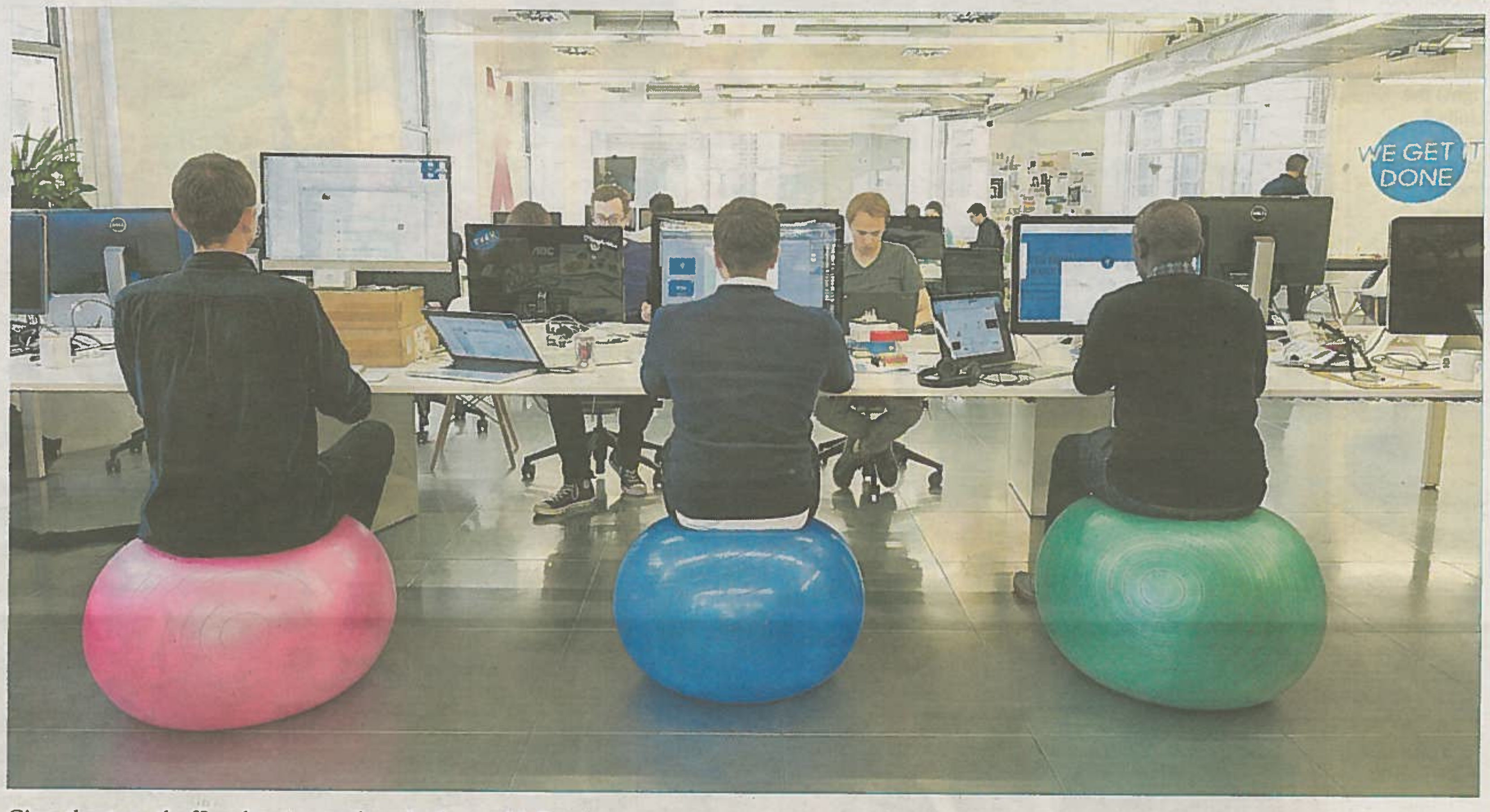
Business / Feature

Will the big banks be engulfed by the new wave in London?

The capital is becoming the global home for 'fintech' start-ups and the hallowed names of finance – with their old, creaking IT systems – may need to think about joining in, instead of trying to beat them. JAMIE NIMMO *reports*



Given the strength of London as a financial centre, and its booming tech scene, it is perhaps no surprise that the capital has made financial technology its own.

Fledgling start-ups from peer-to-peer lenders to mobile payments firms are flocking to London, which is fast establishing itself as the "fintech" capital of the world.

New research from the consultancy William Garrity Associates, unveiled at London FinTech Week, shows why. It reveals that the total value of the capital's fintech scene by deals – including direct investment, stock market listings and acquisitions – has now topped $18.4bn (£11.9bn), putting it on a par with San Francisco, widely considered as the global headquarters of technology.

While that doesn't include the $16.4bn of deals involving fintech companies based in North Bay, in and around San Francisco, there is no doubt that the pace of growth in London is outstripping that of its American rival.

The flood of fintech companies setting up shop in London is ironic – given that the tech world would have us all believe that the cloud revolution means we can work from anywhere in the world. But even the trendy twentysomethings of tech would admit that nothing beats a face-to-face meeting, even in our digitally savvy world. Ultimately, it pays to be close to banks and other financial institutions, not just virtually but also geographically.

