Budget 2021: What does it mean for UK fintech?

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Rishi Sunak, the UK's Chancellor of the Exchequer, has announced his second Budget this week.

After a challenging 12 months for all industries, Sunak's Budget looks markedly different from the one he unveiled this time last year.

While 2020's Budget may have been labelled the "Coronavirus Budget", its 2021 iteration focuses almost exclusively on recovery from the global pandemic.

Rishi Sunak delivered his second Budget as UK Chancellor

A £15 billion extension to the furlough scheme, and £5 billion of new grants for small and medium-sized enterprises (SMEs) underline a commitment to protecting people from ongoing disruption.

The Chancellor is also committing £22 billion on a new infrastructure bank, to aid the development of local projects across the country.

Surprisingly, the word "fintech" fails to appear even once in the Chancellor's budget documents. Despite this, there are several announcements affecting market participants and consumers.

FinTech Futures has gone through Sunak's new Budget to pull out what measures may impact the UK's financial services industry going forward.

The Recovery Loan Scheme

The UK government has introduced the Recovery Loan Scheme. It succeeds both Coronavirus Business Loan Interruption Schemes (CBILS) – large and small – as well as the Bounce Back Loan Scheme (BBLS).

Under the new recovery scheme, businesses of any size can apply for loans as small as £25,000, all the way up to £10 million, from 6 April until 31 December.

The loans will be backed by an 80% government guarantee, and include a Small Profits Rate to protect SMEs.

The CBILS and BBLS will stop accepting applications on 31 March 2021. According to the government, these schemes helped 1.5 million businesses, distributing a total of £70 billion.


CBILS applications close at the end of March

But alternative lenders are still concerned the process of issuing loans could negatively impact them.

“We urge the government to include better loan procedures, and alternative financing options, in their considerations for the new Budget,” says Scott Donnelly, CapitalBox’s CEO.

Last year, alternative lenders’ abilities to pick up the opportunities left behind by major rivals under the government loan schemes were hampered by a lack of accreditation.

In April, just two alternative lenders were accredited by the British Business Bank for the CBILS, which were Funding Circle and ThinCats.

It wasn’t until months later – after 166 British lenders led by WorldPay founder Nick Ogden – called on the UK government, that more fintech lenders landed accreditation.

Simon Cureton, Funding Option’s CEO, cautions that the new Recovery Loan Scheme still sides with big banks.

“With the interest rates capped,” he says, “the balance still remains firmly in favour of the incumbent banks that have unfettered access to the Bank of England Term Funding Scheme.

“All the while, a raft of agile fintechs wait in the wings with the resources, technology and expertise to deliver vital funding to UK businesses.”

But for some in the SME industry, it’s not a problem of loan access, but more an issue of payment delays. “Government-led financial aid schemes are a commendable step,” says Paul Christensen, Previse CEO.

“Britain’s businesses need sustainable sources of cash flow that don’t lead to mounting walls of debt. Cracking the slow payment problem that keeps SMEs waiting an average of 72 days for money they are owed, is a good place to start.”

Fast-track visa scheme

Sunak says that now the UK has left the European Union, it needs to ensure its immigration system can help businesses attract top talent.

In a statement ahead of the Budget, he wrote that a new fast-track scheme will “make it easier for fintech firms to recruit innovators and job creators”.

Applicants will no longer need to obtain endorsement from a third party, or be backed by a sponsor.

The new scheme, open to migrants with job offers at high-growth firms, will start in March 2022. A full roadmap, including a revamp of the sponsorship system, is expected in the summer.

The fast track scheme launches in March 2022

Victor Trokoudes, CEO of Plum, tells *FinTech Futures* talent is a key way for London to retain its fintech crown.

“We need to see the implementation of a visa scheme happen fast,” he adds.

“Under current plans we can expect more detail in July before it’s actually launched in March 2022. The government risks being too slow to benefit from the already fast-moving fintech industry.”

Rafa Plantier, head of UK and Ireland at fintech Tink, says the UK must continue to nurture its fintech talent.

“Crucially, we must give high growth UK firms access to the global talent they need to flourish internationally. The new visa presents a golden opportunity for the UK to continue to trailblaze in fintech – encouraging entrepreneurialism, investment and growth.”

Wayne Johnson, CEO of Encompass, says the new visa scheme could be a “turning point”, and accelerate growth by allowing the UK to “welcome new talent into the sector and benefit from a diverse pool of skills”.

He adds: “as we enter what is hopefully the final act in this pandemic, the government and our financial services organisations must work together to build on the UK’s strengths by supporting innovative start-ups.”

Contactless payment limit increase

Sunak has more than doubled the contactless payment limit for cards and mobile wallets to £100, aiming to boost spend in retail.

This is the second rise of the limit in the last year. It originally rose from £30 to £45 last April, at the start of the coronavirus pandemic.

Treasury data shows the UK’s retail sector is worth more than £31 billion. At the start of 2020, four in ten debit payments were made using contactless. That number has risen to six in ten.

The idea behind a more dramatic increase to £100 is to allow consumers to pay for higher value transactions, such as fuel and weekly family shops, via contactless.

Fuel for the average car costs around £60, and the typical UK household spends £92 on a weekly food shop, up 1% from 2018.

The limit comes into law immediately, but may take time to be reflected in-store as retail chains update their systems.

The first rise took just two weeks for larger supermarkets to implement, whilst smaller retailers needed more time to re-programme their card readers.

