

**Draft innovation plan for financial services consultation:
Response from Barclays Bank PLC**

About Barclays

1. Barclays is an international financial services provider engaged in personal, corporate and investment banking, credit cards and wealth management with an extensive presence in the UK and US. Barclays' purpose is to help people achieve their ambitions – in the right way.
2. With 325 years of history and expertise in banking, Barclays moves, lends, invests and protects money for customers and clients worldwide. For further information, please visit our website www.barclays.com.

Summary

3. Barclays welcomes the opportunity to respond to HM Treasury's consultation on a draft Innovation Plan for Financial Services. Our high-level comments are as follows:
 - We agree that the UK Government and regulators have a good track record of encouraging innovation in financial services.
 - The principle of 'same service, same regulation' – except for new start-ups requiring support to break into the FS market – should apply across the board (including to companies operating but not specialist in financial services) to prevent market distortions and potential consumer detriment. Customer proposition, service and innovation should be the basis of healthy competition on the basis of a level playing field of regulation.
 - Regulatory coherence across UK and international regulatory bodies (including regulators not focused explicitly on the FS sector) is crucial. This can be achieved in part by the setting of a clear FS strategy and guiding principles for regulation in consultation with industry.
 - For the full productive potential of innovation to be captured, UK industry needs both access to a skilled labour force and a market of digitally confident and empowered consumers. These should be specific objectives of any innovation plan.

Assessment of current situation

4. The UK is home to the world's leading financial services industry and has built up a thriving FinTech landscape, with many start-ups choosing to base themselves here as a result of the skilled workforce, developed home market for their products and ease of access to the rest of the globe amongst other things.
5. Like most sectors, financial services is currently undergoing a major shift as a result of the growth of digital technology. Both established and new players are taking advantage of technological advances to make operations more efficient and develop wholly new products and services for customers. With the pace of development so rapid, however, there is a risk that the legislative and regulatory standards that currently govern the FS industry are unable to keep up and either stifle progress or do not manage conduct risk in new contexts appropriately.
6. The Government and UK FS regulators have been key supporters of innovation to date and we welcome the positive approach they have taken to addressing this risk. A number of the initiatives listed in the consultation are genuinely world-leading in our view; we are enthusiastic proponents of the regulatory sandbox concept, for example (albeit the detail of how the various competition, security, accountability and liability concerns are still to be

addressed). The provision of a safe environment to experiment in without the threat of normal regulatory enforcement action would be a huge boost to private sector innovation, particularly if it could be coupled with early regulatory clarity around the application of emerging technologies such as block chain. We are also supportive of the explorative work the FCA is doing to see how RegTech can be used to improve the effectiveness and efficiency of regulatory compliance.

7. But with other jurisdictions like the US and Singapore also identifying FinTech as strategically important for their economy, the UK cannot afford to be complacent. Having a supportive government and culture of pro-actively addressing some of the key inhibitors to innovation will be crucial to the UK's continued success.
8. We welcome the explicit reference in the consultation to the role that corporates are playing in driving forward FinTech development. Banks like Barclays are at the forefront of the digital revolution having introduced significant innovations such as mobile banking, contactless payments and biometric ID&V technology to the UK in the last few years alone. Furthermore, we are helping start-ups refine their propositions and mentoring their people through our incubator, Rise, so that they can also bring new innovations to market more quickly and effectively.
9. We are generally supportive of regulatory initiatives that make it easier for start-ups to enter the market and add further competition to a vibrant FS sector, provided customers are not exposed to potential customer detriment. However, banks' ability to compete in future with big tech corporates and start-ups that have made the transition into established, going concerns is challenged by the weight of bank-specific regulation and a lack of clarity on significant issues such as end-state prudential requirements. These regulations are there to protect customers and the safety of the system as a whole, which is why we believe institutions that act like banks and provide similar services should receive equivalent regulatory attention. In particular, incumbent players should not be unfairly disadvantaged by new legislative or regulatory proposals which ultimately slow or deter the development of customer-friendly innovations; industry collaboration – which is a key trend of the current wave of innovation – should be taken into account by the regulatory environment. The regulatory environment should ensure that conduct obligations apply to all those offering services to customers, not only those regulated as banks.

Regulatory coherence

10. The consultation focuses on recent or ongoing initiatives by the primary banking and payments regulators in the UK, but innovations that are likely to change or disrupt the industry for the benefit of customers are not tied to any particular sector. Data, for example, and companies' ability to analyse and use it strategically is becoming increasingly important and, as a consequence, the guidance provided by the Information Commissioner's Office (ICO) is as germane to a bank's operating procedures now as that provided by the FCA. Rules and guidelines laid out by other regulators such as HMRC and Ofcom also have significant influence on the running of Barclays' business but are not referred to in the consultation.
11. Given customers' increasing use of the internet and other digital delivery channels to engage with financial services, there is also a risk of confusion over regulatory responsibilities with, for example, the FCA, Ofcom, the ICO and the CMA all potentially accountable for addressing consumer protection matters. We would encourage the Government to consider the scope of regulators more broadly in its consultation therefore. The debate on an appropriate regulatory framework in a converged digital communications sector has stalled since 2003 with the implementation of the Communications Act, and although the UK Regulators

Network is working to address cross-regulator issues, there is a good argument for Government intervention to encourage greater efforts here given the vast number of previously discrete sectors which are now core components of the digital economy.

