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2019 PREDICTIONS:

THE TECH SECTOR

THE IMPACT OF BREXIT

The growth and investment the UK tech sector has experienced in the last couple of years has made it the envy of the European tech scene, with London being named the tech capital of the continent. However, Brexit spells trouble ahead. The uncertainty over recruitment of top talent, as well as the possibility of changes to trade rules and regulation, are particularly concerning for British tech.

Services make up 80% of UK tech exports, with the EU being its largest market. The fear of obstacles to free trade in services are therefore especially applicable. On top of this, UK tech firms are worried about the divergence of regulations on tech services. The area of main concern here is data flow and privacy. GDPR governs data privacy across the EU, and thus the UK. If the outcome of Brexit is a no deal scenario, the UK will need to obtain an adequacy decision from the EU on its data privacy rules, so as not to be considered 'a third country'. Much will depend upon whether the UK can successfully agree on the deal it proposed in its July 2018 white paper. If the EU does not make an adequacy decision, this would radically inhibit the flow of data between the two markets.

The UK is also reliant on its ability to attract top talent to work in its tech companies. With Brexit looming, there is the concern that London and the UK will lose out on EU professionals, particularly software developers. This is especially evident in fintech, where 42% of 76,500 employees come from overseas – consisting mainly of computer experts and software developers from the EEA. This is partly why a growing number of these firms are moving to Europe or setting up offices there.

The air of uncertainty produced by Brexit in these areas, which is of course faced by all industries, is particularly felt by a sector in which fledgling start-ups rely on certainty to generate funding and reach their potential. Half the entrepreneurs and investors surveyed by Global Tech Advocates said they wouldn't expand their business in the UK, and a quarter would not invest in a British tech company over the next 12 months. Furthermore, the pressures of contingency planning are keenly felt. This is likely to have a major dampening effect on innovation in this currently thriving sector, while growth in tech firms looks set to continue in rival cities like Paris and Berlin.

BIG TECH FACING PUBLIC AND GOVERNMENT ADVERSITY

It is becoming increasingly evident that Big Tech firms face souring reputations in the eyes of both the public and Governments in the UK and across Europe. The former is evident in Facebook's loss of 3 million daily active users in Europe, wiping $119bn off its market cap. This comes as no surprise given scandals such as that involving Cambridge Analytica as well as the influence of Russia in elections and referendums in the West. It is only likely that this distrust will continue to be the case in 2019, despite the increased power Europeans have over their data, as clarified in GDPR. The result is that tech companies will have to focus on winning back trust, as Facebook has started to attempt through advertising campaigns. Facebook are making strides, and have seen some success in targeting and neutralising fake news, but Governments across the world are going to have to see a seismic shift in policy to rebuild trust.

It is also evident that, at the EU level, there will be an increasing pursuit of investigations and fines against Big Tech. The EU competition czar Margrethe Vestager, who has already launched a probe into Amazon, will finish her tenure in 2019. She may cement her legacy of being tough on tech with fresh investigations against the usual suspects (Apple, Amazon, Facebook). This is compounded by calls from smaller European firms to crack down on their larger US competitors. The UK is also likely to be in an antitrust investigation into tech once Brexit has occurred. This means that, as well as attempting to get the public back on their side, big tech has a lot to do in regaining government trust on this side of the pond.

The UK Government has already fired a starting gun by announcing a Digital Services Tax on businesses that provide social media platforms, search engines or online marketplaces and generate annually more than £500m of global annual revenues and £25m of UK revenues from these activities. The amount of tax big companies pay has been and will continue to be under a lot of scrutiny in the UK, and while the Government will continue to seek an international approach to this issue, it has shown it is willing to act and act alone if needs be. The Government will likely also keep up a degree of pressure on tech companies to do more to take down and not host illegal content on their platforms.

DISTRUST IN AI AND AUTOMATION

The increasing sophistication of AI and automation offers undoubted productivity benefits and firms in 2019 will begin to make use of these opportunities. This is especially proving to be the case as firms attempt to mitigate losses to the labour force brought about by Brexit, with firms such as Sports Direct automating certain functions. However, the reaction to this from the public is likely to be one of fear and mistrust, and this is the case across the globe.

Companies behind automation and AI will need to convince the public that they will generate a large amount of strategic job roles, to counter the prediction that this technology may eliminate certain roles entirely. They may also modify existing jobs rather than replace them, allowing workers to benefit from AI, reducing the time they need to spend on simpler tasks.

The rise of AI and automation is also likely bring increasing public policy challenges with it, with questions being asked around the ethics and appropriate use of these technologies. The United Arab Emirates has become the first country to appoint an artificial intelligence Minister, and the UK certainly seems keen to create a public policy environment that supports AI innovation. Governments will be keen seize the opportunities of AI while trying to mitigate any unintended consequences.

DIVERSITY IN TECH

Diversity is increasingly seen as an issue in tech employment within the UK and Europe. This is seen especially in funding, where 85% of European deals are made with all-male founding teams and 46% of women polled said they had experienced discrimination. In the UK, Just 8.5% of senior leaders in largest

500 British tech firms are from minority backgrounds, while women make up only 12.6% of board members. Considering the increasing importance of tech in the UK economy, the industry will only face increasing scrutiny of its lack of diversity in the coming year.

PRIVACY AND DATA REGULATION

After **GDPR** dominated the conversation in 2018 for its bold steps in regulating data privacy, the ePrivacy Regulation promises to further restrict how data is collected and used electronically. Intended to compliment GDPR, it focuses on electronic communications and will further restrict how

organisations can use cookies to gather personal data and when marketing messages can be sent. The regulations aim to combat the user profiling and behavioural advertising used by the advertising tech business model.

Of course, the regulation has been subject to repeated revision and the ultimate text may differ from the current draft. The regulation will certainly be the subject of continued and intense lobbying efforts. The result is uncertainty for digital marketing and advertising tech firms, who know that stricter regulations are on the horizon but cannot anticipate exactly what these will entail.

Adding to this, **UK** firms do not know whether these regulations will apply to them post-Brexit. Since the Government is currently seeking an adequacy decision on this matter, it would seem that they will – however, this is by no means a given.