

**UK Trade & Business Commission**  
**Financial Services and Fintech in the UK**

Date: 23 February 2023

**Peter Norris**

We are here today to discuss the extremely important topic of financial services and innovation in financial services, this is the largest single sector in UK trade in services and really only in the foothills of adjusting to life following the TCA. We're going to divide the session into two halves, as we normally do, the first will look at financial services themselves and the second will look at innovation and what needs to be done about that. Let me start by welcoming our witnesses for the first session and asking them to briefly introduce themselves before we start the questions. Sarah, would you like to start?

**Professor Sarah Hall**

Yes, thank you very much for the invitation. I'm Professor Sarah Hall, I'm a Professor of Economic Geography at the University of Nottingham and a Senior Fellow at UK in a Changing Europe.

**Peter Norris**

Thank you very much. Jeremmy?

**Dr Jeremmy Okonjo**

Thank you, Peter, good morning everyone, my name is Dr Jeremmy Okonjo, I'm an Assistant Professor of Law at the University of Warwick and my areas of specialisms are international trade, finance and investment law and the digital economy.

**Peter Norris**

Thank you very much Jeremmy. And finally, William.

**William Wright**

Good morning, everybody and thank you for the invitation. My name is William Wright, I'm the founder and Managing Director of a think tank called New Financial, we make the case for bigger and better capital markets in Europe and over the past seven years we've done far more work than is probably healthy on the impact of Brexit on the City and EU financial services and the future relationship between the UK and EU.

**Peter Norris**

Thank you very much William. Just as a reminder before we get going, if you're not speaking please could everybody remain on mute and also we're limited in time and I will impose a guillotine if I think we're doing ourselves a disservice by not getting all the questions addressed. I'm going to start just to ask our witnesses just to frame financial services briefly for us, tell us about the contribution this makes to the economy and in summary what the key challenges are that we'll need to discuss this morning. Sarah, perhaps I can start with you.

**Professor Sarah Hall**

Yes, so as you noted in your introduction financial services are a very significant part of the UK economy around over 8%, and around half of this output is generated in London and half across the rest of the UK. And this means that financial services in the UK are the fourth largest in the OECD by the proportion of financial services in national economic output. So, they're a very significant sector. London is important but I think it's important to note it's not just exclusively a City and South-east issue. It makes up around 3% of all jobs, that's figures from Q1 2022. In terms of the current issues facing the sector, I draw attention to the relationship that the UK has with Europe, we know that trade matters significantly, sorry geography matters significantly in terms of services trade and the market access to the EU has changed quite significantly post-Brexit. Related to that I think there's an important piece of work, opportunities and potential risks around developing the UK's domestic regulatory regime post-Brexit, what that means both for wholesale and consumer finance. The second area I'd draw attention to are emerging markets in financial services, so green and digital are particularly important there. And then finally I'd draw attention to the importance of what you might think of as ancillary issues, and here I'd draw attention to the attraction and retention of skilled and talented labour, internationally and domestically, and also issues around data flows, data security, etc.

**Peter Norris**

Thank you very much Sarah. Jeremy what would you like to add?

**Dr Jeremy Okonjo**

Thank you Sarah for that helpful backdrop for which I would wish to emphasise two related aspects in relation to the importance of the financial sector within the UK and I believe [inaudible 0:04:55.7] economy for a reason. One is that indeed we need to look at how finance is integrated with other related professional services, that also rely on the vibrancy and the vastness of the financial services sector and these are major professional services of course including law, accountancy, management consulting and other related fields that we need to also put into perspective when we think about the contribution that the financial services sector plays in the UK economy. Secondly it would also I think serve us well to underscore the role that the financial services sector plays especially in the financing of small and medium enterprises in the UK economy. I think the statistics show that more than 40% of lending usually goes to the SME sector which is of course important to support, since in many ways that is a sector that drives our domestic economy. On a much wider scale I think we also need to think of the role that the financial services sector plays in society generally, for example on the issue of digitalisation that we are going to certainly discuss in much greater detail, we can see that the financial services sector has been at the forefront of driving digitalisation, not just of

economic but also social life and so it is important that when we think about the impact of financial services, we should also think about it in the context of its contribution not just to the economy but also to wider social life in the UK. Thank you.

**Peter Norris**

Thank you, Jeremmy. William, finally you.

**William Wright**

I completely agree with the points that Sarah and Jeremmy made and I would strongly reinforce Jeremmy's final point about the wider role of financial services in society. One of the ways we approach our work and thinking about the City if we use the City as a shorthand for UK financial services, as we think it's more a tale of two cities and it's very important in our thinking around this and in policy thinking to distinguish between the role of financial services in supporting, fuelling, financing the domestic UK economy, and then the international role of the City as a host or a venue for international activity. And when we're thinking about the impact of Brexit, the single biggest impact is on that second role of the City as an international hub, although it does have an additional impact in terms of the regulatory framework on the ability of the City and the wider financial services industry to support the UK domestic economy. It's very important, the industry sometimes in this debate talks about itself in terms of itself, we're important because we employ a lot of people, we pay a lot of tax and that's true and it's a hugely important sector in its own right, but it's vitally important to think about the wider role, its underlying fundamental role in the UK economy.

**Peter Norris**

Thank you, that was a point very well made. OK I'm now going to ask Philippa to lead off on more detailed questioning, I think Philippa you're going to address equivalence.

**Philippa Whitford MP**

Yes indeed, thanks very much Peter. If I could start with you Sarah, you highlighted in some of your evidence to the Commission about the issue of equivalence, the UK only having two equivalence agreements, one of which has already lapsed and the other one only running to 2025 and is falling back onto having to make a whole lot of different bilateral agreements. So, we haven't gained equivalence in quite a lot of areas of financial services and we're seeing some firms obviously moving either jobs or chunks of their system abroad, so do you think the UK should be seeking a comprehensive agreement with the EU on regulatory cooperation? Does the new financial services and markets bill help with that, or do you think that's a kind of unachievable aim and we just have to go on kind of knitting, darning and patching as we go?

**Professor Sarah Hall**

Thank you. So, I'd make a distinction between equivalent and regulatory cooperation here. So on equivalence I think it's really important to note that it's not something that's negotiated, it's something that a decision is made by each party individually and so in that sense if the UK were to set out with a strategy of seeking to obtain comprehensive equivalence from the EU I think that might be very, very difficult because it's an EU decision to make. And the evidence so far suggests

that there's likely to be little further movement on that. You're right, the EU currently has one active equivalence decision with the UK, it's on clearing and there are very specific reasons why London in particular is an attractive clearing venue for financial services across Europe and indeed internationally. So I don't see much movement on equivalence. I think also it's important to note that equivalence isn't the same as single market access, so it's not permanent, it can be revoked with a month's notice. So that's where my views would lie on equivalence.

I think the other area though where there may be more productive scope for development is around regulatory dialogue and cooperation between the UK and the EU. So the TCA was accompanied by a memorandum of understanding that was seeking to facilitate cooperation on matters of financial regulation, although we understand that technical discussions have been concluded, no formal text has as yet. At the same time we know that there are technical MoUs at the kind of regulator to regulator level between the UK and EU and indeed member states counterparties and they do seem to be working well in a practical sense. But I still think that there would be scope for a more strategic regulatory dialogue between the UK and the EU, and I think this is particularly important, the regulatory rule books are not fixed, so what regulation looked like at the moment the UK left the EU is not the same as what it looks like now and isn't the same as what it will look like in two or three years' time. There's important emerging areas of regulatory change around digital, around crypto and around green finance and I think there's scope for dialogue which may be mutually beneficial to both the EU and the UK. So for example dialogue around green taxonomies on green finance and how there might be scope to harmonise there.

So in response to your answer I'd make a distinction and approach the question of equivalence slightly different to how I would approach the opportunities around regulatory dialogue.

**Philippa Whitford MP**

Do you think there is a risk at all from the Edinburgh Reforms or the Financial Services Bill, or particularly the discussion that we're hearing in the background about changes to GDPR and data protection, obviously data flows are central to almost any form of trade now. Do you think some of the decisions that might be made by the UK will actually make it harder than where we are at the moment?

**Professor Sarah Hall**

The Edinburgh Reforms and on GDPR do point to areas where the UK is seeking to diverge from the EU's rulebook. I'd also note though that some of those changes are taking place within the EU or indeed have already taken place within the EU, so the question of ringfencing and retail banking for example, so it's not a sort of neat story of divergence. I think the EU will be looking closely at how the UK's approach sits alongside or doesn't the EU desire for strategic autonomy in financial services, I think that's the key issue that the EU is grappling with here. So I wouldn't really want to overstate the kind of significance of potential future divergence by the UK, I still think that because of the interests of the EU the question of wholesale equivalence is not really on the table at the moment.

**Philippa Whitford MP**

Thank you. Can I come to yourself next Jeremy please, basically on the same kind of question?