12. Also, a significant proportion of FS regulation is debated and shaped, if not directly set, abroad, whilst many disruptive new technologies do not respect national boundaries. That is why Barclays considers that the UK regulatory environment cannot be viewed in isolation from our EU and global setting. We would strongly urge the government to invest appropriate resource in contributing to and influencing discussions beyond our borders.
13. For example, the EU Commission launched a series of initiatives last year – including on cloud computing, platforms and network information security – under the banner of achieving a Digital Single Market, which could have a significant impact on innovation in financial services. We would recommend that the Government contribute substantively to these and other discussions in the EU, and robustly represent the UK's interests at international fora like the International Organization of Securities Commissions (IOSCO) and the Financial Stability Board (FSB) to ensure new standards and regulations emerge that prevent costly duplication, inconsistencies or unintended consequences.

FS strategy and priority setting

14. The starting point for formulating smart, effective regulation is of course good communication between the private and public sectors and the setting of an appropriate strategy. Clear, long-term, guiding principles and desired outcomes – such as the setting of open standards to facilitate interoperability of digital technologies – should drive regulatory behaviour rather than ad hoc, prescriptive changes made in isolation of other regulatory bodies.
15. For example, there are a number of regulatory activities underway at the moment relating to how corporate data could be shared with third parties, but the process for sharing data and the timing for delivery of these discrete initiatives is very different. Barclays would welcome greater co-ordination between the respective institutions (including the European Commission, EBA, HM Treasury, CMA, FCA and PSR) to ensure that the outcome – secure data sharing so that third parties can use it to provide innovative new services to customers – is prioritised above individual processes. This will reduce the possibility of consumer detriment as well as the cost of regulatory change for industry, which could otherwise be spent on improving customer propositions. Alternatively, given the significant impact some of the confirmed legislative changes (e.g. the revised Payments Services Directive and General Data Protection Regulation) are expected to have, it may be sensible to allow the market to settle again before deciding whether the regulatory interventions on the horizon are still required. In our view, regulatory proposals should be considered and rooted in a firm evidence base over an appropriate period of time rather than being a tactical response to a point-in-time perception.
16. Regulation should also be 'technology neutral' so that new innovations which improve a service to customers are not held back by the need for legislative or regulatory change to support. The banking sector is currently working to deliver cheque imaging, for example, which required legislative action in the last Parliament to confirm that an image of a cheque would be equally acceptable for banks to process as the hard copy. A more current problem is the restrictions placed on firms in terms of how they can communicate with customers. Online and mobile channels have become the number one way in which customers choose to interact with their bank, and customers expect us to reflect their own channel preferences in our engagement with them. However, legislation dating back more than 40 years prevents us from

communicating with customers digitally in some circumstances, and ultimately impedes our ability to engage in a flexible, clear and timely way.

17. We welcome the fact that this consultation will complement the Department for Business, Innovation and Skills' Innovation Plan and hope that it can be the beginning of a conversation about establishing a framework for FinTech innovation, incorporating for example the soon-to-be published Payments Strategy Forum (PSF) vision for payments and ideas put forward by HM Treasury's proposed FinTech strategy panel. Barclays is an active member of the PSF already and would welcome the opportunity to share our insights and expertise on the latter.

Consumer empowerment

18. Underpinning the success or otherwise of much content in an innovation plan though will be how effective the UK is in tackling the considerable challenge around digital confidence and education. On the one hand, industry needs access to people with the required skills for the economy of the future – whether it is through schools and universities producing tech trained graduates or by allowing labour with specialist skills fast-tracked access to the country – so that the UK remains a creator of new innovations, not just a consumer. On the other, we need a tech savvy marketplace, able and willing to consume new and better products and services as and when they emerge.
19. Barclays believes that fostering this environment of empowered consumers is a shared responsibility between the government, regulator and private sector and should be an integral part of any strategy designed to promote innovation. In particular, consumers need to be aware of the value of their personal data so that they can both adequately protect it from the increasing threat posed by cyber criminals and make informed choices when deciding whether or not to share it with third parties.
20. Barclays would welcome the opportunity to discuss these matters in more detail with HM Treasury and other stakeholders in FS regulation. If you would like to discuss Barclays' response in the meantime, please contact Tom Burton on 020 7116 7094 or tom.burton@barclays.com.



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