

Spotlight

FINTECH: THE MODERN ECONOMY

Chris Holmes / Ron Kalifa / Deborah Lehr



Spotlight



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To scale up, regulate



In 2019, UK fintech had a bumper year in terms of investment. Japanese conglomerate Softbank poured \$1.5bn of venture capital into supply chain financier Greensill Capital, making up a quarter of all investment into the sector that year. Fast-forward to March 2021 and Greensill has gone from tech unicorn status to filing for administration and being at the centre of a lobbying row involving former prime minister David Cameron, who was an advisor to the company.

Greensill Capital was formerly considered one of the leading fintechs in Europe, emphasising cutting-edge software to facilitate supply chain financing, and developing its own tech. It became an international success story, a jewel in the crown of UK fintech. With customers around the world, the impact of its collapse has been felt globally. It has embroiled Softbank and Credit Suisse, through which Greensill sold funds comprising supplier invoices that the company had turned into short-term assets for investment. And it has endangered thousands of jobs in companies that used the firm's services.

The company's failure has less to do with financial technology than with its attempts at fast growth. Its unravelling reportedly began with a lapsed insurance policy that led to Credit Suisse freezing funds put together by the firm. And its story is a reminder – lest we need it following the 2008 global financial crisis – not only of the importance of regulation, but also of the fact that fintech is integral to the UK's financial services sector. As such, it represents both the potential of great rewards for the economy, but also of great risk.

The government clearly recognises this potential, commissioning an independent review into the sector, published this year. The review made the case for filling the growth capital gap for fintechs, so that the UK can remain competitive. It also recommended policy and regulation to evolve alongside consolidation in the sector. Encouraging high growth in such a vital underpinning of our economy should not come at the expense of regulation that guards against recklessness. As Ron Kalifa, the report's author, told *Spotlight* (see pp.12-14), fintech needs to be understood as “part and parcel of financial services, and part and parcel of banking”. ●

4 / Chris Holmes

The vice-chair of the fintech APPG on financial technology and inclusion

8 / Fintech and the pandemic

How has the sector fared through Covid-19?

12 / Ron Kalifa

The former Worldpay chief executive on the UK fintech review

15 / Australia's blueprint

A new approach to open banking takes it beyond finance and payments

16 / An educated gamble

After the Gamestop debacle, what's next for investment apps?

20 / Is this Bitcoin's moment?

The cryptocurrency could be set to become the new “digital gold”

23 / Deborah Lehr

Lessons from China on green fintech

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Why fintech is key to financial inclusion



Fintech can enable and empower the state and citizens alike, says [Chris Holmes](#), vice-chair of the all-party parliamentary group on fintech

Fintech is the technological revolution changing the way we do finance. It is also an outstanding British success story. The UK fintech industry accounts for 11 per cent of the global fintech market and is currently worth £6.6bn to the UK economy. That figure is predicted to rise to an estimated £13.7bn by 2030. Fintech is a remarkable success, but it still has incredible potential.

I believe that the matter of financial inclusion is one of the most important areas that can benefit from fintech's transformative solutions. Millions of people in the UK today are financially excluded, finding themselves without access to mainstream financial services or forced to pay more – a “poverty premium” – for essential goods and services. This has proven a pernicious problem that has dogged our nation for decades, putting down potential and ruining individual lives. There is a great deal that fintech can do to solve some of the specific problems that contribute to financial exclusion. Whether through alternative credit scoring or helping

people manage debt and save more, fintech solutions can enable people to gain a greater grip on their financial lives.

The opportunity is significant for individuals, but also for the state. Fintech offers the potential to save billions for the public purse through digital payments, improved services, and the removal of intermediaries. Imagine a transformed relationship between citizen and state if tax collection is individualised, automated and trusted. Imagine the similarly transformed citizen experience – alongside the economic and social benefits – if welfare payments are distributed in a way that truly empowers and enables.

The Covid-19 pandemic has accelerated the impact of technology on so many aspects of our lives, as seen in the dramatic rise in numbers using online banking platforms for the first time – up 11 per cent since last year.

Another trend impacted by the pandemic is a decline in cash use, although it is important to note that there are significant regional



variations. ATM withdrawals are down 90 per cent in London, for example, but just 43 per cent elsewhere. This is important to remember when considering financial exclusion. It is essential that access to cash is retained for those who want, or need, to use it.

There is a lot of government activity around fintech, not least in the slew of recent Treasury consultations, including those on the payments landscape, the future regulatory framework, and the UK regulatory approach to crypto assets and stablecoins. Two key fintech milestones are Ron Kalifa's recently published *Fintech Strategic Review*, or the *Kalifa Review*, and the Financial Services Bill currently making its way through parliament. The *Kalifa Review* has made a comprehensive set of recommendations, covering policy and regulation, skills, investment, and international and national connectivity. I hope the government will act urgently on these practical proposals to boost jobs, support scale-ups, catalyse inward investment and develop our regional fintech hubs.

The Financial Services Bill provides a timely and welcome opportunity to address many of these issues. I have put forward several amendments, including the addition of a financial inclusion objective to the Financial Conduct Authority (FCA) and the Financial Policy Committee (FPC) of the Bank of England. Other amendments deal with specific emerging technologies such as the need for an artificial intelligence (AI) officer, piloting distributed ledger technologies (DLT), central bank digital currencies (CBDCs), and digital infrastructure.

Another question for serious consideration is distributed digital identity. We need it – as individuals, as SMEs, as corporate entities. We need it and we need it fast. Similarly, standards across fintech, including crypto, are hotly debated globally right now. The UK could lead in this area, innovating, creating and collaborating on new standards while ensuring safety and certainty, and drawing in investment, start-ups and scale-ups into the UK.

I also propose a centre, a taskforce, a rocket at the centre of government to blast forward everything 4IR (Fourth Industrial Revolution) and fintech. It needs to be at the centre, and it needs to reach right across government. Getting stuff done across government departments is notoriously difficult. This is not apportioning blame but an observation of how the system – built in a different time for a different purpose – continues to function. A UK Centre for Applied Innovation in Financial Services could be a centre at the centre, a place where public policy problems can meet respectfully and thoughtfully with private sector potential solutions. This has been echoed in the *Kalifa Review*.

Last March, when the Covid crisis broke, numerous fintech firms tried to get involved and help, working up solutions in their own time over weekends. Fintech solutions were put forward for the effective, efficient, fraud-free distribution of Coronavirus Business Interruption Loan Scheme (CBILS) and Bounce Back Loan Scheme (BBLs) support, as well as for funds for the self-employed. It was good that Starling Bank got a tiny piece of the action, but disappointing that many others did not and that HMRC was unable to engage with them.

Now, as a nation, we are facing potentially hundreds of millions of pounds of taxpayers' cash disappearing into fraudulent claims. Again, fintech could play a role. Several firms have ready-to-go solutions that could be deployed to track back through these transactions, find the fraudulent activity and repatriate those funds to the state for the benefit of us all.

