

Written evidence from Revolut

Introduction

Revolut welcomes the opportunity to contribute to the EU Financial Affairs Sub-Committee's inquiry into financial services after Brexit.

Revolut is a UK-based financial technology (fintech) company founded in 2015 offering retail and business financial services. Revolut has over 10 million customers worldwide and employs around 2,000 people.

Revolut's retail users get cards with instant spending notifications, built-in budgeting and analytics, foreign currency exchange, bill-splitting, stock trading, crypto trading, instant global transfers, and spare change round-up vaults. Business customers get access to Revolut Business - an all-in-one platform for accountants and business owners to manage their finances securely and seamlessly.

Executive summary

The UK holds a long-standing position as a global financial centre and more recently we have become the world-leader in fintech. Britain's success in growing a leading fintech hub is due in no small part to the actions taken by successive governments and regulators over the last few years. The challenge, and opportunity, for the regulatory system is to ensure that the UK can build on its success and provide the best possible environment for today's successful start-ups to scale up to the next stage of growth and expand internationally.

The fintech sector in the UK is relatively more important to the UK economy than the fintech sectors of EU member states to their respective economies (further detail is set out in response to question 8). The UK leaving the European Union therefore presents an opportunity to revisit the policy and regulatory environment, with a particular focus on fintech, to ensure that Britain maintains, and builds on, its competitive edge.

Treasury announced at Budget that it has commissioned Ron Kalifa to conduct a major review of the fintech sector to support its growth and competitiveness. All of us at Revolut warmly welcome this announcement and we look forward to engaging with the review in due course.

Based on our experience, we recommend that the review and policy makers give thought the following areas when considering the future regulatory framework:

- How to build awareness and trust in fintech
- The future of Open Finance
- How financial crime regulation can be updated to take advantage of new technologies
- The possibility of creating a framework for portable digital identity, and
- Reforms to corporate transparency and Companies House

Further details on each of these areas are set out below.

1) How important is the EU market to your business? How does this compare to the UK market?

The EU is a very important market for Revolut. We have 10 million retail customers in total, 7 million are in the EU and approximately 3 million in the UK. Around 1,000 of our 2,000 staff are based in our global HQ in the UK and we have 750 employees in multiple offices across the EU. The rest of our staff are based in our international expansion markets.

2) What measures have you already taken to prepare for Brexit? Would any of these decisions have been made regardless of Brexit?

We have taken proactive steps to protect our users accounts and minimise disruption, as well as keeping our customers regularly updated via in-app notifications, emails, and posts on our blog.

In 2018, we set up a new European entity in preparation for the loss of financial passporting rights. Because this entity is based in Europe, it has the ability to passport its regulatory permissions around the EEA, whatever the outcome of the Brexit negotiations. We will switch most of our EEA-based customers over to this new entity if required at any stage of the Brexit process.

Our European entity is an authorised e-money institution, just like our UK entity. This means Revolut's users' financial and other regulatory protections will remain unaltered, and protected by European law. All of our customers' funds will be securely held in safeguarded accounts at leading financial institutions and our users will remain able to use all of their normal Revolut features.

While Brexit was the initial driver for these decisions, they may have been made regardless of the referendum. It is responsible, and fairly common, for a business of our scale to have more than one regulated entity serving European customers.

3) What impact will Brexit have on your longer-term business activity in the UK? How important are the current Brexit negotiations for your business?

Revolut is British company and our global HQ is located here. Revolut remains committed to the UK for the long-term.

We are following the current negotiations on the future relationship between the UK and EU closely and our teams continue to engage with UK and European regulators, industry representatives and fellow e-money and payment services providers.

4) What are the ongoing advantages of operating in the UK? How is your relationship with the UK financial regulators?

The UK holds a long-standing position as a global financial centre. Innovation over the last decade has transformed global financial services, with the emergence and rapid growth of financial technology. The UK market's openness to innovation, and the high rate of fintech adoption makes it the ideal place for us to launch groundbreaking products and services, and continue to grow our user base.

Britain's success in growing a leading fintech hub is due in no small part to the actions taken by successive governments and regulators over the last few years. Policies such as promoting competition in the banking sector, establishing a new payment systems regulator, Project Innovate and the Financial Conduct Authority's regulatory sandbox have had a real and tangible impact in promoting the UK as the best place to start and grow a fintech business. It is therefore not surprising that London recently overtook New York as the number one city for investment in fintech companies, with positive spillover effects felt across the UK.

