HM Treasury

Fintech Sector Strategy:

Securing the Future of UK Fintech

March 2018

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Preface

The world is being transformed by a technological revolution, with established firms across the economy being challenged by a new wave of digital innovation. This is particularly true in the financial services sector, where Fintech promises to change the way that we bank, invest, insure and even pay for things.

With strong domestic demand for Fintech products, a world-leading financial services sector, a thriving tech scene, a positive regulatory environment, and strong government support, it's no wonder that the UK is riding the crest of this wave as the best place in the world to start and grow a Fintech business.

This Fintech Sector Strategy sets out how we intend to preserve and extend the UK's international edge in Fintech.

Rt. Hon Philip Hammond MP

Chancellor of the Exchequer

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Foreword

The Fintech sector has the capacity to deliver huge benefits across society: to small businesses - the backbone of the UK economy - and to ordinary people, including the disadvantaged and vulnerable. The Fintech sector is a fantastic example of how competition can be a force for good.

But markets are not perfect, and the government, and regulators, have an important role to play in removing barriers to entry and growth, particularly for innovative firms. This is why the government's Industrial Strategy, highlighted in the Conservative Party manifesto, identified 'making the UK the best place to start and grow a business' as one of the five foundations of productivity. This Fintech Sector Strategy sets out what action the government has already taken to create a great business environment for Fintech firms, as well as introducing a package of ambitious new announcements to tackle further the challenges faced by the sector, working in partnership with industry.

With increased competition come new opportunities to spread the benefits of Fintech even wider, and to harness the very latest technologies to deliver faster, better financial services. This Fintech Sector Strategy explains how we intend to ensure not only that the UK remains the best place in the world for Fintech, but also that these opportunities are realised in full.

John Glen MP

Economic Secretary to the Treasury

Chapter 1

Introduction

1.1 Competition is at the heart of efficient, open and resilient economies. When markets are contestable, individual firms must offer products and services that are better value, higher quality or more innovative than their competitors, in order to attract and retain more customers.

1.2 That is why successive governments since 2010 have taken significant steps to increase competition in financial services, including creating an environment in which Fintech firms can grow and compete with incumbents.

1.3 The term 'Fintech' is used interchangeably to describe both technology-driven innovation across financial services and to pick out a specific group of firms that combine innovative business models with technology to enable, enhance, and disrupt the financial services sector. Fintech delivers tangible benefits for customers of financial services right across the country, including lower prices, more choice, and better service.

1.4 The vital role that Fintech plays as part of the UK's financial services sector goes well beyond retail banking – for example, Insurtech with its focus on innovation in insurance markets; and Wealthtech, which is using technology to help people to better manage their investments.

Making the UK the best place in the world to start and grow a Fintech business

1.5 The Government's Industrial Strategy[1], published in November 2017 identified five foundations of productivity:

- Ideas – making the UK the world's most innovative economy
- People – good jobs and greater earning power for all
- Infrastructure – a major upgrade to the UK's infrastructure
- Business environment – making the UK the best place to start and grow a business
- Places – prosperous communities across the UK.

[1] https://www.gov.uk/government/publications/industrial-strategy-building-a-britain-fit-for-the-future

1.6 This Fintech Sector Strategy is all about the action the government has taken to make the UK the best place to start and grow a Fintech business, and what else we plan to do to maintain this position.

1.7 Just as the UK is the financial capital of the world, it is also the leading Fintech capital, with increasing Fintech activity taking place across the financial services sector. Fintech activity is spread across the UK with notable hubs in Edinburgh, Leeds and London. The sector has now grown from its disruptive roots into an industry in its own right.

