Crezco Limited – Written evidence (SCG0002)

Brief intro to Crezco:

Crezco is designed to help SMEs pay bills, invoices and payroll via open banking payments. The value created is: a) increased convenience/improved productivity; b) reduced costs/no card-fees for invoices; c) reduced payment errors and fraud (including APP); and d) increased payment certainty / less late payments.

We are UK-based, with a London office, but hiring remotely across England, Scotland, Wales, and Northern Ireland. We have raised over £15m in private venture capital and hire over 45 employees.

We have partnered with Xero, the UK largest accounting software system, to bring the benefits of open banking to 1m+ SMEs in the UK.

Brief summary:

The UK had a comparative advantage in financial services globally. In the past, financial services in the UK were led by century-old merchant banks, but tomorrow's world is being built by forward-thinking, technologically designed fintechs. The fintechs will be responsible for maintaining the UK's relevance globally. However, the UK's comparative advantage and dominance are fading, and the FCA is partly responsible.

Without a doubt, Brexit made life very difficult, and the benefits have yet to reveal themselves. The FCA had an opportunity to lead the way, but the pendulum appears to be swinging against fintechs and start-ups towards maintaining the status quo where incumbents like NatWest do not need to compete/innovate. NatWest accepted £40bn+ of government funds (that's a lot of tax). Compare this number to the £15m raised by Crezco privately. Banks like NatWest may be large, but they are not by default responsible, customer-centric, or interested in international competitiveness and/or growth.

This negative zeitgeist manifests itself in the lack of direction and ownership for open banking. Open banking was designed to protect consumers while creating international competitiveness and growth. Why has it been forgotten about? Why are incumbent banks allowed to ignore it? If the FCA wants to promote growth and international competitiveness, it should invest in seeing open banking work as intended.

Questions:

The Committee is seeking evidence on the following questions:

1. What opportunities or changes should be prioritised in order for the regulators to meet their secondary growth and competitiveness objectives effectively?

   £ Billions of private sector capital have been invested into UK open banking projects. Millions of monthly data points prove its end value (demand) to consumers. However, instead of seizing this opportunity and ensuring the next generation of open banking fintechs are UK companies, the project has been neglected since its launch in 2017. The banks, once forced to implement change to spur innovation, now comfortably resist change to maintain a status quo that does nothing for "international competitiveness" and "growth in the medium to long term". The foundations have been laid, laws have been passed, banks are now familiar with the concept (though unsupportive), consumers understand its value, and venture capitalists and start-ups have invested in bringing open banking to consumers. This is a nearly finished project with >90% of the hard work behind us. To bring it to the finish line requires a fraction of past effort invested but will yield the promised returns.

2. To what extent are the regulators focused on the objective to promote international competitiveness and growth? Are there areas where the ability of the regulators to fulfil their secondary objectives might be constrained by having to fulfil their primary objectives?

   I have seen little interest in promoting international competitiveness and/or growth. The primary objective is to protect consumers. This manifests itself by resisting change. Most UK start-ups and fintechs, those who will best propel international competitiveness and/or growth, adopt customer/user-centric approaches to development. Fintech leaders, product managers, and engineers sit with the end customers/users to understand their problems to build loved solutions. Large banks, the ASPSPs, are not looking to make the world a better place but to maintain their dominance within the status quo. Innovation, change, open banking, fintechs and neo banks are not contrary to consumer protection. They provide better services/products and encourage growth / international competitiveness.

3. What are some of the barriers in the current regulatory framework (including the role and responsibilities of other regulators and bodies such as the Payment Systems Regulator, The Pensions Regulator and the Financial Ombudsman Service) that could hinder

efforts to drive economic growth and international competitiveness in (a) the UK economy and (b) the financial services sector?

Whom does open banking sit with? Will the Payments Systems Regulator provide the necessary updates to its vague standards? Will the FCA police ASPSPs (banks) that block payments without API or end-user messaging and close down bank accounts because their customer wants to pay an employee via open banking?

4. Do the regulators have the right capability and capacity to fulfil their regulatory objectives on growth and competitiveness? To what extent might the culture of the FCA and PRA influence their ability to fulfil their growth and competitiveness objectives?

   Some people at the FCA understand both primary and secondary objectives. Others assume the worst of any start-up or fintech, and communication appears hostile. Without any supportive data, I suspect more senior individuals fit into the first (better) category. A shift in culture and messaging towards fintechs and start-ups from leadership would make a quick but significant impact.

   Those in power, regulators or other government officials, can provide supportive communication that 'change' is not evil. On the contrary, change is key to continued economic development. Incumbent banks (ASPSPs) do not want change. Like all incumbents, they lobby to maintain a status quo that prevents new competition and innovation.

   Financial services, the City and fintechs have been the UK's comparative advantage (greatest strength). Despite efforts to strengthen other industries, we (the UK) will not suddenly outpace Chinese/German manufacturing or US software development.

