FINANCIAL NEWS

Race to be the big wheel in fintech

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Politicians' pronouncements are often evasive but when George Osborne declared his hopes for the future of financial technology in Britain, he did not mince his words.


Clare Flynn Levy, Essentia Analytics

Speaking at the launch of Innovate Finance, a fintech lobby group, in August, the Chancellor of the Exchequer said: "I'm here today because I want the UK to lead the world in developing fintech. That's my ambition – short and sweet. We have all the ingredients we need."

Nobody could fault his confidence. But was he right about that last bit? Is the mix of ingredients in the UK quite right for world leadership?

To take the lead in fintech innovation, the UK would be challenging the US, which boasts Silicon Valley, the world's biggest tech centre, and Wall Street, which is breeding its own fintech entrepreneurs.

A glance at where the money goes makes the UK look like a lightweight squaring up to a heavyweight champion – of the $3 billion invested in fintech last year more than 80% was in the US, according to consultancy Accenture. Mike Laven, the chief executive of the Currency Cloud, based in London, has been working between the UK capital and his native Silicon Valley for more than two decades. He said: "Every time you read about a $30 or $40 million deal in Silicon Valley, that is contributing to the talent, whether it is technical or commercial talent. You don't have the breadth of that community here."

The community is growing, however, for the very reason that originally made Silicon Valley grow – London has all the right people in the same place. In fintech innovation, Silicon Valley is catering for one of the world's greatest financial centres and London for the other. Silicon Valley caters for Wall Street, the far side of the US. London caters for … London.

If a fintech entrepreneur in Level 39, the incubator in One Canada Square in Docklands, wants a chat with a potential customer in Barclays, HSBC, Citi, or any of the other big financial institutions nearby, they can meet in Taylor St Baristas or Carluccio's in about the time it takes to get their coffees ready. Silicon Valley's fintech entrepreneurs also want to talk to clients – but getting to Wall Street means a five-hour flight to New York.

These are the ingredients that could give London an edge. Laven said: "I'm quite bullish on London and I've been around this for some time. Ten years ago, we didn't have the ecosystem of investors and meetings and meet-ups and accelerators and all of the stuff that came in the last two years."

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In the right place

London also outpunches Silicon Valley in other ways. Silicon Valley may dwarf London in fintech innovation but the fintech sector as a whole is much bigger in the UK because there is such a substantial financial services industry. There are about 44,000 people working in the fintech sector in London – more than both Silicon Valley and New York, according to research by South Mountain Economics and Bloomberg Philanthropies.

Claire Cockerton, the chief executive of Innovate Finance, said: "We have a phenomenal marketplace, the large existing incumbent banks are leaning forward to purchase and partner with firms and we have a great consumer base."

Having the City of London on your doorstep means start-ups that sell to financial institutions are never too far away from their clients. And proximity to clients is key, say US fintech entrepreneurs.

Financial data firm Xignite, for example, is headquartered in San Mateo, California, but also has offices at 48 Wall Street in New York. Stephane Dubois, founder and chief executive of the firm, said: "If you're selling to the banks and hedge funds, you have to spend time with your clients; you're going to have to be hanging out in the bars in New York, not San Francisco."

Prabhu Venkatesh, chief scientist and co-founder of fintech firm Minetta Brook a capital markets big data company with offices in Seattle and New York, said: "We have to be steeped in Wall Street."

London also has advantages simply because of its position on the planet – it is in the European

Union and in a time zone between Asia and the US. It is both an attractive destination for European start-ups looking to expand and for companies looking to target emerging markets.

Amit Pau, managing director at London- based venture capital firm Ariadne Capital, said: “It has the benefi ts of operating under the regulatory framework within Europe and remains compatible with the time-zone differences with Asia.”

Ismail Ahmed, chief executive of London-based remittance company WorldRemit, says the UK’s capital is well placed to lead in global fintech because it is that much more focused than the US on “rest of world” solutions.

Ahmed said: “Residing in a global fi nancial hub that sits atop the prime meridian brings a certain perspective.”

WorldRemit raised $40 million from Californian venture and growth equity firm Accel Partners in March.

Continental European companies that have recently set up shop in London say it was a natural destination when looking to expand beyond their native markets.

Nick Bortot, the chief executive of Netherlands-based mobile trading company BUX, said: “As a fintech firm from Amsterdam, London was naturally our next port of call. Like many fintech firms from small European countries, we saw our home market as a testing ground. Once we proved our product worked, we moved onto London as the first stepping stone to going international.”

In Silicon Valley, it is not just the weather that is sunnier than in London, according to several fintech firm founders who have worked in the US and the UK. They say American culture is more forgiving of failure, which makes it more attractive to entrepreneurs.

Brian Sentance, chief executive, of data management firm Xenomorph, which has offices in New York and London, said that while London’s technology start-up environment has improved dramatically in the past decade: “The biggest aspect that the US has is optimism.”

But while Silicon Valley certainly does not lack appeal for bright ambitious tech minds, practitioners warn that growing in the US, particularly for fintech firms, may be more arduous than it looks. Not least because – unlike in the European Union,where firms need authorisation from only one national regulator to operate in other member states – in some cases, fintech firms will need separate authorisation from each US state they want to work in if they are dealing in sectors such as payments or money transmission.

Richard Goold, a corporate partner at Wragge Lawrence Graham & Co, a law firm in London, said: “You can get a regulatory approval in one European state and then simply passport it into other EU states by notifying the relevant regulators. This is much quicker and easier then seeking a new approval for each country or for each state in the US, which can sometimes happen.”

Aiming to make London an even more attractive destination for fintech, the UK government has stepped up its game, introducing tax incentives for start-ups and measures specifically aimed at fintech companies.

