Cambridge Centre for Alternative Finance 2019 Annual Conference

Bob Wigley
Keynote Speech

- Good morning everyone, my name is Bob Wigley – I'm the chairman of UK Finance, the trade association for the banking and finance industry. Representing more than 250 firms across the industry, we act to enhance competitiveness, support customers and facilitate innovation.
- I am also an Honorary Fellow of the Cambridge Centre for Alternative Finance where I have been very happily supportive since the centre was created. It's been fabulous to see how its work, influence and standing has developed and a real pleasure to address the centre's fourth annual conference today.

UK AS A WORLD LEADER IN FINTECH

- One thing is very clear from my vantage point as Chair of UK Finance: that digital innovation in the UK has never been higher and is rapidly changing the banking sector landscape and how we all do business.
- Fintech and bigtech are challenging the status quo in banking and finance and experiencing unprecedented levels of success in doing so.
- This presents great opportunities for my member firms, and importantly the customers they serve.
- From the advanced analytics which financial institutions use to manage their compliance obligations…
- …to apps which provide consumers with greater control over their payments and personal data…
- …and technologies which enable people to access their accounts and manage their money wherever they are, 24 hours a day, 7 days a week…
- …technology is helping firms reshape their customer offering and drive efficiency.
- And the UK is absolutely at the frontier of this exciting change.
- This country has created 35% of all tech unicorns from Europe and Israel – 60 to be exact.
- And this is set to grow.
- A recent report from Innovate Finance and WPI Economics predicted that the fintech sector in the UK is set to top 100,000 employees by the year 2030, with 30,000 new jobs created and an estimated 3,300 UK FinTech firms.
- That's compared to current estimates which suggest there were 1,600 FinTech firms in 2018, employing 76,500 people.
- London is now firmly established as the world's third global technology ecosystem – currently the city boasts more unicorn FinTech companies than the rest of the Europe combined.
- Last year saw record-breaking levels of investment in fintech. Global fintech investment doubled in 2018 to US $ 112 billion according to KPMG. Whilst Venture capital and private

equity investment in British fintech rose to an all-time high of £2.6 billion, up 18 per cent compared to 2017. This cements London's position as Europe's fintech capital.

- Level 39, based in Canary Wharf in east London, is Europe's largest fintech startup accelerator.
- But the fintech success story is by no means restricted to London.
- World-leading academic institutions across the country are helping to create pioneering new tech companies.
- The city of Cambridge is a shining example of a successful symbiotic relationship between universities and the tech sector.
- According to a Digital Economy Council study, half of the population of Cambridge works in tech.
- Cambridge and Oxford have together created nine unicorns, compared to Paris' five and Berlin's eight.
- So, it's clear that the UK's excellence in fintech is benefiting the entire country. Monzo, a UK Finance member, announced recently that it will be creating 300 new jobs in Cardiff.

COLLABORATION TO DRIVE INNOVATION

- In the early days, the larger incumbent financial firms may have regarded fintechs as unwelcome disruptors – even existential threats – putting them on the defensive.
- But today, most have turned to collaboration.
- Many of the high street banks are now looking not just to keep up with how fintechs are changing the industry, but to become major players in using fintech to fuel their own reinvention and growth.
- Yes, some fintech companies may indeed be coming after a slice of the established firms' market share and exploiting their agility and lack of legacy outdated IT systems to do so.
- But more often, these technology-based start-ups offer new tools, platforms and expertise, which established firms, with their scale, resources, customer bases and depth of knowledge of the financial sector, can harness to improve customer experience and strengthen their operations and so help the fintechs scale more rapidly and with a higher degree of success.
- So, whether it's an incumbent or a challenger, collaboration is vital to success.
- Collaboration encourages research and development of technologies that might not otherwise find investment, while allowing technology start-ups to connect with partners who can help them deliver their innovations at a faster pace.
- In the past year, we've seen many exciting partnerships announced.
- Barclays bank announced a partnership deal with the fintech firm MarketInvoice. Founded in 2011, MarketInvoice has funded invoices worth more than £2.7 billion, boosting cash flow for thousands of British businesses.
- The terms of an invoice usually dictate a long payment period that can be up to 120 days, leaving businesses with a cash flow gap in the interim.
- But SMEs who sell goods or services to other businesses can upload or sync their invoices to MarketInvoice's platform and sell them to investors, unlocking faster access to funding.
- Barclays' SME clients stand to benefit from the bank's adoption of MarketInvoice's technology.
- Barclays also led a recent round of investment in Bink, a company I Chair. The Bink app aggregates consumers loyalty scheme points in a convenient digital wallet, connects their

