

Kalifa Review of UK Fintech

Executive Summary



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Preface



Fintech is not a niche within financial services. Nor is it a sub-sector. It is a permanent, technological revolution, that is changing the way we do finance. Its essence is in both fast-growing fintech companies, and the investment and use of technology by our incumbent financial institutions. It's in the way we regulate previously unknown technology and set new standards. But most importantly, it's about delivering better financial outcomes for customers, especially consumers and SMEs. We want to deliver these outcomes across the UK and export them to the world.

If the UK is to retain its position as a global leader in financial services, then we must lead this technological revolution. Just as we led in previous industrial revolutions, we must do so again in this one.

Set out in this Review, is a strategy and a delivery model for us to provide leadership in fintech. If we are to succeed then it must be comprehensive, coordinated and focussed. That is why I have put forward recommendations to support fintech scaleups with the capital and skills they need to succeed. But these measures must be combined with world-leading policy and regulation. The UK has a hard-won reputation of trust when it comes to regulation and the rule of law. We must ensure that we build trust in this new wave of tech-enabled products and services.

Above all, it is about building markets for this innovation to grow into. A great product will not succeed without a strong customer base, adequate regulation, access to data, skills and capital. It is this holistic approach that I have striven for in this Review. And it must be done now. Others are waiting for our crown to slip.

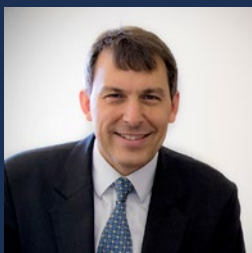
Fintech is about change. It is about new firms and established ones, large companies and small and the roles of both public and private sector. At present, these elements and their well-intentioned supporters are not pulling together in a single vision. In this Review I have tried to set out what this vision consists of, but more importantly, how it can be realised. And whilst I was commissioned by Her Majesty's Treasury to do this, as you will see from the recommendations, they are the responsibility of all of us. I look forward to working with you on their implementation.

Finally I would like to thank all of the many contributors to the Review, experts in their fields, whose ideas and knowledge have done so much to shape it. In particular I thank the chapter leads and their support teams, alongside the Review Secretariat, ably provided by the teams at the City of London Corporation and Innovate Finance.

A handwritten signature in white ink that reads "Ron Kalifa". The signature is fluid and cursive.

Ron Kalifa OBE

Foreword



I would like to congratulate Ron, the chapter leads, review secretariat – and all of those who contributed their knowledge and expertise – on this important report.

The UK's strengths in financial services lie in the collective expertise of our regional centres – both London and other hubs, including Manchester, Edinburgh, Cardiff, and Belfast. In addition, our abilities in this area are down to the homegrown talent we cultivate in our world-class universities; our ability to attract top quality skills and capital. And, of course, the pace, power and creativity of our innovators.

There is no doubt that there is real transformative potential to be found at the point at which financial services and technology collide. The UK has been quick to recognise this fact and it has become a global trail blazer in this area.

It was this country that launched the first Regulatory Sandbox to catapult exciting and innovative new products to market. We pioneered Open Banking, which has now taken the world by storm and we launched the Global Innovation Network to bring the international regulatory community together in order to test innovative fintech solutions.

As the sector has gone from strength to strength, leading fintech firms have become household names. Today over 70% of digitally active adults in the UK use a fintech service – well above the global average.

But we must not rest on our laurels.

That is why the Government continues to be focused on ensuring UK fintech succeeds. As part of that commitment, at last year's Budget, the Chancellor asked Ron Kalifa OBE to conduct this important review.

Our goal is simple: To ensure the UK maintains its position as the best place in the world to start and grow a fintech business.

I am hugely grateful to Ron and his team for all their hard work producing this major contribution to the future of this dynamic and hugely important industry. The Government looks forward to considering the report's recommendations in detail.

A handwritten signature in white ink that reads "John P. Glen" with a stylized flourish underneath.