Some of these start-ups are taking on the big banks, exploiting their sluggish IT systems and reluctance to lend to businesses. Meanwhile, recent research from the peer-to-peer lender Zopa showed 60 per cent of Londoners aged 18-40 were more likely to use its platform to help save for a deposit on a house – with mortgages no easier to secure as property prices continue to soar.

It is a good example of how economic conditions and the subsequent complacency of banks have played into the hands of fintech companies. Consumers are shopping around for a better deal – or turning to those that will give them a deal in the first place.

Raj Singh, managing director of the American online lending platform Avant Credit, says there is clearly still a place for banks, but getting a traditional loan can be "a stressful and time-consuming experience for consumers, particularly those who don't have excellent credit scores".

> **Disrupt banks? Fintech will create opportunities for collaboration rather than competition**

Consumers are also fed up with poor rates, leading to a surge in business at the likes of the money-transfer company TransferWise.

So wouldn't it be a good idea for the old-school banks, with their ageing IT systems, to team up with the new kids on the block? Gerald Brady from Silicon Valley Bank, the US tech specialist, says they should to be open to that possibility – or risk falling behind.

"While many people believe that the wave of fintech start-ups is out to disrupt the incumbent financial institutions, we believe that the fintech revolution will create more opportunities for collaboration than competition," he says.

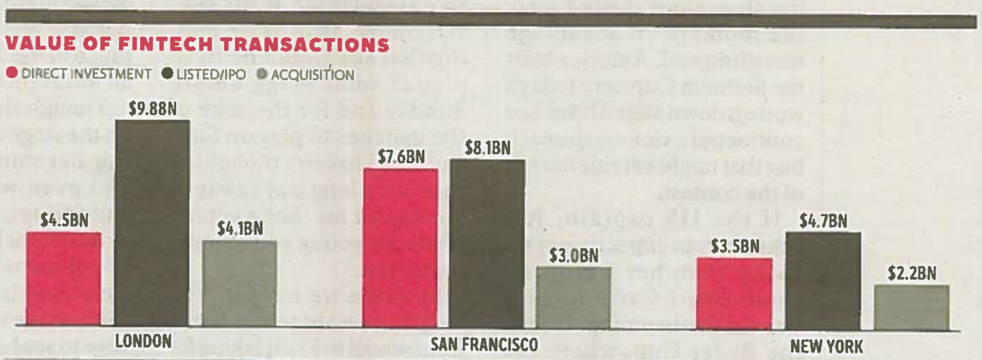
Jannick Malling, the Danish entrepreneur behind the London-based financial trading platform Tradable, agrees. He argues that while there are some start-ups out to "kill the banks", most want to "help the banks evolve".

Industry experts estimate that just 10 per cent to 20 per cent of the financial services industry has been "disrupted" by fintech so far, leaving large chunks of it – namely insurance and capital markets – as yet largely untouched.

While regulators in other industries have reacted to the rise of disruptive start-ups such as Uber and Airbnb, financial services regulators are helping young firms.

Lu Zurawski at the US-based payment solutions firm ACI Worldwide, explains: "Those industries have regulators and tax officials scrambling to react to the changes driven by customer demand and innovation. The fintech industry, by contrast, is supported by benign regulators that are willing on customers and new innovators to do the same in banking."

With watchdogs flying the fintech flag, the ball is now in the banks' court – after all, it's for their own good.



SOURCE: WILLIAM GARRITY ASSOCIATES

FINTECH REVOLUTION
THE NEW GLITTERATI

TransferWise
Globetrotting Estonians Kristo Kaarmann and Taavet Hinrikus have personal experience of painful international money transactions.

Mr Hinrikus, who was the first-ever Skype employee, was fed up paying 5 per cent each time he wanted to move money back and forth.

In 2001, they decided to create the online business TransferWise, which is now based in London and valued at close to $1bn.

Growing at 15 per cent to 20 per cent every month, customers certainly appear to be snubbing the banks in favour of the cheaper service.

Seedrs
The online equity crowdfunding platform brought angel investing to the masses, allowing anyone to invest as little as £10 in start-ups in need of funding to get their ideas off the ground.

Winemaker Chapel Down has raised almost £4m on Seedrs from 1,463 investors, while salad-bowl chain Tossed has drummed up £1.3m for 9 per cent of its equity. The tennis star Andy Murray is an adviser to Seedrs on businesses in the health and sport markets, and has personally invested in Tossed.

Zopa
A trailblazer in peer-to-peer lending, Zopa can also take the credit for the rise of peers Ratesetter and Funding Circle. It matches savers with people who want to borrow, while low overheads mean it can afford to offer customers good rates.

The Government's launch of the Innovative Finance Isa, which will allow tax-free investing in peer-to-peer finance from April 2016, is good news for Zopa and co.

Nutmeg
The online investment manager, founded in 2011 by Nick Hungerford, is shaking up the investment world – as asset manager Schroders realised when it ploughed $32m into the company last year.