Landscaping UK Fintech Commissioned by UK Trade \& Investment

## Foreword



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Technology applied to financial services (Fintech) has a significant impact on our daily lives, from facil atil payments for goods and services to providing the infrastructure essential to the operation of the rid's financial institutions.

As the world's leading financial centre, the UK is fast becoming a destination of choice for ca panting to establish a global presence in the Fintech sector, with leading international companies tec... hoosing to have a base in the UK whilst at the same time providing a fertile environment for start-ups and preneurs.

The UK Government is committed to supporting Fintech companies; creating jobs c d growth as well as further strengthening our position as the world's pre-eminent financial services destinatio Yorking with colleagues across government, UK Trade \& Investment (UKTI) are leading efforts to at a nor inward investment to the UK's Fintech sector and support UK-based Fintech companies see to ernationalise their business and services.

In order to better inform our strategy to meet these objectivoc. UKTI mmissioned EY to produce a report on the UK Fintech sector. It is intended to help us map out the inc h landscape; to create a recognised taxonomy; and highlight important growth trends, drivers and ba

We have taken the step of publishing excerpts of this rep the wider Fintech community as we believe financial technology businesses, investors and reaulators will all benefit from increased research and transparency on this increasingly important, in on ye and fast growing sector.

This report has provided valuable insight elped shape our strategy for developing and promoting this sector in our bid to assist more companies lo to establish a presence in the UK; and help both indigenous and foreign owned UK companies lever opportunities internationally.

## Executive summary

- UK Fintech is currently energised by the cumulative effect of digital connectivity, customer dissatisfaction with banks, and a lack of innovation and investment by incumbent providers.
- We estimate the Fintech market (as defined in the scope agreed with UKTI) to be worth c. £20bn in annual revenue and growing, the majority of which is generated by what we term Traditional Fintech and in the order of $18 \%$ is generated by Emergent Fintech.
- We describe Traditional Fintech as 'facilitators' (larger incumbent technology firms supporting the financial services sector) and Emergent Fintech as 'disruptors' (small, innovative firms disintermediating incumbent financial services firms with new technology). The UK is poorly represented in Traditional Fintech (four out of the top 100 globally), but is strong in Emergent Fintech (one half of all promising start-ups in Europe).
- The key themes affecting the sector are the disintermediation of incumbent models, the disintermediation of incumbent infrastructure, the monetisation of data, and the requirement for fraud and identity protection.
- We have categorised the Fintech space into Payments (c. £10bn), Software (c. £4.2bn), Data and Analytics (c. $£ 3.8 \mathrm{bn}$ ) and Platforms (c. £2.0bn).
- The highest growth areas are peer-to-peer platforms, online payments and the data and analytics products dit reference, capital markets and insurance) which tor represent c. $60 \%$ of the sector.
- We believe the UK has an international man adership position in peer-to-peer platforms, agr tor platforms, and the data and analytics products. Tw? pr er cally attractive areas where the UK could buid ternational market leadership position are risk ment/compliance/fraud software and online paymer

- Much of Emergent Fintech is focused on a small number of sectors (for example peer-to-peer platforms, payments, capital markets), however we believe there is a huge amount of white space open to disruptive and innovative models, particularly in the middle and back office of insurers and banks.
- We believe the UK scores highly as an attrac ot tion for global Fintech. The size of the market o rtuni, in the UK is significant due to a large indigenous and hnologically sophisticated customer base, an n_ don's position as a world leading centre for inctityt, 기 lancial services. The UK also scores highly e the availability of capital which is sufficient for the sectc nough there are gaps at the development capital and at, ne IPO stage. Interviewees commented favourably n supporting factors including the UK's regulatory anproa financial services infrastructure and London's global trading hub. Three of our intervier ha located their businesses to London due to th the ness of the market.
- Our int iews suggested the UK government should nsider additional actions to support the Fintech community icularly in the areas of improving access to talent; ouraging closer collaboration and information sharing between established financial services businesses and Emergent Fintech; and actively championing the sector. We believe the government should also take a leadership role in setting the agenda on data/privacy protection as this will increasingly become a central pillar of the financial services marketplace and critical in enabling the Fintech sector to operate and prosper.