payment cards to their loyalty cards, obviating the need for members to swipe a loyalty card ever again, enables ease of joining loyalty schemes with one click, helps retailers get back to the data they have lost from a combination of express checkout and members not swiping their loyalty cards, reunites retailers with lost loyalty scheme members and makes it easier for consumers to redeem loyalty points on products they actually buy. I am out to create my own unicorn and we are well on the way. The app is currently live in Barclays launchpad, and we expect to be live with their 8 million users by the end of the year. We also expect other UK banks to follow suit very shortly. We are also well on the way to launch in South Africa and way along in planning with Wells Fargo and Bank of America in the US. From Bink's perspective, Barclays investment and product adoption gives my company massive credibility. From Barclay's point of view, including the app's functionality in their app gives them a USP over other high street banking apps and gives their customers another reason to visit their app more frequently = providing them with opportunities to cross sell products to loyalty scheme users.

- Lloyds Banking Group recently announced a strategic partnership with Thought Machine, a UK-based tech company whose core product, Vault, is a cloud-native banking platform.
- Vault aims to help simplify the technical and operational complexity of everyday personal banking, whilst maintaining the advantages of security and reliability.
- These are but a few examples of recently announced partnerships between the UK's largest financial institutions and budding technology companies. And we expect such partnerships to grow in number and in scope, not least thanks to the catalysing effect of recent regulatory initiatives such as PSD2 and Open Banking.
- As the trade body, UK Finance's role is to help facilitate this innovation – we convene members and other experts to collaborate and share knowledge, data and technological advances.
- And we recently welcomed Charlotte Crosswell – the CEO of Innovate Finance – to our board. Charlotte's brings with her a significant expertise in fintech which will help us to accelerate our work in this arena.
- Because ultimately, an enhanced understanding and adoption of new technologies will create better outcomes for financial institutions, their customers and the UK economy.

REGULATION – THE GOOD PART

- Part of the success of the UK's fintech owes to the forward-leaning approach that this country has to regulation.
- To help firms trial new products and services they need to be able to experiment in a controlled environment.
- And the Financial Conduct Authority's "sandbox" approach has made an important contribution to achieving that.
- The sandbox, which is open to authorised firms, unauthorised firms that require authorisation and technology businesses, allows them to cut the time to market and supports them identifying any consumer protection safeguards they need to build in.
- The sandbox has proven very popular with firms and interest in applying to the initiative shows no signs of abating.
- And in January, off the back of the success of the domestic sandbox, the FCA, in collaboration with 11 other financial regulators and related organisations, announced the creation of the Global Financial Innovation Network, building a 'global sandbox'.

- As part of the work around Donald Trump's recent visit to the UK, the US and UK Governments announced a Financial Innovation Partnership to promote cooperation on regulatory issues and business development in financial technology. The two Treasury departments aim to build on and deepen bilateral engagement on emerging trends in financial services innovation. The partnership aims to encourage collaboration in the private sector, sharing information and expertise about regulatory practices and promoting growth and innovation.