1.8 In their 2015 report 'UK Fintech on the Cutting Edge', EY estimate that the UK Fintech sector represented around £6.6bn of revenue in 2015, and attracted around £524m in investment. The report also highlighted that with around 61,000 people employed in the sector (around 5% of the total financial services workforce), more people work in UK Fintech than in New York Fintech or in the combined Fintech workforce of Singapore, Hong Kong and Japan. [2]

1.9 The 2017 UK Fintech Census, commissioned at the first International Fintech Conference in March of that year, showed that the sector continues to grow from this position of strength; average revenue for Fintech firms in the UK grew by 22% from 2014 to 2016. [3]

1.10 As well as the obvious benefits to the UK economy, Fintech has transformed many traditional services supplied by the financial services sector; over 42% of digitally active adults now use the services of at least one Fintech firm,[4] and more than 20 million people in the UK make use of banking apps as a more convenient way of managing their finances. [5]

1.11 Government's support for Fintech also benefits the wider economy. For example, by targeting markets that are underserved by the big banks, Fintech firms have been particularly effective at generating new lending for small businesses, supplying the vitally important capital that fuels economic growth across the UK.

1.12 This Fintech Sector Strategy sets out how, in support of the Industrial Strategy, and responding to the Fintech Census, the government plans to maintain and extend the UK's leading edge in Fintech.

1.13 Many of the policies being delivered through the Digital Strategy[6] are also of relevance to Fintech firms and are highlighted throughout this Strategy.

1.14 These interventions build on an extensive range of policies that successive governments have implemented to support the Fintech sector since 2010.

2 https://www.gov.uk/government/publications/uk-fintech-on-the-cutting-edge

3 http://www.ey.com/Publication/vwLUAssets/EY-UK-FinTech-Census-2017/$FILE/EY-UK-FinTech-Census-2017.pdf

4 http://www.ey.com/gl/en/industries/financial-services/ey-fintech-adoption-index

5 https://www.bba.org.uk/landingpage/waywebanknow/

6 https://www.gov.uk/government/publications/uk-digital-strategy

Support for the Fintech sector

1.15 Since 2010, successive governments have consistently championed the needs of the Fintech sector. Key steps that have been taken to support competition and remove barriers to entry and growth include:

- **Giving the Financial Conduct Authority (FCA) a strong competition objective**, resulting in the FCA establishing the Innovation Hub and Regulatory Sandbox to support Fintech firms, both of which are held up as global examples of best practice.
- **Creating a new Payments Systems Regulator from 1 April 2015** – the first of its kind worldwide – to ensure that challenger banks and Fintechs can gain access to the payments systems on fair terms, and that the payments systems embrace innovation in the interests of consumers and businesses.
- **Legislating in 2017 so that non-bank payment service providers will be able to directly access payment systems**, creating a level playing field with incumbent financial services firms.
- **Legislating to require big banks to share small and medium-sized enterprise (SME) credit data and to refer SMEs they decline for finance to designated platforms**, with the intention of creating opportunities for these SMEs to access finance from a variety of providers, including alternative funders.
- Taking action to **level the playing field for peer-to-peer lenders** and other alternative finance providers.
- Support for specific sub-sectors, such as **setting up a joint government-industry Board to identify barriers to the growth of Insurtech**, and to develop solutions to them. We have created an **Asset Manager Authorisation Hub in the FCA to improve the regulatory journey of an asset manager,** and working in partnership with the Investment Association to support VeloCity, the new Fintech Accelerator for the Asset Management Industry.
- **The Bank of England also launched a Fintech Accelerator in 2016** with the aim of partnering with firms working on new technology to harness Fintech innovations for central banking. As part of this work, it is investigating the potential of distributed ledger technology to support its own work.
- Action to boost the UK's global position as a leader in developing Artificial Intelligence technologies **through a new AI Sector Deal, and an AI Grand Challenge**, intended to put the UK at the forefront of this industry.[7]
- **Promoting the UK's Fintech sector internationally,** including establishing 'Fintech Bridges' with Hong, South Korea, Singapore, and China. These are detailed agreements that seek to build links between governments,

[7] https://www.gov.uk/government/publications/industrial-strategy-the-grand-challenges

regulators, and the private sector in order to open up international markets.

