitive as it possibly can be, so that people, subject to understanding what the risks are, participate in the economy in the best way.

Q319 Craig Tracey: That is a fair point, but how do we educate the public then, in your opinion? It is going to be the end user who does not understand, so how would you suggest that we start to educate people?

Matt Hammerstein: My own view is: just get started. I have a personal view that to date, rightly so, the focus from a wide spectrum of stakeholders but especially the Government has been too focused on what I would call the extremes, either the digitally

excluded or the digital businesses that sit at the very advanced end. If we are going to get the productivity uplift for the economy from transitioning to a digital economy, it is going to come from that big mass in the middle. That is hard work and it is going to require concerted public and private partnership to be able to tackle it. The Government has a role, private companies like mine have a role and some of the start-up companies and challengers coming to market also have a role to help build awareness, build confidence and build experience with using some of these things so that people get much more comfortable with it and, therefore, are much more likely to participate and get the benefit from it.

Gareth Mann: It has been covered by the rest of the panel, but we tend to deal with B2B—other businesses, other tech companies—and they really understand the value of their data and how we are utilising it anyway. You are right that, with the consumer part of the business, there is a lack of understanding of what the data is and how it can be utilised but, from where we sit, we are quite comfortable with how the regulation currently sits.

Q320 Amanda Milling: Are we talking about the financial services sector being affected just by an evolution of technology or is this disruptive technology? Is there a difference? Can you give any examples of where you would genuinely say it is disruptive technology rather than just this evolution?

Gareth Mann: From Digital Contact's point of view, as I said, I do not think we are a disruptive company. We are an evolution. We are taking a set of data that has been available and a set of technologies that allow us to process that data and create signals from it. Especially, when you look at our sector, which is active traders and banks, that is where we found the most success and the way to pitch it in, because if we believed we had the golden egg to make everyone money off the markets, we would not be selling the data on. We believe it is just a set of complementary methodologies that are going through. I stick to my stance that we are a complementary technology. With the evolution of technology, we have been able to drive the sector forward in our area.

Matt Hammerstein: I do not know that I am an expert, Ms Milling, in the distinction between innovation and disruption, but my suspicion is that, if you think about the traditional things financial services players have provided in terms of products and services to individuals and businesses, the technology we are talking about here is not going to fundamentally change those. It is going to fundamentally change the way in which customers go about interacting with those, the nature of the players that are able to provide them and, ultimately, the way in which those get integrated in their life.

I talked about the example in big data terms of the relationship we have with energyhelpline.com earlier. I will use another example for businesses. Exactly on the same theme of big data, we have now taken all the transactional data we hold on a small business and turned it back to them. We have said, "This is your data about your business. We can help you to better interpret that data to understand what your average customer looks like, the average transaction value, where they come from in terms of where they live and the socioeconomic background they have. We can connect that with social media data so we understand what their likes and dislikes are, and we can help you build a better targeted marketing plan to grow your business." That is disruptive to my business, from

the perspective that traditionally we would have sat down and talked to that individual about whether or not they want an overdraft and now we are talking to them about whether or not they have a social media campaign to drive the growth in their business. In terms of how we go about running our business, it is hugely disruptive. I do not know whether that is disruptive in the grand scheme of how the world works.

Q321 Amanda Milling: There is part of your business I specifically wanted to focus on, which is the consumer side. Listening to this discussion about data and being able to identify customers' needs, I am sitting here thinking that is what you should be doing as an industry anyway, in order to be compliant with TCF. I suppose it goes back to my point: is this not just a natural progression that is being driven by the regulator anyway?

Matt Hammerstein: Do you mean in terms of making sure that customers understand what is happening with their data?

Amanda Milling: Not so much that; it is ensuring that they have the products they need, which is a fundamental part of TCF. I am hearing a lot of things here where I am thinking this should be happening and technology is just enabling it.

Matt Hammerstein: That was the same point I was trying to make. I am sorry if that did not come across as clearly as it should have. Technology is going to make it easier for customers to understand the range of products and services that are available to them, to Olly's point, to understand the price at which they can get access to those products and services from various different providers, and to then make a decision about ultimately which product and service they need and what price they are willing to pay. It is going to facilitate all of that in a much easier way. From a service delivery perspective, is it disruptive? Yes. In terms of the nature of the products that are being provided, I do not see any evidence yet that those are going to be fundamentally different.