**Dr Jeremy Okonjo**

Thank you Philippa, of course once again Sarah thank you for grounding the important sentiments in regard to equivalence and regulatory cooperation. I'd probably emphasise on the importance of focusing on or rather looking at the financial sectors' sentiments which can guide the Government on whether to prioritise equivalence and regulatory cooperation and I think so far from the evidence that the sector has given in various fora, including to Parliament, it seems that the sector is moving on or rather has moved on from expecting an equivalence framework, or an equivalence decision being made by the European Union and the sector has therefore essentially organised itself in the absence of these frameworks. In addition to that the regulators' sentiments are also important. I think the FCA said that they are cooperating with EU regulators as Sarah mentioned at a technical level and therefore the lack of equivalency decisions from the EU so far has not really affected the UK regulator's role at least domestically and even the Bank of England has also noted that in essence equivalence decisions are not a crucial in most sectors of the financial markets, and in fact they are referred only to two specific EU regulatory instruments that the UK financial services sector would rely on UK finance decisions and that is of course the MA regulation and MIFR [ph 0:17:09.4] regulations with they think that would benefit from equivalency decisions.

Other than that however I would also say that it would also be helpful for us in this discussion, especially the policy and regulatory discussions, to differentiate between to a certain extent market and political posturing that may in many instances show a lot of confidence, which is of course good for the market's dynamics, but we also need to look at the data, what does the data say about the impact of Brexit, and I think the data from 2021 showed that indeed there was a negative impact of Brexit that led to quite a number of UK firms relocating to other European capitals as a result of the loss of passporting rights and so while of course we use rhetoric to show the confidence that the UK financial sector is indeed resilient and doing well post-Brexit, I think at the end of the day these discussions should be guided by what the data says about the aspects of the financial sector that have lost out as a result of a loss of passporting and other rights with Brexit, and that the regulators and of course the market can then have honest discussions about where, especially in the context of future divergence, where they need to concentrate on more discussions with the EU counterparts on regulatory cooperation and equivalency decisions.

#### **Philippa Whitford MP**

OK thank you. William have you anything to add that Sarah and Jeremmy haven't covered?

#### **William Wright**

I would reinforce, the ship sailed on equivalence about four or five years ago and we have always thought that it was a curious approach to be pushing for equivalence in as many sectors as possible, simply because from a political perspective it was never going to be granted. Equivalence is not like a balance sheet, it's not a snapshot in time as to whether you are or are not technically equivalent, and the day after the UK left of course we were technically equivalent. It's about taking a view on where your framework regime is heading, and until there is more clarity on that, which may yet take a few years, any discussion on equivalence is really for the birds. To be clear, virtually all of the nearly 500 firms that we've identified as having moved something, somewhere, to the EU in response to Brexit would have done so even had equivalence been granted, in most cases it's not about market access.

On the cooperation side, what we've seen a lot, there is a very close working relationship, individual level relationship that Sarah mentioned between individual supervisors, individual regulators, there is a lot of willing, they know each other well, they've worked together often for many years, but they do need political permission, that is constrained. And then so far that political permission is lacking. And there is a risk that the longer this sort of political permission is absent, those relationships begin

to fall away, as people move, as people turn over, which was something that was flagged up to us by a European regulator only the other day. But there is a willing there, I mean only this week the ECON [ph 0:21:00.3] Committee and the European Parliament sent a delegation over to London, I met with them, they've met with policy makers, the Treasury Committee, with regulators and industry representatives. There is a real willing to build something on the bones of this skeleton MoU as soon as if and when we can get over this political hump on Northern Ireland and until we get over that, all bets are off and it remains a purely technical, very thin agreement.

**Philippa Whitford MP**

OK, thank you very much, back to you Chair.

**Peter Norris**

Thank you, Philippa. Alan, let's delve a bit more into what's called the Edinburgh Reform question.

**Alan Winters**

Yes thanks very much Peter. So I want to talk about the Edinburgh Reform. Do you think that they're striking the right balance between domestic and international priorities, and I guess also part of that is have they got the risk/reward trade off correct, and I hear different opinions in the press, I guess I'm interested to hear a more expert view? I'll perhaps go in reverse order, William.

**William Wright**

It's my favourite subject, thank you very much. We had a lot of fun reading through all the detail of all 31 elements of the Edinburgh Reform so that other people wouldn't have to and I wouldn't recommend it to be honest. Overall I think the striking thing for me in the Edinburgh Reform is that on the one hand they look like quite a bit of a laundry list of reforms, a little bit of something for everybody in every sector, and some of it is quite pedestrian, yet it disguises a huge amount of work that's gone in behind it, and it disguises some potentially quite fundamental shifts. Broadly speaking we think they are largely a sensible response to what we call the opportunity of Brexit, there are areas of the EU framework that the UK disagreed with at the time and now that it's no longer a member perhaps not unreasonably thinks that rules that don't really work for the UK market or particularly the international side of the UK market, why would we keep them if we can come up with something that we think works better. But the danger is that there is still a political disconnect, the Government in my view is still over-playing the importance and impact, the significance of the Edinburgh Reforms even though the language has shifted very clearly from Big Bang to zero and deregulation to something much more modest often you could even argue sort of deliberately boring language around them. And we think of it more as the sort of significant software upgrade for the UK framework, rather than a fundamental rewriting of that framework.

Very briefly to pick up on a point Sarah made, we counted roughly half of these reforms are nothing to do with the EU, nothing to do with Brexit, and of the remainder that are dependent on the UK having left the EU, more than half of those the EU has already or is reviewing its own rule book. So, you end up with this idea of what we call parallel divergence, both sides are reviewing the same regulations, often for the same reasons, coming up with similar diagnoses but slightly different solutions on a different timetable. So eventually the two frameworks will diverge, but they're

diverging in roughly the same direction. But it's still divergence, it's still introduces fragmentation and complication.

**Alan Winters**

OK thank you very much. Jeremy do you want to add something briefly?

**Dr Jeremy Okonjo**

Thank you, Alan. I'd just mention that indeed the reforms and certainly any other reforms that would have been outlined by the Government previously are certainly an opportunity to recalibrate the domestic regulatory framework for the domestic market, or rather specifically for the UK's domestic market rather than the 28 other EU member states, which would have required compromises that may not have aligned with the UK's sector. Having said that, it's important again to still interrogate the question, what is the policy goal. As we've seen the Government as Peter [sic] said, certainly oversold what they are doing, but the other question is, is this reform a movement or other programme guided by specific needs of the financial services sector. We've seen the sector actually a bit nervous about the fact that they now have to entertain certain changes to the legal frameworks that they had not anticipated because in as much as they did not like certain aspects of the EU regulations, they consider those sunk costs, they had already complied with those regulations and now once again they have to contemplate new costs to new compliance requirements.

Secondly the industry is also quite clear that they are uneasy with this idea of a bonfire of regulations. Third it is important that the Edinburgh Reforms do not disguise a move towards the pre-2008 scenario which essentially led to the financial crisis, so it is important that while of course we have a lot of consultations coming and most of the proposals are consultation proposals that are coming, we need to ensure that we are not just having a bonfire, a regulatory bonfire for the sake of it or rather for political rhetorical reasons, but rather one reforms that indeed align with the interests of the market that is quite uneasy with the new compliance costs, and secondly also protecting the public interest in ensuring that we do not have a move towards deregulation that rolls back important consumer protection safeguards that came after the financial crisis.

Lastly, I would say that in terms of balancing domestic and international priorities I think it is important that these reforms do not undermine international best practices that of course the UK has been quite an important champion of, and secondly does not undermine the UK's reputation as a regulatory market, if I can use that term, that has certainly shown the way to other jurisdictions around the world in terms of coming up with very good regulatory frameworks such as sandboxing [ph 0:29:11.5] and what not. And in that sense then the UK should ensure that even through these reforms it does not lose ground as a leader in regulation that balances consumer protection and market integrity and of course industry robustness.

**Alan Winters**

OK thank you very much. Sarah, did you want to add briefly to that, I'm afraid we're running out of time a bit, but any further brief comment?

**Professor Sarah Hall**

Yes thank you, I just have a couple of very brief comments. One builds on Jeremy's which I think because there is such a raft of regulatory domains covered within the Edinburgh Reforms and one note of caution would be to try and ensure that the sector isn't caught in a permanent state of regulatory change or uncertainty. I think there could be costs associated with that for businesses and I think there could be reputational risks associated with that as Jeremy indicated for the UK internationally if it appeared that the UK didn't have a clear and consistent message on where the regulatory framework [inaudible 0:30:22.1] that would be my first point. And the second point is I think there is scope to think more carefully and clearly about how the twin objectives of delivering international competitiveness alongside a financial services sector that delivers growth across the UK sit alongside each other. So in some ways the reforms were really welcome in signalling that that was being recognised, you know the very name Edinburgh Reforms, making an announcement outside of London, etc. But I still think that there's scope to think about how financial services might be best harnessed for regional and local economies in the community, so for example issues that are live at the moment around access to basic banking in local communities, how the reforms might be best used to stimulate investment across the UK, I mean there has been a lot made around [inaudible 0:31:20.2] on that issue, what's the sort of risk/reward ratio there for investment versus consumer protection.

