

UK FinTech Census 2017

The voice of FinTech

HM Treasury, EY and Innovate
Finance

Commissioned by:



HM Treasury

INNOVATE
FINANCE

The EY logo, consisting of the letters 'EY' in a bold, white, sans-serif font, with a yellow triangle above the 'Y'.

EY

Building a better
working world

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1. Overview

Foreword

The UK Government is committed to maintaining a leading position in the international FinTech sector. At the Department for International Trade's inaugural *International FinTech Conference* in London earlier this year, the Chancellor of the Exchequer highlighted FinTech as leading the UK's fourth industrial revolution and transforming the way we live and conduct business.

With this in mind, HM Treasury has commissioned EY and Innovate Finance to produce the UK FinTech Census. This report will help build greater awareness and understanding of UK FinTech by profiling the sector and publishing aggregated metrics on its growth. The census provides a platform for FinTechs to express their views on a range of matters related to revenues, investment, talent and regulation. In addition to charting the sector's growth, the census provides a unique first-hand perspective on key challenges that FinTechs are facing.

EY's internal analysis identifies over 1,600 FinTech companies currently operating in the UK. The 245 respondents who participated in the census are a strong representation of this community. The survey work was conducted between February 2017 and May 2017.

We are excited to share the analysis and insights from this initiative, and believe they will serve as a vital reference for policymakers, regulators, the Government and the wider sector.

“FinTech is fundamentally challenging the way that we deliver and access financial services in the UK. It helps consumers to make more informed choices and to increase competition in our financial services sector. We are committed to supporting FinTech to ensure that we maintain our leading position globally.

The UK FinTech Census provides a clearer picture of our diverse and innovative FinTech ecosystem, which continues to go from strength to strength. We will work to ensure that the UK remains at the forefront of FinTech policy and regulation to create an environment that supports our firms to access the talent and investment that they need to grow and succeed.”

Stephen Barclay, Economic Secretary to the Treasury

“The UK FinTech Census is an opportunity to showcase the UK FinTech sector to international investors and talent.

UK FinTech continues to enjoy a highly supportive combination of regulation, talent and market opportunities. It is fascinating to see the ambitious growth plans of UK FinTechs, both in terms of hiring new talent and expansion into new markets, which continue to drive revenues and investment in the sector.

The UK is world leading in financial services and regulatory policy. Open Banking, which will go live in 2018, will facilitate secure sharing of data between banks and FinTechs. It is a genuine world first and will be yet another catalyst for innovation and customer adoption within UK FinTech.”

Imran Gulamhuseinwala, Global Head of FinTech, EY

“The FinTech Census provides, for the first time, a comprehensive landscape of UK FinTech and draws attention to the importance of talent and investment to entrepreneurs, the two key ingredients to great companies and a healthy start-up ecosystem.

Start-ups' requirements for coding and engineering skills and product and sales skills highlight the importance of working with education, sector and government bodies to ensure that the UK is attracting and developing the STEM skills FinTechs require.

The requirement for future funding and forecasted IPO activity over the next cycle is a beacon to both domestic and foreign venture capital, highlighting the great opportunities to expand funding programmes into UK FinTech.

It has been a privilege for Innovate Finance to work with HM Treasury and EY on the inaugural census, and we are in no doubt that it will provide invaluable insights to the community.”

Charlotte Crosswell, Interim CEO, Innovate Finance

Scope and methodology: a four-stage approach

1. Definition of the FinTech sector

- ▶ There is no universal classification or comprehensive directory of FinTech businesses. For this census, we have defined a FinTech organisation as one that undertakes one or more of a set of FinTech business activities, as shown in Figure 1 (page 6). These activities relate to the use of innovative business models and technology to enable, enhance or disrupt financial services.
- ▶ Business activities are categorised according to whether they primarily deliver a business-to-consumer (B2C) or business-to-business (B2B) proposition. We acknowledge the recent trend for FinTech organisations to describe themselves as 'B2B2C', indicating a focus on an end consumer via a B2B relationship. For this census, we consider these to be B2B organisations.

2. List of FinTech companies

- ▶ A list of FinTechs was developed from existing contacts, directories, industry association members (including Innovate Finance) and events (including FinTech conferences). These organisations were screened for FinTech eligibility and contacts were sorted to remove duplication.
- ▶ A total of 1,600 unique FinTechs were identified in the UK. Using existing relationships with these FinTechs, as well as online sources of contact information, email addresses were sourced for 1,400. These individuals were then invited to take part in the census (contact details for 200 FinTechs could not be found).

3. Survey design

- ▶ Census questions focused on profiling respondents, as well as providing insights into their revenues, investment, talent, future growth ambitions and key challenges in achieving these.
- ▶ FinTech firms received an email with a link to an online survey page. There were 17 questions, with a wide range of free text, multiple choice, ranking and scoring questions that would take no more than 15 minutes to complete.
- ▶ Respondents were also given the opportunity to note any additional comments or suggestions. We present these as 'Respondents' additional comments' throughout this report.
- ▶ Simon Kirby, then Economic Secretary to the Treasury, and Eileen Burbidge, the UK Treasury's special envoy for FinTech, wrote to FinTech companies to encourage them to participate in the survey.

4. Analysis and reporting

- ▶ 245 companies submitted their results, providing an 18% response rate of the 1,400 FinTechs that received the survey.
- ▶ Once the census was officially closed, a manual data cleansing exercise was undertaken, with final output based on analysis of the cleansed data.

Figure 1: **Scope of FinTech sector as defined for this census by qualifying business activities**