There is so much potential for the use of innovative technologies in financial services. If we get this right, fintech will play a positive role across our economy and society. This industry has to be about enabling, empowering and unleashing individual and business potential across the whole country. We need agility, experimentation, and the championing and unleashing of curious minds. ●

The UK should take the lead on standards

Enabling growth in green finance

Financial technology can support the drive towards a low-carbon economy, says

Magdalena Krön,
global fintech platform
director at Rise,
created by Barclays

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BARCLAYS

This is a critical year for the environment. Among other initiatives, the United Nations is bringing key stakeholders together at its 26th climate change conference (COP26) to drive global change. Greater societal focus on climate change and environmental impacts has created a focus on green finance, bringing sustainability to the forefront of the financial services agenda. Green finance products and services are a way for consumers and businesses to make purchasing, saving and investment decisions more “carbon-conscious”.

With this increased focus on green finance, fintech start-ups and scale-ups may view 2021 as a year of opportunity. While support from large institutions will accelerate the transition to a low or zero-carbon economy, what role do much smaller fintechs have to play, and what opportunities are there for greening finance? At Rise, created by Barclays, we see small and nimble fintechs in action every day, and we are confident that their agile and innovative thinking could be transformative for this rapidly emerging and critical area.

Fintechs are well placed to meet the changing demands of customers. In the consumer space, the rapid development

of innovative ideas that meet consumer needs is in their DNA, as is the design of new core banking infrastructure and operational software that is transforming financial services. Indeed, a host of new, green fintech solutions are already available.

For example, carbon budgeting tools and incentive schemes can nudge consumers into better purchasing behaviours and let them make more environmentally positive decisions, and blockchain and other core technologies are creating new carbon instruments and markets, allowing institutional and individual investors to simplify access to carbon markets and prices. Looking ahead, green finance opportunities the fintech sector can pursue include impact investing, green pensions, new

Fintech is adapting to meet evolving demands



types of current accounts, and climate risk modelling for insurance companies.

There are three key enablers that will affect the role of fintechs in green finance. As so often in the tech world, data is a key enabler – but there are still areas of uncertainty. What exactly does it mean to be sustainable, and which metrics should the industry use? Who sets the data standards? What technology should be involved? While national governments, and leading industry and academic groups, are collaborating on common approaches to standards, fintechs will be eager to get clarity on these questions so they can focus on developing new solutions.

The second enabler is government support and policy. The UK government’s first Green Finance Strategy in 2019 describes the accelerated growth of green finance

as vital to the country’s economy. Greening the global financial system and catalysing investment is today driving innovation in financial products and building skills across the financial services sector. Furthermore, with the *Kalifa Review* of UK fintech published recently, the government has renewed its emphasis on how the UK can maintain its position as a global leader in financial services. Leveraging this sector to develop green finance solutions will be critical to this ambition.

Finally, the third enabler of green finance will be the guidelines, rules and regulations from regulators. These will help guide the innovation of large and small tech companies alike, and will shape how the green finance sector will evolve over the coming years. Green finance may be a quickly growing space,

INNOVATION

Rise, created by Barclays

We connect technology, talent and trends from across the Rise ecosystem to accelerate innovation and growth in financial services. We do this by bringing fintechs together in our workspaces around the world and through our virtual community. Rise enables cutting-edge start-ups and scale-ups to connect, create and scale their businesses, supported by Barclays’ global network of industry experts, mentors, investors and partners.

Rise in numbers

1,000+

Individual Rise members (Mar 2020)

175+

Rise FinTech resident companies (Mar 2020)

80,000+

Yearly visitors (2019)

38,500+

Social media followers

but with the appropriate enablers in place, fintech can play a key role in building, or at least financing, a better planet.

The next edition of our Rise Fintech Insights report will be available in May and will cover the topic of green finance in more depth. Get alerted when it’s published by signing up to our weekly newsletter at <https://rise.barclays>. Read how Barclays is accelerating the transition to a low-carbon economy at <https://home.barclays/netzero>

How fintech has fared through Covid-19

Levels of investment reflect a resilient sector, and a bumper 2019. By **Amy Borrett**

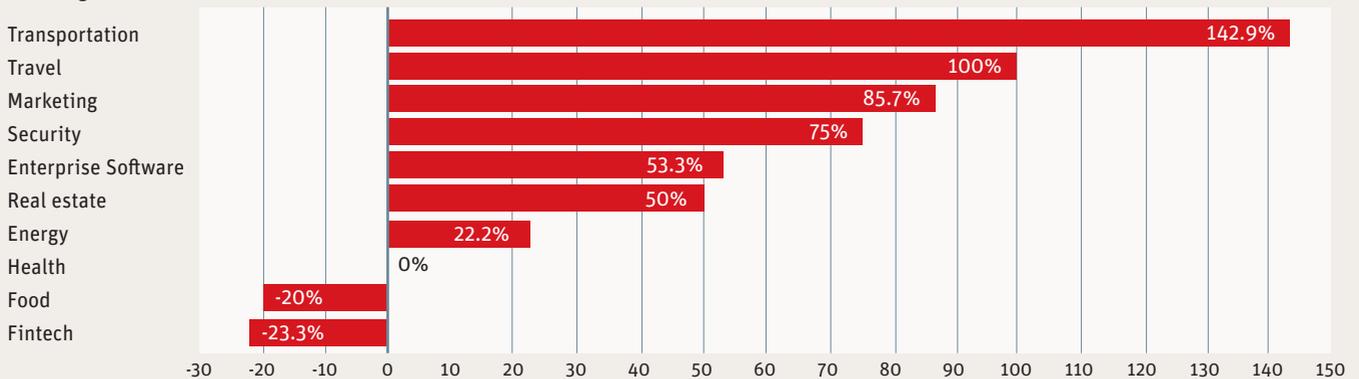
In 2020, Revolut co-founder and CEO Nikolay Storonsky was named by the *Telegraph* as the UK's first fintech billionaire. The challenger bank – the most-funded UK start-up of last year – netted \$4.46m, achieved a valuation

of \$5.5bn, and broke even for the first time in November. Revolut's success in the face of the coronavirus crisis, during which its revenues dropped by 40 per cent, is testament to a burgeoning financial technology sector.

But if you go by the investment trends, it might look like the headwinds from Covid-19 and Brexit have knocked confidence in UK fintech. The sector attracted a total of \$4.6bn of investment in 2020, down almost a quarter on 2019. This

FINTECH WAS THE SECTOR HIT HARDEST BY THE PANDEMIC

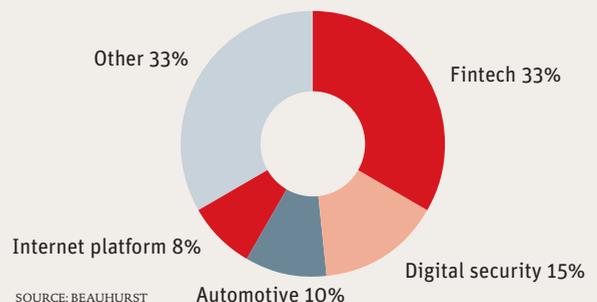
% change in tech investment in the UK between 2019 and 2020



SOURCE: DEALROOM VIA TECH NATION

FINTECH ACCOUNTED FOR A THIRD OF THE UK'S 39 MEGADEALS

% UK deals valued at £50bn or more in 2020



SOURCE: BEAUHURST

was the largest fall for any tech sub-sector, according to data from Tech Nation.