Russell Gould: Evolution and disruption are very intertwined anyway and I believe our business is massively disruptive, but disruptive in a slightly different way. We have taken something that has existed for a very long time. We have taken a process of banks providing business loans, which would often take, as I think Barclays quoted about 18 months ago, seven or eight weeks from the start to the funding. We do that now in 15 minutes, doing it in a completely different way. From my perspective, that is incredibly disruptive, but it is the evolution of technology that has allowed us to harness those bits of technology together to create the ability to make such rapid decisions, saving small businesses days and hours in valuable time.

Olly Betts: I am not sure I can add much more to that in terms of examples. That is a good example of what I would term disruption. Again, disruption and evolution are probably pretty close together. Maybe it is a speed thing or whether you notice. Disruption is probably innovation and evolution, but where someone or some market does it faster, so the incumbents notice. From most of the discussion that I have witnessed today, the disruptive bit has been the fact that one party or a set of parties has moved faster than another to an inevitable place. In this market specifically, everyone wants to treat customers more fairly and help customers get better service, so everyone is innovating: the incumbents like Barclays and the new entrants like Everline. The disruption will just be a by-product of whether someone moves faster than the other so that the incumbent notices and reacts. That is the only difference.

There is a lot of innovation going on, as in the example that Russell gave—just the speed of a decision and consideration that can be given to a customer. I run a small business and you do not have much spare time, so if it takes you eight weeks to get some finance you need and within three years you can get it in 15 minutes, I do not really mind whether that is disruptive or not; it is just good.

Q322 Amanda Milling: Can I just pick up on that point about innovation? One of the questions I was going to ask is: do you feel that the market is innovating? There was a period of time after Northern Rock when there were lots of products being innovated, then everybody just stopped and we went back to fairly standard products and being more conservative. Is there genuine innovation in the financial services market?

Olly Betts: I think there is. People have highlighted on this panel different areas where that is. As to whether it is genuine product innovation, that can be harder, because before what happened in 2007 and onwards, however you want to term it, there were good products that met people's needs in financial services. You could make an argument that revolution or disruption was not needed.

There has been product innovation. I can list a few: PayPal is pretty interesting. I use that; people can make payments to me and I can make payments to them. That is quite different as a product offering. The banks have innovated an inordinate amount in terms of service. Even I can remember a time when I could not do anything online with my banking, and on the train down this morning I did all my banking for the month on my phone. There has been a massive amount of friction removed from that process. I have not had to walk into a bank branch for four years and I have taken out a mortgage three or four times, remortgaged—you name it, I have done it. That is not because I do not like going into a branch; I just do not have time.

Yes, there has been lots and it can get lost in the fact that, testament to the banks, they are innovating as well. They are driving quite a lot of it. If you took a big step back, you might say you would like to see a completely new bank there that is changing the world and doing things entirely differently but, going back to one of my points, there was not necessarily anything wrong with the service being provided. The way it is now delivered faster and more conveniently is the main innovation.

Q323 Chair: In response to that, I have a question directed at you, Matt, if I may. Olly was very articulate in saying, "I was able to get a mortgage, remortgage," whatever, "and I have not had to walk into a branch." On that basis, how many branches of Barclays and how many staff will have to be lost in order to compete?

Matt Hammerstein: I would say ultimately that is going to be down to customers and clients and their behaviour, and the basis on which they choose to make that an important part of the service offering they want from us, as an institution. It would not surprise you to know that over the course of the past two or three years the volume of customers who choose to go into a branch, much like Olly, has declined significantly. That is largely because what they have historically had to go into the branch to do is transactional activity that, in many of their minds, was an inconvenience, and the advent of mobile banking applications has taken that inconvenience away, again exactly in the way that Olly has illustrated.

If I take our specific institution, three years ago we did not have a mobile banking application. Today, we have one; it has 5 million registered and active customers. On any given Friday, 4 million of those customers will log in to that application. If 4 million people tried to walk into a branch on a Friday, it would be a very significant issue for us. Interestingly, from my perspective, going back to the point about innovation—again it is service innovation not product innovation—10% of the logins on a mobile banking application happen between midnight and 6 a.m.; 7% of payments are made between midnight and 6 a.m. You would never have been able to do that in a bank branch in the past.

Q324 Chair: I want to bring Kelly in on the barriers to the digital economy, but if I just stick with you, if I may, Matt: who do you fear? Who is going to take your lunch in five years' time?