B2C propositions	B2B propositions
<p>Money transfer and payments:</p> <ul style="list-style-type: none"> ▶ Online foreign exchange ▶ Overseas remittances ▶ Payout management tools ▶ Online digital-only banks without branches ▶ Non banks to transfer money ▶ Mobile phone payment at checkout ▶ Payments via cryptocurrency (e.g., bitcoin) 	<p>Enterprise and RegTech:</p> <ul style="list-style-type: none"> ▶ 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 and analytics ▶ Insurance and data analytics ▶ Cybersecurity ▶ Digital identity
<p>Insurance:</p> <ul style="list-style-type: none"> ▶ Car insurance using telematics (black box) to monitor driver behaviour ▶ Insurance premium comparison sites ▶ Peer-to-peer (P2P) or micro-insurance 	<p>Small-and medium-sized enterprises (SMEs):</p> <ul style="list-style-type: none"> ▶ FinTech lenders including online short-term loan providers ▶ FX and B2B payments ▶ Trade finance and supply chain solutions
<p>Borrowing:</p> <ul style="list-style-type: none"> ▶ Borrowing using online short-term loan providers 	<p>Corporates:</p> <ul style="list-style-type: none"> ▶ Merchant acquirers and gateways ▶ Payment optimisation and fraud detection software ▶ Loyalty software providers ▶ Payments software ▶ Trade finance and supply chain solutions
<p>Financial planning:</p> <ul style="list-style-type: none"> ▶ Online budgeting and financial planning tools ▶ Tools to analyse expenses and compare financial products 	
<p>Savings and investments:</p> <ul style="list-style-type: none"> ▶ P2P platforms for high-interest investments ▶ Investments in equity crowdfunding platforms and rewards platforms ▶ Online investment advice and investment management ▶ Online stockbroking ▶ Top-up savings or investments ▶ Online spreadbetting 	

Key messages

The 2017 UK FinTech Census was designed to gather key insights directly from FinTechs, charting key areas of growth, as well as potential challenges. Data was gathered on the specific areas of revenues, investment, talent, regulation and future expansion.

The 245 respondents in our study provide a strong subsector representation, with the largest representation from payments and remittances, and financial software. The average age of FinTechs in the study is 5.3 years, with a peak in the number of companies founded in 2014.

▶ Revenue

Both historic and prospective revenue growth are key indicators of success for FinTechs. Census results show that average UK revenue of respondents grew by 22% between 2014 and 2016, when average revenues reached £5mn. Fifty percent of companies expect global revenue growth of over 100% in the next 12 months.

▶ Investment

A FinTech's ability to raise funds is critical to growth. The census results show that FinTechs have received an average of £15mn in investment to date. Half of all respondents expect their next funding round to be more than £2mn, with 35% anticipating more than £5mn. In aggregate, FinTechs expect a total of £2.5bn for their next funding round, and 33% of respondents expect an IPO to be likely in the next five years.

▶ Talent

The calibre of people leading and running FinTechs is a key pillar to their success, as is future talent pipeline. Census results show coding and software development to be the most difficult skill to find when recruiting (78% of respondents rank this in their top three), followed by product and sales skills. The majority of respondent companies have an overall UK headcount of less than 150, with 95% looking to hire up to 50 employees over the course of 2017.

▶ Regulation

The UK has a global competitive advantage in its regulatory environment for FinTechs. The UK financial regulator has a mandate to promote innovation and competition, on top of the basic requirements for financial stability and consumer protection. Census results demonstrate that nearly half of respondents are regulated by the Financial Conduct Authority (FCA) and / or Prudential Regulation Authority (PRA) in the UK. Many have articulated policy proposals and recommendations, including the desire to participate in initiatives with policymakers.

▶ Future expansion

Census results show Europe and North America to be the two most important regions for future expansion. Attracting qualified or suitable talent is the single biggest challenge for FinTechs in 2017, followed closely by achieving customer adoption to build the size of the user base.

2. Profiling respondents

The UK FinTech Census gathers key statistics to profile the sector, providing insights into employee demographics, revenue, investment, talent, regulation and future expansion.

Data from 245 respondents provides a good representative sample of UK FinTech. Individual respondents hold senior positions at these FinTechs, with 84% representing the C-Suite. Respondent companies are relatively young in age, with the average age being just 5.3 years.

Figure 2: Respondent positions

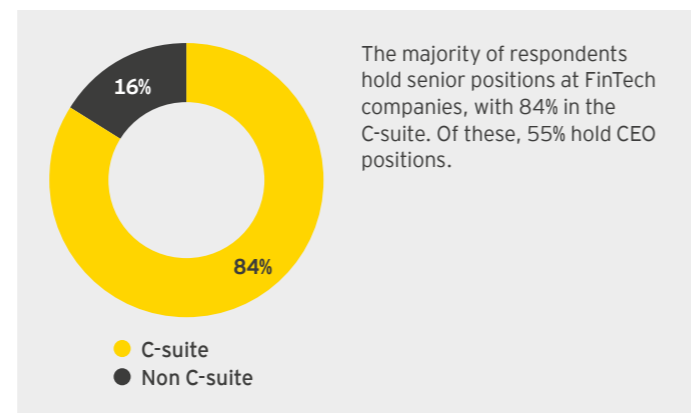
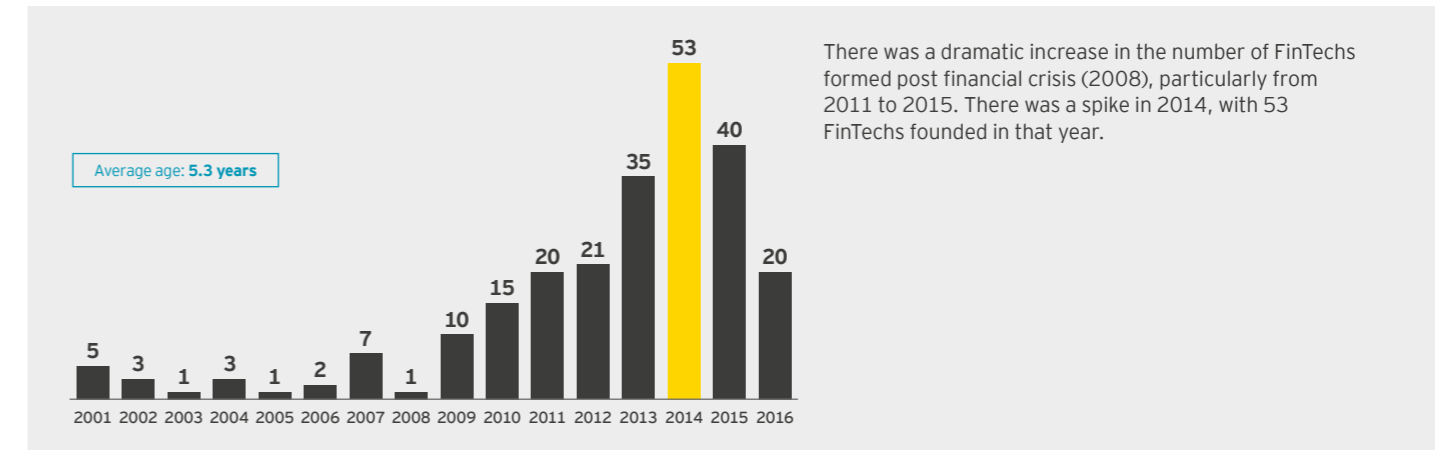


Figure 3: UK head office for UK firms



Note: The charts above are representative of all 245 respondents.

