

WHEN TWO WORLDS

FIN



TECH

COMBINE

City suits and Silicon Roundabout hipsters are coming together to create the biggest story in London's start-up scene – fintech

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If you're ever at a loose end on a Friday evening in London, a fun place to head for is the Silicon Drinkabout. This weekly social event for start-ups and entrepreneurs is a wonderful mix of business and pleasure.



Sip hipster ales while gossiping about who has the next billion-pound venture. Anyone is welcome – the pub each week is named on its website. Big tip: if you go, the one thing you'll need to know inside out is fintech.

The London start-up scene is fintech-obsessed right now. Forget nanotech or online retail – this isn't the noughties – the hottest action today is in the intersection of technology and financial services.

Just look at TransferWise, founded by an ex-Skype employee and a financial consultant. It's a foreign currency platform, matching companies changing pounds for euros with parties going in the reverse direction. Transactions take place at the mid-market rate – no spread. The fee for changing £1,000 is less than a fiver – a saving of 90% over banks. Sir Richard Branson is an investor.

The company has so far raised \$91 million of funding, valuing it at more than \$1 billion – 'a unicorn', in Silicon Drinkabout parlance. The two Estonians behind TransferWise could have built the business anywhere. But they chose City Road, which runs into fintech's heartland of Shoreditch. They have a sauna in the office to remind them of home, but where else would they want to be?

FINTECH CAPITAL

London is the fintech capital of the world. In the City, near the Bank of England, you'll find peer-to-peer lender Funding Circle, fund manager Nutmeg and global payment provider Currency Cloud. In Islington there's mobile banking app Osper, credit ratings service CreditHQ

and money wire service Azimo. Within walking distance are gems such as bitcoin exchange Coinfloor and company financial database DueDil.

The mothership for fintech is Level39, which is based on the 39th floor of the iconic One Canada Square building in Canary Wharf. Founded by Eric Van der Kleij, the former Tech City boss, Level39 hosts dozens of early-stage fintech companies including stock market trading platform eToro, international payments provider Money Mover and loyalty card ZenCard. You'll find more knowledge about bitcoin on that single floor than anywhere else in the world.

So how come London is the world leader in fintech? A sizeable 42% (£420 million) of fintech investments in Europe in 2014 were made in the UK and Ireland. The industry was worth £20 billion to the UK across payments, software, data analytics and platforms in 2014. London has sucked up 80% of venture capital cash in the UK in the past six months, and 70% of all deals. Eileen Burbidge, a legendary tech VC and now the Treasury's special envoy for

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fintech, remarked: 'Last year it took London tech firms nine months to reach the \$1 billion mark; this year they've done it in six months. The city has become a tech powerhouse because it excels over other tech hubs around the world. London combines the technology and digital innovation of Silicon Valley with the Wall Street financing heritage of New York and the policymaking of Washington DC – all in one phenomenal city.'

As Alastair Lukies, founder of one of the earliest fintech smash hits, Monitise, puts it: 'New York has fin, but not the tech. Silicon Valley has the tech, but not the fin. We have both the fin and tech to make fintech.'

LUCKY BREAKS

Tax breaks help. The Seed Enterprise Investment Scheme and Enterprise Investment Scheme, along with Entrepreneurs' Relief on capital gains tax, give the UK a huge advantage over less generous territories.

Mike Carter, CEO of BizEquity, an automatic business valuation service originating in the US but now firmly established in London, says: 'As an entrepreneur, if you start a business in the UK that creates jobs, not just moving money as a trader, and/or sell a UK-based company, your effective tax rate is 10%.'

'In the US it is now close to 33%, let alone France, which might be 65% plus. Over the past 10 years the UK has become more entrepreneur and growth-friendly. That is powerful. Policy matters.'

British banks and accountants are exceptionally friendly to fintech start-ups. Carter says: 'With BizEquity, we've found the banks in the UK to be more entrepreneurial than even banks in the US with this current wave of technology.'

'The mind-set is different too. The start-up scene is fresher in the UK. Here, it feels almost like a new phenomenon. In the States, the nineties boom-bust cycle may have influenced the current malaise in the banking system towards fully embracing fintech start-ups.'

BIG PATRONS

Santander is a leader in embracing the fintech scene. It has a dedicated arm for fintech investments and partnerships

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called Santander InnoVentures. Led by Mariano Belinky, the InnoVentures team has \$100 million to spend on disruptive innovators. The portfolio includes the iZettle credit card reader; Cyanogen, which develops Android commercial operating systems; and mobile payment provider MyCheck. Lloyds Bank has a similar operation, run by Claire Calmejane. Her brief is to ensure Lloyds adopts the latest and best fintech technologies.

The Financial Conduct Authority (FCA) is playing its part, too. The FCA Innovation Hub launched in October 2014. It advises fintech companies on navigating regulation. Outgoing FCA chief executive Martin Wheatley is an outspoken advocate for the need to actively help novel financial business models, and for the FCA to change its processes where they can be shown to be outmoded. It's a world-leading approach.

'IT'S A VIBRANT MARKET, WITH REAL OPPORTUNITIES FOR ANYONE WHO ENGAGES'

STRONG VOICE

The UK fintech industry has a strong and increasing voice. Innovate Finance is an independent industry body that lobbies government and runs educational events and trade missions. There is also Tech London Advocates (TLA) – a collection of tech entrepreneurs, experts and investors. One of the TLA advocates is Andy Morgan, Grant Thornton's UK Technology, Media and Telecoms M&A Leader.

'People are looking enviously at London,' he says. 'They are trying to learn from what is happening here and what they can apply in their own markets. The London fintech scene covers a broad spectrum of market areas and brings together the finance and talent.'

One theory is that accountants may suffer, as automation replaces some traditional roles and areas of manual intervention. Certainly, bookkeeping and manually compiling cash flow reports are on the way out.

Morgan is bullish: 'Fintech brings new roles, such as risk assessment, compliance, consulting on processes and insight into handling data. These will be good markets for professional services firms.' He says there will be expansion into sectors transformed by fintech, with data analytics playing a leading role. 'It's a vibrant market, with real opportunities for anyone who engages.'

Those outside London need not feel excluded. In Birmingham is Droplet, which offers retail payments via a mobile app with zero fees. Hello Soda, a cloud-based service that analyses unstructured and big data for lenders and insurers, is based in central Manchester, while FX software specialist Whites Technology Group is in Bingham, Nottinghamshire.

The fintech revolution is here. No matter where you are, there is a role for all of us. ■