**Alan Winters**

OK thank you very much everyone, back to Peter.

**Peter Norris**

Thank you and we will need to catch up a bit of time here, Paul.

**Paul Blomfield MP**

Thanks Peter. Almost every sector is reporting post-Brexit labour market challenges, Sarah in your three points you highlighted the difficulties for this sector, I wonder if you could elaborate on that a little bit and particularly looking at what the drivers are and what we can do to change it.

**Professor Sarah Hall**

Yes, thank you. So the latest figures I've seen from the ONS suggests that there are around five unfilled vacancies per 100 jobs in the sector which is the highest since records began in 2001, puts financial services behind hospitality and tech firms in terms of the vacancy rate at the moment. I think there are quite a few drivers for this, one is the changing nature of financial services itself and the growing demand for tech digital and quantitative skills and I think you might pick up on this in your second session later this morning, but I know from research I was doing with the fintech sector that they were very alive to this risk, quite some time ago and actually before Brexit, that potentially the UK was relying on international skilled quantitative and tech talent, and if there was a risk to that and Brexit has posed the disruption to that. It would take time for domestic reskilling and domestic educational systems to adjust to provide that level number of those skills domestically. So, I think that's one issue.

I think there has been a second set of issues around the pandemic and the changing nature of work, so people changing their working practices or indeed stepping away from employment more generally, and I think on that there's been a lot of work done around visa programmes for



international talent, highly skilled visas etc which I think are welcome. We know that particularly London's reputation and success as an international financial centre has been built on internationally open labour markets. But I think maintaining that both in political but also in kind of social and cultural terms around the UK being seen to be open to highly skilled international labour is really important. And I draw attention here both towards long-term mobility, but also short-term business travel between markets has been really important and you know obviously there's the sort of hybrid face to face versus hybrid working question, but it still seems that you know both forms of mobility are important in the sector.

#### **Paul Blomfield MP**

Thanks Sarah, I wonder if I can move to William and I wonder if we could build a little bit more on solutions, I mean Sarah has talked about some of the visa routes that are welcome, are they sufficient, are there other issues we ought to be seeking to look at?

#### **William Wright**

Paul I'm going to have to plead a little bit of ignorance, I wouldn't want to use the word ignorance but this is a question I was going to volunteer to skip over to help you to catch up on some time because it's not an area of expertise of mine, so I would, if I may, defer to Sarah and to Jeremy on this.

#### **Paul Blomfield**

Absolutely and thanks for that frankness. Jeremy.

#### **Dr Jeremy Okonjo**

Thank you. I'll just make a brief comment in relation to value [inaudible 0:35:35.1] digitalisation of not just the economy but also financial services products that [inaudible 0:35:51.7] a need for workers in digital financial services sector to have quite highly sophisticated skills in data and other regulated aspects of technology. Now moving forward we know that digitalisation is a long-term trend, in terms of how to address the challenges of lack of digital skills and of course the other [inaudible 0:36:32.0] that Sarah has mentioned upon, I will not go into the detail of it but I would say that one, the UK Government certainly has a role to play in working on or rather negotiating with [inaudible 0:36:51.1] partners on movement of workers [inaudible 0:36:55.4] movement of workers because as indicated the UK financial services sector relies a lot on workers located across the border and so it is important to negotiate reciprocal hybrid short-term global business mobility schemes with trading partners, improve or rather negotiate and improve in terms of arrangements around [inaudible 0:37:25.0] in trade agreements. So in many instances while the free trade agreements may include certain commitments in relation to movement of workers, in many instances they are not clear, standardised, reciprocal and so at the end of the day they are essentially an unworkable commitment because they have not been properly locked in. And in addition to that there is a need to negotiate principles governing how visa applications are submitted and processed because I think the costs of applying for visas and many of these rules including for work visas are quite complicated and expensive and undermine the ability of especially small enterprises to get workers that they probably wouldn't easily get within the UK.

So in short I think there is scope for not just domestic reforms, I think the points based system that has been proposed could be [inaudible 0:38:37.3] to come to the UK, but more importantly negotiating in the context of the FTAs multi-lateral trade agreements with our trading partners for [inaudible 0:38:51.3].

**Paul Blomfield MP**

Thanks very much, I'd love to pursue it further but I've got an eye on time, so I'll return to Peter.

**Peter Norris**

Thank you very much Paul. I'm going to hand straight over to Tamara.

**Tamara Cincik**

Thank you Chair. My question is, given the issues discussed so far, is the UK's role as a major global financial services hub at all under threat? How can we ensure the UK retains its leading status into the future? I just want to also context that in terms of if you think it is under threat, which territories within the EU might be keen to get some of that leadership? I'm thinking from my sector, the fashion industry, it has definitely seen a Paris pick-up of some of the income and talent as a consequence of Brexit. I'd like to start with Jeremmy please.

**Dr Jeremmy Okonjo**

[Inaudible 0:39:54.9]. The UK financial services sector has [inaudible 0:40:01.4].

**Peter Norris**

Jeremy, I think we have a technical problem with your audio at the moment.

**Tamara Cincik**

Yes, so I'm going to ask someone else the question, I'm going to ask Sarah the question first and then hopefully we can sort out your tech Jeremmy sorry. Same question to you Sarah and then I'll go to William and that should give us time to then go back to Jeremmy, thank you.

**Professor Sarah Hall**

Thank you. This is a really tricky question to give a definitive answer on and I would just caution that, we're still really in the early stages of understanding what the UK position will be post-Brexit in financial and related professional services. I do think that we perhaps need to move beyond looking at job relocations to try and get a measure of job creation in terms of the size of activity that's taking place, and there in financial services the research we've been doing would actually tally with what you were saying vis-à-vis fashion in that Paris does seem to have done well in terms of attracting

jobs. It's worked very hard in a regulatory and political sense to do so. And there are strong job creation figures coming through from Paris at the moment. So I think rather than looking backwards it's going to be more important to look forwards.

There are a number of long-standing reasons why London in particular has been an important financial services hub and they haven't disappeared and here I'd draw attention to the UK's legal system which has been supporting financial services, the question of time zone is important and language. I think the other issue, the question was framed around the UK as a whole and I think perhaps less attention has been paid to some of the impacts for mid and back office activity that's been located in cities such as Birmingham, Edinburgh, Glasgow for example and here there are some really interesting trends around growth in those sorts of activities, in Poland and Portugal in particular I'd draw attention to. And I think here it might be helpful to think about how Brexit has possibly caused businesses to reflect on their European and international operations more generally, so not a direct response to Brexit but there has been a strategic reflection post Brexit and one of the arguments that those activities were taking place in important cities across the UK was that the labour costs were cheaper than in London, but labour costs are also more attractive for businesses in other European jurisdictions such as the ones that I've mentioned. So I think when we're assessing this I think we need to pay attention to what happens in the future and also think beyond London to think about the UK as a whole because I think there are some quite interesting trends there.

#### **Tamara Cincik**

William I'll go to you and then I want to go to Jeremy before I go back to the Chair, so if everyone could be quick, thank you.

#### **William Wright**

Thank you Tamara, look I think it's really important to retain a degree of perspective here, as Sarah says we're in the very early stages of being able to measure any potential impact and as we look forward at the future potential impact of Brexit on London's role as not just a major global financial centre but in certain sectors the dominant global financial centre, and overall based on our work, the second largest per value of activity. We've already seen some evidence of the direct measurable impact, most recently for example the survey every three years from the Bank for International Settlements and you can actually see what's happened into London's share of activity in EU28 in markets like OTC derivatives, FX trading, and you can see that London has lost, UK has lost roughly 10% of its European share in derivatives trading and nearly 20% of its share of Euro denominated derivatives trading. But what that means is that it's gone from 90% of EU28 activity, I'm reconstructing pretending we're still in the EU for measurement purposes, it's gone from 90% to just over 80%, it's still four times bigger than the rest of the EU combined. And while we shouldn't and can't be complacent, I think one way of thinking about it is that London has sort of, it's been bruised and damaged but a lot of the immediate damage has been done in the sense that the relocation activity that the industry has conducted so far provides the necessary access in both directions and I suspect that in terms of future relocations we're probably at a sort of flat line, we've probably reached where it's going to be. The issue is going to be growth in local jobs in the EU, but again let's make sure we keep that perspective that the EU is coming in many sectors, certainly in international activity, EU financial centres are coming from a very, very low base relative to London.

But I would suggest that in the medium term for the foreseeable future at least, the UK is going to continue to be the dominant international financial centre in Europe, but perhaps less and less the dominant international financial centre for Europe and we will see more European business being conducted in Paris, Amsterdam, Frankfurt and Dublin.