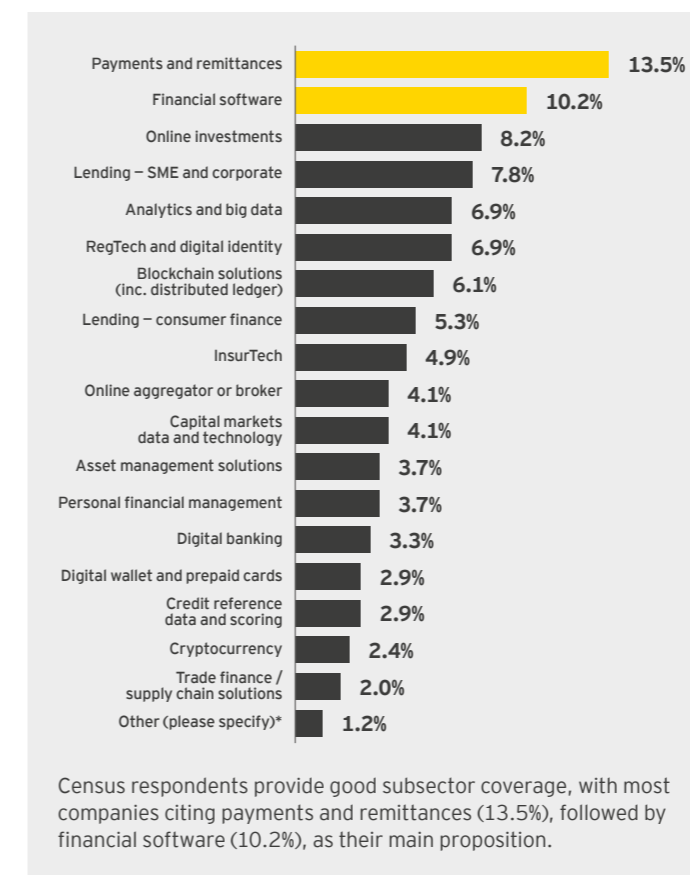
Figure 4: Companies by year founded



Note: The chart above is representative of 237 respondents. Seven companies in the study were also founded prior to 2001 and one in 2017.

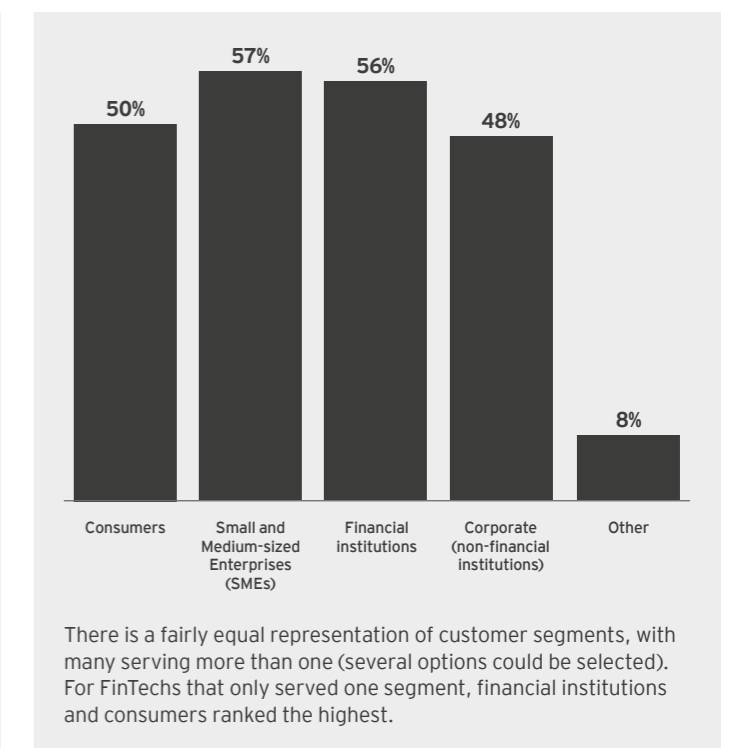
Respondents represent a wide range of FinTech subsectors, enabling coverage of both B2C and B2B offerings. Moreover, the respondents revealed an even split of customer segments served.

Figure 5: Subsector representation



Notes: The chart above is representative of all 245 respondents. Numbers have been rounded to one decimal place.

Figure 6: Companies by customer segment served



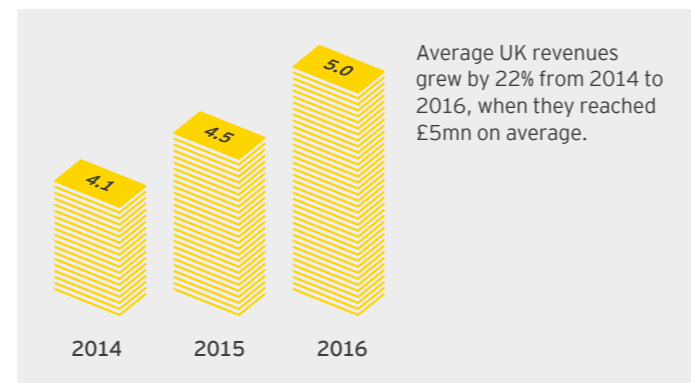
Notes: The chart above is representative of all 245 respondents. 'Other' comprises of academia, charities, financial advisors, government, landlords, etc.

3. Key statistics

Revenues – historic

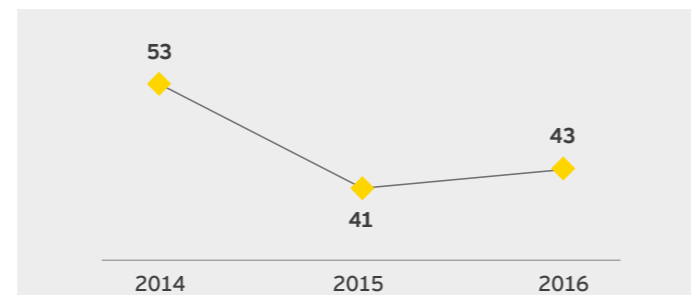
Historic revenue growth highlights proven demand for a FinTech's products and services. FinTechs in the census experienced an average growth rate of 22% in revenue from 2014 to 2016.