The decline, however, has more to do with 2019 being a blockbuster year than with the economic crisis. That year, Japanese conglomerate Softbank pumped \$1.5bn of venture capital into supply chain financing specialist Greensill Capital, which recently filed for administration and has been at the centre of a lobbying row involving former UK prime minister David Cameron. This accounted for a quarter of all UK fintech investment in 2019. In addition, some start-ups ready to scale up have turned to alternative financing, potentially deflating venture capital investment figures. Examples include SME lender Iwoca and digital mortgage provider Molo, which raised over \$250m and \$300m respectively in debt finance last year.

Throughout the pandemic, UK fintech start-ups and scale-ups have continued

to be global heavyweights. The collective valuation of fintech unicorns – companies valued at \$1bn or more – rose to an all-time high of \$30bn, placing the UK second for the first time, ahead of China and India, according to data from CB Insights. The first slot is taken by the US. Fintech companies also continue to net some of the biggest bets from investors, accounting for a third of funding rounds of £50bn or more in so-called “megadeals”, according to Beauhurst data.

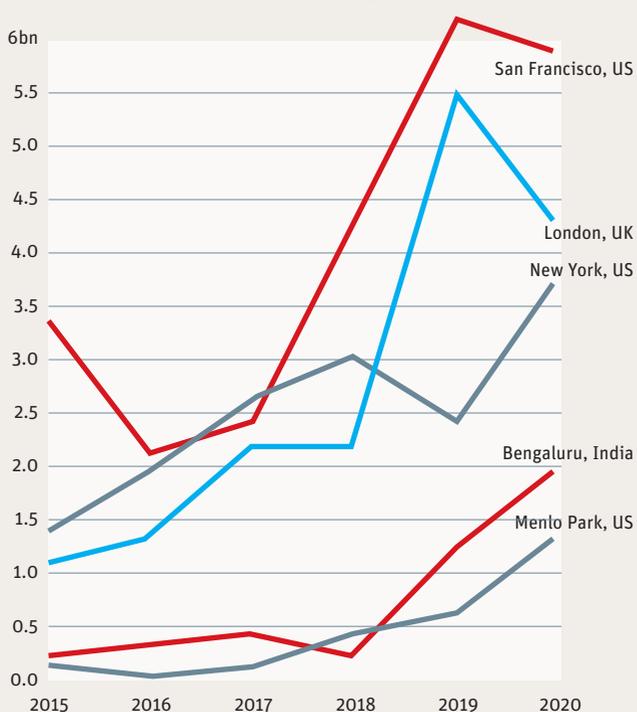
The London Stock Exchange welcomed one fintech listing in 2020, Kazakh payments platform Kaspi.kz, which was consistent with its performance since 2015. But, as the government-commissioned *Kalifa Review* into fintech recently noted, the exchange accounted for just 6.7 per cent of main market listings over the past six years, a third less than would accord with the UK’s overall market share.

The US continues to dominate the sector globally, widening its lead over the UK in 2020 with a 14 per cent increase in IPO listings on its leading exchanges and a 12 per cent surge in venture capital investment. Three of the top five fintech hubs are in San Francisco, New York and Menlo Park. Two of these experienced accelerated growth in funding over the past year, according to Tech Nation. Meanwhile, investment in London, which is home to around three-quarters of the UK’s venture capital-backed fintech companies, fell by more than a fifth.

The data points to an intensifying global race for first place. “For the UK to retain its position as world leader and continue to attract investment into the sector,” writes Catherine McGuinness, policy chair at the City of London Corporation, “it is vital to offer an environment which supports innovation.” ●

LONDON SAW THE BIGGEST HIT TO FUNDING OF ALL LEADING FINTECH HUBS

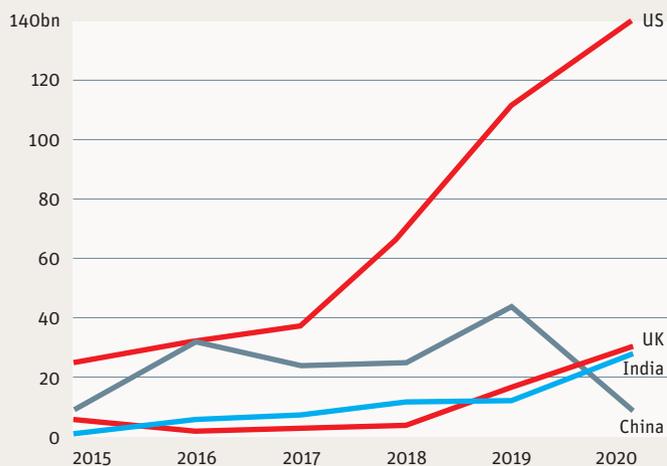
Venture capital investment in top five global fintech hubs (\$)



SOURCE: TECH NATION

THE UK NOW RANKS SECOND FOR FINTECH UNICORN VALUATIONS

Combined valuation of fintech unicorns (\$)



SOURCE: CB INSIGHTS VIA KALIFA REVIEW



A light in the dark

The UK's growing and evolving fintech sector is key to forging positive social and economic change for all, says **Louise Brett**, head of fintech at Deloitte LLP

It's easy to lose hope in times of darkness, and the past 12 months have without doubt given us our fair share of that feeling. Our truest challenge now is to remember, in the words of the poet Amanda Gorman: "There is always light. If only we're brave enough to see it. If only we're brave enough to be it."

Fintech has always been brave. From artificial intelligence to biometric account authentication, the sector brought unlikely suspects together with the aim of connecting to create better impact. As our worlds increasingly merge and overlap, it continues to empower and bolster the millions who use it, delivering better financial outcomes and driving change. Creating freedom and sparking partnership, growth and competition. Being a force for good.

Last month's *Kalifa Review* put fintech centre stage. With its core objectives and clearly positioned ability to support the UK's economic recovery, people are beginning to see fintech's incredible power of not only levelling up but also equalling out. We need more jobs and better trade alongside sustainable and inclusive ways to recover. To do this, we've got to be better connected. We've got to drive equal growth and opportunity across all pockets of society because the last thing we as a society or as an economy needs is more polarisation.

Connectivity ignites revolution and rapid co-creation. With a potential gross value added (GVA) contribution estimated at £13.7bn by 2030 and with



job creation representing 70 per cent of that figure, fintech's superpower is high-income tech-based employment. It also plays a key role in upskilling and retraining the existing workforce, meaning a fairer society for all.

For the UK, an annualised growth rate of 16 per cent versus 1.3 per cent for small to medium-sized enterprises over the past ten years shows fintech is unquestionably an engine for growth. We continue to create global category-defining fintech and are strong across the board, particularly in wealthtech and payments. Over the past 20 years, the number of fintech companies has grown to more than 2,500, with a third of all fintech firms now outside London. Across the UK we've identified 25 clusters of fintech activity, all at different stages of growth and development.