**Tamara Cincik**

Thank you William and actually Jeremy before I go back to the Chair I wanted to quickly ask and I can't see it in the question, so it's just around Northern Ireland and whether Northern Ireland could have a place within this context if there was investment in the area if the Protocol allowed that GB/UK/EU kind of dynamic to support that three-way?

**William Wright**

Sorry, was that to me or to Jeremy?

**Tamara Cincik**

To Jeremy. You're not muted. There you go! We're in.

**Dr Jeremy Okonjo**

Sorry about that.

**Tamara Cincik**

It's not your fault.

**Dr Jeremy Okonjo**

First of all I mean certainly [inaudible 0:46:53.6].

**Tamara Cincik**

Jeremy, I just need to interrupt you, I think you need to wear a headset, so I'm going to ask that question to William and then if you can come in on the next question after I defer back to the Chair, but I think I've had these problems myself many times so from experience I'm saying you need to wear a headset and then you'll be perfect for the next question. William, do you think that there's an opportunity for Northern Ireland to grow from zero to hero in this?

**William Wright**

I think it's a little harsh to call it zero, Belfast is an increasingly important sector back to what Sarah was saying about back office, middle office support. Barclays has a very significant presence there, so does City. I think there are a lot of people in Northern Ireland who would like it to develop as some sort of bridge into the EU but as I said earlier, all bets are off for the time being and we'll see where that goes.

**Tamara Cincik**

OK thank you, back to the Chair and hopefully Jeremmy you can come in on the next question, apologies about this one.

**Peter Norris**

Thank you very much Tamara. Hilary, over to you to wrap this part of the session up with your questions.

**Hilary Benn MP**

Peter, thank you very much indeed. What opportunities do you think there are from future trade deals more generally, we've talked a lot about the EU, but trade deals more generally for the financial services sector and what do we need to do to make sure that we reap those benefits if they are there? Perhaps if I could start with you Jeremmy.

**Dr Jeremmy Okonjo**

OK so can you hear me better now?

**Hilary Benn MP**

Now we can hear you wonderfully, thank you.

**Dr Jeremmy Okonjo**

Thank you, Hilary Benn, Member of Parliament. I would just like to first of all say that we certainly need to think about the role that the FTAs are playing against the backdrop of already existing WTO commitments on that trade in services, which of course include financial services, and in many instances the sentiment has been that the financial services chapters of these FTAs have just given little movement in terms of added market access over and above the WTO commitments and so we then need to think about new areas that provide more space for deepening ties in financial services and of course those new areas include one digitalisation and the fintech and two the role of finance in climate change, or rather greening the financial services sector and of course financing the climate change agenda. The good thing is that the UK has indeed shown leadership in these two areas with a very robust burgeoning market in fintech. The UK as a regulatory market has shown leadership in regulatory innovations such as sandboxing and very admirable cooperation between the regulators and the financial services sector in looking forward to increased digitalisation of the sector. And so I think that in these two specific areas in addition to certain minimal movements in terms of increased market access it is important for the UK to think of these FTAs as an opportunity to show leadership in these new areas of fintech and greening the financial services sector.

I would also mention that again in line with the previous question, FTAs are also quite important in opening up the new markets, not just within the EU and the US which have been the traditional export markets for the UK, but new markets in the emerging and developing economies such as

India, Kenya and others, that also provide good opportunities for expansion of the UK's export sector. I'll stop there for now.

**Hilary Benn MP**

Thank you very much indeed. Sarah.

**Professor Sarah Hall**

Yes, thank you very much and thank you Jeremmy for that overview. I'll just add two quick points, one is I think there are specific parts of FTAs that can be helpful for financial services and I'll just draw attention to data and the question of data localisation and here I think the UK/Japan comprehensive economic partnership is a useful example of what could be done specifically to support financial services in FTAs. And then secondly building on what Jeremmy said, historically and typically FTAs haven't done as much to liberalise services trade as they have goods trade and I think the Government... it should be welcomed that the UK is pursuing other forms of agreements that might facilitate market access, and I think a particularly important example here is the pursuance of a mutual recognition of regulatory standards with Switzerland, that's quite innovative in terms of what it is proposing for financial services market access. Almost as far as kind of passporting but without the single market architecture of the EU. And I think that that could be viewed as a potentially very valuable template for future forms of UK financial services agreements if that goes over the line.

**Hilary Benn MP**

That's really interesting, thank you. William.

**William Wright**

Completely agree with Sarah, there's a real danger here in investing too much hope in the potential benefit of FTAs in financial services. There is a line that we've used a lot before is that the only example of a sort of comprehensive free trade agreement in financial services is the single market itself which we've chosen to leave. There are elements as Sarah says of data, particularly that could be helpful, I would suggest it's more that they create a political mood, we go back to this issue of political permission to give almost the sort of green light for closer talks, negotiations on removing individual regulatory barriers, regulator to regulator, supervisor to supervisor, finance ministry to finance ministry and that the real value here is not going to be in trying to sort of carve out dedicated financial services chapters in FTAs around the World, but in promoting this sort of closer dialogue, closer cooperation, not just with the EU. One area that we've looked at is potential cooperation with US, particularly in those markets where between them the US and UK in about a dozen sectors are either first or second by volume in terms of global activity, and between them already are de facto a global market, they have more than half of global activity just in those two markets, so potentially an area to cooperate more closely in helping shape global standards. But not to spend too much time or effort trying to negotiate a financial services free trade agreement with the US or with others.

**Hilary Benn MP**

OK thank you very much indeed. Right, I'll come on now to the final question and for you to answer this you need to think that you're not talking to the Commission, you're talking to the Government

and you happen to be in a meeting and a Minister says to you OK, what are the three most important policy recommendations that you would like us to implement to protect and strengthen the UK financial services sector, and I'm just looking for a list of three things, because that will help us with drafting our recommendations at the end of the consultation process. So, can I start with you William?

**William Wright**

I was rather hoping, I hadn't got around to doing the third point so I'll do two and then maybe you can come back to me. First and foremost the single most important thing ... actually no, I've got three. The most important thing I think the UK can do, a fundamental review of savings, investment, pensions, long-term capital that goes way beyond Solvency II. We have huge pools of capital in the UK but they're not being invested for structural reasons, perfectly rational reasons, they're not being invested in a way in which they could be and there is huge scope to reform that. Looking potentially at the model in the Netherlands or Australia or Canada for inspiration.

Secondly I'm delighted to see that Tony Blair and William Hague have caught up with something that we've been arguing for for nearly ten years which is a digital ID that would just make single digital ID for all individuals interaction with financial services, business and Government very much the Estonia model would make life an awful lot easier for financial services and really liberate and unlock and empower individuals in a way that they're restricted today.

And then thirdly I think I would recommend that the UK takes the lead and abolishes the tax differential between debt and equity.

**Hilary Benn MP**

OK, thank you very much indeed. Sarah.

**Professor Sarah Hall**

Yes, thank you. So my first suggestion would be to deliver clarity and stability on the future regulatory framework and particularly to pay attention to the relative importance of the international competitiveness of financial services and what it's delivering domestically.

Secondly I think the UK needs to develop a deeper dialogue with the EU, I think it needs to be recognised that trade is geographically shaped and there are opportunities with new and emerging markets but it remains the case that Europe is a significant market and I think regulatory dialogue and potential cooperation there would be helpful.

And third I think that the UK could be quite ambitious around the opportunity for international leadership in financial services and I draw attention here to not wasting opportunities where the UK has been ahead but other markets are catching up, and green and digital would be the two that I would emphasise there.

**Hilary Benn MP**

OK, thank you very much indeed. And Jeremy.

**Dr Jeremy Okonjo**

Thank you, Hilary. The first recommendation I would make is that in the ongoing reforms to financial services regulations it is important for the Government to keep at the forefront that the key role of the sector is to support the UK people, and that includes the economy and society, and that means that the drive towards international competitiveness should not sacrifice the need to ensure that one consumers are well-served by the domestic sector and secondly also protected so that the safeguards put in place after the crisis should not go up in a regulatory bonfire.

Secondly, it is important that the Government supports industry in the ongoing efforts at digitalisation of the sector and of society, by investing in digital infrastructure, to promote increased access and increased speeds to broadband and other technologies because at the end of the day the users need to be able to have access to this technology.

Third, it is important to also invest in skills and labour because again human capital is indeed the lifeblood of the financial services sector and the Government should work with industry ensuring that people have digital skills, not just to provide labour to the sector but also as users of increasingly digitalised services.

**Hilary Benn MP**

That's great, thank you very much to all of you for your list of nine recommendations, and back to you Peter.

**Peter Norris**

Yes, thank you very much. Well that brings our first session to a close, I'd like to thank Sarah, William and Jeremy very much indeed for very [inaudible 1:00:37.5] evidence, really illuminating and a set of recommendations which we will make the most of, thank you so much. Do stay on if you wish, but we're now going to our second session which is to pick up on the theme of innovation. We've heard a lot about digitalisation and its importance and I think we'd like to do a much deeper dive into what the UK's issues and priorities should be in this area. So, may I start by asking our three witnesses for this session to briefly introduce themselves, Harry could I start with you?