   The UK should look to support other industries, but not at the expense of our present strengths. Brexit has been difficult, and its benefits are yet to be seen. The UK stock exchange lacks liquidity as companies look to delist and favour foreign exchanges. The UK economy needs a little love. We need to send a message to the world that we are a strong, forward-thinking economy where businesses can flourish. Fintechs attract the best of domestic and international capital, financial and human. A fintech ecosystem creates a flywheel that encourages more entrepreneurial developments and start-ups. Employees of one successful start-up leave to build new companies, which hire new employees and attract new capital. This self-enforcing ecosystem is clear in Silicon Valley, California. Like any modern ecosystem, it requires supportive government and regulatory intervention. Change is not evil.

5. How effectively have the FCA and PRA consulted or engaged with industry in relation to the new secondary growth and competitiveness objective?

   Infectively and infrequently. Open banking went live in 2017. What has really happened since?

6. In delivering their secondary objective on growth and competitiveness, what opportunities are there for the regulators to help to promote and support innovation in the financial services sector? How effective has the FCA's regulatory sandbox been for supporting greater innovation in the financial services industry?

   N/A: I do not have a strong opinion on the regulatory sandbox, but Crezco did not use it.

7. How should the regulators ensure that any measures introduced to meet the secondary growth and competitiveness objectives work for businesses of all sizes across the sector, including startups, scaleups, and incumbents?

   N/A – I have no strong opinions here, other than a fair objective analysis

8. Are there any additional metrics over and above those already agreed by the regulators that would better enable stakeholders to track progress and support scrutiny of their work against the secondary growth and competitiveness objective? How should a measure of growth be included in these metrics?

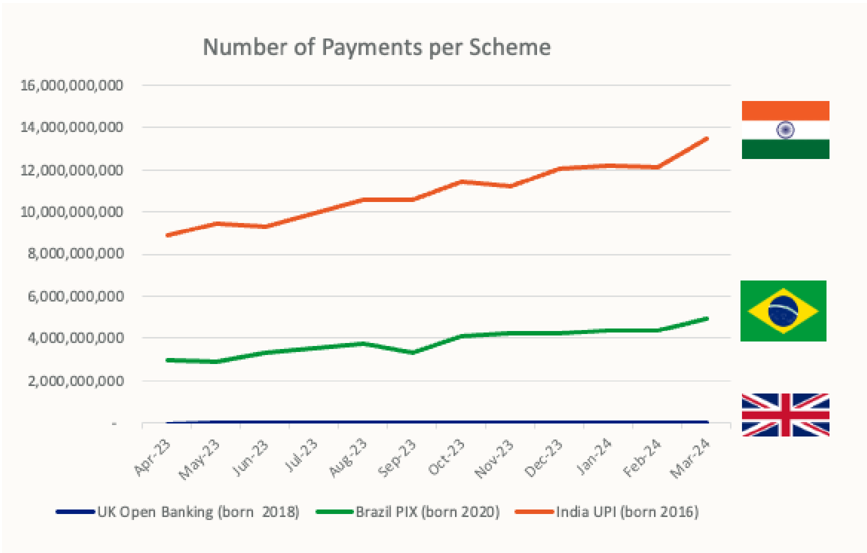
   The incumbents use excess capital for dividends and share buybacks. This is a choice by incumbents not to invest in "international competitiveness" and "growth in the medium to long term". It is a battle they have no desire to fight. However, start-ups and venture capital firms do invest in "international competitiveness" and "growth in the medium to long term."

   1) I think the success of fintechs is key to the UK's competitiveness and growth. It is important to measure how fintechs are succeeding. Beyond looking at capital raises, other key figures can be: revenue, employees hired, IPOs and other liquidity events.

   2) Regarding open banking, one metric could be to simply count the number of successful open banking payments

domestically (data here). This number could be compared to similar international schemes, like UPI in India (data here) and PIX in Brazil (data here). This can be seen in the graph below.

3) Do incumbents continue to use excess capital for dividends and share buybacks, a choice that reflects their unwillingness to invest in growth.



9. Does the requirement within the secondary growth and competitiveness objectives to align with international standards create any constraints to fulfilling those objectives?

   N/A: I do not feel confident answering this

10. Are the existing accountability measures around the secondary growth and competitiveness objective adequate?

    N/A: I do not feel confident answering this

11. Are there examples of regulatory policies in other jurisdictions that should be considered by UK regulators to help facilitate the new secondary objective? What might the FCA and PRA be able to learn and apply from comparable supervisors in other markets in terms of applying secondary objectives on growth and competitiveness?

    Payment schemes like UPI in India and PIX in Brazil have seen strong adoption but they were supported by strong regulators. Open banking needs the same support.

- This article (https://www.edgardunn.com/articles/rest-in-peace-paym) quotes Paym as not working because the banks dragged their heels: *"Unfortunately the UK banks never showed an interest collectively or individually in making Paym a success despite the widespread evidence of mobile payment adoption in other markets".* This same mobile money market has been very successful in other countries: Bizum (Spain), India (Paytm), Sweden (Swish) Norway (Vipps) Denmark (Mobile Pay), Poland (Blik), etc.

Do not let government-owned banks (NatWest) and other incumbents kill open banking when it is designed to: a) protect the consumer: b) promote international competitiveness; and c) create growth in the medium to long term.

22 August 2024