



Financial Services Knowledge Transfer Network

Competition to establish and run a Financial Services KTN

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Background

The Technology Strategy Board announced in its strategy document *Connect and Catalyse* (May 2008) its intention to consider how best to respond to the technology and innovation challenges of the high value services sectors. Within high value services, the financial services are recognised as an important contributor to the UK economy and as significant users of technology to drive the growth of products and services. Our initial review of the sector suggests that there are a number of challenges that need to be addressed.

Knowledge Transfer Networks

Knowledge Transfer Networks are funded by the Technology Strategy Board to help businesses innovate by providing them with networking and partnering opportunities, giving them up-to-date knowledge on markets, technologies and routes to funding. Their main role is to put companies and innovators in contact with the knowledge and funding that they need to bring new products, services and processes to market.

Organisations can use the KTNs' resources to find new routes to market, collaborative partners or new customers; get help with finding funding for their projects; get access to the latest academic knowledge and skills; or to understand the impact of new and emerging technologies on their business model.

The KTN programme covers all the key sectors in the UK and as a whole has a membership of around 40,000. The newest KTN covers the Creative Industries (launched May 2008).

What benefits can KTNs bring to business?

Capulet World, a UK dance lifestyle company based in London, UK, wanted to create a novel ballet pointe shoe that uses new materials to address the pain, discomfort and injury dancers can experience. Traditionally, pointe shoes are made using paste, Hessian cloth and paper. The hard box at the toe end gives support to the dancer when on pointe but does not absorb shock. This design has not changed in 350 years.

The Materials KTN brought Capulet together with Sprout Design, also based in London, and together they have designed a shoe, using new materials, that reduces the discomfort and injury.

Capulet envisages that the product will distinguish its brand from others, tripling current sales.



The Financial Services Sector

Notwithstanding current difficulties in global financial markets, the UK has a world-class position in financial services. Global comparative analyses reported in 2005 suggest that the UK achieved a \$35 billion surplus in financial services, a figure more than double that achieved by any other country at the time. This, coupled with the associated services supporting the industry, underlines the strategic significance of the sector for our economy. For the purposes of our review, we consider that financial services comprises insurance and complex financial institutions (CFI) operating in the areas of investment, commercial and retail banking and the wholesale capital markets. Our analysis suggests that these contribute 3.1% to the UK's Gross Value Added (GVA).

Our leadership in the financial services sector is clearly demonstrated by the following statistics:

Insurance: In 2007 the UK's worldwide insurance premium income was £240 billion. With 11% of total insurance premium income worldwide, the UK occupies 2nd place globally, behind the US and now ahead of Japan. Underpinning this is the population of 1,050 companies registered to conduct insurance business in the UK, including Lloyds of London. Lloyds operates the market and is the regulator, a unique feature that contributes to the UK's competitiveness.

Banking. About 20% of international bank lending and 22% of international bank borrowing is arranged in the UK and London is the world's largest single market for these activities. This is enabled by the more than 550 international banks located in London, twice as many as exist in Frankfurt, Paris or New York. Meanwhile,



over 170 securities houses are based in London, a location that is also the base for 43% of the global equity market. Complementing these are in excess of 108 investment management firms, managing assets valued at £3,400 billion (Investment Management Association, January 2008).

We have consulted and engaged with a number of players in the sector and have concluded that we should launch a Knowledge Transfer Network in financial services.

The challenges and the opportunities

There is a strategic opportunity to stimulate innovation in financial services by investing in better networking within the sector, and, where appropriate, between it and other sectors. Discussions within the sector confirm that this is welcome, and that the sectoral infrastructure does not exist today to deliver the technology-related innovations we envisage.

Our work so far points to the following technology-related opportunities which would strengthen the financial services sector in the UK:

- Risk management practices for financial products can be improved to match the increasing complexities in the sector.
- Improved operational models and processes, especially in the wholesale markets sub-sector, will need to be developed to cope with increasing volumes, volatility and complexity of data.
- Better knowledge and information management systems and processes are needed to help ensure accurate decisions and appropriate outcomes in financial services. These systems and processes must properly account for Governance and Environmental issues.

- Using multi-disciplinary technologies (products and know-how) to meet the needs of an increasingly complex and widely distributed global customer is a grand challenge that encompasses technological, business, political, socio-psychological, and physical variables.