**Harry Weber-Brown**

Yes thank you and thank you very much for the invitation to join the session this morning. My name is Harry Weber-Brown, I am the Chief Executive of the digital section of The Investing and Savings Alliance which is a not for profit membership body which represents over 260 financial service firms in the UK. Our critical aim is to help the consumer make better financial decisions and I look after their digital side.

**Peter Norris**

Thank you, Harry. Peter.



**Peter Cunnane**

Good morning everyone and thank you for the invitation to speak to you today. My name is Peter Cunnane, I'm the Director for International Initiatives at Innovate Finance, we are the UK's pre-eminent trade association for the fintech sector with a global membership of companies ranging through from start-ups through to some high scale unicorns, some of which you will have heard of, through to some financial institutions representing the broader finance and professional services point in the City. We bring together and connect an ecosystem and have done for the past eight and a half years to support the continued innovation right across financial services and our members include a number of different segments within what you might define as fintech.

**Peter Norris**

Thank you very much, I must ask the Secretariat, I'm not sure I can see Martina as having joined the call at this stage. Is that right?

**Secretariat**

Hello, Martina is on her way, but she should be with us shortly.

**Peter Norris**

OK, well let us make a start anyway and welcome her in when she's available to join. Philippa, could you start us off please?

**Philippa Whitford MP**

Thanks very much Chair, if I could start with yourself Peter and then Harry and we'll see whether Martina has managed to arrive by that time. Colleagues will go into different aspects in detail, but I wonder if both of you could briefly highlight the contribution of the fintech sector to the UK's economy and highlight what you think the main challenges are facing the sector at the moment, so to yourself first Peter. And welcome Martina, who I assume has just popped up on the screen.

**Martina Garcia**

Thank you.

**Peter Cunnane**

Thank you, Philippa. We estimate that fintech contributes over 11 billion to the UK economy and its continued growth, one of the success stories of the financial services economy in the last few years, despite some more challenging global market at present, we're continuing to see growth in fintech. It's been an interesting few years for fintech, I think it's reached a maturation point certainly in the eyes of Government and regulators, certainly during the Covid period where we saw that reliance on alternative means of getting finance across to wider areas of the economy become more important and that digitalisation piece which I'm sure you discussed earlier has really risen to prominence. And to re-emphasise, I think the UK is seen globally in a real position of leadership with this particular

market as well, dare I say it more so than the United States, but there is greater investment of course in the US.

And on the point around investment we received 12.5 billion predominantly from VC funding into the fintech industry here in the UK last year. That was a slight drop on the previous year, but again given those difficult economic circumstances the UK has fared fairly well. Whilst there was a 30% drop in investment globally into fintech, it was only an 8% drop here in the UK, so we're pretty pleased with that and I think it again speaks to that sort of maturation and sustainability of the fintech industry here in the United Kingdom.

So whilst investment, there could be some troubles ahead and we hope to navigate those I think the main challenge for the sector is talent, we hear right through from our start-ups right through to our high growth members the availability of talent is an issue for them in terms of getting the right people into the right positions. Some of these positions are quite technical and highly skilled and highly prized of course, and of course the global talent pool for some of those roles is much smaller than you might expect in other industries, but then again there is a question around as companies have expanded at the rate fintech companies have, you know they want to grow other areas of their business and other departments within their business, so you know demand for roles in marketing, advertising, account management etc, you know roles that you will find right across the financial services and other industries are also in demand as well. So that's something that we're very alive to and perhaps I can talk about that when we get to that relevant point in the discussion.

But I think the third challenge if there is one is the continued lines of engagement with our regulators, they have been very good historically, certainly domestically, but as we're seeing more international growth for the sector we want to see more communication between regulators on an international level as well and again that's something I'm happy to go into further detail on as we proceed. But I'd say that talent and that regulatory environment remain the two key areas of significance for our members.

### **Philippa Whitford MP**

I think workforce shortages is a common theme in almost every sector of business. If I can come to you Harry and then to Martina, you maybe didn't hear the question Martina, it was the contribution of the fintech sector to the UK economy and the main challenges facing the sector. Harry, over to you.

### **Harry Weber-Brown**

Thank you very much and just to build on Peter's points, the fintech economy delivers 76,000 jobs into the economy so it's obviously huge and growing and I think as far as the challenges are concerned, some of those that we have experienced with our members is that it's hard for fintechs to work with big financial institutions, you know it takes time to get onto their roadmap, you know there's a lengthy due diligence process etc, which is more of a domestic thing rather than an international issue, but it's certainly an area which we're very mindful of as we sort of move forward. And what does a kind of partnership mean with those big financial services albeit those that may be international as well.

I think the regulatory regime, it is complicated, there's a lot of regulations and we'll probably cover that in a little bit more detail, certainly following Brexit that has created a certain amount of uncertainty for fintechs in the UK. And then I think also to reiterate Peter's point, you know the labour issues are critical. How do we make sure that there is an inflow of international talent coming

into the UK and it's a point that was also raised at the previous session, so I think those would be my three big challenges?

**Philippa Whitford MP**

OK and over to you Martina.

**Martina Garcia**

Thank you, I mean fintech is a fairly new sector so rather than focusing on the current contribution I think it is very important that we look at the future contribution and not only in terms of jobs or revenue but in terms really of the impact it could have on the productivity of the financial services sector and this is where the big contribution of the fintech sector I think will be, is in making the whole financial services sector much more productive, cheaper for the consumer and reduce the cost of [inaudible 1:08:56.4]. The cost of [inaudible 1:08:58.4] have barely moved in the last 100 years because the financial services sector it's quite [inaudible 1:09:04.5] in nature and fintech is an incredible opportunity if we don't fully let it be captured by the incumbents to break that and really reduce the cost and that will have an incredibly positive effect on the whole economy.

In terms of challenges I will focus on scalability, I think again fintech is new, it's very much of the challenge and they are facing an oligopolistic [ph 1:09:36.8] structure. Of course there is partnerships with traditional financial services sector and that's very, very important and very important outcomes, but scale is the big problem and there of course you have access to finance that many other people mentioned, you have labour, but I think market access and the size of the market is very, very important. And so you have the size of the domestic market and in that sense I will again focus this issue of competition, and international market and we will discuss later on I'm sure the barriers that exist right now. Thank you.

**Philippa Whitford MP**

OK thank you to all and back to you Chair.

**Peter Norris**

Thank you, Philippa. Mike, could I ask you to pick up the thread.

**Mike Cohen**

Yes, thank you. We've heard here that fintech in the UK has a leading position internationally although perhaps investment may be greater elsewhere, so I'm interested to hear whether UK fintech is competitive internationally at the moment and what could be done to make sure that it becomes or remains competitive? Can I start with Peter on that please?

**Peter Cunnane**

Thank you Mike. Yes, I alluded to the fact that investment is greater elsewhere, we do hold second position in the World in terms of the investment ranking, our closest contender is of course the

United States which is ahead of us, but we are outpacing India in third place and compared to the next ten European hubs levels of fintech in the UK are ahead of all of those combined. So the importance of the strength of our existing financial services industry and the flow of capital here in the UK, particularly in London and the South-east has been hugely beneficial to the fintech industry and would be key to ensuring its continued success, and I think the continued availability of different types of capital as well, I've talked about VC and many of the figures we have are based around VC investment but there's institutional capital, PE, pension investment potentially as well, if we could expand on those areas and see a greater diversification of investment I think that would be very helpful in ensuring that future growth. And it's something we want to see replicated around the UK as well, one of my hats here is I'm also the National Director so we want to see more of this investment flowing out of London into the regions, there are a number of emerging hubs around the UK where you know fintech is growing but it's far less substantial than it is in London and the South-east. There have been measures put in place to sort of help with that, we had the fantastic strategic review by Ron Khalifa [ph 1:12:37.5] two years ago which advocated a fintech growth fund which is now coming into play which will help with some of that, we're seeing the launch of the Centre for Financial Innovation Technology later this month, next week, which again will have a role in supporting the growth of fintech around the UK as well, and we work with a number of regional organisations to support them in their efforts there.

So again, having that whole national piece ensures that we're international. And I think that combined with the continued access to funding ensures that we remain competitive. I think the regulatory point is the other point and again I know there's a question on this coming up so perhaps I'll leave my thoughts for that, but I think the importance of our regulators talking to their international peers again helps with that scaling piece which was touched on a moment ago.

**Mike Cohen**

Thanks very much Peter. Could I turn to Martina next please?