- **As at May 2017, around £395m has been directly committed to Fintech firms and challenger banks through British Business Bank programmes**, with the majority of investments made through equity programmes.

Open Banking

1.16 In addition to the substantial steps set out above, **in 2016 the Competition and Markets Authority, on the back of their investigation into the retail banking market, ordered the nine largest banks in the UK to deliver 'Open Banking'**.

1.17 Open Banking is a radical intervention, driven forward by government, that will allow consumers and SMEs to access a range of new and innovative products that better meet their needs, by providing third party providers with secure access to their current accounts. This could include, for example, products which enable consumers to access cheaper overdraft facilities without switching current account provider.

1.18 Open Banking is currently undergoing a managed rollout and there are a number of firms, including those presenting at the International Fintech Conference, who plan to take advantage of this ground-breaking opportunity to provide new and exciting products to consumers and SMEs.

Overview of the Fintech Sector Strategy

1.19 This Fintech Sector Strategy is split into two parts:

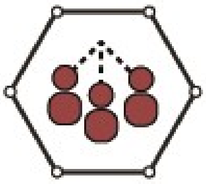
- **Chapter 2 (Meeting the needs of the Fintech sector)** looks at what further action we can take to remove barriers to entry and growth faced by Fintech firms. This draws on data from the UK Fintech Census, [8] a comprehensive review of the state of the sector and the challenges it faces. The Fintech Census was commissioned by government at the inaugural International Fintech Conference in March 2017.

- **Chapter 3 (New opportunities offered by UK Fintech)** identifies areas of emerging opportunity offered by UK Fintech, including new technologies and ensuring that the benefits of Fintech are felt by everyone across the UK, including the financially excluded.

[8] http://www.ey.com/Publication/vwLUAssets/EY-UK-FinTech-Census-2017/$FILE/EY-UK-FinTech-Census-2017.pdf

Meeting the needs of the Fintech Sector

RegTech: The UK regulators are exploring the possibilities for reducing the cost of regulatory compliance through the development of machine-readable rules. Two pilots will be in live production by the end of 2018.



Skills: To support Fintech firms in accessing a diverse pool of talent, the Fintech Delivery Panel is partnering with Barclays to deliver a Connect with Work programme to find and recruit individuals that have the right attitude and skills to work in Fintech companies.

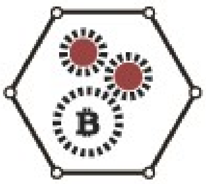
Competition: Shared platforms can reduce barriers to small firms entering markets to deliver complex financial services. Later this year a report, commissioned by the Financial Services Trade and Investment Board, will identify two areas where the development of shared platforms will be further explored through a collaboration between industry and goverment.

Partnering with incumbents: The Fintech Delivery Panel, in collaboration with the British Standards Institute, is developing a set of industry standards that will enable Fintech firms to more easily partner with incumbents. The standards will be published by the end of 2019, and Barclays, Lloyds Banking Group, HSBC, RBS and Santander have committed to implementing them.

Supporting international expansion: On 22 March the Chancellor of the Exchequer will sign a new Fintech Bridge agreement with Australia, helping to open up a new important market for UK Fintechs. The government will invest additional resources in helping Fintech firms expand into markets linked to the UK via a Fintech Bridge.

New opportunities offered by UK Fintech

Delivering the benefits of Fintech across the UK:
The government will appoint 3 new Fintech Regional Envoys to ensure that the whole of the UK is covered. Tech City UK is building a nationwide Fintech programme, in line with its new national remit as Tech Nation.



Harnessing the potential benefits of new technology: The government will establish a Cryptoassets Task Force consisting of HM Treasury, the Bank of England and the Financial Conduct Authority to further explore risks associated with cryptoassets and the benefits of the underlying technology.

Chapter 2

Meeting the needs of the Fintech Sector

2.1 This chapter sets out a number of the key challenges identified by Fintech firms in the UK Fintech census, and the government's response. It focuses on activity to reduce the costs of complying with regulation, to ensure access to the right skills, to improve the take-up of new Fintech services and increase competition, and to provide access to new markets. This reflects the importance of these issues to Fintech firms.

