

Committee: Policy and Resources Committee	Date: 16 July 2015
Subject: Update on CoL strategic engagement with the fintech sector and lead sponsorship of Innovate Finance	Public
Report of: Director of Economic Development	For information
<p>Summary</p> <ol style="list-style-type: none"> 1. This report updates your Committee on progress towards developing a City Corporation strategic approach towards the continued growth in the 'FinTech' (financial technology) and how the City Corporation intends to respond to it. 2. The report provides background on our engagement with the FinTech sector to date. The report also follows an earlier report to your Committee (received on 20th February 2014) outlining an approach for financial support from the City Corporation towards the set-up and initial running costs of a major new body which the Government was keen to see launched to promote and support the sector. The initiative – which became known as Innovate Finance – was launched in August 2014 and operates on a membership model. It now has a fee-paying membership of around 120 businesses. <p>Recommendation(s)</p> <p>Members are asked to:</p> <ol style="list-style-type: none"> 3. Your Committee is recommended to note this report. 	

Main Report

Background

What is FinTech?

1. The FinTech industry is broad, including businesses which aim either:
 - to innovate the traditional financial services product offering by introducing new products and better ways of doing business; or
 - to develop technology-led solutions to enhance and complement existing services, thereby adding to customer experience, finding unutilised niches, etc.
2. It can generally be categorised into the following sub-sectors:
 - *Enterprise software*: B2B SaaS (software as a service); risk/compliance/security, trading and processing platforms;

- *Mobile*: Mobile banking; mobile payments providers;
 - *Consumer and SME finance*: Lending; crowdfunding; peer-to-peer services; wealth management; social investment;
 - *Next generation banking*: new retail/commercial banking and insurance business models;
 - *Payments, FX & transfers*: Online payments; foreign exchange; international money transfer;
 - *Data & Analytics*: big-data¹; business intelligence; credit scoring;
 - *Other*: Aggregators; points and rewards systems; insurance.
3. In 2015, the UK's most significant FinTech cluster is centred on the City and neighbouring areas in London. Of the 50 businesses included in the 'FinTech 50 2015', and widely acknowledged as an indicator of the most important fintech businesses in Europe – the UK dominated the list with 27 businesses, including 22 in London.
 4. The UK employs over 134,000 people in financial services technology – over 40,000 roles within which would be defined as FinTech – i.e. roles relating from peer to peer financing platforms to developers of mobile payments methods and digital currencies.
 5. This market generated £20 billion in the UK in 2014 – that's more than Silicon Valley or New York, and more than the rest of Europe combined. Twenty five percent of global fintech FDI projects in the last five years were in Europe – half of these were in London.
 6. In 2014, banking and securities institutions spent £319bn on IT. A number of such businesses are based in the square-mile and close by. Those businesses in the FinTech sector therefore not only include start-ups but equally those larger financial services institutions more traditionally identified as typical City businesses. The City Corporation understands anecdotally that those same businesses are now recognising that their future development and strategies are dependent on supporting those start-ups, entrepreneurs and graduates with the big bright ideas.
 7. Similarly, FinTech could play a massive role in reaching the unbanked around the world, estimated at 2.5 billion people. In the UK, it is estimated that 58% of adults had access to the internet via a mobile phone in 2014 – and the FCA expects this figure to rise to 95% in the near future.

Our relationship with Innovate Finance:

8. Also in early 2014, HM Government began to develop an initiative to create a supporting organisation for the sector. The development of this initiative – now known as '*Innovate Finance*' – was led, at the request of the HMG by the

¹ 'Big data' is the term used for a collection of data sets so large and complex that they are difficult to process using hands-on database management tools or traditional data processing applications.

former head of the Tech City UK and Founder of Level 39 Eric van der Kleij, through Enitiq (formerly Pivotal Innovations), an innovation company led by the management team of Level 39, Canary Wharf Group's start-up accelerator facility. Enitiq's CEO Claire Cockerton was appointed Founding CEO and Director of Innovate Finance.