Innovations in support of the above should yield strategic competencies that improve the international performance of UK businesses.

Our views on the above innovation opportunities go some way to addressing weaknesses in the sector identified by the Institute of International Finance (IIF) in early 2008. If the UK delivers innovations in line with these opportunities, this will yield competitive advantages for the UK and make it a magnet for the best performing financial services sector firms, including those who supply them.

Scope and objectives of the KTN

The Financial Services KTN should:

- Address as many sub-sectors of financial services as possible, with an international context, and comprise:
 - Insurance, including reinsurance.
 - Banking, including wholesale, commercial, investment and retail.
- Provide the framework for the financial services sector to work together to identify and address significant cross-sector issues, many of which will need multidisciplinary approaches (including a wide range of scientific disciplines relevant to the behavioural aspects of finance, especially decision-making in the sector).
- Promote knowledge transfer within it, and between other sectors, and of course with appropriate research networks in the UK and internationally.

- Align geographically discrete initiatives with the national agenda.
- Be a trusted source of relevant information.

In delivering the above outcomes, the Financial Services KTN should also:

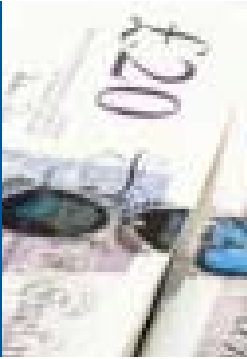
- Embrace all financial services sub-sectors without reinforcing silos, whilst bringing often competing organisations under one umbrella.
- Choose the strategic sector challenges to focus on.
- Support export growth and inward investment.

Many leading organisations in Financial Services are already investing in technology to meet sector challenges, such as risk management. These challenges are sufficiently large that coordinated work on the problems is needed to deliver innovation outcomes faster, and more effectively, in a commercially exploitable manner.

Funding Allocation and Project Details

A funding allocation has been made of between five hundred thousand and one million pounds per year, for three years. Funding will come from the Technology Strategy Board, together with possible contributions from the Economic and Social Research Council, the Engineering and Physical Sciences Research Council and the Natural Environment Research Council.

The Technology Strategy Board is seeking applications from suitably qualified organisations or consortia, with a strong presence in the financial services, who would like to establish and run the Financial Services KTN.



Application Process

Briefing days on this competition will be held in London on 4th December 2008 and in Edinburgh on the 11th of December 2008. Although optional, all potential applicants are strongly advised to attend.

Briefly, applicants are required to submit an Expression of Interest form by 23rd January 2009. Forms will be available to download from www.innovateuk.org from 1st December 2008.

On 2nd February 2009, following the independent panel review, the Technology Strategy Board will then invite successful applicants to submit a full stage application and feedback will be given to all applicants. Full details of the process are available in The Guidance for Applicants document (available via www.innovateuk.org).

Key Dates

First Round	
Competition opens	1 December 08
Competition launch/optional briefing(s)	4 December 08 (London) 11 December 08 (Edinburgh)
Expression of Interest stage closes	23 January 09
Inform applicants	2 February 09
Written feedback distributed	w/c 2 February 09
Compulsory 1-to-1 briefings for short-listed bidders	10 and 11 March 09
Full business proposals – deadline for receipt	19 March 09
Inform applicants + announce winner	9 April 09

For applicants invited to submit a full stage application (Full Business Proposal) at least one member of any consortia must attend a compulsory, one-to-one, two hour meeting. These will take place on 10th and 11th March 2009, in London. Applicants will be able to book their slots from 16th February 2009. The purpose of these sessions is to brief applicants on the requirements of the Full Application Stage and to allow time to go through any feedback from the Expression of Interest stage.

Full stage applications must be submitted on 19th Mar 2009. All applicants will be informed of the outcome of their application by 9th April 2009 with the official award likely to take place in May 2009.

More Information

For more information about this and other competitions and details of how to register and apply, please see Competitions at www.innovateuk.org.

Helpline:
01355 272155

Email:
competitions@tsb.gov.uk

The Technology Strategy Board is a business-led executive non-departmental public body, established by the Government. Its role is to promote and support research into, and development and exploitation of, technology and innovation for the benefit of UK business, in order to increase economic growth and improve quality of life.

The Technology Strategy Board
B1 North Star House
North Star Avenue
Swindon
SN2 1JF

Telephone: 01793 442700

www.innovateuk.org