

Financial Services Advisory Board – 4 October 2016
Royal Bank of Scotland, St Andrews Square, Edinburgh, EH2 2AD

Present

- Rt Hon. Nicola Sturgeon MSP, First Minister (Chair)
- Jim Pettigrew, SFE Chair (Industry Deputy Chair)
- Mr Brown, Cabinet Secretary for Economy, Jobs and Fair Work
- Mr Wheelhouse, Minister for Business, Innovation and Energy
- Graeme Jones, SFE
- Philip Grant, Lloyds Banking Group
- Ian Ferguson, Aviva
- Malcolm Buchanan, Royal Bank of Scotland
- Jayne-Anne Gadhia, Virgin Money
- Angus MacPherson, Noble and Co
- Fiona McBain, Scottish Friendly
- Anne Richards, M and G
- Jim Lindsay, FiSAB Skills Group
- Professor Timothy O'Shea
- Lena Wilson, Scottish Enterprise

Also in attendance

- Louise Smith, Royal Bank of Scotland
- Ian Hanson, Skills Development Scotland
- Sharon Hamilton, Scottish Enterprise
- Linda Hanna, Scottish Enterprise
- Professor John Kay
- Kent Mackenzie, Deloitte
- Geoff Aberdeen, Aberdeen Asset Management

Scottish Government

- Mary McAllan, Director for Economic Development
- Ian McCall, Head of Financial Services and SME Finance Policy

Apologies

- Barry Muir, State Street
- Catherine Burnet, KPMG
- Mary Alexander, Unite
- Barry O'Dwyer, Standard Life
- Christine O'Neill, Brodies
- Benny Higgins, Tesco

Secretariat

- Karen Rodger, Policy Lead, Financial Services
- Jacqueline McKellan, Policy Executive

1. Welcome and Introductions (ITEM 1)

- 1.1. The First Minister welcomed members and introduced the new Deputy Chair Jim Pettigrew, recently appointed as Chairman of Scottish Financial Enterprise. The First Minister also welcomed Professor John Kay, joining the meeting for the discussion on the EU referendum result, and noted the apologies received.

2. Chairs' remarks: Scottish Government update (ITEM 2)

- 2.1. First Minister noted that the Board last met prior to the EU referendum and outlined Scottish Government's actions since the result was announced noting that the result was not as expected or as hoped.
- 2.2. First Minister also noted the recent publication of the Programme for Government, making particular reference to the Scottish Growth Scheme and invited industry collaboration on the scheme's development.
- 2.3. Keith Brown, Cabinet Secretary for Economy, Jobs and Fair Work provided an outline on recent economic performance, noting that the impact of Brexit is not yet being felt although that is principally because it hasn't happened yet. Mr Brown advised that he will report to Parliament later this month on the first stage of the review of economic development and skills bodies.
- 2.4. Mr Brown attended a recent dinner with the financial services sector, hosted by SFE where various issues were discussed including trade, export and the implications of Brexit, noting that similar concerns have been raised at other meetings.

3. SFE update (ITEM 3)

- 3.1. Jim Pettigrew introduced himself and described his first weeks in his new role as Chair of Scottish Financial Enterprise, noting that he has been impressed by the size, scale and depth of talent of the financial services sector in Scotland. He highlighted that one of the future levers for success will be getting the balance right between tradition and innovation.
- 3.2. Graeme Jones noted that SFE is currently enjoying a renaissance with renewed enthusiasm within the sector to connect and work collaboratively. Three new strategic initiatives are now underway:
 - High level strategy group is developing a 5 year vision to identify the conditions required for growth. The group has met twice and is clear on outputs and delivery.
 - FinTech Strategy Group is exploring the opportunities presented by the increasing use of digital technology in the financial sector.
 - SFE Young People's Forum met for the first time in October. The event was fully subscribed with a waiting list of 50 and further events will be held in Edinburgh and Glasgow later this year.