Figure 7: Average UK revenue (£millions)



Note: The average number is based on companies that provided revenue data and had UK revenue for those years in question (2014 – 68, 2015 – 95, 2016 – 134).

Figure 8: Average rest-of-world (RoW) revenue (£millions)



Average RoW (excluding UK) revenues show a slight decline of 19% from 2014 to 2016, when they reached £43mn for each FinTech.

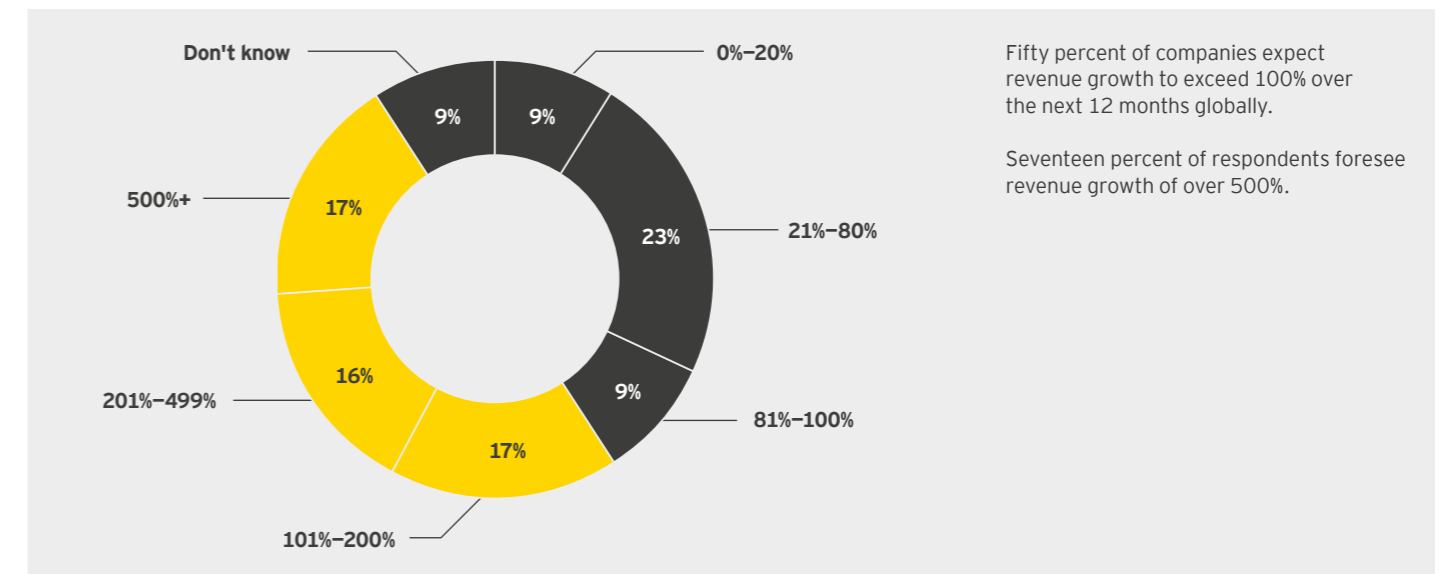
The chart above is likely to reflect the fact that 38% of respondents were founded in 2014 and 2015. These FinTechs are likely to have smaller revenues in their early years of operation, thereby bringing down the average for 2015 and 2016 global revenues for respondents.

Note: The average number is based on companies that provided revenue data and had RoW revenue for those years in question (2014 – 25, 2015 – 38, 2016 – 57).

Revenues – future

Half of FinTechs anticipate global revenue growth of greater than 100% over the next year, highlighting the strength of ambition in the sector.

Figure 9: Expected revenue growth over the next 12 months globally



Note: The chart above is representative of all 245 respondents.

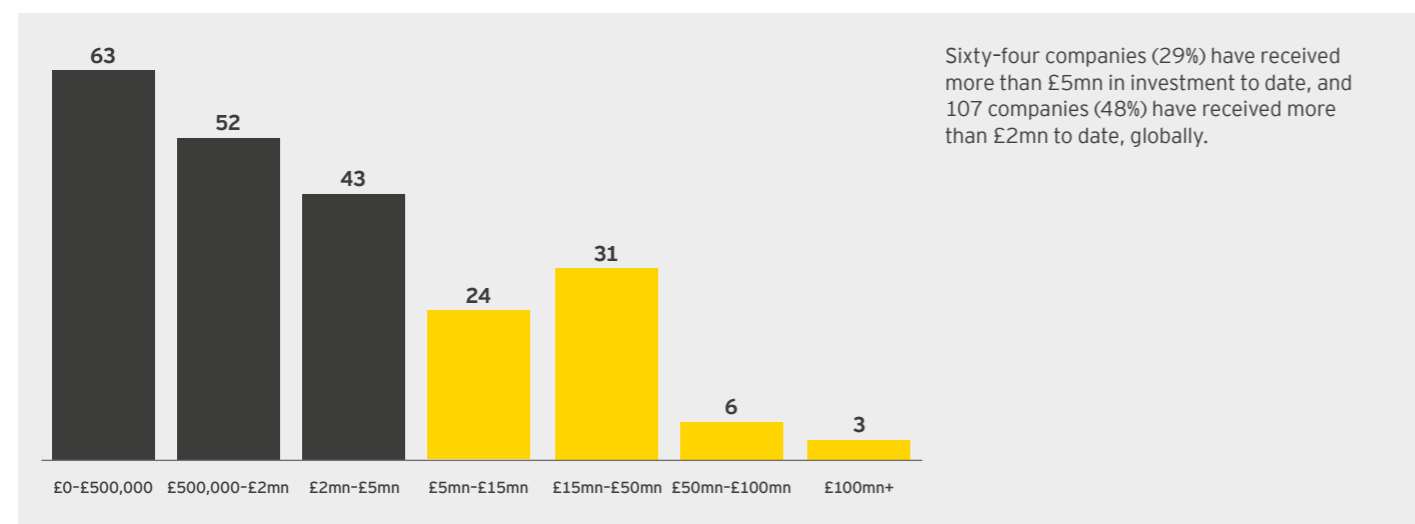
Respondents' additional comments

- Gaining an insight into the Government's due diligence process for reviewing and benchmarking suppliers was noted as highly useful for FinTechs.
- One respondent suggested that the Government should specifically consider tendering services to UK FinTechs.