9. In May 2014, your Committee agreed to approve a total City Corporation contribution of £1million towards Innovate Finance, which would meet £500,000 of the total £1.27m costs in year 1, £250,000 of the £1m costs in year 2 and £250,000 of the £1.17m costs in year 3. A contribution at this level would accord the City Corporation the status of lead supporter
10. The City Corporation's decision to become the major funder of the Innovate Finance – as lead sponsor – means that the organisation remains our lead partner in the sector (although as this report outlines below, EDO is currently building working relationships with other organisations in the sector.
11. Innovate Finance anticipates being a self-funding membership independent membership organisation and trade-body for the sector by 2017. This will be enabled by contributions from major corporates, early-stage businesses and start-ups in the fintech sector. Canary Wharf Group continues to provide a financial contribution and in-kind support in the form of an office base in One Canada Square, E14.
12. The mission for Innovate Finance was developed following consultation with its founding fifty members, mostly comprising of fintech start-ups and small to medium sized enterprises, and is now as follows:
 - Champion the UK as the world centre of financial services and technology and improve trust in the sector affected by the crisis;
 - Directly support FinTech innovation in the UK by creating an active membership organisation and giving it a powerful voice;
 - Create an effective, new and positive brand for the UK-based fintech community both domestically and internationally;
 - Promote investment into the UK-based FinTech sector and aid UK-based FinTech businesses in international expansion;
 - Build connections between established financial services businesses and new FinTech SMEs.
13. The outline events programme for Innovate Finance envisages key events taking place in the City, at Westminster and in other key financial centres across the UK. One key event for Innovate Finance was their inaugural Innovate Finance Global Summit (IFGS 2015). This global forum for FinTech was held at Guildhall on Monday 9th March 2015. Innovate Finance hopes this event will become an annual fixture on the tech calendar and that a high-level of political and industry representatives will continue to participate.
14. The City Corporation is continuing to work with Innovate Finance to sustain the momentum of their global summit and the impact this has had in the City. This will primarily be carried out by EDO and will be achieved in partnership with Innovate Finance or under our own momentum, working with a variety of

other stakeholders such as HM Treasury, UK Trade & Investment, Government Office for Science, the EU Commission, business stakeholders (such as Aberdeen Asset Management), regional partners (such as Scottish Enterprise, Leeds & Partners), and trade associations such as Tech UK, Tech London Advocates, or FinTech businesses we already know.

15. The City Corporation will continue to work with Innovate Finance to influence particular sessions on their programme where certain CoLC strategic interests - specifically around support for small businesses, and partnerships with both communities and the public sector at large - are represented.
16. The City Corporation continues to work with Innovate Finance to ensure the relationship between ourselves and Innovate Finance remains mutually beneficial and we are able to influence their broader programme of work, including their engagement with our key stakeholders (business or political; international or elsewhere in the UK). The funding agreement between City Corporation and Innovate Finance stipulates that we facilitate joint working on research, inward investment, influence, inclusion of the City Corporation at other events, communication, and utilising innovative FinTech for the benefit of the public sector and society at large (or “public good”).
17. The City Corporation has also been invited to sit on the Advisory Council for Innovate Finance. The Chairman of your Committee will assume this role. Alderman William Russell has also been invited to attend on a personal basis.

Current Position / Corporate & Strategic Implications

18. The City Corporation’s broad support for FinTech, and our lead sponsorship of Innovate Finance, contributes to the following theme of the City Together Strategy:

i. ...is competitive and promotes opportunities.

It also meets Key Policy Priorities 1 and 3 of the Corporate Plan: (‘Supporting and promoting the international and domestic financial and business sector’ and ‘Engaging with London and national government on key issues of concern to our communities’).

19. The City Corporation also supports the development of FinTech as it is a vital step in the broader development of the UK’s digital economy and the related technological revitalising of the wider financial services industry (‘the City’).
20. The City Corporation’s support for FinTech therefore stems from our strategic support for the continued economic growth of the City, impacting on our policy support for issues of competitiveness and our encouragement for new sectoral growth within financial and related business.

21. The City Corporation's current support for FinTech is also achieving an alignment with a broader policy agenda which focusses on various inter-linking programmes across several UK-financial services centres.
22. One of the key ways in which the City Corporation can support the sector through the engagement with EDO is in the delivery of policy development of associated research. This work must be supported by our stakeholders – whether they are in business or the policy making environment. In doing so, the City Corporation supports the development of an eco-system for FinTech, which benefits both London and the UK.
23. It is becoming clear that there is little to be gained from the City Corporation replicating work that is being carried out elsewhere by other organisations in an admittedly crowded space. One area worthy of note however, which is subject to potential overlap both outside and within the City Corporation, are Cyber-related issues, namely cyber-crime and infrastructure (particularly the provision of adequate broadband frequencies in London). As it develops, our strategic approach to FinTech should support action in this space where we do have a niche, but your Committee is asked to note that this report does not deal with Cyber-related issues in any detail.
24. Whilst the sector is very fluid in terms of its growth and impact on the broader policy agenda, the City Corporation is engaging in a number of both ongoing and specific actions in support of our own approach. These are listed as follows:
 - 24.1 In relation to Innovate Finance, either through the work of their Advisory Council, or through EDO's day-to-day engagement with the Innovate Finance team, as well as the policy-strategy working group (on which a representative of EDO sits), the City Corporation will continue to:
 - advocate that Innovate Finance develops a broader and more diverse governance structure from within, a structure that is not only representative of their membership but also of the wider fintech sector, both in London and across the UK;
 - act as a guarantor for the independence of Innovate Finance, both politically and from the Level 39 eco-system. This is particularly vital (and relevant) as the organisation enters its second year against the backdrop of a newly appointed Chief Executive for the organisation, renewal of membership subscriptions, and a new UK government;
 - continue to support the development of Innovate Finance's broader policy work, as well as acting as a steer for their regional strategy development. This will include the development of a research programme at Innovate Finance which we will engage with when appropriate to do so.