Reducing the costs of complying with regulation

2.2 **24% of responses to the Fintech Census pointed to regulatory compliance as one of the principal challenges for Fintech firms**. They are frequently unfamiliar with the financial services regulatory landscape, and can face difficulties engaging with the regulatory requirements which are necessary to operate in the sector.

2.3 The FCA has launched two flagship projects to help Fintech firms to comply with financial services regulation:

- **the Innovation Hub**, which assists firms with their applications to be regulated, helping them to understand the regulatory framework, and what it means for them.
- **the Regulatory Sandbox**, launched in May 2016, to help innovative Fintech businesses develop compliant prototype products, an important step toward reducing the regulatory burden on new firms.

2.4 The Regulatory Sandbox has supported 50 firms across the first two cohorts, with another 18 firms accepted into the third cohort, and applications are open for the fourth. Evidence suggests the sandbox plays a key enabling role for fintech firms, allowing new products to be tested, reducing the time and cost of getting innovative ideas to market, improving access to finance for innovators, and ensuring appropriate safeguards are built into new products and services. The success of the Sandbox has led to it being replicated around the world.

2.5 The next stage in reducing the burdens of regulatory compliance is to use technology to automate the process of complying with regulations, reducing the costs involved. **The harnessing of technology in this way is often known as Regtech**.

Box 2.A: **Announcement** - Automating Regulatory Compliance, Machine-Readable Rules

The financial services sector spends approximately £1bn per year[1] on the direct costs of regulation, with indirect costs many times that figure, a cost burden which falls disproportionately on newer, smaller firms, compared to larger incumbents. In 2017 the FCA and the Bank of England held an event to explore the scope for making the rules firms need to comply with machine-executable – creating the potential for automated or straight-through processing of regulatory reports.

As well as reducing the costs of compliance, this could also improve the accuracy of data submissions, and allow changes to regulatory requirements to be implemented quickly and efficiently. The FCA published a Call for Input in February of this year to ask for views on how these ideas could be developed further, and will publish its findings and next steps in Summer 2018. **In addition, the FCA is working with several banks to take this work forward into a production environment, with an eye to using the new reporting technology on two areas of regulation within the next six to nine months.**

The Bank of England has also initiated a piece of work to understand the complexities of defining and implementing machine readable rules in the next iteration of the Prudential Regulation Authority's rulebook, and will continue to work closely with the FCA and firms to develop this work further.

Access to the right skills

2.6 Ensuring the right mix of skills is crucial to the initial success, and subsequent growth, of innovative firms like Fintechs. **58% of respondents to the Fintech Census reported that they saw attracting qualified and suitable talent as one of their top three challenges, with access to coding and software skills being a particular concern.**

2.7 The government recognises the vital role that access to talent will play in UK Fintech firms maintaining their global edge, and is taking action to support this, including:

- **An additional investment of £261m in maths and computer science education**, including a new Advanced Maths Premium fund to help schools and colleges increase the number of students studying maths after GCSE, announced by the Chief Secretary to the Treasury and the Schools Minister in February 2018.

[1] https://www.nao.org.uk/wp-content/uploads/2017/09/A-Short-Guide-to-Regulation.pdf

- **A new Computing Curriculum, launched in September 2014** (Autumn Budget 2017 made an additional £84m available to help teachers acquire the additional skills needed to teach it).

- **Reforming the technical education system with the introduction of new T-Levels, of which the Digital T-Level will be one of the first**, rolled out in 2020, and implementing new, employer-designed apprenticeships that deliver skills the sector needs.

- **Committing £20m of public money to match £20m of funding from employers and others to help launch a new Institute for Coding**, enhancing higher digital skills provision in the UK, and championing innovative ways to improve digital skills provision in higher education.