Investment – to date

FinTech businesses need to attract investment to grow, develop and professionalise. Our 245 respondents have received an average of £15mn to date or £2.9bn in aggregate.

Figure 10: Investment to date globally



Note: Investment to date is based on 222 companies that provided investment data and have received investment so far.

Figure 11: Average investment received to date globally



Note: Average investment received is based on 222 companies that provided investment data and have received investment so far.

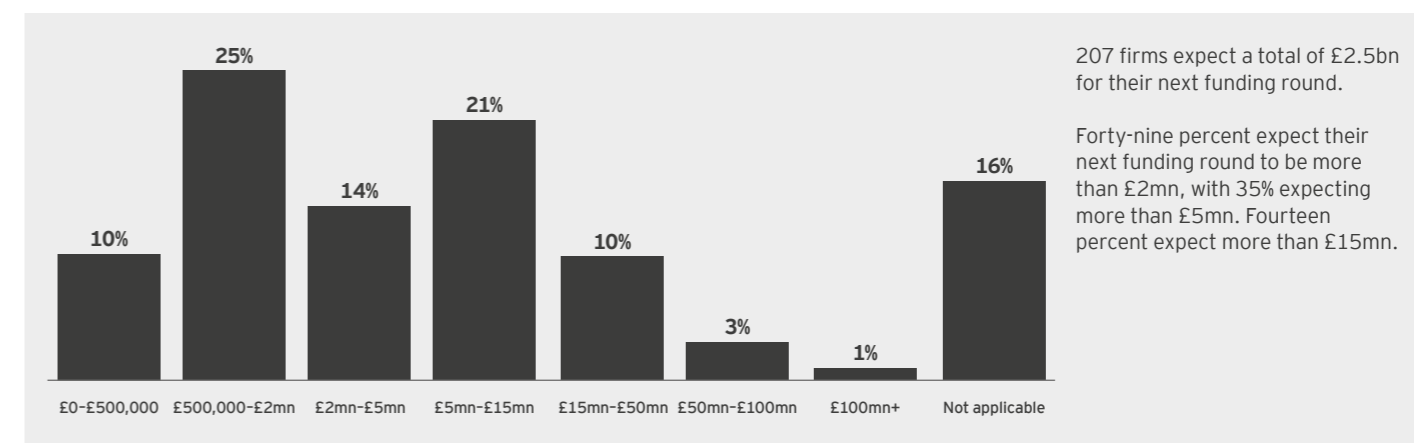
Respondents' additional comments

- ▶ It was suggested that venture capital trusts (VCTs), pension funds and overseas HNW investors should be encouraged to invest in UK FinTech.
- ▶ One respondent commented that high net worth (HNW) expats could be encouraged to invest in UK FinTech through tax incentives.

Investment – future

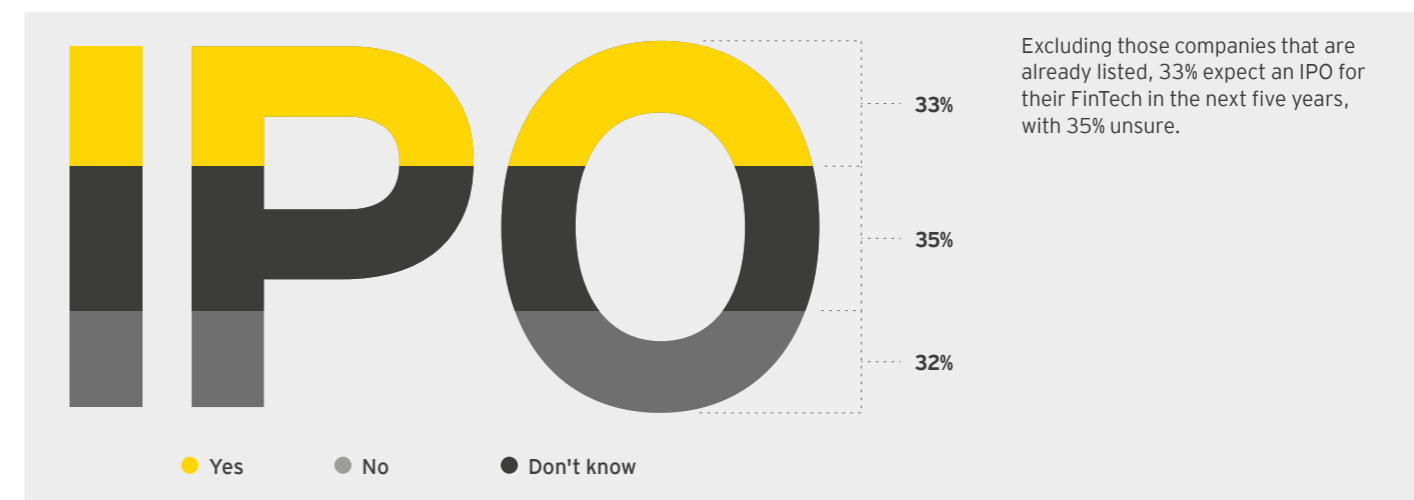
A third of FinTechs view an IPO as a likely event in the next five years, highlighting the confidence our respondents have in the sector.

Figure 12: Anticipated size of next funding round



Note: The chart above is representative of all 245 respondents – 38 firms answered not applicable.