**Martina Garcia**

Yes, thank you. I mean there is no doubt that the UK was a prime mover and was a very early in this fintech and I don't think there is any doubt that that advantage has been somehow eroded, it doesn't mean that it is not competitive right now, but then the difference at least is less big than what it was. And that's, you know I was reading yesterday the FT about the experience with phantom [ph 1:14:05.4] research and it's an experience that is quite common in the UK of being very much at the forefront of the new sector and then sometimes having problems in maintaining that competitive position when the issue is about scaling up. And so in a way that's very normal in innovation, in any kind of innovation, traditional economic innovation models, being the prime mover is not always advantageous in the medium and long term and I think then we have to shift a little bit the way we think about it, if we want to maintain this competitiveness and this lead and to think about how to embed fintech in the whole sector. Because the way you really become competitive is when you have critical mass of the industry quite close to the productivity frontier if you want. And then it doesn't matter if you are at the top of the innovation, what it matters is that you can adapt it much quicker. And that's how you become really competitive in a sustainable way, it's not by having a few stars on fintech but it is by embedding fintech in the wider sector.

**Mike Cohen**

Thank you very much. Harry, can we have your thoughts please?

**Harry Weber-Brown**

Yes sure, thank you. I think certainly with our exit from the European Union the UK now stands alone to fight, to maintain our global competitive edge as the major financial centre, both for fintechs and major financial services and I think it's critical that we continually develop and innovate within the financial services sector to deliver efficiencies but also we need to make the UK a particularly attractive place to work and for companies to come here and list on our exchanges. I think in particular there are big issues in that New York, both NASDAQ and the NYSE New York Stock Exchange are attracting more unicorns and I think we need to be very clear about how we can make it very attractive for firms to come and be placed here, and obviously there's all sorts of issues around obviously visas, employment and how Government can help support that. I think very early stage fintechs in particular are benefiting from some of the smart grants that the Government provide through UKRI, you know Innovate UK etc, so you know enabling firms to come here and test and also using which Jeremy raised earlier the FCA's regulatory sandbox which is open now to all firms. So I think you know providing the sort of the bed in which firms can come and safely test in the UK all the way through the maturity right through to listing with a very clear, defined growth plan and support both from the regulator and Government I think would really help retain our international competitiveness and also put skills in there as well, but I would think we'll come onto skills a little bit later, making sure that we've got a good supply of skilled staff, especially as the market is maturing into areas such as quantum, computing, AI, Web3, etc, you know we are very much at the kind of forefront of some of those innovations, both in our universities and elsewhere and I think we need to be very clear about promoting that. You know we are an open place for work and development.

**Mike Cohen**

Thank you very much, back to the Chair.

**Peter Norris**

Thank you Mike. Alan, you'll take the next two questions I think and starting with regulation.

**Alan Winters**

Yes indeed. So, you've mentioned regulation already, it's on all our minds, so let me ask you very directly, is the regulatory framework for fintech satisfactory and in particular sort of the domestic and the international dimensions and particularly the international dimension do the regulators need to cooperate with regulators abroad more directly, more effectively. Why don't I start with Martina?

**Martina Garcia**

Thank you. Yes, I think regulators need to work more together. I think regulators, I mean regulation for fintech is not perfect because there is a question of timing, you know, it's a very quickly developing sector and the regulators are playing catch-up. I think lately we have seen a very strong awareness both in the UK but also elsewhere, that this is very, very important and we are seeing regulators really focusing on that, particularly internationally, for example, BIS, the Bank for International Settlements is non-stop publishing papers on the subject constantly and so it is work in progress. There are however some interesting difficulties, challenges, one is wholesale versus

consumer, so most of the international coordination has happened on the wholesale level and fintech a lot of the fintech is consumer related, it's consumer facing and so that's a real challenge for international coordination and for trade as we will discuss later I'm sure.

And the other one that I would like to mention, it's a bit philosophical question if I may, we are seeing right now with the UK proposals of treaty in fintech being technology neutral, yes of regulation being totally neutral towards technology and that at first sight seems like a very, very good idea, but to me it reminds me a little bit of the same approach if you want with diversity and inclusion policy. If you treat everyone equally you don't necessarily have an equality of opportunity, because people are coming from different places and because what the treatment is of how you treat people has been developed a lot of years and years with one community, one dominant community, and when you it apply it over the communities it's not always the right approach. And I have the feeling that here with fintech we might have this problem, we see it with AML, we see it particularly with digital assets on a whole range of issues where the current regulatory approach is not the right one. And so there is much more innovation I think is worthwhile.

I think there is an appetite for innovation but it's not here yet to me that is necessarily in the right path.

**Alan Winters**

OK thank you very much. Harry.

**Harry Weber-Brown**

I think in the UK the financial services is a very regulated industry and I think in particular one of the big challenges that fintechs face is you know it's high risk, the regulation can be overwhelming because there's so much of it to comply with, whether you're talking about GDPR, AML, etc and so I think working with the regulator with sandbox and they are doing a great job with various things like policy sprints where they actually come in and invite fintechs in and will run through policy around things like open finance to see how that will transpire and how that would impact those firms. I think there's a good push within the UK to try and not necessarily simplify it but certainly make it more conducive for fintechs to be able to comply with the current regulations. But it is moving and I think to Martina's point it is moving at a pace, technology is moving fast and in many cases the regulators are trying to keep apace with things like sort of crypto assets and blockchain etc. So I think they have certainly got their work cut out for them and I would question whether the regulators are well-resourced enough themselves to be able to deal with such a sort of overwhelming change in technology.

The other big thing I think we need to consider is most of the big financial service firms in the UK will have a multi-national footprint, you know so they will have the staffing and the resourcing in those territories to deal with compliance to regulation. The fintechs have aspirations to be international, you know and if you want to have a UK-based fintech with international intentions I think it's absolutely critical that the FCA and other regulators are seen to be working with their counterparties in other jurisdictions because then that will ease that process of ensuring those fintechs can then build their international distribution. So I totally agree that I think working with other regulators is absolutely critical and trying to ensure that there is reciprocity where possible between regulations, so we don't create more friction for fintechs to be able to evolve and mature and grow overseas.

**Alan Winters**

Do you mean sort of mutual recognition with reciprocity?

**Harry Weber-Brown**

I would say mutual recognition, sorry yes, I think we start with recognition and then hopefully move through the sort of trade agreements to actually having it sort of enshrined within law.

**Alan Winters**

Yes, thank you. Peter.

**Peter Cunnane**

Just to echo how important that point is around the national regulators talking to each other. Often, we'll help or provide the infrastructure for those fintechs that are looking to move internationally and to create bridges almost between markets where they can operate and having the support of domestic regulators either side is hugely helpful. I mean we have a really strong legacy here in the UK again of moving first on this and having our regulator think about innovation and think about competitiveness in the market from quite an early stage, that was so helpful as fintech was growing. There is a danger that we've perhaps fallen behind on a couple of areas whether it's around digital currency development, open banking, we've led the way and then sort of fallen back a little and I think the resourcing, the adequate resourcing of our regulators has perhaps been an issue there as well. But you know I think we're pleased overall with the approach domestically we've had for the support from the regulators and from the Bank of England too. I think internationally though that point around connectivity, around continuing to keep those lines of communication open and forge those links is really important.

**Alan Winters**

OK thank you, that's all very clear. So look I'm afraid the next question comes from me as well since we're a little bit short-handed today and again you've anticipated this, it's about skills, I mean the extent to which skills shortages really are a problem in the sector and maybe even in the regulators, but also you know is that evolving, are we needing to look at a different set of skills from previously, looking forward are we expecting to need different skills and the \$64,000 question, OK so what should we be doing about it? I want to start with Harry this time.

**Harry Weber-Brown**

Thank you. I think this is a major issue. I think Sarah raised the point earlier about the impacts of Brexit and the evolving skills requirements and is it possible for the education sector to keep pace of the types of skills that are required now but also looking towards the future as well. I think the point that Peter made earlier that obviously we have a skilled pool of fintech talent already in the UK, but 42% is from overseas, you know and so we need to have an internationally open labour market to ensure that fintechs will come here, they have got the right resources here that they can utilise and making sure that we put the right sort of visa system in place to make it easy for firms to recruit from overseas. I think in particular the global race for talent is only hotting up, if you can't get the talent then that's going to be a major constraint on any opportunity for fintechs to really grow in the UK. And I think the changing requirements I think critically are looking at things like crypto assets,

tokenisation, AI machine learning, these are all evolving and they're delivering huge efficiencies into financial services and the fintechs are a very good place to provide those types of services into our current financial services industry which are obviously well placed in the UK. So I think having the right skills in place is absolutely critical.

I think there's a mixture of a dual approach really of looking at how we continue to access overseas talent, maybe through trade agreements, visa systems, etc, but also build up the pipeline of UK trained talent. Making sure that it is higher skilled, making sure it's technology focused and we have a domestic workforce and I think certainly the Khalifa review, what Peter mentioned earlier, one of its central tenets was how to retrain and upskill adults in support of the UK fintechs and I would welcome that as a key policy moving forward.

**Alan Winters**

OK thank you. Peter.