Another key attraction for being based in the UK is the country's large (multilingual, skilled and qualified) talent pool. This pipeline helps us to recruit the talent we need to keep pace with our growth plans.

5) What impact would a lack of data adequacy decision have on your cross-border business? What steps have you taken to mitigate any potential disruption?

Revolut has put in place arrangements that will allow us to operate in the event that there is not a data adequacy decision.

While we are confident that we can continue without adequacy, securing a decision would be immensely valuable to Revolut and other financial technology companies. This is because the standard contractual arrangements that firms like us have had to introduce are inflexible and expensive.

We are supportive of the Government's position on this and hope that the UK will receive an adequacy decision soon.

6) What is your view on the EU's actions on FinTech, such as efforts to create an integrated EU payments market?

The European Commission is expected to publish a strategy on an integrated EU payments market shortly. We will review the strategy closely after publication and we look forward to engaging with the Commission on its broader work on digital finance.

7. Where do you see opportunities to improve the UK's regulatory framework after Brexit?

8. How might UK take a different approach to its style of regulation after Brexit? How might this be designed to support FinTech companies?

The British fintech sector is relatively more important to the UK economy than the fintech sectors of EU member states are to their respective economies. 62% of UK venture capital investment in 2019 went to fintech companies. This compares to 37% and 14% for Germany and France respectively. Additionally, fintechs make up a third of UK unicorns (companies with valuations greater than \$1bn). In Germany and France fintechs make up 15% and 10% of their unicorns respectively¹. The relatively increased importance of fintech to the UK compared to other EU member states means that the UK has a greater incentive to design a regulatory system which supports fintech companies.

The challenge, and opportunity, for the future regulatory system is to ensure that the UK can build on its success and provide the best possible environment for today's successful start-ups to scale up to the next stage of growth and expand internationally. We see merit in revisiting the policy and regulatory environment, working in partnership with the sector, to ensure that Britain doesn't miss a trick in maintaining and building on its competitive edge. We have been calling on the Treasury to launch a forward looking regulatory review for some time, and we were delighted that the recent Budget announced that Ron Kalifa OBE would lead a major review of the fintech sector. All of us at Revolut look forward to contributing to the review and sharing some of the insights we have learned in developing innovative new services for our customers.

Some of the areas that we hope the review will examine include building awareness and trust in fintech, open finance, financial crime, digital identity, and corporate transparency. Our perspective on these areas are set out in more detail below.

Building awareness and trust in fintechs

¹ Source - <https://app.dealroom.co/dashboard>

Our experience suggests that a key barrier to the continued growth of the fintech sector in the UK, and globally, is a lack of awareness, and by association, trust in fintech firms. This is backed up by the finding from EY's Global Fintech Adoption Index that the second most common reason for consumers choosing to use an incumbent financial institution rather than a fintech is trust². EY found that the top reason was a lack of awareness and understanding.

Gaining the trust of customers and the wider public is primarily the responsibility of fintech companies, and it is something that all of us at Revolut work hard on every day, but there is some scope for parliamentarians and the Government to help the sector.

Public and on-going support for the fintech sector as a whole from the Government will help to raise awareness amongst the wider public and normalise the concept of fintech. Increased awareness and normalisation are likely to lead to increased trust, and therefore adoption.

Open finance

The UK has led the way internationally in the development of open banking, and the UK's regime has already led to the launch of new products and services that help consumers and businesses make the most of their money, understand their finances and make payments. As the FCA has said³, the benefits that could come from so-called 'open finance' are potentially transformative. As such, we hope that the review makes recommendations on the regulatory blueprint for open finance.

Based on our experience of open banking, Revolut recommends that the following areas should be considered to ensure that open finance succeeds:

- A mandatory regime, similar to the open banking mandate, should be introduced to ensure that open finance develops successfully.
- The open banking requirement for standardised Application Programming Interfaces (APIs) should be maintained in open finance.
- A critical mass of providers should be mandated to open up to third party access as open finance develops.
- The Open Banking Implementation Entity (OBIE), or a similar body with sufficient technical expertise, should be empowered to deliver implementation of any future open finance regime.