Figure 13: Whether an IPO is likely in the next five years

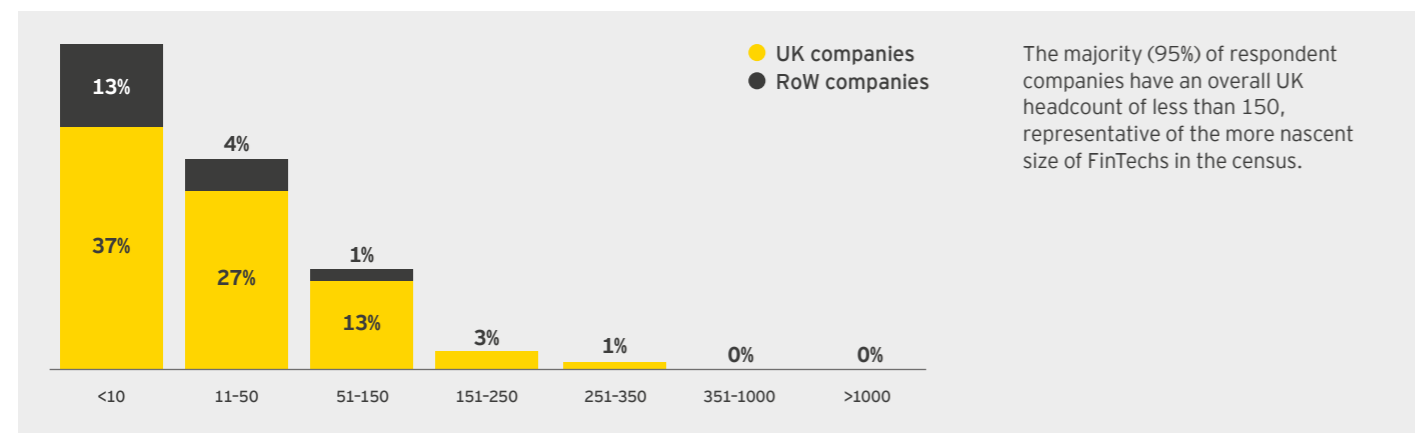


Note: The chart above represents 239 companies. Six companies are already listed.

Talent – headcount

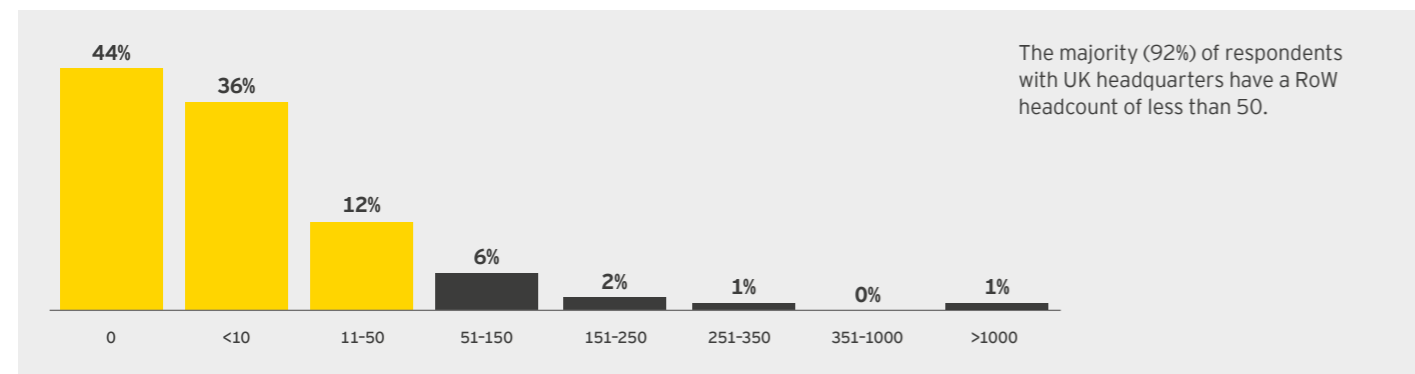
The ability of FinTechs to draw talent into the sector is a fundamental pillar of success. Most UK FinTech companies are focused on building their talent base in the UK, however bigger FinTechs are starting to build talent bases abroad.

Figure 14: Number of employees in the UK



Note: The chart above is representative of all 245 respondents. Numbers have been rounded to the nearest percentage.

Figure 15: Employees in the RoW for UK companies



Note: The chart above is representative of all 199 respondents who are headquartered in the UK. Numbers have been rounded to the nearest percentage.

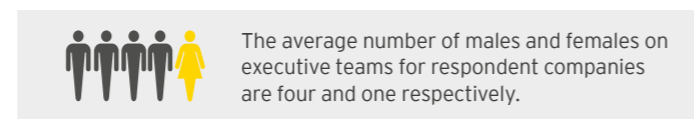
Talent – gender split

Analysis of executive headcount by gender suggests UK FinTech is marginally more balanced than studies in Australia and France suggest.

- ▶ Australia – 87% male, 13% female¹
- ▶ France – 91% male, 9% female²
- ▶ UK – 83% male, 17% female

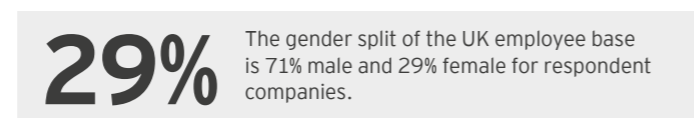
1. EY FinTech Australia Census 2016: Profiling and defining the FinTech Sector, EY, 2016
2. Social and economic performance of French digital business start-up Barometer, EY, 2015

Figure 16: Executive team gender split



Note: The average number of males and females on executive teams for respondent companies has been rounded up from 83% male and 17% female.

Figure 17: UK employee gender split

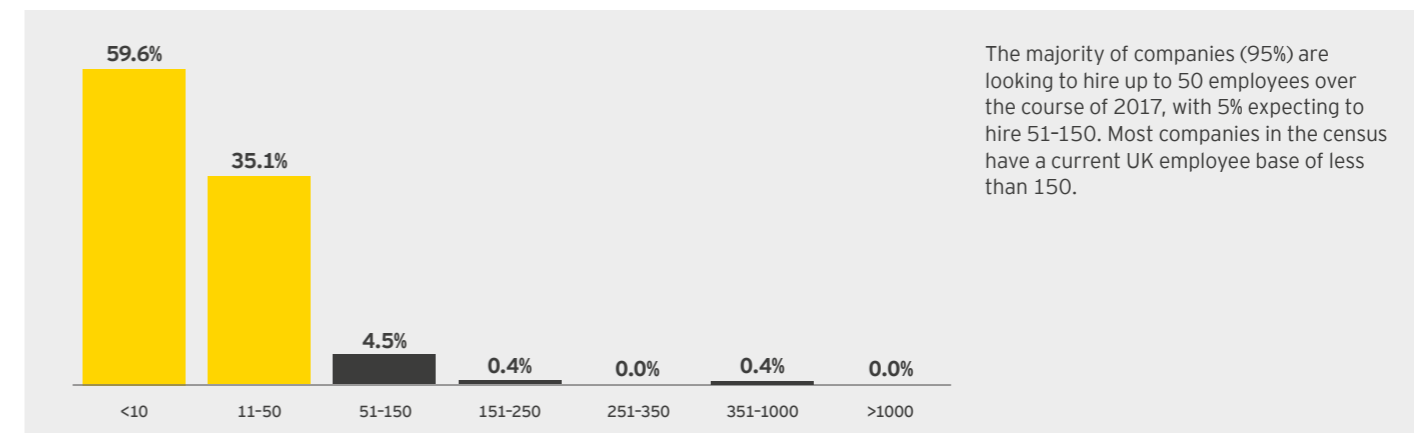


Note: The charts above are representative of all 245 respondents.