John Glen MP
Economic Secretary to the Treasury

Recommendations at a glance: 5 point plan



Policy and Regulation

- Deliver a digital finance package that creates a new regulatory framework for emerging technology
- Implement a “Scalebox” that supports firms focusing on scaling innovative technology
- Establish a Digital Economy Taskforce (DET) to ensure alignment across government
- Ensure that fintech forms an integral part of trade policy



Skills

- Retrain and upskill adults to meet the needs to UK fintech by ensuring access to short courses from high-quality education providers at low cost
- Create a new visa Stream to enhance access to Global Talent for fintech scaleups
- Build a pipeline of fintech talent by supporting fintech scaleups to offer embedded work placements to Further Education and Higher Education students and Kickstarters



Investment

- Expand R&D tax credits, Enterprise Investment Scheme and Venture Capital Trusts
- Unlock institutional capital to create a £1bn “Fintech Growth Fund” of sufficient scale to act as the catalyst in developing a world leading ecosystem
- Improve the listing environment through free float reduction, dual class shares and relaxation of pre-emption rights
- Create a global family of fintech indices to enhance sector visibility



International

- Deliver an international action plan for fintech
- Launch an international “Fintech Credential Portfolio” (FCP) to support international credibility and increase ease of doing business
- Drive international collaboration through the Centre for Finance, Innovation and Technology, and launch an International Fintech Taskforce



National connectivity

- Nurture the high growth potential of the top 10 fintech clusters
- Drive national coordination strategy through Centre for Finance, Innovation and Technology
- Accelerate the development and growth of fintech clusters through further investment, such as in R&D

Executive Summary

Over the past decade, the UK has been quietly undergoing a fintech revolution – in jobs, innovation, improvements to people’s lives and in increased opportunities in global trade.

Yet for many, the image of fintech is stuck in Shoreditch, an area of East London populated by start-ups and coffee shops catering to the mythologised young laptop entrepreneurs of “Silicon Roundabout”.

A look at the record of achievement helps project the true picture. Let’s quickly scroll back 10 years.

Back then, it took days to open a current account. Now you can be onboarded in minutes, and more safely and securely, leveraging regtech solutions and challenger bank innovation.

Back then, people had only a few options for managing their savings and pensions – using paper updates. Now there is more choice, pensions can be tailored to specific needs, easily amalgamated and they are online with immediate, accessible interfaces.

Back then, if you were a new business seeking SME financing, there was limited choice of providers on the high street with slow decision-making processes. Now, there is digital access to a wide array of lenders looking to leverage machine learning and AI tools, and provide immediate decisions on a new loan or refinancing opportunities.

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Consumers and businesses are rapidly changing the way they interact with financial services and the fintech sector is ideally placed to respond to this changing dynamic. This will result in the creation of new digital jobs to power our most innovative businesses, inspire a next generation of entrepreneurs, and in turn enable the growth of global champions. We must remain an ambitious partner in a sector where we are at the forefront of global thought leadership.”

Charlotte Crosswell
CEO Innovate Finance

“

This is a pivotal moment for the UK. There are significant opportunities offered by fintech – an area in which London already has unmatched global appeal. But for the UK to retain its position as world leader and continue to attract investment into the sector, it is vital to offer an environment which supports innovation. The Kalifa review offers a roadmap to achieving this.”

Catherine McGuinness
Policy Chair, City of London Corporation

Fast forward to today. Achievements like these have contributed to making the UK envied around the globe as a hotbed of fintech activity – and its successive governments and regulators admired for building a supportive enabling environment that puts innovation at the top of the regulatory agenda.

The Financial Conduct Authority's (FCA) pro-competition mandate has helped support new fintech firms and ensure a more nurturing regulatory environment. In 2016, the FCA launched the world's first regulatory "sandbox", which was subsequently replicated abroad by regulators looking to follow the UK's lead in innovation. Similarly, the Bank of England and the FCA's 'New Bank Start-up Unit' provides additional support and advice for firms looking to gain a banking licence.