# Unique factors are driving the financial technology sector 



## Recent changes in UK market dynamics

## Digital connectivity

Smartphone and internet penetration have revolutionised consumer connectivity allowing consumers and as sses to connect in ways previously unimagined. Mans, is e connections have financial components. Tr $K$ has of the highest levels of internet and mobile phone, pe. ration globally, highest e-commerce spend in Europ an a leader in online access to financial services.

## Economic downturn



Consumer sentiment plum eted post-crisis globally and has continued to remain lo ? $n$ UK, while recovering in other European countries is hay reated an environment whereby the UK consumer of toadopting new business models and products fro w widers. At the same time, the crisis has meant : anstitutions have failed to invest in technology and innove no.

egu'ory changes
of new regulation introduced in recent years has mpted financial services industry players to monitor their activities more stringently. This, in turn, has created demand for a range of new and innovative solutions. The UK regulator has also been dynamic in their approach by keeping an open mind and engaging closely with innovators.

Changes in market dynamics have led to the UK becoming a leader in the financial technology industry, with London being the ultimate capital.

## Traditional vs. Emergent Fintech

We observe both Traditional and Emergent models in the UK Fintech sector, with the key aspects of both summarise below.


## Emergent themes in the Fintech sector



## A number of common themes are evident across the sector.

## Monetisation of data

Fintech is fundamentally changing the way consumers pay for financial services. There is a shift away from pai or criptions or free float revenue models to alternative mod d's don advertising and monitoring or reselling of o to thearty companies. This is due to the richness of dara in nancial services and the emergence of a sor isti ted and liquid market for digital leads. This is an important the government to focus on and help to steer deb es rounn consumer protection and privacy.

Fraud and identity protec on
The connected wor very mplicated making protection of personal finand at if shore challenging. As emergent Fintech and ab providers rush into the space with new an a rodels security is often a secondary focus. We expec rigmficant amount of activity in this sector from
 roviders.

## ucture replacement

$T$ most radical Emergent Fintech players are frustrated with existing infrastructures and are completely circumventing it.
This includes the peer-to-peer networks as well as cryptographic currencies such as Bitcoin. Historically this strategy has produced multinational winners in Fintech including Visa, Mastercard and Square, and is the backdrop to the phenomenal success of M-Pesa in Kenya. At the margin some established Fintech are seeking to deliver a step change in legacy infrastructure through the development or acquisition of infrastructure accelerators.

## Disintermediation

Emergent Fintech is disrupting business models and working around incumbent financial service providers, most visibly in peer-to-peer lending. We see mainstream consumers willing to use the players without the traditional barriers of trust, credibility, familiarity and scale impeding uptake.

## Sizing the UK Fintech market

## Based on an approximate and top down view of the UK Fintech sector we believe the industry currently generates c. £20bn in revenue annually.

## Payments

Payments is the largest microsector and based on the level of innovation and scale could be broadly spilt into infrastructure and online segments.

The former is dominated by well established and large players with business models based on economies of scale. The latter has seen the largest number of new entrants and remains fragmented. Most successful players are those that have been able to grow adoption internationally.

## Payments, £10bn



## Financial data and analytics

Successful business models in this microsector rely on economies of scale and ability to collect a diverse range of financial data on individuals, corporates and particular market activities (e.g., trading). We grouped market players based on the type of data into:

- Credit reference
- Capital markets

- Insurance data analytics


## Financial software

The microsector is dominated by large inte tionar technology companies who are mostly headquartere at re of the UK and offer a range of solutions to finarcia' stitu....ns that include:

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- Risk management
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- Payments software
- Core banking, ins raset management and capital
market softw
- Accounting


## Financial software, $£ 4.2$ bn



## Platforms

The platforms microsector dynamic varies significantly depending on the market segment and include:

- Peer-to-peer platforms
- Trading platforms
- Personal wealth platforms
- Aggregators


## Fintech micro sector attractiveness

We set out below our Fintech microsector attractiveness matrix highlighting current size and future growth potential.


[^0]*Illustrative market size

## White space opportunities for disruptive Emergent Fintech businesses

The schematic below highlights areas where existing disruptive Fintech is focussed and also hightlights the white space for further innovation.


## Attractiveness of the UK market

## The UK market is one of the most attractive markets in Europe based on our analysis of market opportunity, availability of capital and regulatory environment.