Talent – headcount growth and skills gap

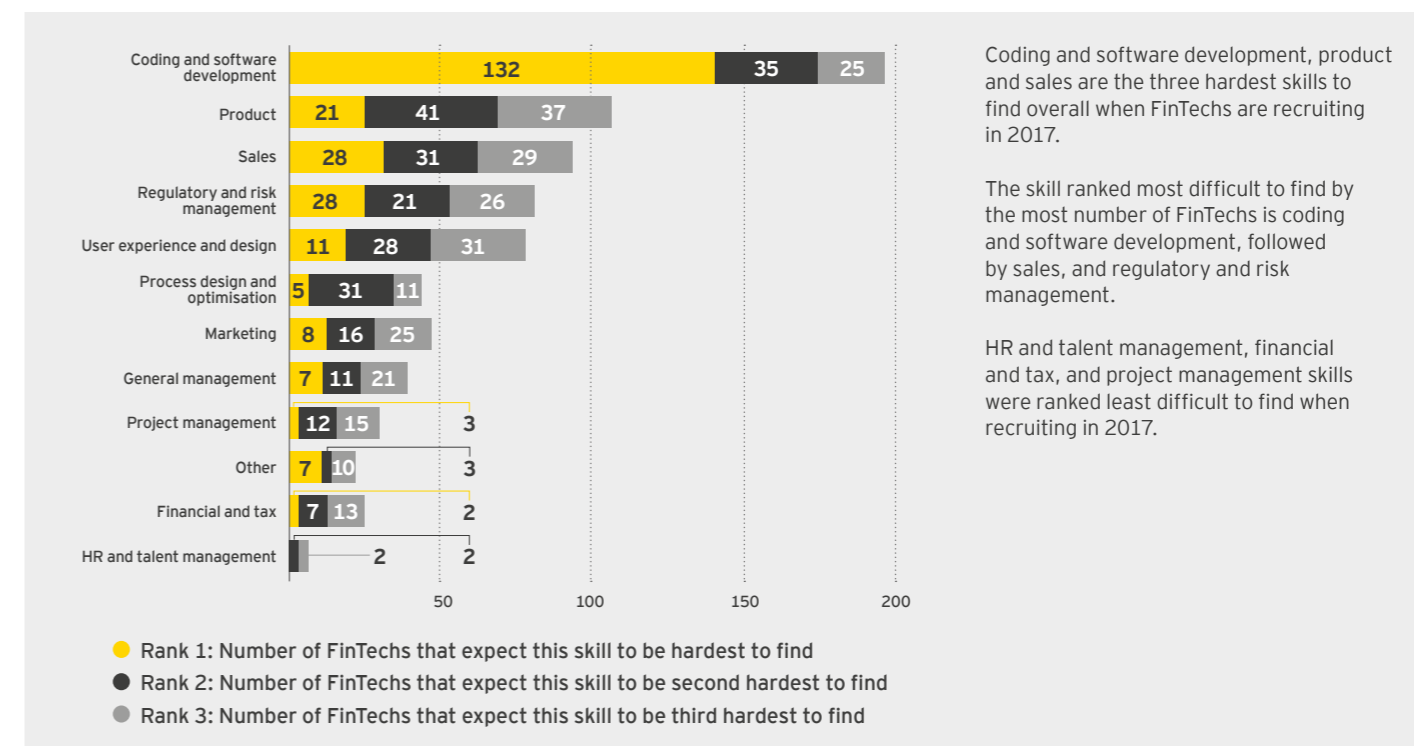
As UK FinTechs build out their talent base, coding and software development skills are seen as the hardest to find when recruiting in the UK this year.

Figure 18: Expected number of hires in the UK in 2017



Note: The chart above is representative of all 245 respondents.

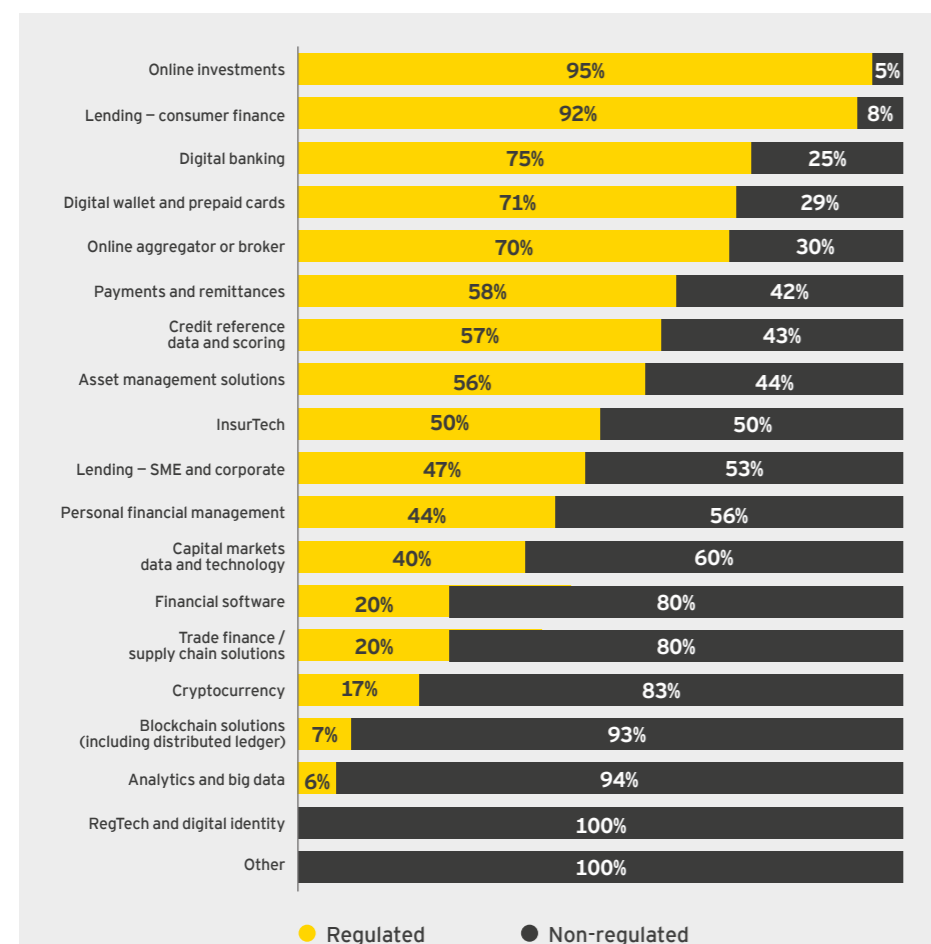
Figure 19: Skills and experience hardest to find in the UK when recruiting in 2017



Regulation

Financial services is a highly regulated sector and the UK has a global competitive advantage in its regulatory environment for FinTechs. However, it is important to note that of the 245 respondents, only 44% are FCA and/ or PRA regulated, while 56% are unregulated. A large proportion of the FinTechs were founded in the last three years, therefore some may still be in the process of becoming authorised or regulated.

