



# 2016 Top Markets Report **Financial Technology** Country Case Study

## United Kingdom

The United Kingdom leads the FinTech ecosystem in the European Union and ranks second after the United States in terms of FinTech payments subcategory. The growth of FinTech investment in the UK and Ireland has been the highest in the world from 2009 to 2014. The UK is the 10<sup>th</sup> largest economy in the world with one of the highest per capita incomes and has also been the fastest growing economy in the G7 for the past three years. There are currently over 350 different banks in the UK; many are headquartered in London, including HSBC, Lloyd's and Standard Chartered. The UK's role as a member of the European Union has facilitated the city of London's emergence as a leading financial center and the financial gateway for Europe. All of these factors make the UK an attractive market for U.S. FinTech companies.



### Leading Financial Center

According to the Global Financial Centre Index (GFCI), London is the leading GFC ranked city ahead of New York and Hong Kong. Uncertainty surrounding the UK's referendum on its membership in the European Union, however, could have a significant impact on London as the leading financial center.

Since 2010, UK tech companies have raised \$9.7 billion in financing, with London-based companies accounting for more than half of the national total.<sup>1</sup> In 2015, many UK FinTech companies were involved in significant funding rounds, including Ebury, a group that helps small businesses trade

internationally and raised \$83 million; Funding Circle, a peer-to-peer lender that raised \$150 million; and WorldRemit, a money transfer group that raised \$100 million. At this time it is still too early to determine the impact of the UK's decision to leave the European Union (Brexit) on its Fin Tech sector. Brexit effects will be based on whether the UK and EU can negotiate a productive way forward to ensure continued trade and investment.

### Sectors

The UK FinTech industry has historically been focused on business models that served consumers and small business lending, crowdfunding, remittances, foreign exchange, pre-paid debit cards

Figure 1: United Kingdom at a Glance

Source: See methodology, 2017

<u>GDP</u>	<u>Population</u>	<u>Consumption</u>	<u>Fin. Assets</u>	<u>Smartphone</u>	<u>Broadband</u>
\$2,968 bill.	65 mill	64.9 % of GDP	1,425 % of GDP	68.8 %	40.3 %

and mobile payments. There is now a bigger trend of FinTech firms focusing on business-to business opportunities and “back-end” financial systems in areas such as fraud detection and data analysis (“reg-tech”). This trend is supported by the British government, which has tailored its regulations to be more lax and private sector driven with the aim of nurturing this development. As the city with the headquarters for many major financial institutions, there is already an existing market in the area of IT compliance in the traditional banking system that can be a target for U.S. Fintech companies.

As of the end of 2015, UK-based FinTech unicorns (defined as a large start-up company exceeding \$1 billion in market value) include TransferWise, an international money transfer service; Oscar Health, an online health insurance provider; Powa Technologies, which makes mobile payment products; and Markit, which provides financial information and data.

### **Payments Infrastructure & Regulation**

The UK’s Fast Payments Services (FPS), focused on bank execution and confirmation of payment loops, has led the global shift towards efficient and faster payments. Since the implementation of the FPS program, instant payments for purchases have increased on average by 40 percent annually from 2009 to 2014 and accounted for 8 percent of total payments in the UK by the end of 2014.<sup>2</sup> The system also allows consumers to purchase public services such as bus rides through smartphones or trade gift card balances via mobile payments. Most of the UK’s payments infrastructure is owned by major banks. Pingit, which enables users to send and receive payments using a mobile number, is owned by Barclays.

The UK government Financial Conduct Authority's (FCA) Project Innovate helps FinTech startups navigate the regulatory landscape. Through this program, FCA regulators provide feedback to private sector companies that are developing new business models and platforms that may fall outside current UK regulations.

The UK government has also appointed a Chief Scientific Adviser to lead a review into the future of FinTech. The review is on-going and will look at the

technologies, forces and barriers that are shaping the FinTech sector through to 2025, and the policy implications for the government.

### **Fintech Payments**

The mobile payments sector in the UK is growing rapidly due to a developed financial infrastructure, high per capita income and a technology-literate population. The UK boasts a widely deployed payment acceptance infrastructure on its transport system and enjoys high levels of consumer awareness and adoption. The market size for mobile payments in the UK is around £10bn.<sup>3</sup> Two companies in this market are ApplePay and Zapp. Apple Pay entered the market in mid-2015 with mixed success. Zapp is another mobile payments FinTech company that uses FPS service infrastructure. Zapp can be integrated into existing mobile banking apps for users to make in-store and online purchases through mobile devices. Zapp uses fraud detection technology from a Cambridge University spin-off startup called Featurespace to protect users with their electronic payments.

### **Subsector: Marketplace Lending**

According to the Bank of England, Funding Circle, a peer-to-peer lender launched in 2010, is the third-largest lender to small businesses in the UK after the Royal Bank of Scotland (RBS) and Lloyds Banking Group. Funding Circle has raised \$150 million in 2015 and passed a key milestone by loaning more than £1 billion to firms in the UK, allowing the company to be considered a FinTech unicorn.<sup>4</sup>

### **Regulations**

The UK regulatory structure that impacts financial technology has been conducive to growth of FinTech startups and other companies operating in the FinTech space. The FCA and, to some limited extent, the Bank of England are the two institutions that are most important to UK FinTech regulations. In addition, the UK’s FinTech private sector has pushed for a self-regulating regime that is mostly dictated through the P2P Association. This association has been instrumental in setting industry standards for operations, underwriting procedures, marketing, fraud and money laundering.

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<sup>1</sup> "UK tech raises \$3.6bn venture capital in 2015. *The Financial Times*. (January 6, 2016)

<sup>2</sup> Volume 8, Number 21 May 2015 McKinsey on Payments

<sup>3</sup> "Landscaping UK FinTech Report" *Commissioned by UK Trade & Investment* (August 4, 2014)

<sup>4</sup> "Funding Circle Loans Small UK Business Lender" *The Guardian*. (December 29, 2015)