**Peter Cunnane**

Again, without repeating myself that global talent pool is key I think as we see other markets emerge in this space, the competition for that small pool will only grow. Harry makes a really excellent point there around the domestic scene. We have such again real strength in academia and in innovation research there, we can predict what jobs will come through in the future and what future roles will exist in these spaces, whether it's around quantum or AI, and I think we can begin to look at our domestic workforce there and ensure that we have a growing domestic talent pool, I think that's also really important to account for supply for those future roles. But I think it goes further than that as well, a number of years ago we worked with one of the major consultancies on a fintech for schools programme to just raise awareness around what it meant to have a career in technology or even financial services to school children approaching GCSE age, and to get them thinking about what the future might look like for them, so it was part education, part awareness but also part I suppose thinking about the jobs of the future. So I think anything we can do to support programmes like that around the country are really important.

But yeah, we face the same shortages that every industry is facing at the moment and the competition is only increasing.

**Alan Winters**

Thank you. Martina.

**Martina Garcia**

Yes, I don't want to add too much, and I am not an expert in that area, but one of the things that I don't hear enough about is tax, and not reducing it [inaudible 1:28:56.4] that is not the debate I want to have, it's on remote workers. So we have an explosion of remote working, we have on fintech we can have people from all over the World and our tax systems are not designed for that flexibility. So it's not a question of the level of income tax, it's the question that it's so incredibly hard to work cross borders, there is no pension facility, and there I really think that the UK is missing a golden opportunity, because it's something that if they wanted to really explore and develop a regime that



was much more flexible and [inaudible 1:29:36.1] we could really attract a much bigger share of the global talent. Without necessarily them living in the UK all the time.

### **Alan Winters**

OK thank you, that's quite a difficult shopping list and so I guess fintech ought to be one of the things that Mr Sunak is going to have in his programme for 17- and 18-year-olds studying maths. Thank you very much, let me pass back to Peter.

### **Peter Norris**

Thank you, Alan. Anatole, it's over to you for the next two questions.

### **Anatole Kaletsky**

Thank you. Well we've mentioned that the fintech sector has been an attractive investment option, the UK is the second biggest centre after the US for fintech investment, so could we go into a bit more detail about how the British Government could do more to make the sector or to ensure that it remains an attractive investment option or make it even more attractive and the supplementary I would add to that is to what extent are other governments, I think particularly in Europe, now looking to compete in this sector and what are they doing to attract investment potentially away from the UK into the rest of the European Union? Let's start with Peter perhaps on that.

### **Peter Cunnane**

On what Government could do, we've always encouraged the continued use of schemes like EIS and SEIS certainly at the start-up end, particularly firms below the level of 200-250 employees, that's really important mechanism to ensure that the incentives are there from Government in terms of the growth and obviously for many fintechs for many years those numbers were sufficient in terms of based on the number of employees. Obviously as firms have grown some have sort of hit that margin and we've pushed for perhaps the definition of availability of funding to be expanded to cover those. But then we hit the sort of sweet spot I suppose of Series B through to D funding whereas I talked about earlier there seems to be plenty to go round, even in constrained economic times, and the indication we're getting from those investors we know is there's still plenty of dry powder left, they're just holding back at the moment as we go through this period of economic uncertainty to see where things land. So we're not so concerned with the future of funding for that bracket.

But I think in terms of how we remain attractive vis-à-vis some of those European hubs Harry touched on this earlier, it's the IPO piece, it's the listing piece, it's when those companies then get to D, E, F and so on they're looking at listing, how attractive are we making it for companies to list here and unfortunately we have fallen behind against New York, against Amsterdam, against Paris where companies are finding it easier to list these days in this space. So that concerns us because then if we lose one or two of those unicorns you know the whole pack of cards seems to start to disintegrate, so we want to see that happen.

And on one final point on investment, anything we can do to incentivise investment into female-led businesses and businesses that are based away from London as well would be encouraging to that continued growth too.

**Anatole Kaletsky**

Harry?

**Harry Weber-Brown**

I think just to build on the points made, I think they're really good. I think the EIS and SEIS are brilliant at sort of kickstarting but if we go back a stage prior to raising the investment is having the environment in place to make it very friendly for people who have just got initial ideas no more than a piece of paper and two people who are working together and I think this is where the Government have really been helpful with their Smart Grant programme, I mentioned it earlier through Innovate UK and they've broadened that out through to actually providing support services, so think about it from literally from acorns hopefully huge mighty oaks will grow but from the Smart Grants you can test things through proof of concept, through to live pilots, through to actually having a business ready to make it very attractive to investors. So what in particular I think is very attractive is the support services after the grant has actually been awarded and the proof of concept has been developed you know it's looking at how you can help those firms become much more attractive to investors, you know so you've got a really good pipeline of fintechs, not just in the fintech space it's obviously across all sorts of other types of innovation, but it's how you make them attractive, a good pipeline of investment opportunities for investors to sort of turn their sights into the UK and realise that's the place that they wish to invest into. And I think right the way through the pipeline as I mentioned earlier and picked up on the point earlier, you know from initial inception through to scale up, growth, right the way through to listing and I think it's making sure that we are, as in the UK, can provide that kind of full pipeline of support because at the moment it kind of drops in certain places, you know it's very good at developing the seeding you know through to kind of early stage start-up and then the investment market community really kicks in, I think there's a sort of role for Government to help in those Serie A, Serie B, right the way through to listing, support services to make sure that we've got a really good strong pipeline of investments that are going to be attractive for international markets.

**Anatole Kaletsky**

Martina, and then actually I'd like to come back to you Peter on this question specifically you mentioned about the listings in Amsterdam and Paris which is clearly not just in fintech but elsewhere, they're really overtaking the London Stock Exchange and if you could comment a bit more about how they're doing that with regard to fintech. But before that, Martina do you have any comments on this broad issue?

**Martina Garcia**

Well, I'm an economist and I see the UK has a totally open regime for international capital flow and international investment and so I think sometimes there is a little bit of risk of barking up the wrong tree. I mean if fintech is attractive and it's an attractive proposition and it's profitable, investment will come. So the idea of facilitating investment too much, I'm not sure this is really needed. And I will make the same comment on the listing rules even more. Listing rules in the UK and there is the AIM market are not more onerous than in Amsterdam, that's for sure. And I would debate whether they are more onerous than in the US, I don't think so [inaudible 1:37:03.6] you have had a little bit of a problem, quickly sorted, just in time for Spark [ph 1:37:09.7] not to be an attractive proposition enough. The problem is the investment flows. And it is also the lack of liquidity in the market and here again I'm sorry, but tax has a very, very big impact, stamp duty has a big impact on the lack of

retail market. So going for trying to reform the listing rules I think is just going to be a big effort for very little impact. This is not what the problem is, the problem is the behaviour of pension funds, on the behaviour of the fund managers, on the lack of retail participation in the market. In my opinion.

**Anatole Kaletsky**

And do you think just to follow on from that it is also part of a problem that since Brexit the UK investment flows have been separated from EU-wide investment flows, so there is potentially there is a much smaller pool of potential investors in the sense that the UK is not part of the European Union anymore.

**Martina Garcia**

I don't have the latest figures, it has probably reduced a little bit, it used to be 20% more or less before Brexit, so the UK market was more or less 30% US, 20% EU, and just underneath 50% domestic. It has probably gone down but I don't think it has suddenly evaporated. Where it will have gone down is in the small kind of companies, so you will have the big stars of the FTSE100 will continue to attract EU investment as a normal diversification strategy from EU funds, but it is true then maybe for smaller companies it will have a bigger impact.

**Anatole Kaletsky**

So Peter, would you like to add a little bit more about the competition between London and the European markets and then we'll go onto the next question.

**Peter Cunnane**

I think Martina summed that up there and just to add to that in terms of, yeah it is the smaller companies that are more affected by this and those larger fintechs that had a presence in the EU before Brexit and had that ability to gain licensing and to move between markets, it's probably been a less of an impact on them. And it's those smaller companies that have not been able to sort of manoeuvre as well and facing a different regulatory environment of course, as a result. I think what Khalifa called for in the review was the relaxation of pre-emption rights, the ability to dual list and free floatation and these were things that we saw that other Stock Exchanges were marketing very effectively ahead of London and we've done some work with the London Stock Exchange to broaden their understanding of the needs of the sector here, so I think the mood music is moving in terms of where we can get to with LSE here in London, but certainly it's been a challenge in the years running up to Covid and both Khalifa and of course Lord Hill as well in his review asked for very similar things.

**Anatole Kaletsky**

OK, well to move onto the next issue for me which is about trade negotiations, so what opportunities and challenges do you see the trade negotiations both with the EU and outside the EU are presenting for the fintech sector specifically, how can Britain capitalise, is Britain capitalising on these opportunities and is it threatened by some of the challenges with especially the relationship with the EU. Maybe I'll start with Martina on that one.

**Martina Garcia**

Unfortunately it seems you are to speak about the challenges than the opportunities.

**Anatole Kaletsky**

That's why I inserted that in the question, that's right.