Ongoing activity.

24.2 City Corporation policy discussions re FinTech and follow-up actions, including potential research projects:

- The City Corporation will host a policy roundtable discussion with key business and institutional stakeholders on FinTech. Previous discussions have suggested digital currencies as a theme. Other suggestions – including those from the Government Office for Science - have indicated that the regulatory eco-system, or standards in the blockchain, would prove suitable themes for the City Corporation to convene. This activity also supports the outcomes of Sir Mark Walport’s “Blackett” review, published with the budget in March and yet to be enacted. Your Chairman will host the first such event later this month.

Proposed deadline: Summer 2015.

24.3 Supporting Innovate Finance’s parliamentary programme:

- The City Corporation co-ran an event “FinTech and the new parliament” in the House of Commons last month. This networking event was part of Innovate Finance’s FinTech week (timed to coincide with London Technology Week). The broad theme of this event was FinTech as a force for financial inclusion as well as broader economic growth.
- Our support for this event was also intended to cement an ongoing commitment to support the work of a secretariat for a potential APPG for FinTech, which we expect will be launched by parliamentary authorities in the Autumn. Innovate Finance was approached ahead of the general election to lead on this by various parliamentary stakeholders. We were also approached, albeit separately, to support this. We expect the group will be chaired by Mark Field or Adam Afyrie. Whilst Innovate Finance will lead on the content and technical support, our expertise in parliamentary matters will also be required. EDO will continue to work with the Remembrancer’s office to support this work.

Proposed deadline(s): October 2015; and ongoing

24.4 Member engagement and information:

- Recognising the increased importance of this sector to both Members and officials at the City Corporation, regular reporting back to those internal stakeholders will be established through the following channels: P&R Committee, ED/PR sub-committee, and EDCOG;

- Working with EDO colleagues in the Partnerships team, both Tech and FinTech will be allocated (separate) briefing sessions for Members from September 2015;
- EDO will continue to brief the your Chairman and other Members who have already identified themselves as having an interest in this sector.

Proposed deadline: October 2015

24.5 Ongoing external stakeholder engagement:

EDO will continue to reach out to those stakeholders listed above (and new ones) who may not necessarily have an interest in Innovate Finance per se, as part of our deepening role as an advocate for FinTech.

24.6 Ongoing promotion of the sector:

- EDO anticipates that interest in the sector, both within the UK and from overseas, will increase. For example, EDO has recently fielded enquiries from both colleagues in government and other stakeholders in the United States and Estonia, as well as (from a policy point of view) from Brussels (in particular, in relation to the Capital Markets Union consultation and crowdfunding).
- EDO will continue to respond as appropriate to such queries, engaging our Members (particular within the scope of visits programmes for both Lord Mayoral and Policy Chairman) and at an Officer level where appropriate.

24.7 Miscellaneous:

EDO will continue to respond to requests from stakeholders, both internal and external, to host events in support of FinTech, taking an overall view as to where such proposals bring value to this strategy.

Conclusion

The FinTech sector has the potential to be of huge significance to the City. It is intended this strategic approach to supporting the development of the FinTech sector will continue to demonstrate to both our Members and other stakeholders – in the City, in government, as well as others - that the City Corporation is helping to drive a major growth sector for the City, London and the UK, potentially enhancing and leading to future job creation and improving the City's – and London's – wider competitive position, especially vis à vis other emerging FinTech centres such as New York. Our support for Innovate Finance is also providing positive reputational benefits and is proving our ability to act as an integral partner in the development of the sector and an advocate for both its promotion and that policy development deemed necessary for its continued success.

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