- In 2017, **creating a Digital Skills Partnership**, announced in the Digital Strategy, that brings together national and local organisations to address the digital skills challenge.

Box 2.B: **Announcement** – Harnessing the Talents of a Diverse Workforce: the Connect with Work Programme

In order to maximise the pool of talent that firms have access to, it is important to attract a diverse workforce.

The Fintech Delivery Panel, set up by government, is partnering with Barclays to deliver a Connect with Work programme to find and recruit individuals that have the right attitude and skills to work in Fintech companies.

The Connect with Work programme matches individuals seeking employment with recruiting businesses. Through its coalition of experienced charity partners including the Prince's Trust, Connect with Work also trains individuals and provides support to help them succeed in those roles.

2.8 The government is very clear that we need to continue to attract the best and brightest talent from around the world.

2.9 Ahead of the Autumn 2017 Budget, the government announced that the number of Tier 1 exceptional talent visas would be doubled from 1,000 to 2,000 per year. This will mean that more highly talented individuals in the digital technology sector can come to, and work in, the UK under the 'Tech Nation' visa scheme. More than 500 of these visas have already been granted and Tech City UK and the Fintech Delivery Panel will work to ensure that Fintech firms are well placed to benefit from future allocations.

2.10 The government is also engaging closely with Fintech firms to discuss how we continue to attract the best international talent, including what they are looking for from a future immigration system.

Access to Finance

2.11 **34% of firms responding to the Fintech Census cited raising equity finance as a key challenge.** The government recognises that this is a challenge for new firms across the economy and has taken steps to improve their ability to access finance. An action plan to unlock over £20 billion to finance growth in innovative firms over 10 years was announced at Budget 2017, including:

- **setting up a new investment fund within the British Business Bank**. By co-investing with private investors, a £2.5bn investment from government will unlock a total of £7.5bn of public and private investment. The intention is to sell or float the fund once it has established a track record.
- **significantly expanding the support that innovative knowledge-intensive companies can receive through the Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCTs)** while introducing a test to reduce the scope for low-risk investment, together unlocking over £7 billion of new investment in high-growth firms through EIS and VCTs.
- **investing in a series of large scale private sector fund of funds**. The British Business Bank will seed the first wave of investment with up to £500m, unlocking double its investment in private capital. Up to three waves will be launched, unlocking a total of up to £4bn.
- **backing first-time and emerging fund managers through the British Business Bank's existing Enterprise Capital Fund programme**, enabling at least £1.5 billion of investment.
- **supporting overseas investment in UK venture capital through the Department for International Trade**, which the government expect to unlock at least £1 billion of investment.

2.12 Alongside this, **long-term investment will be supported by the Pensions Regulator clarifying guidance on how trustees can include investment in assets with long-term investment horizons**, for example venture capital, infrastructure and other illiquid assets, in a diverse portfolio. The Treasury will establish a working group of institutional investors and fund managers to look at how to remove barriers holding back some Defined Contribution pension savers from investing in illiquid assets.

Improve the take-up of new Fintech services and increasing competition

2.13 **49% of firms responding to the Fintech Census cited getting customers to adopt their services as a key challenge.** Open Banking is central to the government's approach to stimulating customer adoption and driving forward competition.

2.14 The Open Banking initiative uses Application Programme Interfaces (APIs) to empower bank customers, both personal current account holders, and SME business account holders, to safely and securely share access to their current accounts with FCA-regulated Fintech firms, in order for them to seamlessly provide a range of innovative new products that better suit the needs of the individual or business.

2.15 This is a revolutionary step in the development of retail and business banking that should facilitate access to better financial advice or more suitable financial services products, like an overdraft facility provided at a fraction of the cost charged by current account providers, as well as new kinds of payments methods that allow customers to pay for goods and services without using a card. A key part of this reform is that the APIs are standardised across the biggest players in retail banking, making it easier and cheaper for Fintechs to deploy their products.