Analysis of the ten highest-growth clusters reveal a combination of

Deloitte.



core characteristics that serve as foundational building blocks for fintech success. It is clear financial services and technology domain expertise is strongly evident in the UK's most established clusters. By the same token, in almost every area with high levels of financial services and tech professionals, a fintech cluster is present. There's also a strong positive correlation between at least three colleges or universities providing science, technology, engineering and maths (STEM) talent and the number of high-growth fintech firms. While this absolutely underscores the importance of encouraging uptake in STEM subjects, we must not lose sight of those crucial skills of creativity and empathy. From start-up to global scaling, the most important aspects for growth are commercial partnerships alongside access to talent and investment.

There is no doubt fintech has revolutionised banking for good. It has brought new products and services to consumers and businesses. But as consumers and business change, so does its impact. As people deepen their care for the planet and for creating fairer, better futures, we see new products emerging to service their needs. From ethical investments to sustainable savings, the next wave of fintech will strengthen our soul as well as our wallets. It will span all industries, accelerating deeper collaboration and prosperity for all. We will see a re-organisation of the value chain, paving the way for companies from all industries to incorporate financial services into their customer journeys and offerings at the moments that matter most.

When you get this right, you've got an invisible and frictionless financial experience, meaning you've completely

transformed how both customers and business engage with money. But the beauty of embedded finance is it's not limited to financial services: you can re-imagine entire industries and create new types of products and services, from personalisation to solving energy poverty. In this sense, the best way to predict the future really is to create it.

Fintech companies, banks, insurers and tech giants will have critical decisions on the role they want to have and where and with whom they want to play. As with anything, our advice is to keep it simple. Identify the problem and fall in love with it. Connect and collaborate with clarity and intent. Offer frictionless customer journeys, new products and services, new business models, new ways of distribution. Solve the things that really matter, the things that push society forward.

Fintech wants to be part of the solution and drive better outcomes for all. Thanks to the *Kalifa Review*, fintech is having its well-deserved moment in the spotlight. Focused around five key topics, it makes recommendations and shows how the sector can move forward on skills and talent, funding, exports and inward investment, policy and regulation, and national connectivity. Bringing together government, industry and fintech, the UK can unleash the huge potential of the sector and provide the support needed for an effective post-pandemic recovery.

We need to continue to nurture a start-up culture while also giving high-growth firms the opportunity to become global giants and category leaders. With the *Kalifa Review*, we have in our hands a strategy and model for delivery, providing a unique opportunity to realise the potential of a decade of growth, innovation and talent. Now we just need to work together to rebuild and reshape finance to be better, to *do* better.

Let's be the light.

For more information, please visit:
www2.deloitte.com/uk/en/pages/financial-services/articles/fintech-strategic-review

Ron Kalifa: “The expression ‘fintech’ doesn’t help the sector”

The author of the independent fintech review discusses the future of the industry.

By **Alona Ferber**

Earlier this year, Ron Kalifa OBE, the former Worldpay chief executive, published his long-awaited report on how policymakers can support UK fintech. In the *Kalifa Review* he proposed a five-point plan, with recommendations on policy and regulation, skills, investment, the international markets, and national connectivity. In a recent phone call, Kalifa told *Spotlight* about the risks and opportunities. The conversation has been edited for length and clarity.

Spotlight: Your report pitches a holistic vision for fintech. Is there a part of this that policymakers should prioritise?

Ron Kalifa: The work that I’ve done is to ensure that we are forward thinking and that we’ve got a joined-up approach to protect, to support and scale the sector. Countries around the world look to the UK for fintech thought leadership, but are also in a race to steal the crown from us. It’s an interesting dilemma in the sense that we’ve done really well, but it’s about making sure that we don’t rest on our laurels.

S: What do you think policymakers least understand about the sector’s needs?

RK: I think policymakers do understand it, which is the reason why they commissioned the review, but I think it’s more about what should be done, particularly given the opportunities that are presenting themselves now in terms of competition happening overseas. Brexit has clearly happened, and Covid, but how do we drive the opportunities that are there if those are the challenges? The opportunities are about jobs, they are about inclusion, they are about trade. I think policymakers understand it, but I think in fairness to them they’ve got a lot of other things on their plate, so it really is a question of, OK, so what do we do about it?

S: You note Brexit as a threat. Can the UK realistically hope to remain a world leader in fintech after leaving the European Union?

RK: Absolutely. We have a dominant [global] market share of 10 per cent. The reason we’ve got that is because of the history, but also because of the trust that the world puts in the UK.



If you look at the level of investment that went into UK fintech last year it stood at \$4.1bn, more than the next four European countries combined. The gulf between where we are and the rest of Europe is immense. We've got an abundance of financial and technology talent and we have set the benchmark for policy-led innovation, in terms of initiatives such as the Financial Conduct Authority's regulatory sandbox, open banking, and so on. We have a very digitally active population who are using the services of at least one fintech company. The last bit for me is that Covid-19 has really been an accelerator, in many ways, of digital activity. Six million people in the very first month of lockdown, that's 12 per cent of the adult population, downloaded a banking app for the very first time, and fintech lenders dispersed up to 30 per cent of Coronavirus Business Interruption Loan Scheme [CBILS] funds last year. We are on a very good platform that we can build from as opposed to be worried about, but it requires action to ensure that we are co-ordinated.

COURTESY

S: Does Brexit present an opportunity for the sector?

RK: So much is written about Brexit that you lose track of where things are, but I think it gives us the opportunity now to set our agenda. The work we've done [with the review] is not dependent on regulatory alignment or equivalence within the EU. It allows us to pursue these policies on data strategies, on digital ID, on our central bank's proposed digital currency, and other things, unencumbered.

S: You spent a year speaking to a long list of stakeholders for the review. What

“We've done very well, but can't rest on our laurels”

were start-ups and disruptors most worried about?

RK: They tended to highlight skills as a significant gap that needed to be addressed and filled. That was a reason why one of the recommendations [of the review] is to ensure that we don't lose out because of Brexit in terms of hiring people. To mitigate that we put a recommendation in to introduce a new visa stream that will fast-track visas for international fintech talent. France has got the tech visa, Canada's got a global talent stream, Australia's got a global talent programme, so we've suggested we create this new stream to enhance access to international talent for businesses that are scaling up rapidly.

The other area that was talked about very avidly was the need for help in terms of scaling capital. Government is busy doing many things, so this is about how we get private money to help buoy up a sector and an industry. The second is to look at the regulatory obstacles that prevent our domestic insurers and pension funds from investing in growth companies. In our recommendations you will have seen the need to [unlock] institutional capital to create a £1bn fintech growth fund. There's £6trn in UK pension schemes alone. If we could dedicate a small percentage of that, that would be tremendous.

S: Fintech is potentially quite a risky investment. Would there be the appetite from pension funds?

RK: It would have to be judicious in terms of the type of businesses that would be accessing that fund. It wouldn't be just a sort of free-for-all. It would need to be managed and controlled, but frankly we are very good at that in the UK. We've got investment managers who are accomplished in terms of assessing it, but it also allows us to start thinking about the future of the sector, the future of an industry, financial services, that's going to grow. There are today over a million people employed in it. In many ways, technology is now the enabler of many of the incumbent organisations, the large banks. This

is the future of financial services so it makes complete sense for us to do this because it plays to all the agendas for any society, in terms of jobs, in terms of international trade, in terms of levelling up, innovation, inclusion. I think, of course, there is a risk, but the risk has to be led and managed as it does with any investment process.