REGULATION – THE BAD PART

- However, over the past ten years since the global financial crisis, there has also been a huge volume of new regulation – and most of it, many would say and our industry would acknowledge, was needed.
- We have moved from the immediate post-crisis focus on prudential regulation to regulatory initiatives now underway in conduct, payments and technology – from financial resilience to operational resilience.
- Of course, we need strong regulation – for high standards are central to a robust and competitive banking and finance industry.
- But at UK Finance we have been making the point to Government and regulators that new rules being delivered by multiple regulators with insufficient coordination unnecessarily stifle innovation, by diverting funds that could otherwise be put towards investing in bettering consumer offerings. A recent KPMG report referred to regulatory spaghetti and we at UK Finance have developed this snapshot of regulatory change – which summarises all the competing and overlapping initiatives currently being wrought on the UK FS sector.
- Moreover, most rule changes require an IT or potentially multiple IT changes. And as we know from the headlines – changes to IT systems create down time for consumers and new risks to customer service. And there simply aren't enough weekends in the year.
- I cannot stress enough that this isn't a call for reduced regulation or any kind of race to the bottom. A system built on trust, needs strong rules. But it is a plea for better coordination – "air traffic control" as we call it – between public authorities as to the substance, prioritisation and sequencing of new regulation.
- The various regulators need to consult each other on their respective proposals for regulatory change, so that the interactions between regulations and regulators are more fully taken into account.
- Here too, collaboration – in this instance between regulators – could yield tremendous benefits.
- So, as you can imagine, I was delighted to hear both the Chancellor and the Governor of the Bank of England recognise the need for such an approach in their Mansion House speeches on 20 June.

INDUSTRY COLLABORATION TO TACKLE CYBER CRIME

- In this increasingly digitised world, collaboration isn't just a great way to turbocharge innovation in the sector. It is also crucial to the industry's ability to meet the growing threat of cyberattacks.
- This threat is not going away; criminals and hostile state actors alike are developing ever more sophisticated methods for stealing sensitive customer data and disabling IT systems.
- Almost every week we hear news of another data breach.

- Just a couple of weeks ago, Anil Kashyap, a member of the Bank of England's financial policy committee, told MPs that it was only "a matter of time" before an incident happens on a big scale.
- The security, and privacy, of customer data is – quite rightly – facing ever-greater scrutiny.
- Firms take these threats seriously and are investing heavily in cybersecurity.
- But the industry can only be as strong as its weakest link. As the financial industry becomes increasingly interconnected, the ripples caused by the impact of a cyber-attack on one firm are likely to be felt upstream and downstream.
- And of course, the whole of the industry suffers if public confidence is damaged and trust is eroded by an attack on an individual institution, even if it is smaller in size.
- While the top might be strong – the tail of the industry is long. There are some 58,000 regulated financial organisations in the UK. We need a rising tide of resilience to lift all boats.
- The NATO approach – an attack on one is an attack all – is our best shield from the danger of cyber-attack on our industry, and it is this collaborative logic that UK Finance is taking as we seek to ensure that the UK is the safest and most transparent financial centre in the world.
- This thinking has led to our development of the new Financial Sector Cyber Collaboration Centre – or FSCCC.
- Collaboration will be at the heart of the FSCCC and we are working closely with our members, the Bank of England and the National Cyber Security Centre in its operationalisation.
- Now being established, its mission will be to proactively identify, analyse, assess and coordinate activities to mitigate systemic risk and strengthen the resilience of the UK financial sector.
- Our ambition is that the FSCCC will develop so that financial services organisations are able to trust each other enough to share information on sensitive cyber-attacks and known vulnerabilities.
- We aim to create cyber playbooks and develop sector-wide cyber exercises to test them, to help the sector and regulators develop a muscle memory and confidence when cyber-attacks occur.
- While it will initially focus on those financial services firms deemed to be Critical National Infrastructure, the FSCCC's fundamental aim is to benefit the sector as a whole, so it will become accessible to all organisations, no matter their size or cyber maturity.
- In this global world, we must also look to collaborate with those jurisdictions overseas who, like the UK, are world leaders – America, Israel, Singapore for example. That is what the FSCCC will do.

ECONOMIC CRIME

- We are taking a similar collaborative approach with fighting economic crime.
- UK Finance wants to ensure that the UK retains its position as a global leader in financial services and continues to lead the way in digital innovation.
- We believe that objective is inextricably linked with making the UK the safest and most transparent place in the world in which to conduct financial business after Brexit.
- We've made a good start. I am working with the Chancellor and Home Secretary to agree a public private sector threat assessment for economic crime and then an Economic Crime Plan to systematically attack the biggest and most serious threats in a series of public private partnerships.