## We have separated our analysis of the attractiveness of the UK market into:

- Fundamental drivers which reflect the market opportunity in the UK and the availability of capital; and
- Supporting factors which include a wide range of factors that encourage firms to adopt the UK as a centre of business.
- We found that the UK, and London in particular, performs well across a number of aspects due in part the absolute size


## Fundamental drivers


of the market opportunity for financial services in the UK, the quality of infrastructure and the regulatory context.

- We believe the UK scores less well in terms av bility of capital (good versus Europe but poor versu...e s) and also on tax and grants, not becaus $\quad$ UK is not generous, but rather foreign comp iors al nore generous (e.g., Singapore).


## Supporting factors


$\Rightarrow \mathrm{Re}$ ver regarded relative to international peers and u minded to innovation.
ould be more approachable.

Access to high quality financial services talent.
Dependant on importing technical talent.

## Tax and grants

- Good angel investor support but no company help.
- Foreign grants can be very generous.


## Infrastructure

World class financial services infrastructure.
Banks often restrict access.

## Culture and position

London is open, welcoming and has a mercantile culture.
London is perceived as a hub for launching into EMEIA.

## Fundamental drivers: attractive consumer market

## The UK market has a large and sophisticated consumer base with world leading mobile and internet penetration and is open minded to innovative products from new providers.

High level of aggregate financial services activity
The UK financial services sector is one of the largest globally, representing approximately $9.4 \%$ of GDP.

## Population by country and value of financial services



## Openness to adopting new models

Consumer e-commer d per capita
The UK has been an early adopter of a large number of innovative business models (for example, aggregators and DIY investing), particularly those offering:

- Lowest upfront cost
- Internet delivery
- Greater convenience


Scurce: IMRG X-border Training Guide 2013m Population figure obtained from TE/Industry data and Ofcom

Mobile and internet penetration, \% of population


Source: Mobile penetration ITU International, internet penetration World Stats

Level of confidence in banks


[^1]
## Fundamental drivers: leading international financial services centre

London is one of the world's largest financial institutions centres and unlike some peers serves a truly international client base:

251 foreign banks
588 foreign quoted companies
Global rank =


- UK is a global leader in banking and cross border lending

- The UK is a global leader in trading related activity, and in particular fo ange and over the counter derivatives

with specific strengths in specialty insurance.


[^2]
## Fundamental drivers: availability of capital

The schematic below maps the stages of a company's development to the availability of capital in the UK market. UK companies have good access to capital, however, there are weaknesses at the development and IPO stages relative to the US.


Source: EY analysis
Source: ${ }^{1}$ UK Business Angels Association; ${ }^{2}$ NVCA year book 2013; ${ }^{3}$ BVCA; ${ }^{4}$ Private equity growth capital council; ${ }^{5}$ European Venture Capital Association, 2012; ${ }^{6}$ Mergermarket/Capital IQ.

# Appendices 



## Segmentation of the UK financial technology market

Financial technology microsegments can be divided into several key market segments.

| Payments |  |  |
| :---: | :---: | :---: |
| Market segment |  | Est. na + size (reve. .) |
| Infrastructure | Market players include operators of national payment infrastructures, cards schemes, issuers, processors and merchant acquirers. The segment is dominated large established players, however, new infrastructure solutions are emerging. |  |
| Online payments and FX | This segment is highly fragmented and diverse and includes e-wallets, B2B ia payment providers, payment gateways, virtual terminals and online money tra <br> This segment has seen a significant amount of innovation, changing th way we make payments. | £1.9bn |
| Data and analytics |  |  |
| Market segment |  | Est. market size (revenue) |
| Credit reference | Credit reference and data analysis aims eredit worthiness of companies and individuals. Increased to ation of this segment is leading to new software solutions emerging. | £1.0bn |
| Capital markets | This market has traditionally beer minated by large capital market players. However new entrants are em ng ith some reaching significant scale by utilising data analysis opportunities ii re vusly unexplained areas of the market. | £2.2bn |
| Insurance | Insurance data analytics i, u. y uses data to better understand risk and price it more accurately. Incura market players are increasingly embracing new technology soluti is more innovation is anticipated. | £0.6bn |

## Segmentation of the UK financial technology market (continued)

Financial technology microsegments can be divided into several key market segments. (cont'd)

## Financial software market






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[^0]:    = UK market leadership position

[^1]:    Source: Edelman Trust Barometer

[^2]:    Source: BIS and The City UK

