

## Bank of England embraces the promise of FinTech

In its latest Quarterly Bulletin, the Bank of England commits to embracing FinTech to deliver its mission.

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### Highlights

On 22 March 2019, the Bank of England published its latest Quarterly Bulletin in which it sets out its commitment to embracing FinTech in order to deliver its mission. Specifically, the Bank is upgrading its hard infrastructure (including its payments architecture) to enhance security and support innovation and updating its soft infrastructure (including rules and regulations) in order to mitigate potential risks. The Bank is also applying new technology to enhance its own capabilities.

### Market developments

The Bank recognises the increase in access to and use of FinTech products and services in the UK over the past five years and the UK's position as "one of the most dynamic" FinTech sectors in the world. The Bank acknowledges that the rapid growth in the UK's FinTech sector presents significant opportunities while also noting possible risks. The Bank reiterates its commitment to embracing FinTech (by utilising financial technology to improve banking infrastructure and support innovation and innovators) to deliver on its mission of "promoting the good of the people of the UK by maintaining monetary and financial stability".

### Consumer trends

In summarising the impact of FinTech on the UK economy and consumer banking and spending patterns, the Bank notes that:

- 74% of UK adults used online banking in 2018
- 22 million people in the UK regularly used banking apps in 2017, and
- in Q4 2017, consumer spending via debits cards overtook cash spending for the first time.

With these trends in mind, the Bank believes that FinTech will have a role to play in meeting customers unfilled demands. In particular, the Bank believes that FinTech will likely play a role in improving access to financing for small

and medium sized enterprises and developing the cross-border payments system.

## **FinTech initiatives**

The Bank notes the key role it plays in the development of the UK's banking infrastructure and understands the need for the Bank both to utilise FinTech and to regulate FinTech. The Bank emphasises its efforts in these areas referring to a number of initiatives which it has undertaken or is undertaking to “support the safe and resilient deployment of FinTech” in the UK.

## **RTGS renewal programme**

The Bank provides the Real-Time Gross Settlement (RTGS) system through which financial institutions are able to make real-time payments in the UK. The Bank intends to renew this system “to help reduce risks and increase innovation and competition in payments”. The Bank is considering using innovative technologies, including distributed ledger technologies, to underpin the system. The Bank is also adopting common data standards such as the ISO 20022 payments messaging standard (to harmonise the RTGS system with its equivalent international systems) and the “creation of a Common Credit Message”. By adopting common data standards, the Bank hopes to reduce risk (by reducing miscommunication) and increase efficiency.

## **Soft infrastructure**

The Bank plans to respond to the rapid pace of FinTech innovation by creating the appropriate “codes, rules and regulations”. For example, the Bank created CBEST which provides guidance on how institutions should prepare for and simulate cyber-attacks.

## **FinTech Hub**

Following the success of the Bank's FinTech Accelerator (a two-year project through which the Bank worked with FinTech companies to better understand the market), the Bank has launched a permanent FinTech Hub.

## **Cryptoassets and financial stability**

The Financial Policy Committee and Financial Stability Board have conducted reviews of the potential impact of cryptoassets on UK and global financial stability. These reviews concluded that cryptoassets do not currently pose a significant risk and the Bank will continue to monitor this issue.

## **New Bank Start-up Unit and New Insurer Start-up Unit**

The Prudential Regulation Authority and the Financial Conduct Authority have established the New Bank Start-up Unit and New Insurer Start-up Unit to provide support and guidance for new banks and insurers during their first year as regulated entities.

## **Frictions in cross-border payments**

The Bank has undertaken research with the Bank of Canada and Monetary Authority of Singapore to address the current frictions in the cross-border payments system.

## **Legal Entity Identifiers (LEIs)**

The Bank intends to make LEIs (universal unique identifiers indicating an entity's legal structure) compulsory under the

renewed RTGS systems.

## Digital regulatory reporting

The Bank notes that it will utilise regulatory technology and supervisory technology to streamline the way that it interacts with financial institutions when fulfilling its compliance and supervisory functions. To this end, the Bank is currently piloting a digital regulatory reporting tool which would allow institutions to automatically send machine readable data to the Bank “via a secure regulator-firm digital link”. If successful, this technology could reduce the time and costs incurred by financial institutions ensuring compliance.

## Next steps

The driving force behind the Bank’s willingness to embrace FinTech is the desire to encourage innovation and promote competition for the benefit of the public. While the Bank does not provide any timelines for implementing its FinTech proposals, this Quarterly Bulletin does provide a useful insight into the Bank’s approach to its role in facilitating and moderating innovation in the UK banking sector. The Bank is clearly willing and eager to address the risks and opportunities presented by the rapid pace of innovation through the provision of both hard and soft infrastructure.

Going forward, the Bank notes that it will continue to carry out FinTech research and pilot programmes. Involvement in such programmes may provide an opportunity for both new and existing businesses to collaborate with the Bank as it looks to support an evolving financial system, develop policy and use new technologies.

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