Matt Hammerstein: The biggest fear I have on behalf of my institution is our own ability to change ourselves fast enough. I do not see anything in the marketplace that makes me worried about our ability to compete.

Q325 Chair: You do not worry about the likes of Apple Pay or Google providing a Gmail payment service and, given the data that they have on individuals, competing with the likes of you, as traditional banks. You do not fear them. You think you can compete effectively.

Matt Hammerstein: We have a chance to compete effectively as long as—much to the theme of the prior panel—the regulation environment is level and the basis on which we have to comply with things like treating customers fairly or the Data Protection Act is held consistent across some of those players.

Chair: We might come on to regulation as a major theme of what we want to talk about.

Q326 Kelly Tolhurst: I would like to ask some questions around access to finance for digital companies and especially start-ups. Mr Mann, what you are selling is big data. Can you tell me what the barriers were for you starting up and where your barriers are for access to finance?

Gareth Mann: Absolutely, and it ties nicely into innovation. One of the bugbears for us as a business around three years old and equity funded is the EIS and SEIS schemes. They are amazing in their tax breaks for the incoming investor. I personally think those tax incentives at seed should be greater to stimulate more inward investment in smaller businesses. We have an amazing set of equity investors, but there are certain rules about how much influence they can have within the business, and that is a real struggle for us. We have a hugely influential equity investment team, yet we cannot bring them in the business to help us grow and develop the business at the speed we would like. It is a real frustration for us and something that we are really challenged with.

Secondly, we received funding from the Regional Growth Fund and that has been an extremely positive experience. It has really helped us out, but one point has been a frustration. The process of on-boarding us into the Regional Growth Fund was fantastic. The processes where they mix business and the politicians in the same arena were amazing

up until the last point when it was about to be signed off and the bureaucracy overtook. I cannot remember the date we were offered funding. It was around May or June, but because of all the committees it then had to go through it did not arrive until December. Effectively, my business had to put the brakes on for six months and was in hiatus, not going forward or back. That process could be streamlined.

Touching on the innovation point that you raised, especially within the fintech sector, one of the things that gets missed a lot is the cost of data. When it comes to the ability for big data companies like us to validate our data against market data, exchange data is extremely expensive. Data fees for banks may not be a problem, but we are looking at data fees of between, say, £10,000 and £40,000 a month, if we wanted real-time data. There is an organisation in the States called the FinTech Sandbox, where big corporates get together and they supply start-ups that innovate around the financial data that already exists, so they remove the barriers to entry. For us, when we were funding we had to plan on huge data bills for ingesting data to be able to back-test our product, because unless you can financially back-test you cannot really guarantee that your big data signals are correct, and those costs are huge. That is something I would love to see moved in here.

It should not always be about putting cash into business; maybe we should focus on adding services like data feeds into companies, not for commercial use but to be able to validate the business has legs, allowing the investors we have attracted to spend more time in our business and help drive growth and revenue. Those are the kinds of frustrations we have had as a company.

Q327 Kelly Tolhurst: Touching on the traditional model of financing for businesses, are there bigger challenges for start-ups in the digital economy and big data that predominantly do not have a physical product, in that the traditional banking sector maybe do not understand the particular product they have innovated and are trying to create or tap into a market for? How do you think the banking sector and the financial services sector are looking at tackling that? How do you see that improving, and is there a good signal regarding more start-ups and really creating that demand at a local level for digital organisations?

Matt Hammerstein: We have come a long way since the financial crisis with the common understanding of the spectrum of financing options that companies need to have available to them to be able to grow through the different phases. Gareth talked, rightly, around all the way from angel funders through to venture capital to private equity through to traditional bank debt and then, fundamentally, access to public markets.

Banks do debt and they do not do equity, private equity, venture capital and angel funding, and I would posit that is a good thing, because we have had some experiments in the past where we have tried to do some of those things and I can tell you it was not a brilliant experience, from a shareholder perspective at the very least. We need to concentrate on what we are good at and make sure that we have good relationships with people so that, if we find a company that needs a part of finance that we do not provide, we can refer them very actively to people who can provide them with that finance. We have more to do, but we have become better at it over the past couple of years.

Within what we do in the debt side of things, though, there is more banks can do to help. Traditionally, banks have got themselves into a pigeonhole where we lend on the

basis of assets, and a lot of the high-growth companies, particularly those in the digital economy, do not have physical assets to lend against, so we are starting to experiment. We just created last October a £100 million high-growth fund. We have now lent £70 million of that to 15 different companies. That is focused on companies that are growing at greater than 20% per annum and do not have any physical assets against which to lend. The latest, as an example, is a company based in Edinburgh called NetThings. They are developing an internet-of-things energy management system product. We have lent them £500,000 to develop the commercial testing associated with that.