S: What were the main concerns you heard from incumbent banks?

RK: Firstly, they were really supportive of the work, and many of them described themselves as fintechs, which may surprise many. They don't think of themselves as organisations that are left in the past. They are trying to ensure that technology is at the forefront of their services. Another thing that came across is that it's all well and good to partner with these players but we need help because the regulator looks to us – I mean the large banks – if something goes wrong. That's why I recommended something called “the scalebox”, which supports the [FCA] sandbox that played a key role in helping younger businesses who wanted to innovate in the past. This is about the next opportunity to help those organisations moving up the scale to get help from the regulator, get support and advice on how best to ensure that they stay safe for consumers, but also grow their business.

S: Is there a risk to innovation as the sector consolidates?

RK: Not every fintech, as in not every business, will survive and succeed, so we will see businesses fall away in the same way that we would for any other sector. But we'll start to see some consolidation happening simply because the ingredients for success tend to be about scale. They tend to be about access to consumers or access to distribution. They tend to be about technology, which can cost a lot of money, and they tend to be about regulations. Inevitably, there will be adjacent oppositions that might be better off working in a more collaborative way, whether it's a takeover of a commercial arrangement

“The skills gap in the industry needs to be addressed”

or some kind of combination. We will see that, but I don't think that will curtail any innovation going forward. In many ways it can bring diverse ideas together and fuel more ideas for the future.

S: How different is it for companies operating today compared to what you faced back in the early 2000s when you started to scale up Worldpay?

RK: Worldpay in 2002 was still a nascent business, it was a loss-making business, it had 75 people I think and it was always – as it is for any business, in fairness – hard to get going. But determination, capability and talent within the organisation pushed it through. The thing that was a bit of a breakthrough for a business such as that, which is still the same I think today, is to ensure that you can find ways to get to scale, and scale in terms of more customers. We signed up at that time some relatively large household names, which was the catalyst for getting more volume onto the technology platform, driving better productivity, lower unit costs, and better margins. Once you get

“Fintech is about better services for consumers”

that going, then you start to have a marquee name, then it starts to show to other potential customers that you have got the capability. I don't think that's very different from the work today. Obviously now technology has moved on significantly. Adoption of digitisation and e-commerce is very high. At that time it was still a relatively young industry in terms of online payments, so there are things that are different, but the fundamentals are the same in terms of where you get customers from. How do you ensure that you are investing wisely on things that you've got to spend money on?

S: You've said that fintech isn't a sub-sector. How close are we to this being a mainstream view?

RK: The expression “fintech” doesn't help the industry, I don't think, because it suggests that it's something a little bit niche. But the reality is that when consumers think about the way they are interacting with financial services, they are increasingly doing it through a digitised platform. It might be online banking, it might be transferring money. What I found interesting was that fintech as described by people who are in the sector is quite often thought about as being closer to tech than it is to financial services. I think that gives you a sense of how the ecosystem is evolving. What that infers to me is that we've got to get away from thinking about it as a label.

It's more about making sure that consumers get a better service. Consumers and small business have access to financial services in a faster, better, more efficient way, and I think that's essentially where it is. As with the term “e-commerce”, that's lived for a long, long time and will continue to, but it's evolved – initially, it was thought about as a bit one-offish. I hope in many ways that fintech will evolve as well, so that it becomes considered as part and parcel of financial services and part and parcel of banking, which is essentially what it is today. ●

Australia's open banking blueprint

Amy Borrett

Three years ago, when the UK introduced a pioneering open banking infrastructure, Australia took note. The British system, enabling third parties to access customers' banking data, looked set to revolutionise the sector, encouraging innovation and breaking monopolies. Though hailed as a triumph, moving fast has meant a limited scope, with an initial focus on specific areas of finance, such as payments, still in place. Now the UK is losing ground to other countries. Australia, for one, has set out an ambitious plan that will extend to other industries, and do more to protect data rights.

Central to the Australian approach is its Consumer Data Right (CDR), which prioritises the interests of consumers. Unlike the UK's open banking legislation, which specifically targets financial services, the CDR can be rolled out to cover other sectors. Australia's legislation gives consumers full data autonomy, says Joel Gladwin, head of policy at the Coalition for a Digital Economy (COADEC). This is good for innovation, he says, because it would turn the average person into the gatekeeper of their data. By forcing banks to cede control, the theory is that more would be shared with third parties and, ultimately, better products developed.



Data portability and privacy are also key to the Australian system. The approach allows the CDR to harmonise with the country's data protection regime, without some of the friction found in the UK. Australia also leads on the concept of "reciprocity". The country's 2018 *Open Banking Review* recommended that data sharing should flow both ways between banks and third parties. Australian lawmakers argue that this will create a "more... dynamic" system. It will also appease banks that argue that handing customer data over

to the likes of Big Tech puts them at a competitive disadvantage without getting much in return.

There is appetite in the UK to expand beyond payments into other areas of finance. The government is set introduce new legislation following its consultation on smart data. But Covid-19 is delaying implementation, and without more political capital the fintech industry is at risk, says Gladwin.

As the UK's open banking system was legislated through the EU's 2016 second payments services directive (PSD2), Brexit has created a window of opportunity to set out a framework for a broader "open data" system. The UK can "lead internationally", says Gladwin, by expanding beyond payments and removing restrictive standards, such as the requirement for consumers to re-authorise use of their data by third parties every 90 days.

"Time is of the essence, especially if we want to see any tangible benefits from Brexit through open finance," he adds. "We have to use every avenue that we can to give our sector the best possible advantage over our international competitors — Australia, for example, started on its route to an open data ecosystem three years after the UK, and looks set to eclipse us." ●

After the GameStop debacle, what needs to change for investment apps?

By Samir Jeraj

An educated gamble

When he turned 18, at the end of 2019, Adam Mlamali started investing in the stock market. “I was looking at ways I could generate more income,” he says, but he also wanted to put money into “companies and causes” he believes in.

Mlamali works in finance and is comfortable with investing. He follows the financial and business news for leads, and at the start of this year was one of the many stock market dabblers who noticed an unusual trend in shares in the US video games chain GameStop.

The firm has been around since the 1980s, but became a global household name in early 2021 when it found itself at the centre of a battle on Wall Street. Long in decline as in-store purchases lost out to online shopping, GameStop became the target of investors seeking to “short” its shares, essentially betting the company would fail.

The ensuing debacle engulfed the global news cycle. An army of small “retail” investors like Mlamali – many of them co-ordinating through the social media site Reddit – bought shares of GameStop using fee-free investment apps, the most popular

being Robinhood. Collectively, they managed to push the price of GameStop shares up from around \$25 on 11 January to \$350 on 27 January. This meant the short sellers suffered significant financial losses.

Mlamali considered investing in GameStop, but opted instead to buy shares in AMC Entertainment, a US cinema chain that had also become the target of short sellers. “I saw less of a risk with AMC compared to GameStop only because I figured movie theatres weren’t going anywhere in the short term,” he says. The gamble paid off. On 27 January, the AMC share price increased by nearly 300 per cent.