2.16 Open Banking is currently in a managed rollout, which began on 13 January of this year. Once this has completed the government expects to see services that make use of Open Banking becoming commercially available.

Box 2.C: Examples of Open Banking Business Models

- Offering **financial advice** services which use artificial intelligence to analyse and learn from a consumer's income and spending. This enables the provision of detailed advice, previously only available through a private banking service.
- **Using Open Banking to offer enhanced credit assessments for small business loans.** By making use of the rich cashflow data that Open Banking makes available, firms will be able to compile a more accurate assessment of a customer's lending risk, enabling firms to issue faster, better lending decisions, and at a cheaper rate.
- Allowing **customers to make an almost instantaneous payment through their mobile phone without needing to use a debit or credit card**, or to log onto online banking. Services can compete on being faster and more secure for the customer, as well as cheaper for the merchant (who doesn't need to pay fees to a card provider or acquirer).

2.17 There are also opportunities in niche markets such as loans processing or fraud management for new entrants to benefit from the economies of scale that established, larger firms enjoy. Work in this area, which is being driven forward by the Financial Services Trade and Investment Board, is a further step in helping Fintechs to compete on a level playing field with incumbents.

Box 2.D: **Announcement** – New Industry Infrastructure, Developing Shared Platforms

UK firms can face barriers in growing their business and reaching new customers, due to the need to invest in the systems and processes required to perform more complex functions.

The Fintech workstream of the Financial Services Trade and Investment Board, established by the government in 2013, has commissioned Deloitte to investigate the potential of 'shared platforms', utilities that will be maintained for and by the financial services sector, which reduce the cost to individual firms of performing these functions.

These platforms will create economies of scale around the provision of complex financial services activities, like collateral management and management of syndicated loans, harnessing the power of Fintech to enable wider participation and competition in financial services markets.

Seven potential projects have been identified, including: collateral management, fraud management, loans processing, trade finance, RegTech, identity management, and transaction monitoring.

The report will be published later this year and will recommend two areas where the development of shared platforms will be further explored through a collaboration between industry and government.

Providing access to markets

2.18 There is a thriving community of early-stage Fintech firms in the UK. One of the key challenges of the future is to ensure that those firms can grow and scale, particularly that they can find ready domestic and international markets for their products.

Partnering with Incumbents

2.19 **38% of firms responding to the Census identified building partnerships with established players as one of the top challenges they face.** Responding to this challenge is central the Fintech Sector Strategy.

2.20 The benefits of innovation in the delivery of financial services are often maximised through collaboration with incumbents. Incumbents have longer established customer relationships, larger scale, more funding, and developed regulatory and legal knowledge. By contrast start-ups often have more innovative ideas, more specialised technological expertise, and agility.

2.21 Despite the obvious mutual benefits of collaboration, it has not always been easy for Fintechs to build these partnerships, in part because they are not always fully aware of what they need to do to meet incumbents' expectations. The government's Fintech Delivery Panel is looking to address this through its work on Fintech Standards.

Box 2.E: **Announcement** – Clarifying Expectations for Fintechs and Incumbents Working in Partnership, Fintech Standards

Being required to meet a wide range of varied demands from different incumbents can be a significant barrier for Fintechs wishing to partner with a number of financial services firms.

The government's Fintech Delivery Panel is developing a set of industry standards that will support Fintech firms by providing them with a consistent understanding of what financial services firms will need from them before entering into partnership arrangements.

This project is developed in collaboration with the British Standards Institute and jointly sponsored by Barclays, Lloyds Banking Group, HSBC, RBS and Santander. The standards will be published by the end of 2019, and the sponsoring banks have committed to implementing them.

Supporting international expansion and investment

2.22 **25% of respondents to the Fintech Census cited international expansion and investment as one of their main challenges**. Here the government is committed to working with other jurisdictions to minimise barriers to entry for Fintech firms that wish to expand globally, and to ensure that the growth potential of UK Fintechs is showcased to international investors.