We have every expectation that £100 million is the first tranche of money that we will put into those types of activities. It is different from what we have done in the past, so maybe it does fit back to Ms Milling's point around innovation. That is a product innovation, at least from our perspective, and one that we want to continue to learn from and think about how we can do more of it.

Russell Gould: From our perspective, if I talk about it in two parts, the two founders put their money into our business at the start and built it up, and then we took some private investment. Subsequently, the Angel CoFund, which is supported by the Business Bank, was a key investor in the business, and indirectly the EIF have provided loan guarantees to allow us to lend more at lower prices, which has been helpful as well. Oaktree Capital is a major investor, and right now we are in our third major big round of funding to allow us to grow.

From an SME perspective, our business is broken into three parts, effectively. There is our platform, which we believe is a clear market leader; there is our lending business, and we have lent £100 million, as of last week, providing 8,500 loans to UK small businesses; and then there is the data; as Barclays are using their data, we hope to use our data in that format. A lot of institutions are talking to us about how they might be able to use the platform we have created to enhance what they are doing and build on top of that. In the start-up environment, because we are lending our own money, we have had to be really careful who we lend to, so we need more data than what is available for a start-up, just from a pure risk perspective, but the platform we have is capable of providing a solution to businesses that want to enter into the start-up environment, and we are talking to a number of them about how they might utilise our platform to support start-up lending.

Olly Betts: I will try to answer quickly. There is personal experience and, as with probably three of the businesses on this panel, I was fortunate in being able to invest some of my own money in the business and find private investors to support that. With start-ups, it is really interesting. People have described that there is not really a definitive answer to how you fund a start-up: Russell has articulated not necessarily lending to start-ups; Barclays do not necessarily lend debt financing to start-ups for obvious reasons, because it is just so risky. In the start-up area there is a small proportion of the market that is very fortunate to get private equity funding or seed investment. They are typically people, trying not to generalise, who are well connected, with a very good business plan and a good track record themselves, so people invest in them probably more than the business idea.

The majority of people looking to start a business are probably relatively small. They might be someone who wants to become self-employed or continue their own trade but on their own, as maybe a sole trader or start a very small business. For those people, it

is about education on the finance available, but also making them aware of what is involved in starting a business. We could be going down the wrong track if we started to look at it and say there is not enough debt financing for start-ups. Those start-ups are very risky investments and the people starting those businesses need to be aware of how risky the process they are going through and the act they are taking of starting a business is.

There is a lot going on. The Government have the Start Up Loans initiative, which is debt finance—a relatively simple instalment loan for a start-up that has a good business plan and is resident in the UK, over 18, with a relatively good credit track record. That serves quite a lot of this kind of market I am talking about—the very small end. When you get up through to more technology-led companies or companies that are very interesting to the banks, potentially, as threats or challengers, most of the banks have their own innovation funds that they are investing in those businesses, I would say with very high thresholds. You have to be a pretty amazing business to get that money. It is £100 million. It sounds like a lot, but it is not when you look at the amount of businesses that are potentially competing for that. Having said that, it is brilliant; it was not there before and it is really helping.

It is a balancing act of how we educate people about what is involved in starting a business. Certainly we should avoid saying there is not enough money available for start-ups to easily access, because that would be very risky and potentially lower the bar that is, rightly, quite high to start a business.

Q328 Kelly Tolhurst: Going back to innovation and how we drive innovation in the UK in regards to the digital economy and high-tech organisations that are contributing to the growth of the UK economy, are there any particular barriers that you are seeing in the UK that need to be addressed for the further evolution and the innovation of our digital economy? Is there anything in particular that any of you believes needs to be removed or helped to progress that?

Olly Betts: For me, in fintech specifically, not all the time but quite a lot of the time that is a financial product or offer and, therefore, it is regulated by the Financial Conduct Authority. That obviously is a massive barrier to entry. You have to be authorised by the FCA, which takes quite a long time. I am being generous; it takes a very long time to get regulated. If, say, you and I wanted to start a business today—we had a great idea for some really revolutionary financial product we were going to develop—the first thing we have to do is start thinking about how we write a business plan but also fill in an FCA application. I am relatively good at forming business plans and submitting paperwork, and it took me two months, pretty much, of all my evenings and weekends to submit an FCA application. It was an interesting process for me, because I was starting up a business, so I had an idea and the degrees of a business plan, but I had not proved it worked yet. However, to submit my FCA application I had to provide three years' financial accounts and a view of exactly how I would be treating customers, although I had not really developed my product yet.

