UK FINTECH INDUSTRY REPORT

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MARC

Mangal Analytics and Research Consulting

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Contents

Market Overview

The UK is the third largest destination for FinTech investment, after the United States and China.

The FinTech sector in the UK is comprised of over 1,600 firms, and that number is projected to double by 2030. The sector contributes and estimated $9.18 billion (£7 billion) and over 60,000 jobs to the UK economy.

The market's largest segment will be Neobanking with a total transaction value of $741,623m in 2022. The average transaction value per user in the Alternative Financing segment is projected to amount to $85,563 in 2022.

The Neobanking segment is expected to show a revenue growth of 40.0% in 2023. In the Digital Payments segment, the number of users is expected to amount to 64.05m users by 2026. Total Transaction Value in the Neobanking segment is projected to $741,623m in 2022.

Due to the major differences in the KPIs of FinTech products, e.g. different nature of loan origination volume in Alternative Lending in comparison to Assets under Management in Robo-Advisors, no total transaction value for all segments can be calculated.

- Market Size and Growth

The UK FinTech ecosystem is the largest in Europe. As the UK negotiates its future relationship with the European Union, Her Majesty's Government has made its FinTech sector a priority. In February 2021, the Treasury published a review into the UK FinTech industry. The Kalifa Review made several recommendations, including changes to UK listing rules, improvements to tech visas, the creation of a regulatory 'scalebox', and establishing a Centre for Finance, Innovation, and Technology.

The UK FinTech industry is growing quickly and this growth has been accelerated by the COVID-19 pandemic. There are opportunities for innovative U.S. fintech solutions to be provided as disruptive technology, as well as to forge partnerships with the major incumbent financial institutions. Though concentrated in London, there are other major centers for FinTech throughout the various regions in the UK, including FinTech North, FinTech West, FinTech Northern Ireland, FinTech Scotland, and Fintech Wales.

Total investments into Fintech companies in the United Kingdom (UK) market fluctuated during the period under observation, reaching a value of approximately 24.5 billion U.S. dollars during the first half of 2021.

The largest value of investments happened in the third quarter of 2019, when investment into fintech companies in the UK reached a value of approximately 50.9 billion U.S. dollars. This was mainly due to the M&A deal involving Worldpay.

Six of the top ten fintech companies as ranked by Fintech 50 are headquartered in London. London has one of the world's highest concentrations of financial and professional services firms, providing a huge client and partner pool for fintech firms. UK's fintech adoption rate is 71% well above the global average of 64%. Six out of the top ten European fintech deals were in London. London's job market for fintech has seen a 61% growth in demand. Deloitte ranks London #1 for fintech.

82% of global financial services firms expect to increase fintech partnerships in the next 3-5 years. 42% of workers in fintech are from overseas. The UK attracted $4.1bn fintech investment in 2020, first in

London has over Europe and second globally. 350,000 software developers, more than any other European city. Fintech is worth £6.6bn to the UK economy.

UK benefits from clusters of fintech expertise across the country. These hubs are underpinned by advantages including a culture of creativity, supportive regulators, and a pipeline of diverse digital and financial talent, making fintech a nation-wide industry.

London is home to fintech companies that are innovating to respond to changing demands, enabling them to take advantage of new opportunities at speed and scale. 82% of incumbents expect to increase fintech partnerships in the next three to five years. 60% of all transactions in the UK now take place via contactless payment methods.

- Market Segments

The FinTech sector has seen steady growth and the acceleration of adoption in several sub-sectors, including payments, regulatory technology (regtech), and insurance technology (insurtech).

1. **Payment services:** New ways of paying, including contactless and mobile payments, but also payment via cryptocurrency and other digital wallets.
2. **Consumer banking**: Banks are increasingly offering consumers new digital tools to keep control of their money, such as spending trackers and tools to block or limit spending on certain categories of spending (such as gambling). Some digital-only banks have been set up. Loan underwriting is becoming increasingly automated, while chatbots are being used to process questions from consumers.
3. **Financial advice:** Advanced data analytics, including AI, can be used to provide 'robo-advice' to consumers. This can give advice tailored to individuals about how best to invest their money. Trading of investments – via 'algorithmic trading' – can also be automated.
4. **Insurance ('InsurTech'):** Using big data to automate and improve insurance decisions. This includes the use of telematics (such as 'black boxes') to monitor driver behaviour. There have also been stories of firms allegedly using customers' social media data to evaluate risk.
5. **Alternative finance:** Crowdfunding and peer-to-peer (P2P) lending offer new ways for consumers to invest their money. Crowdfunding allows individuals to invest in an organisation, either in exchange for equity or for a reward (such as discounted products on launch). P2P lending platforms enable individuals or SMEs to lend money directly to one another.
6. **Regulatory technology (RegTech):** RegTech automates the compliance processes that financial services organisations need to meet