4. Matters Arising (ITEM 4)

- 4.1. Ian Ferguson of Aviva provided an update on work around the general insurance sector in Scotland. An early focus has been on issues around flooding and constructive discussions have been held between the Scottish Government and industry bodies including the ABI, BIBA and the Business Resilience Group where the following points were discussed:
 - The risk and severity of flooding is increasing. Flood Re has been established to reduce the costs of insurance for homes at risk across the UK, but the

scheme does not cover everyone and does not address the social damage caused by flooding.

- Prevention is better than cure. The objective is for people to know what to do in advance of flooding and look at what happens after. Available funding could be used to leave homes more resilient after repairs, but this requires coordination. Consideration was also given to supporting flood resilient construction.
 - How to do more to support communities and ensure better coordination during incidents as well as look at post event recovery. Financial rectification is not all that's needed.
- 4.2. The Board discussed the potential for accredited repairs to reduce future insurance premiums, however noted that there is, at present, no agreed standard on levels of protection.
- 4.3. The Board also considered the impact of flooding on businesses and how to demonstrate best practice in flood prevention and post flood recovery for that sector.
- 4.4. First Minister noted that Scottish Government is very involved in this work and is considering all aspects from flood risk management through to supporting with the aftermath. FM would be keen to see more detail regarding practical support, e.g. around property level protection, and asked for further information on what currently works well.

5. Discussion – EU Referendum (ITEM 5)

- 5.1. First Minister introduced a discussion on the implications of the EU referendum result.
- 5.2. The Board discussed concerns that available economic data has not yet started to show the impact of the vote, which will start to emerge over coming months. The referendum result comes on top of continued low interest rates, and dampened business and consumer confidence. There is a strong need for Scotland's banking sector in particular, to remain stable and continue to support viable businesses across all sectors. Consumers need to continue to make informed choices on spending, saving and investing in spite of on-going uncertainty.
- 5.3. The Board noted Scottish involvement in EFSCAC, the UK's financial services advisory group on Brexit, and wish to continue to present Scottish views at this and other forums as the negotiating process starts to take shape. There will be many shared issues between Scottish financial services companies and those located elsewhere in UK, but it is possible that the different spread of companies in the Scottish sector may amplify effects of Brexit in some areas.
- 5.4. The Board asked for information to be shared across the UK sector - EY will be supporting development of metrics on potential impact on the financial sector in Scotland, and PWC are working with CityUK on similar terms.
- 5.5. There was no consensus from industry members on priorities at this stage as the finishing line of what Brexit will actually look like hasn't yet been defined and this continued uncertainty will not be resolved quickly.
- 5.6. Fears were expressed that there is no apparent willingness to protect the financial services sector in the forthcoming negotiations, and that there may not be a transition period between Brexit and the agreement of future trade deals.
- 5.7. The Board noted that 'business as usual' is an increasingly unlikely outcome. Business models in the sector will need to change, adjustments will need to be

made and this will affect future investment decisions.

- 5.8. The Board discussed the EU position on negotiations, noting that there is, as yet, no clear European view, asking whether there is a will in the EU to work effectively with UK financial services to reach a good deal for all concerned.
- 5.9. The Board noted that the financial sector across Europe remains fragile, with problems in the German, Italian and Greek banking sectors, and that the position of the UK's financial sector may not be a priority for EU financial services regulators. The alternative position – that continued stability in UK is critical to ensuring EU stability – was also considered.
- 5.10. The Board discussed the impact of any changes to rules on freedom of movement, noting that access to high quality, qualified and experienced staff from across the EU has become the norm, raising concerns around retaining skilled staff and being able to recruit in the future if freedom of movement is curtailed.

