



BANK OF ENGLAND

# Speech

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## **The Bank of England – Open to Fintech**

Remarks given by

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Thank you for the opportunity to be here this afternoon at this important conference, speaking on behalf of the Bank of England as Deputy Governor with responsibility for the UK's RTGS<sup>1</sup> and the CHAPS high value payment systems.

We are discussing the latest stage in the evolution of the UK's financial services sector and London's role as a global financial centre. Different infrastructures supported this evolution at different stages. My focus will be on the technological infrastructure to support fintech, where both private and public sectors have a role to play.

These are not new themes. At the time of the Big Bang, new technology was required to support electronic trading. The Bank of England contributed to the infrastructure development, setting up the Central Gilts Office in 1986 - which permitted delivery versus payment for Gilts<sup>2</sup>. In 1996 the same was enabled for equities and corporate bonds via CREST, and later that year the launch of RTGS eliminated intraday settlement risk between banks, delivering real time settlement finality of sterling transactions.

The need for the Bank of England to continue to play its part in contributing to the infrastructure of the financial sector is more relevant today than ever.

Access to payments and infrastructure has changed for consumers – contactless payments are a daily reality for many now, and smartphone payments are sharply on the rise. But the fundamental role of banks as intermediaries, and the structure of the UK retail banking industry, has remained much the same. There are signs of evolution – such as the entry of 36 new banks<sup>3</sup> over the past 4 years. But arguably, finance has yet to face its “Uber” moment.

It is important that the Bank of England is attuned to the needs and challenges of a changing financial sector so that it can translate that to facilitating the infrastructure changes needed to support the UK's financial sector and fintech development.

But how to do this? In my view, by being open. More specifically, by the Bank of England being open minded, keeping an open door, and being open to change.

### **Open minded**

To react appropriately to an evolving financial sector, the Bank of England needs to make sure it is open minded to the opportunities and potential for change that fintech offers.

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<sup>1</sup> The UK's Real-Time Gross Settlement infrastructure, operated by the Bank.

<sup>2</sup> George, E (1996)

<sup>3</sup> 36 legal entities have received deposit-taking permissions since April 2013 which includes overseas firms setting up subsidiaries.

As a member of the Monetary Policy Committee, I need to be open minded about the way fintech could impact the economy of the UK. The defining trend of the last ten years has been the weakness of productivity. Given the size of the financial sector in the UK, I can see fintech driving competition and a pick-up in productivity in the medium term<sup>4</sup>.

And as a member of the Bank of England's Financial Policy Committee, in line with our remit<sup>5</sup>, I need to be open minded about, not just the risks, but the opportunities fintech could pose to the financial system. The FPC recently discussed the current risks posed by crypto-assets and judged that they do not pose a material risk to UK financial stability<sup>6</sup>.

We judge that crypto-assets themselves may have limited utility, particularly as money. They are too volatile to be a store of value, and with high transaction costs and slow settlement times, they are an inefficient medium of exchange<sup>7</sup>. However, we also recognise the opportunities in the technologies that underpin crypto-assets.

Adapting these technologies for the demands of the financial system poses significant challenges. Balancing the resilience, performance and privacy features of distributed ledger technology is not an easy problem to solve – and many developments are currently focusing on performance and privacy, at the potential cost of resilience. But the distributed ledger and cryptographic technologies used by crypto-assets have the future potential to deliver benefits both to the financial system and to the economy it serves, including increasing efficiency and resilience and contributing to a more distributed and diverse payments system.

It is clear that the developments taking place in the financial sector now could impact how the Bank of England meets our mission to promote the good of the people by maintaining monetary and financial stability. But to assess this properly, we cannot operate in isolation. We welcome the Government's Fintech Sector Strategy, including the announcement of a Treasury/FCA/Bank of England taskforce<sup>8</sup> – a key element of this Strategy, which will explore further the risks of crypto-assets and the potential benefits of the underlying distributed ledger technology. The Bank of England also needs to make sure its door remains open to engagement with the experts and innovators in the private sector too.