This in turn is accelerating the digital transformation of banks, asset managers, and insurers, as they strive to meet changing consumer and business demand. Big Tech is moving into this space, highlighting the value of data-led solutions in financial services. Because of the strength of our incumbent financial services sector, fintech has found extremely fertile ground. Yet it has also created opportunities to cross-pollinate into broader technology solutions, leveraging cross-cutting applications like big data, AI and quantum computing. Combined, these trends create a pivotal moment to support fintech innovation.

This catalysed the UK into becoming the fintech hub of today, coupling it with the sophisticated financial services ecosystem of London, where so-called "unicorns" such as Wise, Onfido, Checkout.com and Revolut have based themselves.

This has resulted in an impressive scorecard:

- Representing 10% of global market share¹ and £11bn in revenue², the UK is a dominant force in fintech.
- The total tech spend by UK financial services firms was £95bn in 2019³.
- SMEs and corporates are all keen users of fintech. UK citizens are becoming digitally active and 71% are now using the services of at least one fintech company⁴.
- Investment into UK fintech stood at \$4.1bn in 2020 – more than the next 5 European countries combined⁵.

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At Monzo, we're really proud to be part of an industry that is always working to change finance for the better and give consumers more options. It's why we're supportive of this Review's recommendations which would help the next generation of financial technology companies get off the ground, while enabling established companies, like Monzo, to take it to the next level.”

TS Anil
CEO, Monzo

1 KPMG analysis

2 https://assets.ey.com/content/dam/ey-sites/ey-com/en_gl/topics/emeia-financial-services/ey-uk-fintech-2020-report.pdf

3 https://assets.ey.com/content/dam/ey-sites/ey-com/en_gl/topics/emeia-financial-services/ey-uk-fintech-2020-report.pdf

4 https://www.ey.com/en_uk/ey-global-fintech-adoption-index

5 <https://www.innovatefinance.com/capital/#:-:text=Global%20FinTech%20investment%20reaches%20%2444,increase%20of%2014%25%20from%202019.&text=H2%202020%20saw%20a%2076,a%206%25%20increase%20from%202019.>

However, the trajectory of UK fintech is at an inflection point of opportunity – and risk. While the UK's position is well established, its future is not assured.

There are three broad threats to our fintech leadership position, each of which point to three opportunities that must be grasped through immediate action to create an economy that works inclusively and sustainably for its citizens while securing the ambitions for “Global Britain”.

- **Competition:** Overseas centres are seeking to emulate the UK's success. Competitor jurisdictions such as Singapore, Australia and Canada are investing heavily across many of the areas we have looked at, including capital, skills and direct support for fintechs.
- **Brexit:** Brexit has created regulatory uncertainty in specific areas relevant to fintech. Firms must navigate the immigration system for European Union talent for the first time – whilst rival jurisdictions are rolling out aggressive attempts to lure talent in.
- **Covid:** The pandemic has accelerated digital adoption globally in a way that marketing or policy never could. This is creating opportunities for jurisdictions that are quickest to diagnose what's happening and nimblest to capitalise on the opportunities for fintech.

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As we start 2021, facing economic challenges across the globe, it is essential to preserve and strengthen the UK's position as the first choice to launch and grow a fintech business. I welcome the Kalifa Review and the Government's commitment to ensuring that the UK remains a world leader in innovation and growth. As Revolut's founder I know the importance of the UK's commitment to innovation and to being the best place to start and scale a fintech. I hope the Review gives us the pathway to ensuring that the UK retains this leadership.”

