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C H A N C E

A VISION FOR THE FUTURE OF THE UK FINANCIAL SYSTEM: THE VAN STEENIS REPORT HOW FINANCIAL SERVICES MIGHT EVOLVE IN RESPONSE TO TECHNOLOGICAL, SOCIAL AND ENVIRONMENTAL CHANGES

The Bank of England published a report in June 2019 on the future of the UK financial system and what that means for the Bank. The report, authored by Huw van Steenis, examines how financial services might evolve over the medium term in response to technological, social and environmental changes and how the Bank should respond. It sets out an ambitious vision for the future of the UK financial system and the role of the Bank as a leader of global regulatory standards supporting a global economy.

The van Steenis [report](#) identifies wide-ranging drivers of change that are shaping the UK economy, from big data and cyber-crime to climate change and an ageing population. It considers the role of finance in this changing environment and how a responsible and resilient finance industry can serve and support these changes. Finally, the report sets out recommendations for the Bank of England, identifying areas where it could take action to enable innovation, empower competition and build resilience in the financial system.

Serving the digital economy, supporting major transitions and increasing resilience in the financial system

The report envisages how finance can support the shift to a digital and platform-based economy by developing new payment options that allow individuals and businesses to pay efficiently and securely around the world. It also identifies the need to revise rules to keep pace with the emergence of new data sets and analytical techniques, with the aim of harnessing big data, AI and machine learning to make finance innovative, effective and inclusive. In order to help finance serve the digital economy, the report recommends that the Bank of England should take actions to shape tomorrow's payment system, enable innovation through modern financial infrastructure and support the data economy through standards and protocols.

Even aside from Brexit, UK is facing a number of major transitions over the medium term, including in response to the growth of emerging markets in financial services, an ageing society and climate change. For example, the report estimates that the transition to a low carbon economy will require more than £90 trillion investment in infrastructure globally over the next decade. The report makes various recommendations as to how the Bank of England can support these transitions,

including by continuing to champion global standards for finance, promoting the smooth transition to a low-carbon economy and supporting adaptation to the needs of a changing demographic.

Finally, the report considers how the financial system can become more resilient to both existing and new risks, including risks arising from cyber-crime, technological innovations and regulatory change. The report identifies the need to constantly assess the balance between financial stability and promotion of innovation and competition. It also identifies ways in which new technology could increase resilience and improve the efficiency and effectiveness of compliance, regulation and supervision. The report recommends that the Bank of England should take steps to safeguard the financial system from evolving risks, enhance protection against cyber-risks and embrace digital regulation.

Bank of England's response to the report: five priority areas of action

The Bank of England has also set out its response to the van Steenis report, identifying five priority areas where the Bank considers that its actions can have the greatest positive impact. These priorities are to:

1. Support a resilient, innovative and competitive payments system for UK households and businesses, including by launching a forum to explore the future of money in an increasingly digital economy.
2. Help create an open platform to boost access to finance for small businesses and choice for households, including by developing the concept of a portable credit file for small businesses to help them harness the power of their data and enhance access to more diverse and competitive financing options.
3. Support an orderly transition to a carbon-neutral economy, including through transparency and disclosure.
4. Deliver a world-class regtech and data strategy, exploring how to increase effectiveness of the Bank's hosting and use of regulatory data provided by firms, how the Bank can use data, machine learning and AI effectively to support its regulatory and supervisory functions and making the PRA Rulebook machine-readable in the next few years.
5. Facilitate greater operational resilience and adoption of the cloud and other new technologies, including through publication of a new PRA policy framework on outsourcing with a focus on cloud technology, creation of a Post-Trade Technology Market Practitioner Panel and establishment of a working group to further the dialogue on AI innovation.

We can therefore expect to see the Bank of England take action in these priority areas over the coming months.

For example, the Bank intends to consult in 2020 on how banks, fintechs and others can access to its payments infrastructure and balance sheet, including what safeguards are appropriate for different access levels. The Bank also intends to continue to explore how high-value payment systems could be used to deliver instant cross-border settlement in different currencies, in partnership with other central banks.

In the area of AI, the Bank intends to establish a public-private working group with the Financial Conduct Authority and firms to further the dialogue on AI innovation, and explore whether principles and guidance could support safe adoption of these technologies. This work may include development of principles for the ethical use of AI in finance, such as fairness, accountability, transparency, security and responsible usage. The working group may also explore implications for existing regulation, such as the Senior Managers Regime, and consider whether rules need updating.

Of course, it is not just the Bank of England and Prudential Regulatory Authority that are considering these issues. The report recognises that there are many regulators and policy makers taking action in the areas covered by the report, including the Financial Conduct Authority, Payment Systems Regulator and Competition and Markets Authority. It therefore recommends that the Bank and other financial regulators create an “air traffic control” forum to ensure that major regulatory projects and their implications for firms are formulated and implemented in a co-ordinated manner. This recommendation has been welcomed by the finance industry, with UK Finance Chair Bob Wigley highlighting its importance in a recent [speech](#), noting that without better co-ordination, the “multitude of new regulatory interventions being delivered by multiple regulators” could threaten firms’ operational resilience.

The Bank of England has also identified various areas where it intends to engage with the UK government, including in relation to work around creation of a digital ID, engagement with the Centre for Data Ethics and Innovation on the scope of algorithmic decision-making and by responding to the government’s June 2019 Smart Data Review [consultation](#), which proposes to extend Open Banking-style secure data-sharing to a broader range of financial services.

The Bank of England has published a [summary table](#) of what it is already doing and what it intends to do in response to the van Steenis recommendations.

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