These events generated huge interest in investment apps, though their use had already spiked in the earlier days of the pandemic – by a reported 88 per cent in the first half of 2020. During the heady January days of the GameStop moment, downloads of Robinhood registered a 747 per cent increase in the US alone, while in the UK downloads of Freetrade and eToro went up by 287 per cent and 197 per cent respectively in that same period.

Robinhood may have been the weapon of choice in the fight for GameStop, but

it soon came under fire for its practices and business model. While the app enabled the trades of its users, the actual buying and selling were done by another company called Citadel Management, to whom Robinhood sold its users’ information (known as the “order flow”). Robinhood had to briefly suspend trade in GameStop shares on 28 January because the amount of money it needed to process payments had jumped to \$3bn. The fallout continues, with investigations conducted by financial regulators and the US Congress.

Long before the dramatic events of this year, investment apps were attracting millions of users. “It’s nothing new here. They have just had attention drawn to them because of the GameStop story,” says professor Alex Preda of King’s College London. The Robinhood app itself is already six years old, and just one of many that have emerged since the 2000s.

The idea of “discount brokerage” with very low fees has been around since the 1970s, Preda adds. With the rise of retail investors in the 1990s, some discount brokerages bought or started to use software. Social media has taken



A pedestrian walks by a GameStop store in San Francisco, California

it a step further, enabling real-time contact between investors and allowing people to see how individual traders are performing against each other. “This leads to classifying traders into trade leaders and followers,” says Preda.

As a result, investing platforms that integrate social media have higher rates of “herding” among users, with people collectively moving towards buying particular shares. Users also tend to stay in the market for longer.

One of the major criticisms of such apps is that they do not provide guidance to potential investors. In Mlamali’s experience, there is “little to no information available on the company you’re investing in” if you are just using an app. For him, it is important to look at the financial statements, company fundamentals, and what management is doing before buying shares.

“What we saw in the first few months of 2021 was really extraordinary,” says Alex Campbell from Freetrade, a UK-based investment app that launched in 2018. The app has around 600,000 registered users, up from 50,000 at the start of 2020. While it does offer fee-free investment, its business model

is different to Robinhood, for both regulatory and “ethical” reasons, says Campbell. The company operates a subscription premium model akin to Spotify, where people can pay a monthly amount to speculate in stocks and shares.

“It’s really straightforward. The costs are low, so people are able to start investing with less money and to gradually build up over time,” Campbell says. As such, the company has a vested interest in maintaining the loyalty of its customers and delivering for them over time, rather than earning money from selling their data and order flow (which is explicitly banned by the regulator in the UK, and currently a grey area in EU law).

Investment app downloads have spiked in the past year

Campbell believes the sudden spike in interest off the back of GameStop places a “duty of care” on investment platforms and apps. “You’ve got new customers who are coming to the markets and have varying degrees of knowledge and expertise,” he says. That means providing “all the materials” to customers about the risks and the practice of investing.

However, that does not mean Campbell thinks “retail” brokers, who mainly serve individuals rather than companies or institutions, should not offer higher-risk investments such as derivatives or leverage (borrowing to invest). “The guiding principle is always treating your customer fairly,” he explains.

The GameStop affair showed the enormous impact investment apps can have on the stock market. There appears to be room to grow, with retail investors making up around 20 to 25 per cent of stock market activity in the UK and US compared to 30 per cent in places such as Hong Kong. The question is whether these platforms should only be providing the means to make trades, or whether they should be educating users to make better-informed decisions. ●

Taking UK fintech to the next level

The UK remains a hotbed for financial talent, technology, growth and investment, says **Charlotte Crosswell**, CEO of Innovate Finance

The UK's financial sector is often cited as one of its greatest technology success stories and a leading example of our world-class innovation capabilities – and rightfully so. The numbers speak for themselves. Year after year, when matched against other European countries, the UK resoundingly comes out on top as the lead investment destination, and globally ranks second only to the US in attracting investor attention.

Capital follows great ideas – and the UK has plenty of them. Over the past decade, fintech has moved steadily away from being a fringe sector populated by start-ups to a world-leading, fast-growing part of the economy whose many technology solutions are now at the heart of innovation in financial services as a whole.

Fintech has established itself as a key sector across the UK. Today, it employs hundreds of thousands and contributes billions to the economy every year. It has revamped the world of financial services, creating greater choice in how we manage our personal finances and significantly improved the customer experience. What's more, fintech is helping to break down the "poverty premium" and financial exclusion that has impacted the financially vulnerable – something that has come to the fore during the global pandemic. Similarly, small businesses are benefitting from a wave of new players serving their needs – even in the most niche ways.



From agile lenders that are providing crucial aid to a number of small businesses, to challenger banks that are transforming personal finance for millions, fintech is revolutionising the market at a mass scale.

The UK's success in fintech is in large part due to the long-standing strengths of our financial services industry. This has helped to shape an ecosystem, coupled with a supportive regulator and ready pools of substantial investment. We have also benefitted from the UK's proximity to continental Europe, opening up access to talent and know-how from across the wider European financial services ecosystem.

Fintech embodies the UK's tech potential and its achievements spotlight our innovation globally. It provides other sectors with the blueprint for success, and the government has rightfully prioritised backing fintech

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as a major growth opportunity for the economy.

While we hold a robust position as a global leader, our future in the driving seat of financial services innovation is not to be taken for granted. We are at a critical moment for securing our position on a global scale for years to come. Competition is fierce from the US, Singapore, Europe and other emerging markets.

The recently published *Kalifa Review* serves as a vital first step in this direction. The review sets a new strategic direction for the sector to allow it to continue to attract entrepreneurs to start up innovative firms, but also provides support and guidance to the bigger, more mature ones as they scale up, look to international markets, and ultimately list on public markets.

It is now absolutely crucial we meet its findings with action, or we risk

losing much. Taking fintech to the next level requires a fundamental shift in the way we approach our talent pipeline, the rules governing investment, and balancing regulation in a way that enshrines good governance without impeding innovation.

We are at a significant moment in time when fintech adoption is growing rapidly, to a large part as a result of the pandemic, and we must

Covid-19 has led to a surge in fintech adoption

capitalise on the momentum created by the *Kalifa Review* to elevate the sector to the next level.

The challenges presented by the pandemic provide an apt moment to reflect on the previous recession, from where fintech's roots can be traced back to. Today, the confluence of the pandemic and Brexit has led to renewed focus on opportunities for the sector, and this time fintech can help to lead us out of the crisis.

Fintech in the UK has proven itself as an industry, with the potential to be the innovation blueprint for other sectors of the economy to follow. In order for it to keep attracting global investment and talent it's now on all of us collectively to ensure that we build on the success to date – it will in turn benefit us all.

For more information, please visit:
www.innovatefinance.com



A bitcoin ATM inside the Big Apple Tobacco Shop in New York City

MICHAEL M. SANTIAGO / GETTY IMAGES

With central banks around the world printing money in the wake of the pandemic, the first cryptocurrency could be set to become the new “digital gold”. By Jonny Ball

Is this Bitcoin's moment?