Nik Storonsky

Co-Founder and CEO, Revolut

The prize lies in three opportunities:

- **Jobs:** Fintech is embedded across the UK with the potential to create high income tech-based employment, becoming an engine of the “levelling up” agenda, as well as playing a part in upskilling and retraining the existing workforce. The sector’s direct GVA contribution to the economy is estimated to be £13.7bn by 2030, with job creation contributing to 70% of this.⁶
- **Trade:** Enabling fintechs to achieve global scale and reach via access to international markets, and continuing to lead on regulation and standard-setting in fast-moving tech. We see fintech as a core asset for Global Britain.
- **Inclusion and Recovery:** Supporting citizens and small businesses to access more, better and cheaper financial services – and doing so in a sustainable way to help “build back better”.

Building on our current position, this Review has identified a Five-Point Plan of recommendations to deliver this approach and achieve our vision:

- **Policy and Regulation** – dynamic leadership that protects consumers yet nurtures fintech activity and encourages competition
- **Skills** – ensuring fintech has a sufficient supply of domestic and international talent and the means to train and upskill our current and future workforce
- **Investment** – completing the funding ladder from start-ups right through to IPO
- **International** – a targeted approach to exports and inward investment
- **National connectivity** – leveraging the output of fintechs across the UK and facilitating connectivity amongst them

Set out below is both a strategy for the fintech sector and a delivery model to help the UK realise it. This will enable us to move from being a global leader in fintech start-ups, to the best place to scale a business, and take solutions from IP creation through to widespread adoption. That is when the full impact and opportunity of a thriving fintech sector will be realised.

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The Kalifa Review has the potential to be a seminal moment for the fintech sector in the UK. It is time to re-invigorate the sector, and I know that fellow founders want to play their part in driving growth, innovation, and in the process, an economic recovery for the whole country.”

Christian Faes

Exec Chair & Co-Founder,
LendInvest

Recommendations

Policy and Regulation

The UK has led the way globally in its policy and regulatory approach to fintech. This is exemplified in the regulatory sandbox. As businesses, technologies and solutions scale, we need to ensure the policy and regulatory approach continues to not only protect consumers but also creates an enabling environment that encourages growth and competition.

We therefore propose to:

- **Deliver a digital finance package that creates a new regulatory framework for emerging technology:** The UK must prioritise new areas for growth and cross-industry challenges such as financial inclusion, and adopt specific policy initiatives that will help create an enhanced environment for fintech, such as digital ID and data standards.
- **Implement a “Scalebox” that supports firms focusing on scaling innovative technology:** This would include enhancing the Regulatory Sandbox, making permanent the digital sandbox pilot, introducing measures to support partnering between incumbents and fintech and regtech firms, and providing additional support for regulated firms in the growth phase.

- **Establish a Digital Economy Taskforce (DET):** Multiple departments and regulators have important fintech competencies and functions. The DET would be responsible for collating this into a policy roadmap for tech and digital, in particular, the digital finance package. It would provide a ‘single customer view’ of the government’s regulatory strategy on tech and a single touchpoint for the private sector to engage.
- **Ensure that fintech forms an integral part of trade policy:** The UK must build upon early successes and ongoing industry engagement and further develop its global trade policy in relation to fintech, ensuring a coherent and consistent approach, as well as to secure commitments in its future trade agreements that would benefit fintech.

Concerning the Competition and Markets Authority (CMA), it is clear from stakeholder feedback that the CMA must adapt its approach to this complex sector in order to better balance competition and growth. There is a case for more flexibility in the assessment of mergers and investments for nascent and fast-growing markets such as fintech. Success brings scale but as some businesses thrive, others inevitably will fail. Some consolidation will therefore be critical in facilitating the growth that UK fintechs need in order to become global champions. The CMA’s mandate must reflect these market dynamics.



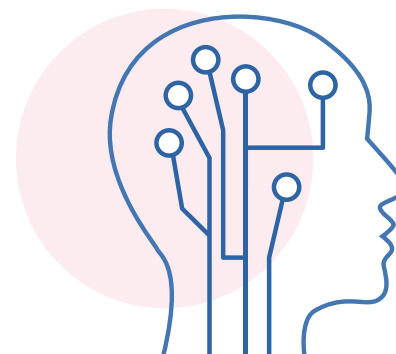
Skills

There is a rich pool of fintech talent in the UK, supported by a world class university system and as many as 67% of the UK's fastest growing fintechs consider talent to be a high priority⁷.