- Key Players

	Revolut	Monzo	OakNorth Bank
USP	Revolut is a global financial app to help people get more from their money, and also easy money management, travel perks and investments and so on.	Monzo Bank's unique selling proposition or USP lies in being UK's most recommended brand. Monzo's mission statement reads, "To build a smart phone hub for all financial needs, with importance placed on each user having control and knowledge of their finances.	OakNorth Bank is a bank for small and medium-sized companies that provide business and property loans.

	Revolut	Monzo	OakNorth Bank
ESG	At present, Revolut's plans for eco-sustainability are divided into two points: *Confirming the current carbon footprint; *Implementing effective measures to become more environmentally sustainable.	Monzo has a goal to reach net zero emissions as a business, by the year 2030.	OakNorth believes that empowering growth businesses makes the world a more interesting, dynamic and diverse place to live. To continue reinforcing the positive impact growth businesses have on communities and economies globally, they donate 1% of the Group profits to supporting charitable causes and socially-minded enterprises.
Partnership with other companies	epay, the UK-based business segment of the North American group Euronet Worldwide Inc, has signed up to be the global partner for the challenger bank, Revolut.	Jumio and Monzo Partnership	OakNorth, the next-generation credit and monitoring platform, announces the signing of a commercial agreement with Customers Bank.
Company Presence / Image	• Industries: Financial services • Company size: 1001-5000 employees • Headquarters: London, England • Type: Privately Held • Specialties: Mobile Banking, Card Payments, Money Remittance, and Foreign Exchange • 15 million customers around the world use dozens of Revolut's • Innovative products to make more than 100 million transactions a month.	• Industries: Banking • Company size: 1001-5000 employees • Headquarters: London, England • Type: Privately Held • Founded: 2015 • Specialties: Digital Retail Bank, Fintech, digital banking, and smartphone.	• Industries: IT service and consulting • Company size: 501-1000 employees • Headquarters: London, England • Type: Privately Held • Founded: 2015

Consumer Analysis

- End-User Segmentation

B2C Segments

Money transfer and payments: Online foreign exchange, Overseas remittances, Payout management tools, online digital-only banks without branches, non-banks to transfer money, mobile phone payment at checkout, payment via cryptocurrency (e.g. bitcoin)

Insurance (InsurTech): Car insurance using telematics (black box) to monitor driver behaviour, Insurance premium comparison sites, Peer-to-peer (P2P) or micro-insurance.

Borrowing: Borrowing using online short-term loan providers, Peer-to-peer (P2P) lending

Financial planning: Online budgeting and financial planning tools, Tools to analyse expenses and compare financial products

Savings and investments: Peer-to-peer (P2P) platforms for high-interest investments, Investments in equity crowdfunding platforms and rewards platforms, Online investment advice (Robo-advice) and investment management, Online stockbroking, Top-up savings or investments, online spread betting.

B2B Segments

Enterprise and Regulatory Technology: (RegTech) Advanced analytics providers, Blockchain solutions and distributed ledger technology (DLT), RegTech and risk management Core banking, insurance, asset management and capital market software, Credit reference data Insurance and data analytics Cybersecurity Digital identity.

SMEs: Fintech lenders, including online short-term loan providers Foreign Exchange (FX) and business-to-business (B2B) payments, Trade finance and supply chain solutions.

Corporates: Merchant acquirers and gateways, Payment optimisation and fraud detection software, Loyalty software providers, Payments software, Trade finance and supply chain solutions.

COVID-19 Impact

6 million UK adults downloaded a banking app for the first time during the coronavirus crisis. There isn't any doubt that COVID-19 has a great effect on accelerating the virtual transformation in lots of industries and offerings globally.