In June 2013, the police raided a squatted former police station in Soho, London, arresting 57 activists who had turned the premises into an anti-G8 headquarters. A “Carnival Against Capitalism” was being held in central London as the Group of Eight leaders met in Northern Ireland to discuss international trade, global action on tax avoidance, and the Syrian civil war. Inside the occupied Soho address, a group of idealistic computer programmers plotted the downfall of the world’s financial system. Their plans centred around Bitcoin. The cryptocurrency, developed five years earlier, could be stored and spent anonymously, and could be minted without interference from the watchful eyes of government.

When the anti-G8 Bitcoin squat was raided, 1 Bitcoin (BTC) was worth around \$100. Today 1 BTC is worth around \$57,000 – an increase of 57,900 per cent. In February this year, Bitcoin hit a market capitalisation of \$1trn after a 296 per cent rally in 2020. A report released last month by Citigroup conceded that “large swathes of the traditional banking and financial markets view Bitcoin as a completely valueless asset”, and quoted the economist Nouriel Roubini as saying “the Flintstones had a better monetary system”.

But the report went on to say that Bitcoin is “recognised as a source of ‘digital gold’”, largely due to its built-in scarcity – a finite number of Bitcoins is written into the cryptocurrency’s

code – and that it could one day become “the currency of choice for international trade”. Some, including former Bank of England governor Mark Carney, have speculated that a digital currency like Bitcoin could one day become the global reserve currency, replacing the US dollar. As governments around the world announce colossal spending packages in the wake of Covid-19, and with historic low interest rates looking set to remain part of any “new normal”, the report notes that “concerns about future possible inflationary pressures” for traditional currencies are giving extra impetus to the bull market for Bitcoin.

Institutional investors have started making forays into Bitcoin, according to investment bank JP Morgan. The bank has said that if wild price fluctuations such as those seen over the past decade were to slow, this would improve Bitcoin’s efficacy as a safe store of value much more akin to the touted “digital gold”, and could see the price of 1 BTC rise to \$130,000.

But not everyone is convinced. “No scheme like this in history has ever lasted forever without either just

blowing up or some kind of legal party taking action,” says Martin Walker, who as well being director of banking and finance at the Center for Evidence-Based Management, a non-profit, is a major sceptic. The thing about cryptocurrencies, he says, “is that unlike almost any other kind of financial asset, they do not generate any return. They don’t pay a coupon like a bond, they don’t pay a dividend like a share, they don’t give you any ownership rights on anything, and you can’t really spend them anywhere.”

Why buy them? “The only reason is if you think the price will keep going up,” he says. In other words, Bitcoin is little more than a speculative asset.

Despite the left-wing radicalism of the Bitcoin squatters, much of the early interest in cryptocurrency was generated by followers of what Walker describes as “right libertarian philosophy”. David Golumbia, a professor of digital studies at Virginia Commonwealth University, has written extensively on the links between Bitcoin and “far right political thought”, and Nick Land, a leading proponent of “Dark Enlightenment” philosophy on the alt-right and a Bitcoin enthusiast.

Due to the anonymity afforded by cryptocurrencies (which don’t have to be stored in traditional bank accounts linked to names and addresses with official identification, regulatory oversight, and “know your customer” policies) Bitcoin grew in popularity as a means of buying illegal products on the “dark web”, including drugs, guns and child

Institutional investors are taking interest

pornography. In 2014, when the FBI shut down the black market website Silk Road, the price of Bitcoin collapsed. Even today, its use as a means of payment for legal products is extremely rare. Bitcoin has also been adopted by criminal groups as a way of evading taxes and laundering money. When an anonymous “dark wallet” for Bitcoin was first developed, a blog supporting Islamic State hailed it as “simple” and “easy”, and asked “Allah to hasten it’s [sic] usage for us”.

Bitcoin was developed in 2008 by an unknown coder using the pseudonym Satoshi Nakamoto. It was to be a “decentralised” digital currency, unshackled from state-owned banks like the Fed, the Bank of England or the European Central Bank. At the time, these three institutions and others like them were dealing with the fallout from the collapse of the US sub-prime mortgage market and the largest financial crisis since the Great Depression. Soon they would fight the fire of insolvency through the creation of billions of dollars in new money, used to purchase bonds and financial assets in a process known as quantitative easing.

In a nod to the chaotic circumstances in which Bitcoin was born, Nakamoto inserted a copied message, a headline from *The Times*, into the code of the original Bitcoin block: “The Times 03/Jan/2009 Chancellor on brink of second bailout for banks.” Instead of relying on this failed system of boom, bust and bailouts, Bitcoin would use “blockchain” technology to create a public “distributed ledger” – a record of all the Bitcoin trades and transactions that had taken place, and all the Bitcoins that had been created. This “distributed ledger” would be accessible to all, and it not only facilitated quick transfers of Bitcoin from one “digital wallet” to another, without the intermediaries of the traditional banking system, but also made Bitcoin impossible to forge or replicate. The “distributed ledger” of Bitcoin transactions would be maintained through the process of “mining” or creating new Bitcoins, using computing power to make complex mathematical calculations to keep the



blockchain up to date.

Written into Bitcoin’s code was the proviso that its numbers would be kept finite. Unlike in the old, discredited world of fiat currencies, with central banks able to issue free-floating pounds and dollars ad infinitum, no more than 21 million Bitcoins will ever be mined. While there are currently around 19 million in circulation, it’ll take until 2140 for the full amount to be created. It is this “digital scarcity”, engineered into the product, that has led to comparisons, including in the Citigroup report, with gold. Its limited supply, like the precious metal, means it is “insulated from inflation rates” and the ultra-low interest rate monetary policy pursued by central banks for a post-Covid recovery.

The vision of many of the early users of Bitcoin was for a currency that didn’t bow to the whims of the global banking and financial system. “A lot of people have an alternative view of the world – and a lot think that because capitalism is bad, Bitcoin is great,” says Walker. “But no. With Bitcoin you’ve taken the worst bits of capitalism, concentrated it in one thing, and totally divorced it from anything real.”

An ecosystem of cryptocurrencies and blockchain-based products has grown alongside Bitcoin. In January, the price

No scheme like this has ever lasted forever

of Dogecoin, a cryptocurrency that takes inspiration from the doge internet meme, rose by 800 per cent in 24 hours after it was promoted via Twitter by the rapper Snoop Dogg and Tesla’s founder Elon Musk. Another, released in 2014, called Coinye was sued by Kanye West when it used his image without permission. It is alleged, too, that cryptocurrency Tether, a so-called “stablecoin”, which claimed to be backed by real US dollars, has been used to pump the price of Bitcoin.

Perhaps most bafflingly, the current crypto boom has exploded in tandem with the market for non-fungible tokens (NFTs) – unique digital codes, also built using blockchain technology, that cannot be copied or forged and are often linked to digital artwork or music. At the beginning of March, auction house Christie’s sold a computer-generated collage image linked to an NFT for £50m, making the image’s creator, Beeple, one of the top three most valuable living artists, alongside Jeff Koons and David Hockney.