Figure 20: Breakdown of regulated FinTechs by subsector



The majority of FinTechs (over 75%) operating in sectors, such as online investments, consumer finance lending and digital banking are FCA and / or PRA regulated, while subsectors, such as financial software, trade finance / supply chain solutions, cryptocurrency, blockchain, analytics and big data, and RegTech contain the fewest number of regulated FinTechs (20% or less).

Note: The chart above is representative of all 245 respondents.

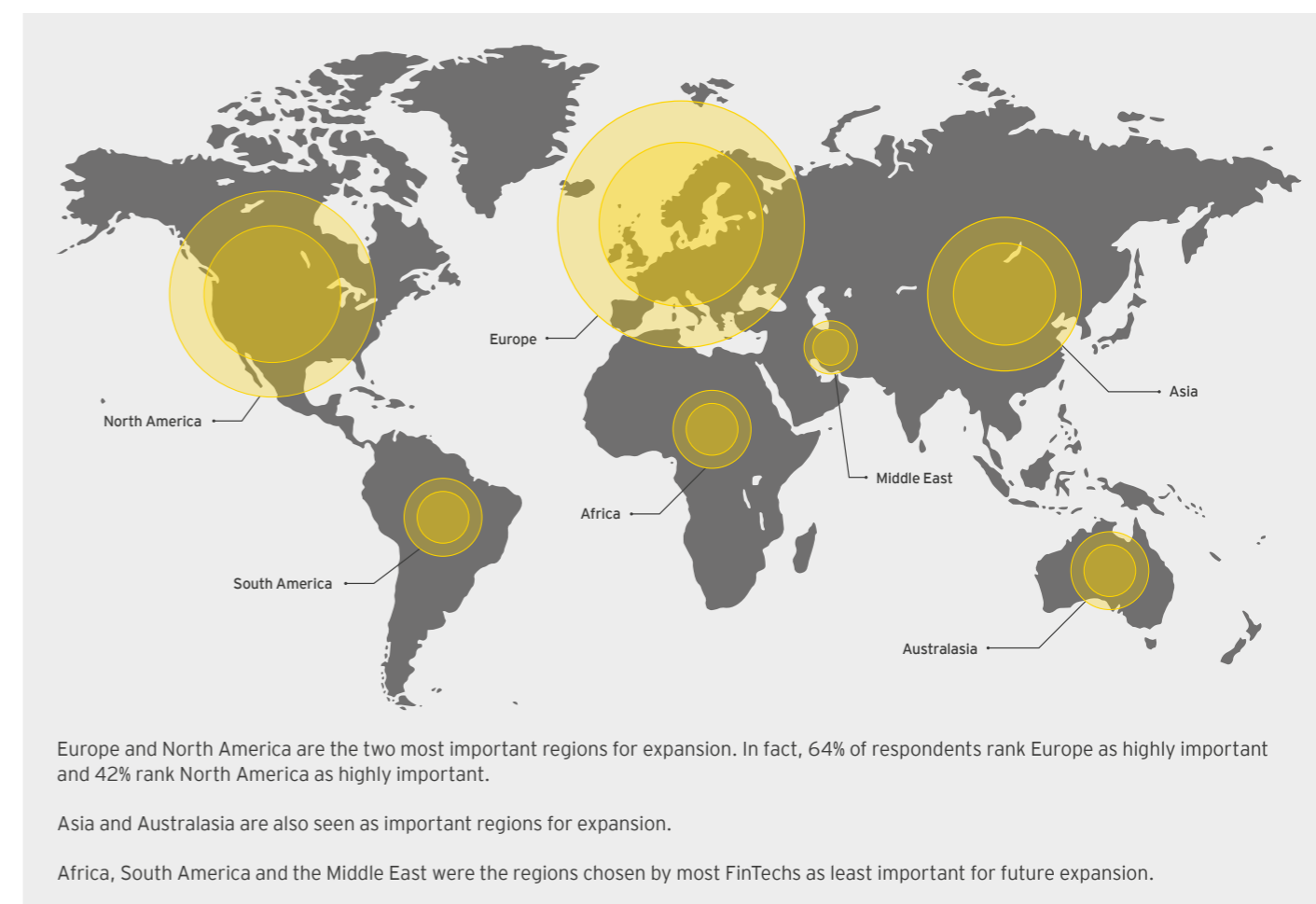
Respondents' additional comments

► Several FinTechs indicated a desire to partake in initiatives with policymakers, to enhance the ecosystem in the UK and open up competition.

Future expansion – geographies

UK FinTechs are planning to expand internationally and Europe and North America are seen as the two most important regions for expansion.

Figure 21: Geographical expansion plans



Note: The above graph is representative of all 245 respondents. The diameter of the circles is proportionate to the number of FinTechs that selected each region as having the highest importance for future expansion.

Future expansion – key challenges for 2017

FinTechs face a number of challenges to achieving their business and growth objectives. Key challenges highlighted for 2017 include attracting qualified or suitable talent, customer acquisition and building partnerships with established players.

Some respondents noted that from January 2018, Open Banking will support data sharing between FinTechs and banks. This will play a significant role in addressing challenges relating to customer acquisition and building partnerships with existing players.

Figure 22: FinTechs' biggest challenges for 2017



Note: The graph above is representative of all 245 respondents.

Respondents' additional comments

- ▶ Some respondents indicated that the knowledge of where start-ups can access or outsource services that they are unable to carry out themselves would be highly beneficial to FinTechs.
- ▶ It was noted that encouraging bank funding for FinTechs would also be useful.

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