We therefore propose to:

- **Retrain and upskill adults to meet the needs of UK fintech by ensuring access to short courses from high-quality education providers at low cost:** It is estimated that 90% of the UK workforce will need to be reskilled by 2030⁸. Covid has intensified this challenge. Fintech has the potential to create new jobs and support effective retraining and upskilling efforts across the UK.
- **Create a new visa Stream to enhance access to Global Talent for fintech scaleups:** UK fintech thrives on recruiting and retaining talent from across the globe. Foreign talent represents c.42% of UK fintech employees. In order to remain a global leader in fintech, the UK needs to strengthen its position on immigration or risk a significant shortage in human capital.

- **Build a pipeline of fintech talent by supporting fintech scaleups to offer embedded work placements to Further Education and Higher Education students and Kickstarters:** Due to covid, around 700,000 young people have left education into an extremely difficult jobs market⁹. Fintech can provide young people with access to employment opportunities in an exciting and expanding sector. But more is needed to support students to understand these opportunities. And fintech leaders need more interaction with students throughout the curriculum.



⁷ Industry Survey – Innovate Finance

⁸ <https://www.cbi.org.uk/media/5723/learning-for-life-report.pdf>

⁹ <https://www.bbc.com/news/business-53985144>

Investment

Private funding has been crucial to the success of the UK as a fintech hub but more can be done to support firms at the later stages of funding.

We therefore propose to:

- **Expand R&D tax credits, Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCT):** 97% of founders have used tax-incentivised investment schemes including EIS, Seed Enterprise Investment Scheme (“SEIS”) and VCT, 47% were concerned about their ability to qualify for such tax relief if their business models switched from being unregulated to regulated in the future¹⁰.
- **Unlock institutional capital to create a £1bn “Fintech Growth Fund” of sufficient scale to act as the catalyst in developing a world leading ecosystem:** With a £2bn fintech growth capital funding gap¹¹ in the UK, many entrepreneurs prefer to sell rather than continue to build their promising company. There is £6 trillion¹² in UK private pension schemes alone, a small portion of which could be diverted to high growth technology opportunities like fintech. This is likely to fall within the remit and interests of the Productive Finance Working Group.

- **Improve the listing environment through free float reduction, dual class shares and relaxation of pre-emption rights:** Out of the 3,787 initial public offerings (IPOs) at the world’s major stock exchanges between 2015 and 2020, the US alone accounted for 39% (via the NASDAQ and the NYSE), while the UK trailed with 4.5%¹³.
- **Create a global family of fintech indices to enhance sector visibility:** Once enough UK fintech companies have listed and formed a sub-sector, a UK index could become a bellwether for all UK fintech stocks and cement the country’s reputation as a listing destination.



¹⁰ Survey commissioned for the Kalifa Review

¹¹ <https://www.scaleupinstitute.org.uk/news/call-for-greater-coordination-between-private-and-public-sector-to-address-growth-capital-gap/>

¹² <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/pensionwealthingreatbritain/april2016tomarch2018>

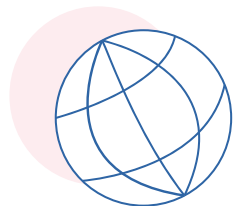
¹³ KPMG analysis

International

Building on the success of the UK government sponsored Fintech Bridges, and future digital trade opportunities, taking additional steps to strengthen the international operational support offered in the UK and targeted overseas markets would make a big statement about the international openness of the UK in a post-Brexit environment.