I am not saying it is a bad thing, because we need to protect consumers and I am definitely supportive of that, and there are some good bits of work the FCA have done: they have the Innovation Hub, which is there to help you if you are starting up a business. I have worked with them. I have had mixed results. They have been able to help me fill

in an application, but as I said the application is fit for purpose for a new bank. There is not a great difference between me submitting an application for my business and if someone wants to start a bank, so there is an opportunity to look at how that is done. I do not think it is the intent of the FCA that is wrong; it is capacity constraint.

I have interim permissions for a part of my business. I wanted to start another new part of my business that needed different authorities. I submitted my application six months and three days ago. The rules say I should have had confirmation within six months of whether I would or would not be approved and I have not heard from them, and I am not joking or exaggerating when I say I phone them every week. That is stopping innovation, because I think I have a great idea.

Q329 Chris White: The digital economy is clearly a rapidly growing and changing sector. Do you think you have the necessary skills coming into that sector? What sort of skills do you need? Is there a shortage?

Gareth Mann: I would say there is, but there have always been skills shortages in every sector where there is constant evolution and innovation. That just creates demand, especially in our sector, where data scientists and very highly skilled developers and computer programmers are key, with the dotcom boom times over the noughties and recently. There are a lot of people who claim to be technologists on the market who can develop, but there are still very few brilliant people out in the market. We had to solve that by taking ourselves out of central London and putting ourselves in a regional county to give a better work-life balance to our staff. We have been very fortunate, and I know it is unusual, to attract some amazing people who have really driven our business, but it was a conscious decision not to be based in London and to try to attract people through a different work-life balance. That has complemented us with the Regional Growth Fund as well. That is how we have had to tackle it.

I would say with anything that is bleeding-edge tech there is always going to be a skills shortage, because you need that adoption curve. There is that time when any person will take on a new skill set, and a lot of people want to wait until it is established. As a bleeding-edge company with bleeding-edge tech, I am not sure how you could solve it, because anything that is taught, say, at university will be out of date when you finish. Everyone we find we stick on a six-month intensive probation course within our business and we do not expect many outputs in that time, because they are using technologies they will have never seen before—maybe methodologies and ideas that just were not applicable when they learnt their trade.

Q330 Chris White: You are suggesting that there is a lot of in-house training that you need to do.

Gareth Mann: Yes. I would say it is more mentorship. We are creating a back-test model to validate our data currently. It is not something that we can find anywhere else that anyone has created, and we find a lot of the tech bloggers who write about it do not do it. When you step through the methodologies and procedures as documented online, they are just incorrect or they have skipped huge sections, so we are finding that we have a culture of mentorship between the team and knowledge transfer. I would say tech that we used 12 months ago is now already in the bin and we are on to the

next investment cycle and the next tech loop, because you have to, to keep up with your competition.

Matt Hammerstein: Similarly, at the very high end in terms of very specific technical skills, I would not necessarily say there is a shortage and that you cannot find it, but what you can find is very expensive because it is in incredibly high demand. My experience so far is that, when people tend to think about or talk about skills, they tend to think about formal education, i.e. people coming out with a degree in some of those technical areas. Very much like Gareth's experience, our experience so far is the challenge is much more general than that and is much more around people's attitude, their confidence and their willingness to be a part of something that is experimental. It is probably harder for us because we have legacy IT, but we also have, if you will, colleagues who come from a way of doing things and we are trying to convince them to now do things in very different ways. It is in their interest to learn how to do that from a, if you will, job protection and safeguarding perspective, but there is a lot of reticence as a consequence of a perception of either being embarrassed about admitting that I do not know what I am being asked to do or not having the confidence to go and ask for help and support. We very much find it comes down to a lot of very high-touch skills mentoring to try to encourage people to just give it a go. That is true just from an employment perspective, but also then in how they work with their customers and their clients to try to get them to go up that awareness and that confidence curve as well.

Q331 Chris White: Do you mean soft skills?