² https://assets.ey.com/content/dam/ey-sites/ey-com/en_gl/topics/banking-and-capital-markets/ey-global-fintech-adoption-index.pdf#page=13

³ <https://www.fca.org.uk/publications/calls-input/call-input-open-finance>

- The Government and regulators should develop and execute a clear communication strategy that seeks to educate consumers about the benefits of open finance as well as the privacy protections it offers.

Financial crime

At Revolut we take the protection of all of our customers and compliance with regulatory requirements extremely seriously. We have made significant investments in our systems, processes and people to ensure that we protect our customers and comply with regulation as we scale and grow. In line with our regulatory obligations, whenever we have suspicions around potential illegal activity, we always report it to the relevant authorities such as the National Crime Agency. Our systems and techniques are continuously improved by data science and machine learning and have a proven track record of uncovering instances of financial crime.

We hope that the review will consider if changes are required to the financial crime regime in order to take full advantage of technologies such as machine learning and we would hope that the review looks closely at the recommendations⁴ made by the Law Commission in its 2019 report⁵ on '*Anti-money laundering: the SARs regime*'.

Digital identity

Customer onboarding remains a key source of friction across the financial services industry, leading to poor customer experiences, reduced account switching, and significant costs for firms in order to comply with Know Your Customer and Customer Due Diligence requirements.

There are many initiatives taking place across the industry, regulators and government departments to understand how a workable system of portable digital identity can be safely and sustainably developed. These include initiatives being led by the Cabinet Office's Digital Identity Unit and the FCA's Regulatory Sandbox.

We hope that the review will consider the importance of coordinating these different work streams to ensure that a workable system of portable identity is developed as soon as possible.

Corporate transparency

⁴ <https://www.politicshome.com/news/article/new-guidance-needed-to-improve-antimoney-laundering-regime>

⁵ <https://www.lawcom.gov.uk/new-guidance-needed-to-improve-anti-money-laundering-regime/>

Building on the points made above about digital identity, Revolut recommends that the review considers the issue of company transparency and Companies House reforms.

In 2019 the Department for Business, Energy and Industrial Strategy consulted⁶ on measures to improve the accuracy and usability of data on Companies House. Currently, Companies House does not verify the accuracy of the information filed by companies⁷. If these measures in the consultation were implemented, it appears that financial services companies such as Revolut would be able to rely on Companies House information for business Customer Due Diligence purposes.

Companies House is digital and freely accessible. An accurate Companies House could mean that small business owners would need to upload far fewer documents during the process of opening a business account, therefore reducing the amount of effort and time taken to open an account. A key barrier to businesses switching between financial service providers is the long sign-up process. As such, anything that speeds up this process could enable far more SMEs to open accounts that are more suitable to their needs and increase their productivity.

9. How might the UK build closer relationships with other third countries post-Brexit? What role should business have in these discussions?

We believe that the UK can build closer relationships with other third countries after Brexit by negotiating additional fintech bridge agreements.

Fintech bridges are bilateral agreements between the UK and a third country which reduce barriers to entry. So far the UK has agreed fintech bridges with Australia, Singapore, South Korea, China, and Hong Kong. Each agreement is unique, but all are designed to help fintech companies access opportunities and support in the respective markets. The agreements offer access to support such as:

- events, meetings and networking opportunities
- referrals to streamline regulatory approval
- introductions to buyers, investors, trade associations and institutions
- advice and one-to-one mentoring from fintech specialists
- discounted 'soft-landing pads', grants or subsidies, where available

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https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/819994/Corporate_transparency_and_register_reform.pdf

⁷ <https://beta.companieshouse.gov.uk/>

These fintech bridge agreements helped Revolut to launch in Australia and Singapore, and we want to work with the Government and Parliamentarians to ensure that further fintech bridge agreements are struck with countries around the world. We would recommend that any future bridges learn lessons from the original set and have clearer 'exit mechanisms' to allow firms to graduate from the time-limited regulatory exemptions offered by the bridges.

10. What should UK's priorities be in terms of promoting international standards in FinTech?

The UK has taken a leading role in promoting international standards in fintech through bodies such as the Global Financial Innovation Network (GFIN). We were pleased to hear that the Economic Secretary to the Treasury expressed his intention to continue to play a leading role in GFIN and other organisations when he gave evidence to your Committee earlier this month.

March 2020