People`s notion of fintech has shifted toward the usage of more fintech offerings. FinTechs continue being under stress in multiple ways since and post the COVID 19 pandemic, and the uncertainty it brought about. However, as the broader economy shifts from reaction to recovery, new opportunities open.

Access to funds is already becoming difficult, especially for early-stage ventures, as many investors focus on established FinTechs with a clear business model. In addition, recent rate cuts and the economic slowdown has fundamentally changed the assumptions of many industries.

But as the broader economy moves from response to recovery, COVID 19 has the potential to spawn new Opportunities for some fintech companies. For example, because social distance is well established all over the world, the use of digital financial services and e-commerce is growing exponentially.

FinTech as a market in 2019 was worth £110bn in revenue. The global market is forecasted to be £380bn by 2030. FinTech in the UK is raising far more money than the rest of EMEA combined. COVID19 has sparked a competition to digitize UK financial services, and many major banks have jumped into the digitization investment pot. This is the main reason why corporate investment is so high. This timing, coupled with the UK's reputation as a historic financial services sector and its ongoing efforts to promote FinTech from valuation to listing, makes the UK an attractive investment.

FinTech has emerged as the fastest-growing sector of the UK economy, and as the COVID19 crisis has accelerated the digital adoption of financial services, the industry has become an alternative solution to the financial hardships of individuals and businesses. It is attracting attention.

The economy has been hit hard by the impact of COVID19, and the fintech market is no exception. But it's better than most of the time to survive the current storm.

There are an entire host of things as to why the fintech marketplace is much less negatively affected than others. The majority of fintechs (87%) have raised fairness finance this means that many have hard cash in addition to getting admission to knowledge and investor networks to through this period

The negative impact is most pronounced for FinTech, which relies on payment transfers and transactions as a source of revenue. This is mainly due to lower spending. FinTech, which relies on international payments, has been particularly hit hard by the decline in international trade, travel and financial transfers.

Opportunities and Challenges

Opportunities:

FinTech will be key to the UK’s future prosperity, as a major source of export and inward investment. FinTech will also provide new innovations and services that will allow SMEs and customers to grow and realize their goals, beyond today’s banking landscape.

The future of UK financial services has been dominated by talk of Brexit and the COVID-19 pandemic. That’s not surprising given financial services contributed £132 billion to the UK economy in 2019, 6.9% of total economic output.

Yet much less is heard about FinTech, which lies at the intersection of the UK’s traditional strength in financial services and the future focus on the digital economy. The UK remains a global leader, attracting international FinTechs and investors, making up around 10% of the global market (c.£11bn in 2019). In addition, London is ranked second as a top financial center after New York.

FinTech is a great example of the UK punching above its weight internationally. The UK has an active market, attracting large amounts of capital and skill. The good news is that there are many public and private bodies already supporting the UK FinTech sector.

The UK has entered 5 FinTech Bridge agreements with other FinTech hubs including Singapore, South Korea, China, Hong Kong, and Australia. These bespoke agreements create valuable opportunities for the UK by overcoming barriers to international market entry and linking UK-based FinTechs with opportunities for international investment.

Challenges:

The challenge today is for the UK to avoid being left behind as other countries look to grow their FinTech infrastructure and offerings. The country cannot take their international position for granted as countries look to learn from the success of the UK. It needs to take steps to not only maintain their position but also increase market share in years to come.

1. **Cyberattacks:** With more financial digital services being provided, cybercriminals are gaining more ways of accessing sensitive information. Advanced cybersecurity is a critical point for fintech firms and, unfortunately, ever acute.
2. **Talent and skills:** While Great Britain and specifically London are known for their fintech expertise, the new tech trends require an even bigger talent pool and specific technical skills. To support the market's leading position, businesses see the need to invest in talent development and research. The competition for specialists in data analytics, machine learning, and cybersecurity is global.
3. **Building partnerships:** Both traditional players and innovative fintech startups feel the need to augment their knowledge base – and market reach – with reliable partners. As remote work becomes the "new norm," building an in-house team is not as critical as before. Cost reduction is one of the key reasons for attracting specialists outside the UK.