**Martina Garcia**

So there are many challenges, not only because, I mean passporting, the loss of passporting and the difficulties of replicating a similar kind of outcome with other international partners, and for fintech it's incredibly important because we have been speaking about investment but most fintech companies are too small to benefit from establishing subsidiaries in another country. So what they need to do is trade across borders services, and many of them are in the consumer retail sector. And retail is incredibly protected and there is very, very little trade [inaudible 1:42:10.1]. As we heard in the previous section [inaudible 1:42:14.1] it's extremely ineffective for financial services and even when you get something you are covered by the prudential caveat which is a clause that enables any kind of signatory to do whatever they want for [inaudible 1:42:27.0] reasons. And these prudential reasons when we are speaking about the consumer and consumer protection are very easily called up.

So there are some positive signs in terms of, as was mentioned before, data localisation very important. I thought the FTA with Australia had a more developed financial services chapter with a lot of the right language, but very, very little binding language. There is no binding commitment and so that's where the challenge is. And it's to do a little bit what we are doing with Switzerland, but of course with Switzerland it's kind of, if you can't do it with Switzerland with whom are you going to be able to do it? But still, trying to work at having a real cooperation on financial services in which you're trying to leave behind the outcomes of that cooperation to market access commitments. And you have to start with like-minded countries and it is going to take years. But if the UK doesn't start and doesn't do it, it's not going to happen, because this is the lead exporter in financial services and the country in the World that has the strongest interest in changing that dynamic.

So that's what the opportunity would be, not just for fintech but for all financial services. I think then digitalisation in general we are speaking about a cross-border world, of cross-border services trade world and not a foreign establishment investment trade world. And so that [inaudible 1:44:08.3] has if it is successful in trying to develop new regulatory kind of groups of like-minded countries, that might be with the EU, might be with outside the EU, in which you could advance dossier by dossier, sector by sector some market access. And that's why I think the UK should focus on in this way.

**Anatole Kaletsky**

Thank you very much. Harry, what are your views about trade negotiations, the opportunities and the challenges?

**Harry Weber-Brown**

I'll do the opportunities first, start on a positive note. I think certainly the opportunity to leverage through the Department of International Trade the networks in foreign jurisdictions to help introduce fintechs into other countries, I mean many of our member firms are multi-nationals and you know

certainly the smaller firms, the fintechs, see great opportunity overseas, so anything that the Government can do, be it through trade or under international negotiations to help leverage what we've already got in place and that might be through diplomatic services, etc. I think on a sort of more prosaic point is having the kind of mutual recognition around certain particular types of technology, so for example TIS has been working on a digital identity scheme, we've mentioned that, the previous session mentioned it, and one of the areas for you know identity in particular, if I'm a UK citizen and I have holdings in another jurisdiction it's having that surety that I can use that identity across borders. So I think for the UK Government when it's setting up international negotiations and trade agreements is making sure that there is some form of recognition of an additional identity economy in the UK and how that could be referenced through eIDAS in Europe for example or NIST in North America. So it's helping to just literally open the doors and then the detail, the officials can then go down to the detail of you know what actually is represented within the trade agreement. It probably wouldn't go into detail, it would probably more likely just be a line in the agreement saying you know that the intention is that each party will develop mutual recognition of particular schemes.

So that would then herald the way for firms to be able to offer services abroad and keep certainly you know data within the UK as far as sort of UK citizens are concerned and their identity. I think building fintech bridges is really key, I mean the City of London has a number of those already in place with Australia, Hong Kong, Singapore, China, etc. I think those sorts of bridges you know where you've got a kind of bespoke agreement for collaborating between two governments is absolutely key and bringing the regulators together and effectively sort of connecting the two markets, but it is going to be very labour intensive. You know Martina made the point it's almost you've got to pick them off individually, each territory by each type of service that you're looking at, so it will take time for that to happen.

Back to one of the sort of big challenges differing in regulations even when as part of the European Union, we adopted the fifth anti-money laundering directive, you know the transposition of that in individual territories and member states in the EU is different. You know so it's how do you sort of circumnavigate your way around as a small fintech the differing regulations and anything the Government can do to put in play within trade and negotiations to help facilitate that, help to make sure that you don't make it too onerous upon a fintech, if they wish to open an office in a foreign territory, how can you ensure that they've got at least you know mutual recognition of the regulations. So a lot of work to do but anything that the Government can do in its negotiations internationally to help that would be most welcome.

### **Anatole Kaletsky**

Thank you. Peter, your thoughts on this subject.

### **Peter Cunnane**

I think why the agreement with Australia was perhaps better than some of the others was because we had that existing fintech bridge and we've been able to work with counterparties and regulators in both markets ahead of negotiations to have a better understanding of what was needed. That enabled us as an industry to feed back into that process. And I think the FTA provisions that have been agreed elsewhere more broadly, I think if they're guaranteeing fintech entrants a level playing field, whether that's cross border or through local subsidiaries I think that's key to that continued ability of our industry to scale. And trade agreements that permit the safe flow of data as Harry touched on and removing unjustified data, localisation rules, that opens up markets and again encourages trade and digital service providers from the UK to take advantage of the opportunities of

some of these agreements. So I think those are the key points that I would emphasise in terms of where we are with the agreements, I think if we want to make better agreements going forward then involving the industry in pre-negotiation conversations and having a look at some of those fintech bridges and other agreements that are already out there, I think is very helpful.

**Anatole Kaletsky**

OK thank you very much, I'll hand it back to Peter Norris. Thank you.

**Peter Norris**

Thank you Anatole and thank you all very much for your contributions in this session. We always close with trying to gather material for our central objective as a Commission which is to make policy recommendations to Government and so I'd like to ask each of you to give us your three top picks as recommendations for the development of Government policy to encourage the sector and to increase its opportunities globally. Martina, perhaps I could start with you.

**Martina Garcia**

Thank you. I would have one, increase competition, I will say that any reforms should not focus on competitiveness but on competition. And I would put example of open banking, open banking was the result of the Competition Markets Authority remedy after its investigation in the retail banking sector and it created, that's why the UK was leading on open banking. So, competition.

Two, regulatory innovation, as I mentioned I think there is still a huge amount of work to be done from the regulatory authorities to really develop their approaches to digitalisation of the economy and particularly to digital assets. And three, my last point, will be on trade and I know it's long but if you don't start today it's going to be very, very difficult to have meaningful market access for small, medium fintechs that are retail focused in the next ten years. National treatment and the obligation to open a new establishment in the third market and not avenues that are going to deliver the right amount of benefits and market for this sector to develop. Thank you.

**Peter Norris**

Thank you, Martina. Harry, can I turn to you?

**Harry Weber-Brown**

Sure, I think number one would be to make sure that the data protection of digital information Bill gets a second reading in the House, in particular I'm interested in the Smart Data policy which is from the digital information section of the Bill. Because that will then herald the way for open finance, so building on Martina's point, you know open banking has been seen to be a success, it's really driven the fintech market space in the UK, if we can make it you know regulated that other types of financial institutions also have to share data pertaining to a customer's holdings through that Bill, I think that will really help drive both fintechs and innovation and deliver you know better consumer outcomes in the UK. So that's my number one.

Number two I think as I mentioned earlier the sort of mutual recognition cross borders of ID and I think the Department of Science, Innovation and Technology has done a great job in championing that, so that's the whole identity piece, the mutual recognition side would be number two. And third, I think it's the new skills development, you know making sure that we are anticipating what is required for a future workforce to ensure that there is enough skills, enough people in the UK to drive the skills that are required for fintechs to really flourish. So I think it's a mixture of information Bill, identity mutual recognition and new skills development.

**Peter Norris**

Thank you, Harry. Peter.

**Peter Cunnane**

At the risk of repeating all of the above, talent is what I opened with in terms of the major challenge right across our industry, I think anything we can do to strengthen the availability of talent both internationally, domestically, to support existing roles and the support the creation of future roles, jobs that we don't know about yet. I think we are well-placed to do that, we just have to get the right training in place and have the right support from Government on that point. As I've said many fintechs aspire to go global so that piece around international cooperation is really important, getting our regulators talking to other regulators, providing that infrastructure particularly for the smaller companies that are venturing out into the world for the first time. I think having those known links and helpful links out there, whether it's through the regulators or whether it's through Department of International Trade and Business and Trade, I think that's really important and that's been beneficial in certain markets and could be improved elsewhere, so I think on a practical point but also through the trade deals supporting international standards I think that's all very helpful in terms of growth.

And the data point as well, both domestically with the enactment of the Bill but also internationally being mindful of a restrictive localisation positions in some of these trade agreements and hoping to get the best out of those.

**Peter Norris**

Thank you very much Peter. Well that brings out session to a close, I'd like to thank each of you very much indeed for your contribution, it's given us a lot of food for thought, this is clearly an area of critical importance for the economy and the complexity of husbanding its growth can't really be under-estimated. So thank you very much indeed and look out for our recommendations as we form them over the next period. Thank you everyone, goodbye.