Six in ten payments made in the UK are now contactless

The limit increase had been called for by card processing networks and trade body UK Finance.

Ian Bradbury, CTO for financial services at Fujitsu, says the rise is “unsurprising”.

He adds: “there is a lot to admire about the prospect of a 100% cashless society including increased security, accessibility and convenience day-to-day. However, the reality is that we have a long way to go and there are still large proportions of society who rely on cash.”

Ian Johnson, managing director for Europe at Marqeta, believes the limit rise must come with security in mind.

“Physical cards provide very little security, and a fraudster could continue to use their contactless function until they’re cancelled.

“It would be unwise to overlook the advantage this new limit could give to fraudsters. A drive towards the adoption of digital wallets and virtual cards would solve this problem.”

In a release following the Budget, the Financial Conduct Authority (FCA) confirmed the rise in limits.

“More people have been using contactless payments during the pandemic,” says Sheldon Mills, executive director for consumers and competition at the watchdog.

“We are changing our rules to help the industry continue to respond to the changing ways in which people prefer to pay.”

A £100 million COVID-19 fraud taskforce

During COVID-19, impersonation scams in the UK increased by 84% in 2020 as fraudsters sought to exploit confusion around the pandemic. According to UK Finance, criminals raked in more than £58 million using the technique.

The government’s HMRC department was also the persistent victim of a number of these coronavirus-related scams. It saw fraudsters text, email and call UK citizens, tricking them into collecting fake payments.

But in September, HMRC revealed it may have sent a chunk of the Coronavirus Job Retention Scheme (CJRS) payments incorrectly, adding up to £3.5 billion.

The treasury is keen to tackle COVID payment fraud

The government department said it may have issued as much of 10% of these payments, funded by taxpayers, to fraudsters.

In Sunak's Budget, the government commits to a Taxpayer Protection Taskforce designed to undo this error with the help of more than 1,250 HMRC operatives.

It will invest £100 million into the investigations, which John Dobson, CEO at SmartSearch, hopes will go towards technology the department uses.

"Without the use of the latest digital platforms to run ID checks and verify information on a global scale, these investigators will be in danger of just becoming busy fools."

Ivan Heard, Quantexa's global head of fraud solutions, says HMRC investigators have a "monumental task" ahead of them.

"We can expect to see a lot more headlines about fraud and abuse in the next 18 months as this taskforce reveals the true extent of the issue."

A new infrastructure bank

As reported earlier this week, Sunak's budget includes provision for a £22 billion infrastructure bank to invest in local projects.

Set to launch in the spring, and headquartered in Leeds, the new bank was announced as part of November's spending review.

The bank's capacity comprises £12 billion in equity and debt capital, alongside an ability to issue £10 billion of guarantees, at £2.5 billion a year. Some £4 billion will be allocated to local authority lending.

It will draw capital from HM Treasury and borrow from private markets.

The new infrastructure bank will focus on green projects

The bank will focus on "intervening where it can make the biggest impact". This means addressing "shortfalls in the provision of private finance" to make projects happen that "would otherwise not have had the necessary support".

It will also pursue two central policy objectives
through its interventions in the infrastructure market: tackling climate change, and supporting regional economic growth.

In the Budget announcement, Sunak mentions offshore wind farms as a sector of interest for the bank. He says “funding new port infrastructure” will support the ongoing creation of these farms.

The new bank will be able to borrow up to £1.5 billion a year, to a limit of £7 billion.

The government will review the bank’s progress and financial performance by spring 2024, to “ensure it has sufficient capital to deliver its ambitions.”

Alongside the new bank, the Chancellor also mentioned a new retail banking product. The UK’s first sovereign green bond, or green gilt, is set to land this summer. He says green gilt issuance for the financial year will total a minimum of £15 billion.

But not everyone is so sure these green commitments are enough. Previse’s Christensen says banks can “put their money where their mouth is” when it comes to environmental, social and corporate governance (ESG).

He adds that: “by providing the funding alongside fintechs, who provide the technology,” banks can contribute to sustainable finance. Christensen uses the example of business-to-business payments, which he says are “crying out for a solution”.

Future Fund support

The Future Fund, set up last year, has approved more than £1.1 billion in convertible loans to more than 1,000 businesses.

The loans provided ranged from £125,000 to £5 million, subject to at least equal matching from private investors.

Though the scheme closed for applications on 31 January, the government is updating it with the “Future Fund: Breakthrough”.

Through it, the government says it is committing £375 million towards a direct investment product.

The British Business Bank will take equity in funding rounds of over £20 million, led by private investors to ensure these companies can “access the capital they need to grow” and “bring prosperity to communities across the UK”.

SMEs and the Help to Grow Scheme

Fintechs may be eyeing up a new UK-wide programme designed to provide discounted software to 100,000 SMEs.

The Budget says these businesses can save time and money by adopting “productivity-enhancing software, transforming the way they do business”.

The government is providing a voucher covering up to half the costs of approved software, up to maximum of £5,000. It also offers “free impartial advice” through an online platform as part of the package.

“The Help to Grow Scheme will help small firms to grow into an ever more digital world,” says Chris Biggs, partner at Theta Global Advisors.

“Investing in new systems to boost productivity and create jobs is of the utmost importance to economic growth.

“Industries such as professional and financial services have migrated to new systems en masse over the past year which has allowed them to compete with larger rivals, coming as a welcome boost.

“Stagnation is the enemy of growth so stopping this from happening post-pandemic is crucial.”