We therefore propose to:

- **Deliver an international action plan for fintech:** The action plan represents a combination of public and private sector priorities and identifies sectors and markets with the highest potential to scale and build leading positions for UK fintech companies.
- **Drive international collaboration through the Centre for Finance, Innovation and Technology (CFIT), and launch an International Fintech Taskforce:** Led by Government with the purpose of gathering fintech and industry input to achieve progress against the 'international plan for fintech'. (CFIT – see page 13)
- **Launch an international “Fintech Credential Portfolio” (FCP) to support international credibility and increase ease of doing business:** Led by CFIT, the FCP will help fintechs demonstrate an international sign of quality, resilience, trust and standing to participants in international markets.



National Connectivity

There is an abundance of fintech talent spread throughout the UK, supported by the Fintech National Network¹⁴. To maintain the UK's position as a fintech hub we must focus on scale and supporting regional specialisms – especially the significant intellectual property being created in universities.

We therefore propose to:

- **Nurture the high growth potential of the top 10 fintech clusters:** Each cluster should produce a three-year strategy to support growth, foster specialist capabilities, and enhance national. (CFIT – see page 13)
- **Drive national coordination strategy through CFIT:** To ensure future fintech competitiveness and growth across the UK connectivity. (CFIT – see page 13)
- **Accelerate the development and growth of fintech clusters through further investment such as in R&D.**



“

We warmly welcome the Kalifa Review. As the UK looks to forge its own path in the world, it is absolutely right that the Government explores how it can ensure the ongoing success of the UK fintech sector. We hope this Review will help create the right conditions for UK fintechs to grow and succeed and look forward to working with the Government and the fintech ecosystem to ensure the UK retains its position as a global centre for fintech and innovation.”

Ashok Vaswani

CEO, Consumer Banking & Payments, Barclays

¹⁴ <https://www.innovatefinance.com/fintechnationalnetwork/>

Delivery

We need to combine the best of government and policymaking with the innovative flair of the people who have built and lead UK fintech. This means building public-private coordination to ensure strategic focus and an official government mandate to pursue it.

We therefore recommend a government-backed “Centre for Finance, Innovation and Technology” (CFIT), mandated and supported by the Government, but led by the private sector to coordinate targeted fintech policies that aim to scale the sector. CFIT will build “execution capability” against all three of the opportunities identified above:

- **Future jobs, nationwide:** Build a skills platform that will deliver short-courses from approved providers for upskilling and re-skilling and an exchange to place HE/FE students into work placements in the sector.
- **Trade and Global leadership:** Alongside DIT, support the execution of the international plan for fintech and align the UK’s strengths in fintech with trade agreements and developing markets.
- **Inclusion and Recovery:** Industry wide coalitions on key issues like financial inclusion, SME lending, Open Finance and Digital ID. These would bring together banks, Big Tech, data providers, fintechs and policymakers to solve the challenges of scaling solutions and creating economic benefits.

Conclusion

Technological change has arrived in financial services and with it, an abundance of threats and opportunities. Threats to the UK’s competitive position, but also opportunities to innovate and grow. Threats to consumers and labour markets, but also opportunities for job creation and supporting the development of a digitally capable citizenry. To succeed, our efforts must be comprehensive and collective.

We must hold ourselves to account in delivering the strategy outlined in this proposal. One year from today, both the public and private sector must come back to report on the progress they have made to deliver the recommendations in this Review. The Government should consider appointing a fintech ‘business champion’, to support fintech and deliver this strategy.

The time to act is now.

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Britain’s fintech sector is admired across the globe and has a crucial role to play in supporting the economy as we look to recover from Covid-19.

“Small businesses are the backbone of our economy – many have been hit hard by the crisis. I admire the resilience of so many business owners that haven’t thrown in the towel but found ways to keep their businesses going, and in many cases found new opportunities. I am proud that we could play our part by providing the necessary financing.”

“The recommendations within this Review will allow us to leverage the innovative technology we have built to support even more of our customers in the future.”

Christoph Rieche

CEO & co-founder, iwoca



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