2.23 **In order to support UK Fintechs' expansion into key overseas markets, the government has established four 'Fintech Bridges' – with Singapore, South Korea, China and Hong Kong** – each of which have established links between governments, regulators and the private sector to reduce barriers to market entry and link UK-based Fintechs up with opportunities for international investment.

2.24 **The FCA has also taken steps to support international expansion by Fintech firms, publishing plans to explore the implementation of a 'global sandbox', and inviting views from international regulators and industry.** This could allow firms to conduct tests in different jurisdictions at the same time, and allow regulators to work together to identify and solve common cross-border regulatory problems.

Box 2.F: **Announcement** – New Fintech Bridge with Australia

On 22 March the Chancellor of the Exchequer will sign a new Fintech Bridge agreement with Australia, helping to open up a new important market for UK Fintechs. The Bridge builds on the existing agreement between the FCA and the Australian Securities and Investments Commission to increase regulatory cooperation, and provides a framework for the UK and Australian governments to harmonise policies across a range of issues relevant to Fintech. Both governments have also committed to providing a range of additional support for UK Fintechs selling products and services in Australia.

The agreement also contains a specific commitment for the UK and Australia to cooperate on developing their respective Open Banking regimes, an important step towards maximising market access for new third party providers of financial services in both jurisdictions.

Box 2.G: **Announcement** – Department for International Trade, Help for Fintech Firms Looking to Expand

In partnership with HM Treasury, DIT will invest additional resources to help Fintech firms expand into markets linked to the UK via a 'Fintech Bridge'. A DIT Fintech Steering Board will also be established, chaired by the Lord Mayor of London and comprised of successful Fintech exporters, to help inform DIT's approach to supporting firms move into new markets.

Brexit and Passporting

2.25 **25% of Fintech Census respondents reported uncertainty around Brexit and its possible impact on Passporting as one of the top challenges they face.** We understand the concerns of Fintechs. However, the strengths of the UK's global position in Fintech are not dependent on EU membership. Indeed, a recent report by PwC concluded that 'London will still remain a global capital of Fintech'.[2]

2.26 The government appreciates the importance of certainty and stability to the UK's Fintech community and to the rest of the economy. That is why the government has proposed an implementation period. The Prime Minister has been clear that this period should mirror and replicate the status quo, meaning that the UK will possess the same market access rights as now - giving businesses the continuity they require and ensuring that they only have to make one set of changes to reflect our new relationship with the EU.

2.27 On the future UK-EU relationship, the government is working hard to agree a comprehensive and ambitious deal with the EU that gives the UK access to EU markets, and the EU access to UK markets, including in financial services. As the Prime Minister has made clear, this must include the free flow of data which underpins all modern trading relationships.

2.28 We are looking for something that is deeper and more comprehensive than a traditional, existing Free Trade Agreement. In financial services, we start from a unique position of regulatory alignment and our future relationship with the EU should recognise this.

2 https://www.pwc.co.uk/industries/financial-services/fintech-startup-bootcamp.html

Chapter 3

New opportunities offered by UK Fintech

3.1 Fintech presents areas of emerging opportunity, including new technologies, and harnessing the power of Fintech to ensure the benefits are felt by everyone and not just the few.

Ensuring the benefits of Fintech are felt by all

Getting the basics right

3.2 In order for the benefits of Fintech to be felt broadly, there needs to be widespread access to digital services. However, at present a significant part of the population remains digitally excluded. 9% of adults have never used the internet and many more are missing out on the opportunities the digital world offers, whether through lack of connectivity or digital skills.

3.3 To address this, and mirroring the approach taken for adult literacy and numeracy, **the government committed in the Digital Economy Act to ensuring adults in England who lack core digital skills will not have to pay to access the basic digital skills training they need from 2020**.

3.4 **The government is also taking action to ensure that no part of the country or group in society should be without adequate connectivity.** In addition to continuing with the roll-out of 4G and superfast broadband by 2020 the government will implement a Universal Service Obligation, giving every individual, business and public premises across the country the right to request an affordable high speed broadband connection. The government is also committed to investing over £1 bn to accelerate the development and take up of next generation digital infrastructure.