“People just keep pumping the price up,” says Walker. And the story is the same across all crypto assets, all blockchain-based technologies, from cryptocurrencies to the burgeoning market in art made up of noughts and ones on a server. “Just think,” Walker continues, “if Bitcoin stabilises at \$60,000 people will say ‘Hurray, it’s worth \$60,000!’ But if the price stops moving, no new money comes in. That means there’s no new money to pay for the Bitcoin miners who have billions of dollars in expenses every year. There’s no profit for anyone at all if the price is stable, so they have to keep pumping.”

As policymakers experiment with monetary and fiscal policy to stave off a post-Covid recession, Bitcoin and cryptocurrencies may well continue their volatile journeys as finite, inflation-resistant assets at the centre of a speculative bubble of historic proportions. While the crypto market remains unpredictable, what is certain is that these digital products have come a long way from the world of anti-capitalist hacktivism and Soho squats. ●

China's path to a green economy is paved with fintech

The money needed to save our planet is daunting. Experts say \$2.4trn is required every year up to 2035 to meet the goals of the Paris Agreement. Reversing the global decline of biodiversity alone will require more than \$700bn annually over the next ten years, according to the Paulson Institute.

Governments cannot meet these financial demands alone. The private sector must play a role, and innovation is key to unlocking the capital required.

One important part of the solution is to scale up digital financial technologies. Global fintech lending increased from \$125bn in 2015 to \$400bn in 2017, while the number of mobile money subscribers grew from 2011's 60 million to 400 million in 2015. The challenge for policymakers is to leverage this growth and align new technologies with green development goals.

China, which last year announced its target of being carbon-neutral by 2060, offers some useful lessons, especially for emerging markets, where the financial – and, in many cases, environmental – demands are the greatest. In Zhejiang province, for example, 36 banks are part of a pilot to calculate the environmental risk of local firms. Banks rank state-owned enterprises and small and medium-sized firms for their “sustainability performance”.

Such rankings create public pressure on a company to improve its behaviour. Also, the “greener” the firm, the more opportunity there is to receive financial benefits through loans with lower interest rates and fundraising from green bonds, and to attract investment. Analyses from another pilot in the city of Huzhou show there is a direct correlation



Beijing has prioritised financial innovation for sustainability, says Deborah Lehr, vice-chairman and executive director of the Paulson Institute

between economic performance and a higher environmental score. In addition, firms that score well on the environmental risk analysis qualify for an online green finance service platform, an initiative of the city government.

China's fintech innovations also extend to environmental, social and governance (ESG) investing. Harvest Fund, one of the country's biggest mutual funds, developed an ESG rating system that allows investors to assess ESG performance, driving additional capital towards sustainability.

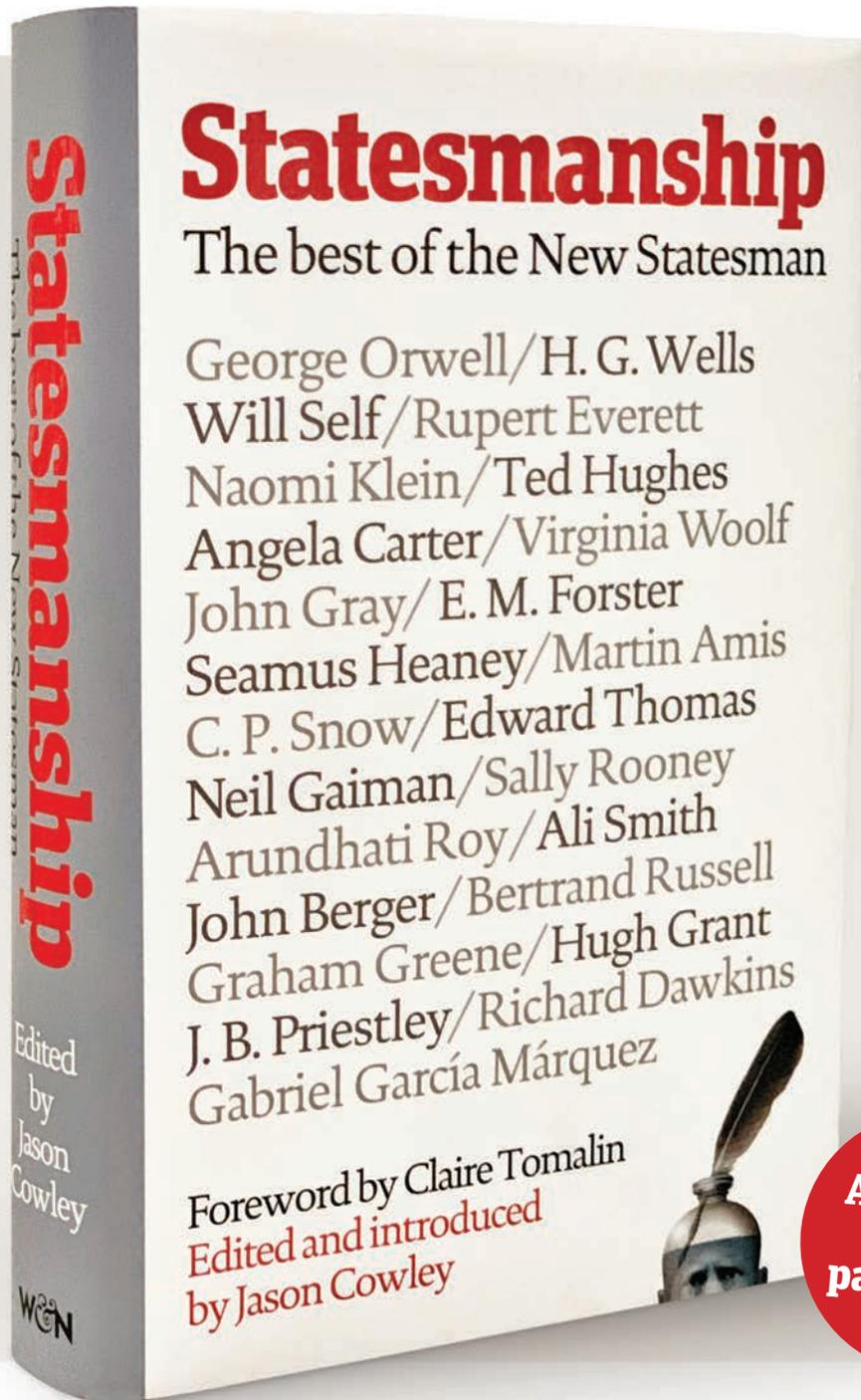
There are lessons to be learned here. For one, fintech is a powerful tool for collecting and analysing environmental data, providing more accurate information on green investing, and reaching those outside the banking system to provide access to capital. It can also help provide better guidance for investors.

Second, China didn't become a green fintech leader by accident, but because green finance was made into a national strategic imperative. China created green finance zones that are dedicated to sustainable development. As a result, it is now a global testing ground for innovation in green finance.

Internationally, much more work needs to be done: environmental data quality needs improvement, common green standards are lacking, and capacity building across the financial system is needed. But fintech offers the potential to unlock significant amounts of capital. If policymakers can come together to create a common taxonomy and regulatory framework, and a compatible technical infrastructure, particularly at the G20 level, it can have a significant global impact. ●

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