Matt Hammerstein: Our experience is the need from a skills perspective is much more on the soft side than it is on the hard side. There is definitely a need on the hard side. That is a longer term one to solve from the point of view of building it from a home-grown perspective. It is going to take partnerships with universities and things of that sort, again to Gareth's point, to encourage more students into the degree programmes that are going to produce the relevant technical skills, but even then we have to put them through experiential training, because it is not just about what the textbook says. A lot of the things that the three colleagues around this table are doing do not exist in textbooks, because they are taking existing technology and applying it in ways that are pretty leading-edge.

Q332 Chris White: Do you co-design courses with universities?

Matt Hammerstein: We do not co-design courses per se. We spend a lot of time building experiential programmes. We have an apprenticeship programme with a couple of different universities, where they split time between working with us doing real coding and applied learning and then go back into the university and learn, if you will, what the textbook says. We have had 314 people complete those programmes and enter full employment with us.

The other thing we do, which you may be familiar with, is a thing called the Digital Driving Licence. We have used it with colleagues. That is not necessarily co-developed with universities; it is co-developed with other leading technology companies, such as Microsoft, which has deep expertise in X, IBM in Y, Apple in Z, Google in A. They write simple modules of content that are relatively basic, but we now have 34 different modules

packed into it and we have 50,000 colleagues who are somewhere on the journey. We have done a partnership with City & Guilds so that if you complete a certain level of training through that the individual gets an accreditation from City & Guilds that is the equivalent of an O Level. Now they have the self-confidence to put on their CV or talk in general conversation about the fact that City & Guilds has verified that they are digitally savvy. We find that has had a huge impact. It is entry-level stuff of just getting people's awareness and confidence up to a level where you can then start to talk to them about opportunities that go beyond that.

Q333 Chris White: This is something that the industry has developed itself.

Matt Hammerstein: We have, institutionally.

Q334 Chris White: That is really fascinating. Do you think that the Government have a role to play in any of this development?

Matt Hammerstein: Without a doubt. Generally, the Government have a role to set an agenda and the pace associated with that agenda. This revolution, if you will, is much like the two prior ones, moving from an agrarian to mechanised and mechanised to motorised economy. We are now moving to a digitised economy. That is going to happen whether Government want to help it or not. It is a global phenomenon and it is going to happen. The Government have a choice about whether they want the UK economy to be at the leading edge of that or just in the middle of it or at the lagging end and, therefore, setting the agenda and the pace of how the UK economy makes that transition is fundamental.

Secondly, they have a huge convening opportunity. Because we have a national distribution and we come in contact with, as I said, 15 million people and 1 million businesses, we see a lot of very well-intended initiatives. They are trying to help, but they are pulling in marginally, and sometimes very significantly, different directions. Consequently, individuals and business end up somewhat confused. There are lots of people telling them about how they need to go in that direction or this direction, and the Government can help set a much clearer agenda as to how to convene those different interests, maximise the investment in resource and energy that is going into it and make sure that we get the progress at the pace that we need it.

Chris White: Thank you. That was very helpful indeed.

Russell Gould: I have a slightly different perspective. There is a skills shortage. I have hired 26 people since February, and a small business like ours is very different from a bank in that every one of those people has to be productive from the day they start. We do not have the money to spend a year training them, getting them to learn our ways, so we have to hire good people who know what they are doing. We have to hire people who not only have the education but the practical know-how of how to do the things we need them to do.

From my perspective, the Government can do a whole range of different things and it works across a variety of things. Big business, academia and the Government need to share responsibility here. It sounds like they are, which is great. Additionally, education and immigration play a huge part. We need to be able to hire great data scientists from

wherever they are in the world and we should not be restricted. If we want to be the market leader in the UK, we have to be able to hire the best people.

Q335 Chris White: Of those 26 people you have hired since February, how many of them are from overseas?

Russell Gould: I have staff from Greece, Turkey, New Zealand, Israel and Lithuania. I would say probably 30%.

Q336 Chris White: Is that because there are none locally?

Russell Gould: They were the right people for the roles at the cost that we could afford to pay for those individuals.

I wanted to make a point today about education. Education is absolutely fundamental to get the right skill sets coming through. I have a daughter who, a couple of years ago, sent a teddy bear into space with her school as part of their code club. That experience got her into coding and that is the kind of thing we need to be doing with our kids, because it gets them excited about it. She has created a couple of very basic games now as a direct result of having that kind of experience of sending a teddy bear up with an air balloon. Some of the class were tracking its temperature and how fast it was moving. Some of the class were tracking where it was on the map, and another group of the kids were tracking it in two chase cars to go and get it when they popped the balloon and it came down.