- The Banking Protocol—a rapid scam-response scheme between bank branches and law enforcement—has prevented over £37 million of fraud and led to 336 arrests in the past two years. It's also prompted what we believe to be the first letters of thanks ever sent by chief constables to a banking trade body.
- Our Take Five campaign, backed by the Government, gives people straightforward advice to help them confidently challenge any requests for their personal or financial information or to transfer money to a fraudster's account.
- The Dedicated Card and Payment Crime Unit, a specialist police unit sponsored and housed by the finance industry, prevented £25 million of fraud and carried out 84 arrests and interviews under caution in the first half of 2018.
- And all told, UK banks spend over £5 billion per year fighting economic crime, increasingly taking on responsibility for areas that traditionally have been the role of the state. We are working to reform the Suspicious Activity Reporting System which underlies our approach to antimoney laundering and we work together on counter terrorism.
- But we can and intend to do more. And we will do so in close partnership with Government, because criminals are professional in their approach, using sophisticated techniques to target silos and vulnerabilities in systems designed for legitimate customers and businesses.
- The evidence shows that harnessing the skills of the private sector with the capabilities of the public can help to detect and disrupt this activity, but with all the resources we are committing and initiatives we are supporting, we can be even more effective.

BREXIT

- Now I guess I can't conclude before addressing the elephant in every room at the moment – Brexit.
- I fervently hope that we will avoid a disorderly Brexit, and I actually think that contrary to prevailing wisdom, there is an increasing chance of a second referendum, which some leading economists have predicted would vote remain, if offered the opportunity, given the change in demographics over the last 3 years.
- But if Brexit proceeds, with the loss of passporting, we will need to find ways of making the UK internationally attractive if we are to retain and attract international banks here. I do not, and we should never, take our leading position as a global financial centre and as a centre for innovation for granted for one second. Lisbon, Stockholm and Frankfurt are targeting our tech entrepreneurs, and Frankfurt, Paris and Dublin are targeting our firms more generally. France has its eyes on our asset management businesses.
- That means recognising some of the structural disadvantages to locating a bank here we have allowed to develop over recent years.
- UK Finance's recent tax report showed that the aggregate rate of tax paid by banks in NY would be 34 per cent, in Frankfurt 44 per cent and in London 51 per cent.
- This cannot be sustainable post Brexit without an even larger outflux of international banks than Brexit itself may deliver. So, we need to repeal the bank levy.
- We need to introduce proportionate regulation for the mid-tier banks, like the graded system that exists in the US, to really promote competition – which at scale doesn't and won't come from the fintech challengers.
- I believe we should very carefully review whether it was a good idea to implement the senior managers regime in the asset management industry since this has created a structural disadvantage to locating one in the UK over the rest of Europe.

- But more generally, we must set out a bold vision for an internationally and internally competitive sector post Brexit. And I have called on the new Prime Minister to establish a new body to create and implement this vision – pulling together the relevant regulators, industry and the Governor, chaired by the Chancellor. I have been a member of such groups under previous Governments and know how effective they can be.
- The work I did for Boris Johnson in writing the 'London, Winning in the Decade Ahead' report ten years ago, makes me sure that whatever the outcome, the UK will remain a world-leading financial centre if we do this.
- Because as a country, we have many natural advantages that will be unaffected by any Brexit deal.
- Our time zone and language, our heritage, our world-revered judicial and legal system, tax regime and competitive employment laws, our deep talent pool, respected regulatory framework and national infrastructure – to name but a few.
- But also, importantly, our amazing capacity for innovation and creativity. It's areas such as fintech where we are, and can remain, world leaders.
- Our world-leading centres of education and research, with Cambridge as a large jewel in the crown, are a tremendous asset.
- I make a point of meeting with one new young entrepreneur every weekday and Let me tell you, this country's depth of talent, inventiveness and drive to succeed is both staggering and never greater
- There are certainly challenges ahead for the UK, but witnessing the talent and creativity that I meet in our sector, meet in the young entrepreneurs I see and see on display here today, I am confident that we can absolutely rise to meet those challenges and keep a leading position as global financial centre with innovation and collaboration at its heart. Thank you.