Supporting financial inclusion

3.5 Fintech has huge potential to support financial inclusion, enabling those who are underserved by traditional financial services firms to access tailored products at a fair price. **The government has already championed the cause of financial inclusion through the Fintech for All competition, run by Tech City UK on our behalf in Autumn 2017**, and celebrating some of the best companies offering products to this market.

3.6 **Open Banking will also have a significant role in delivering products that can increase financial inclusion, and the government is taking action through the Rent Recognition Challenge** to help renters seeking to get on the housing ladder to access credit. The government expects the winners of the challenge to be ready to deliver live products to the market by November.

Promoting growth across the regions

3.7 The benefits of Fintech must also be felt nationwide. At present the UK's Fintech sector is concentrated in London, with industry estimates suggesting that 80% of Fintech firms are based in the capital.

3.8 That is why the government is seeking to build on its Autumn Statement 2016 announcement of regional envoys for Scotland and the North of England, with a strengthened regional approach.

Box 3.A: **Announcement** – A Strengthened Regional Approach

In addition to our existing envoys **the Treasury will appoint David Duffy, CEO of Clydesdale and Yorkshire Banking Group, as a new English envoy** with a specific focus on promoting the adoption of Fintech by regional banks and building societies. **We will also appoint envoys to Northern Ireland and Wales, complementing the existing Scottish envoys, and ensuring that every part of the UK is covered.** We will also ensure that we are fully joined-up with the work of the Devolved Administrations.

Box 3.B: **Announcement** – Tech Nation Fintech Programme

Tech City UK, the government-backed body charged with supporting the growth of the Tech Sector in the UK, is building a nationwide Fintech programme, in line with its new national remit as Tech Nation. **This programme, which will be targeted at early stage business to business Fintech companies across the UK, will aim to showcase and support exceptional Fintech talent. The programme will be open for applications in June 2018, launch in September, and run to February 2019.**

Harnessing the potential of emerging technologies

3.9 One of the key challenges for the government is understanding and engaging with the implications of new technologies. It is essential that the government is well placed to support and take advantage of positive innovation. This includes understanding and managing any risks associated with it that might otherwise limit its beneficial potential.

Cryptoassets and Distributed Ledger Technology

3.10 Like traditional assets, cryptoassets may act as a store of value, but they have recently been subject to speculation which has led to significant volatility, contributing to them being risky investments.

3.11 One of the most significant aspect of cryptoassets is the underlying technology that they are built on. Distributed ledger technology, or blockchain, is fundamental to cryptoassets, underpinning their functionality, but it also has wider applications. For instance, as part of its Fintech workstream, the Investment Association, together with its members, is looking to create the UK's first digital fund. A digital fund uses distributed ledger technology to streamline back office fund administration functions to increase speed and reduce cost while increasing resilience in their business. By reducing the number of intermediaries, a fund will make cost savings that can be passed on to the end investor.

3.12 The Bank of England is also exploring how the renewed Real Time Gross Settlement (RTGS) system could interact with a range of potential future approaches to settlement in central bank money. In particular, the Bank will develop a proof of concept project to understand how a renewed RTGS service could interface with innovative settlement systems, such as those built on distributed ledger technology.

Understanding the benefits and risks

3.13 The government is committed to working with industry to fully understand the risks of cryptoassets, and to consider how to mitigate them, as well as exploring the wider benefits of distributed ledger technology in financial services.

Box 3.C: **Announcement** – Creation of a Cryptoassets Task Force

The government will also establish a Cryptoassets Task Force consisting of HM Treasury, the Bank of England, and the Financial Conduct Authority to explore further the risks of cryptoassets and the potential benefits of the underlying distributed ledger technology, as well as to assess the future response of the appropriate authorities, including around regulation. This Task Force will look to report back in the Summer.

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