Chris White: We are glad to hear that.

Chair: It is a bit rude to call Tim Peake a teddy bear.

Q337 Chris White: We definitely need to expand code clubs. I have seen them working and there is massive change. Young minds are so ready to absorb some very technical and difficult information. Do you have anything else to add?

Olly Betts: We have talked a bit about disruption today. Within the fintech sector, certainly skills is probably the most disruptive thing going on. To give an example, I have hired a technical team of 12 people in the last six months. I have not reviewed a single CV. I have not looked at what degree they have or which university they attended. I have got them to write me some code to solve a problem and we talk. The first question we ask is, "What IT stack are you familiar working with and what is your preferred coding language?" That is probably five minutes and the rest of the session, probably for an hour or so, is, "Build me something, show me something, solve this problem." That is really disruptive in terms of how you think about how you hire people. If I were to say to someone when they were looking to choose a university, "If you want to work for me in five years' time, this is what you need to do," they would really struggle to pick which degree to do, and so it needs to be supplementary to that.

There are some initiatives; my investors are involved in an initiative with Google, Squared Online, which is effectively a diploma for digital marketing and that part of the digital economy. It is a great example. With kids, my investors are looking at an interesting start-up now to build on the back of Minecraft, which is widely used by kids. It is about coding. How do you turn that into something that is a general life skill? It is not that building rollercoasters and stuff is not, but that is massively important.

How do we complement the value of university degrees in terms of business acumen, which is needed, with skills? It is all about the soft skills and I definitely echo the first point that was made around how quickly those skills become obsolete. You cannot design a five-year university degree, because it will just be completely irrelevant by the time they graduate.

Q338 Chair: I have two questions, one big and one small. The big question is about regulation and how that facilitates innovation. In the minute that we have left I do not think that we can give that justice, so could I suggest, gentlemen, you provide us with some thoughts? How can regulation help or hinder your business? Obviously financial services are subject to some degree of regulation, shall we say, but how does that make sure that we can encourage new entrants into the marketplace whilst ensuring that there is not an uneven playing field? That would be very helpful. How is regulation helping/hindering your business model and allowing you to thrive?

The second quick question is: I am very conscious that you are an all-male panel; is that a problem? Is there inherent sexism in the digital economy and in respect of financial services? Should we be attracting more women in?

Olly Betts: Yes, there is a problem. You are combining financial services with technology. Anyone who can do maths works out the percentages and it is always against you in terms of the number of females in senior positions. I do not know the reason why, but it is a fact and I see it as a problem. It is a problem within my business. Even for a small business like mine, with a management team of five people, we only have one female member of that team. That does not necessarily give us the full perspective of our customers and what we are trying to solve.

Q339 Chair: Is that true across the board?

Gareth Mann: For us, it is exactly the same. The industry we are in does not lend itself well to women and there are just not the skills, so when we open up to interview it is predominantly male candidates who come forward. We are missing out on some real skills.

Russell Gould: We have a reasonable split. I was just trying to work out the numbers, but it is fair to say there is probably an issue in the sector we are in.

Matt Hammerstein: I do not think there is a financial services issue. If I just look at my own institution, the issues we face with respect to gender diversity are similar to any other large organisation in terms of very significant diversity at more junior levels and it becomes more male, if you will, as you get more senior, and that is a generalised issue we have to do lots institutionally, and work with others, to try to solve.

Q340 Chair: But it is specifically in the digital world.

Matt Hammerstein: Exactly. Similarly to what my colleagues have said, when we recruit it is hard to find females for the types of roles that you are recruiting into at the technical end of the spectrum. Again, I go back to the point I made earlier about partnerships with universities. We have also done partnerships in local communities with secondary schools to try to encourage girls specifically to come in and experience not the

textbook version of what we are trying to do but the applied version of it, so they can get excited about the fact that this is not some esoteric sort of thing and it requires as much creativity as it does mathematical skills in terms of how to use code to create things.

Chair: Gentlemen, thank you very much for your time. We have overrun, but it has been incredibly interesting and very helpful for our Committee's inquiry. What would be even more helpful, as I said, is if you could provide us with some key bullet points about how regulation helps or hinders the digital economy and the general role of Government. We would find that incredibly useful. Thank you again for your time.