In August, for example, Osborne announced a programme to look into how virtual and digital currencies could or should be regulated in the UK, and legislation to help small and medium-sized businesses access alternative sources of finance if they are turned down for loans by their bank.

These measures could help London become a prime destination for alternative finance providers, such as peer-to-peer lenders and cryptocurrency businesses, market participants say.

By contrast, the State of New York has proposed passing a regulatory framework on digital currency called BitLicense, which some practitioners say creates expensive and complex obligations for start-ups.

Gareth Jones, co-founder and general partner at New York-based fintech venture capital firm FinTech Collective, said: “It could go one of two ways, either it makes it pretty onerous to start a crypto-related business in New York and could push businesses to move to London. Or it creates a set of rules and makes it very clear and understandable to attract businesses.”

FinTech Collective is looking to setup shop in London, Jones said.

In line with Osborne’s fintech friendly attitude, the UK’s Financial Conduct Authority has also extended a welcoming hand to the fintech community, launching Project Innovate, a programme aimed at fostering innovation in financial services. The project will include the creation of an incubator to help applicants through its authorisation process.

Mind the gap

While entrepreneurs in London welcome the government’s initiatives, they say the US has one major advantage over Britain. London has a much smaller venture community and there is a gap in funding of businesses that have got beyond the early start-up stage but are not yet making proper profits, entrepreneurs say.

American-born Clare Flynn Levy, the founder and chief executive of Essentia Analytics, a London-based behavioural finance fintech start-up, said: “The missing link in London is capital.”

She added: “Ultimately, what makes UK companies move to the US is the fact that the US has a competitive advantage when it comes to access to capital and, historically, US venture funds have not had much natural incentive to invest overseas.”

Ironically, while London can boast being the home of Zopa, the world’s oldest peer-to-peer lending platform, the US will soon be home of the first large peer-to- peer marketplaces to go public. San Francisco-based peer-to-peer lending company Lending Club filed for a $500 million initial public offering in August.

Philippe Gelis, the founder of currency transfer start-up Kantox, says London investors are, in some cases, afraid of putting money behind this still fairly new sector. Gelis said: “Start-ups in the US have the benefit of a more risk-happy culture, which has led to fintech firms such as Lending Club making it all the way to a planned IPO.”

While competition is heating up between London, New York and Silicon Valley, some point out that the race may very well include many other contenders.

Jones at FinTech Collective said that, while he sees London’s strengths and potential, he believes that because of regulation, the fintech sector will develop as several leading hubs globally, rather than just one.

He said: “We will see a number of hubs. We will see London and New York absolutely but also Israel and Singapore and Sydney and, of course, Silicon

• Each hub has its own spin

It seems every major American city wants to be a centre for fintech. Silicon Valley and New York remain the most important hubs cited by fintech entrepreneurs and investors. But plenty more are aiming to kick-start a local scene with a mix of local government and private sector initiatives.

Boston is often cited as a potential US fintech hub because of its broad bench of financial firms from State Street to Wellington Management and a wide range of other money managers. Earlier this year, big-name financial services fi ms including Thomson Reuters, Fidelity Investments and Amazon threw their weight behind a planned Boston programme for fintech start-ups that will help them access the data they need.

Atlanta, home to payment-processing firms such as ADP and First Data, has also increasingly become a destination for start-up companies in the sector.

But Chicago, the place where high-frequency trading firms Jump Trading and Getco got their start, has been less of a standout as a fintech hub, several lawyers and entrepreneurs said. Its start-up accelerators and incubators do not concentrate as intensely on financial technology as in other US cities.

Nevertheless, futures and options giant CME Group, based in Chicago, started a venture fund early this year to invest in fintech start-ups that could benefit the group.

St Louis, a dark horse in the race, is working to put itself on the map, citing a cheaper cost of living in the mid-west and a strong financial services tenant base. The mid-western city is home to Citigroup’s mortgage lending unit, financial advisory firm Edward Jones and Wells Fargo Advisors, among others.

Joe Reagan, president and chief executive of the St Louis regional chamber of commerce, said he was promoting “start-up innovation in flyover country”. The chamber has invested more than $1 million in initiatives for start-ups.

Kevin Alm, principal in the client solutions group at Edward Jones, said it was a “loser’s game” to try to be the next Silicon Valley – instead, the St Louis area should promote itself because of its range of financial companies.

Reagan said mentoring between large and small financial companies is a core part of economic development officials’ efforts. He said: “The secret sauce is that all of these start-ups get to be connected with these large companies.”

Sarah Krouse

• East is east

The physical distance is not the only divide between the East and West coasts of the US, investors and start-up founders say. There are also cultural differences between the types of fintech workers and firms that populate Silicon Valley and Wall Street.

For one, West Coasters tend to have an eye for disruptive technologies, founders say. On Wall Street, however, more fintech firms get their start working with large financial institutions.

Francis Wenzel, chief executive of big data firm TickSmith, which is based in Montreal with offices in New York, added: “In New York, fintech firms take uncool problems and say how can we apply cool technology to solve them. In Silicon Valley, it is more technology-led.”

There are also different attitudes to scale and profit, according to Stephane Dubois, founder and chief executive of financial data firm Xignite, which is headquartered in San Mateo, California with offices at 48 Wall Street in New York

Dubois said of New York: “People come from the industry, they have relationships. They always find the first 20 customers. They can always get to a certain size and profitability pretty quickly. What they might not get is big. Once you have 15 to 20 clients, you’ve probably been very custom and not scalable.”

He added: “In Silicon Valley, they want to build something that can grow big and will stay away from customisation.”