## **Open doors**

We have been doing this. Over the past two years the Bank of England's award-winning<sup>9</sup> Fintech Accelerator has worked with industry, experimenting with new technology and developing our understanding

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<sup>4</sup>Ramsden, D (2018)

<sup>5</sup>HM Treasury (2017)

<sup>6</sup>Bank of England (2018)

<sup>7</sup>Carney, M (2018)

<sup>8</sup>HM Treasury (2018)

<sup>9</sup>Central Banking Magazine 's Initiative of the Year (2018)

in the process. We have carried out a number of proofs of concepts including those using distributed ledger technology, RegTech, machine learning and cyber security<sup>10</sup>.

The Accelerator-run proofs of concepts allowed us to change our mind-set to be less bound by convention in terms of how we run the Bank of England, as an infrastructure provider, a payment systems operator and a regulator.

We are now looking to build on the success of the Accelerator by integrating its key approaches into our business as usual activities. So today I can announce that we have set up a new Fintech Hub that will sit at the heart of the Bank, to consider both how the Bank understands and how it applies fintech, relevant to its mission.

It is important that we continue to do this with our doors firmly open. So the Hub will be a central point of contact for the fintech sector to engage with the Bank, and will play an active role in the new HMT/FCA/Bank taskforce. And it will engage with you to understand and apply these developments to support the next wave of innovation in finance, and ensure that the UK has the right infrastructure to support that into the future.

Being open in our minds and approach are important steps in embracing and supporting new technology. But we also need to be open to change to fulfil our mission and keep pace with an evolving financial sector.

### **Open to change**

Change is already afoot. The Open Banking standard and PSD2<sup>11</sup> introduce changes to access of account information and initiation of payments, requiring banks to make customer data available to authorised third parties if customers so choose. This may change the way that customers access and operate their bank accounts, such as by making them accessible via a single smartphone app developed by a third party<sup>12</sup>. As the prudential regulator of UK financial services firms, the Bank of England needs to be open in how it considers and responds to changes arising in retail banking from this reform. In fact, increasing competitive pressures in retail banking, enabled in part by an increase in the use of fintech, formed part of the biennial exploratory scenario in our 2017 stress test<sup>13</sup>.

As well as looking at these infrastructure changes impacting the firms we regulate, we are also opening ourselves to change by experimenting with new technologies when we think about enhancing how we work – including for the infrastructure we are responsible for.

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<sup>10</sup> Hauser, A (2017)

<sup>11</sup> Europe's second Payment Services Directive

<sup>12</sup> Cunliffe, J (2018)

<sup>13</sup> Bank of England (2017a)

The Bank of England is currently investing in its RTGS service<sup>14</sup>, a critical piece of national infrastructure, renewing the heart of the UK's overall payment system to meet the challenges posed by a rapidly changing landscape. The Bank has already established arrangements under which non-bank payment service providers could access RTGS directly. We are now using the Fintech Accelerator's proof-of-concept approach when considering how new technologies can plug into the renewed RTGS. We recognise the potential for new technologies to create a more distributed and diverse payments system. So we are doing a proof-of-concept with a small cohort of firms to consider how our renewed service could interface with innovative settlement systems<sup>15</sup>, such as those built on distributed ledger technology.

The proof of concept is designed to assess the demands that would be placed on central RTGS infrastructure by a range of fintech firms' settlement models, rather than assessing the specific offering provided by a particular firm. By allowing a range of system structures to access the new RTGS system, the Bank can support innovation in the private sector.

And the Bank of England is continuing to investigate ways in which fintech could help to improve regulation, building on existing work internally and in collaboration with the FCA. We have initiated work to understand how machine readable technology could be applied to the next iteration of the PRA rulebook, and will continue to work closely with the FCA to understand the potential for machine readable regulation. We are also investigating if machine learning could be deployed to support judgement based supervision, via its application to both structured and unstructured data.

Investment in the UK's financial technology is going to be an important factor in sustaining the UK's global position. With its open approach of considering, adapting to, and applying fintech across the breadth of its mission, including through its own investments, the Bank will play its part.

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<sup>14</sup> Bank of England (2017b)

<sup>15</sup> The proof of concept connects firms to a specifically built, offline version of RTGS so that the live RTGS system is protected.

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