6. Update on Fintech (ITEM 6)

- 6.1. Graeme Jones, Louise Smith, Sharon Hamilton and Kent Mackenzie updated the Board on the work of the FinTech Strategy Group presenting a short paper setting out a proposed work stream and suggesting 5-year targets for the sector. There has been positive engagement with groups including the UKTI, Edinburgh City Council, the British Business Bank, economic development agencies and skills bodies. The strategy group are working with partners, to develop one, three and five-year plans to develop FinTech in Scotland with four complementary strands - Profile, Infrastructure, Talent and Finance.
- 6.2. The Board considered the definition of FinTech and the drivers behind continued development in this area - from poor customer service to new technological capability and new expectations from customers.
- 6.3. The Board agreed that there is a huge opportunity for FinTech in Scotland given the existing concentration of financial services companies in Scotland, our strong university sector, our track record in innovation, our fantastic tech cluster and our heritage in the sector. The board acknowledged that there is no 'silver bullet' and that a great deal of work will be required to capitalise on available opportunities.
- 6.4. The Board further agreed that work in this area is essential – technological developments are already changing the make-up of financial services companies in Scotland. The Board acknowledged that Scotland is vulnerable to job losses as digital service provision increases, but that the new roles required in the sector can be located here.
- 6.5. The Board acknowledged that the financial sector in Scotland is changing. Companies are already spending large sums to change their organisations in response to technological development, but this is not currently supporting the Scottish FinTech sector. The Board considered whether more could be done to define the problems faced by the Scottish financial sector to drive innovation and collaboration with FinTech providers.
- 6.6. The Group will look at establishing a virtual hub for the FinTech sector in Scotland providing an accessible platform for collaboration and support. It is anticipated that a virtual hub will allow FinTech companies to engage with customers and peers and allow testing of applications. The hub will draw attention to Scotland's existing FinTech network, highlighting our current capabilities.
- 6.7. The Board asked for the hub to be accessible to all involved in the sector

including providers of business support and advice and incumbent financial services companies as well as FinTechs.

- 6.8. Plans for a physical hub will also be considered, noting the success of hubs in Dublin and Luxembourg, providing a location for collaboration and mentoring. Early work on hub proposals is expected to be complete by the end of 2016 and will be presented to FiSAB.
- 6.9. The Board welcomed development, noting that a hub was not an end in itself but one tool in developing the sector and that a clear ambition for the sector should be defined.
- 6.10. A refreshed Skills Investment Plan (SIP) for the financial services sector is expected to be launched in November. Jim Lindsay noted that the refreshed SIP is taking account of the work on FinTech and is making strong links with ICT skills planning and identifying skills required over short and long term. Skills Development Scotland is coordinating work to take account of increasing requirements for digital skills across sectors.
- 6.11. The Board welcomed the refreshed SIP, noting that retention of skilled people will be essential. Board members also noted the importance of ensuring that teaching staff are equipped to pass on the required skills.
- 6.12. Professor O'Shea noted that Edinburgh University's IT and business schools are keen to work in this area and would be willing to explore possibility of providing space for future collaboration, noting the success of similar hubs in Boston.
- 6.13. The Board asked for a clear focus on investment and information on the capital available to young companies in the sector and discussed how to bring, for example, large VCs to Scotland and raise awareness of current investment opportunities. The Board recognized this as an area where we can struggle, particularly in attracting US investors.
- 6.14. The Board asked for early work to identify our existing capability and supply chain opportunities and for work to identify investible propositions to be highlighted to global investors. The Board felt that action was needed quickly in this area as the current low interest environment will not last.
- 6.15. The Board agreed that FinTech presents a clear opportunity and that momentum needs to be maintained to ensure that Scotland is not left behind by development in other financial centres. The FinTech sector operates globally and Scotland will be competing with many other locations to attract startups and retain talent.
- 6.16. The First Minister thanked members for their contributions and for the work that has been done since the last meeting, and asked Mr Brown to lead on the FinTech strategy for Scottish Government. First Minister asked for an update on progress of first actions by Christmas.

7. CONCLUSIONS (ITEM 7)

- 7.1. The First Minister brought the meeting to a close and advised that a date for the next meeting would be notified to members to align with progress on the FinTech strategy.

FiSAB Secretariat
October 2016