LONDON'S FINTECH ECOSYSTEM

A CURRENT ACCOUNT

CONTENTS

EXECUTIVE SUMMARY

The term 'Fintech' has been described as "the most over-hyped and under-estimated" development that the financial services industry has seen in recent memory. The demand for better banking – whether in terms of transparency, customer experience and financial inclusion, has been made clear. What is less clear, however, is who is best placed to meet these changing expectations; start-ups, incumbents or a combination of the two. After half a decade of tussling, neither party has emerged victorious.

At the outset of the fintech boom, now some five years ago, many would have placed their bets on the ability of start-ups to disrupt the financial services industry. Start-ups were bullish in their ability to win over customers with better user experience and to innovate rapidly. Yet a review of London's fintech ecosystem suggests that, notable exemptions aside, it has emerged as one of pragmatic partnership rather than a clash of cultures.

This report outlines the evolution of London's fintech sector, the impact that the sector has had on demand for space, both for start-ups and incumbents, and sets out scenarios for the future of fintech in London.

DEFINING FINTECH

Fintech is the sector focused on using emerging technology to make financial systems more efficient. Initially, the term only extended to start-ups aiming to disrupt specific aspects of the financial service sector, though more recently is sometimes used to cover a range of innovations taking place across the wider financial services ecosystem. This includes start-ups, established fintechs/scale-ups and traditional financial service institutions (FSIs).

Examples of fintech verticals include: capital markets, challenger banks, payments, peer to peer lending and robo-advisory. Many of these overlap with complimentary but less developed emerging sectors such as insurtech and regtech – although many working definitions would consider these activities to fall within the fintech ecosystem.

The fintech system employs a range of tools and technologies, including platforms, cloud computing, advanced analytics and Robotic Process Automation.

FIVE YEARS ON – WHAT HAVE WE LEARNT?

01 **Some start-ups have scaled, but growth doesn't translate easily to headcount.** London boasts some clear success stories, particularly when it comes to challenger banks, a number of whom have made the most of supportive regulatory frameworks and access to accelerator space

02 **'Move fast and break things' is a tricky sell in finance.** Barriers to entry are still high and any start-up will need to meet the three C's: compliance, customers and capital

03 **Major incumbents are throwing everything but the kitchen sink at fintech:** whether investing, acquiring, co-locating or in-house innovating, incumbents have been under pressure to respond from start-ups and shareholders alike

FUTURE SCENARIOS

START-UPS MULTIPLY, SCALE-UPS GROW

Existing start-ups pivot or diversify their services because of access to new data as a result of regulatory change. New start-ups attempt to develop new products by combining banking data and account holder data. Existing scale-ups diversify their product offer through partnering with or acquiring younger start-ups and, in the case of the largest start-ups, look to expand into emerging markets in US and Europe.

WE'RE ALL TECH COMPANIES NOW

The largest and most well-resourced banks continue to invest in partnerships, start-ups and talent to raise the bar for innovation. The progression from financial service institution (FSI) to tech company may take more than one route – including partnering with those start-ups best placed to exploit the benefits of Open Banking or continuing to hire fintech talent to develop new products in house.

BIG TECH VS BANKING

Large tech companies exploit opportunities of open banking to enter the financial services value chain by securing access to bank accounts for online payment. This provides tech companies with data on spending behaviour which, pending regulation, can be used alongside customer data to develop and refine new products. Because big tech can compete with start-ups on innovation and customer experience and with banks on scale and customer loyalty, banks and start-ups work more closely to compete against these new entrants.

LONDON'S EMERGENCE AS A FINTECH LOCATION

In the early days of fintech, much was made of the potential of start-ups to disrupt the retail banking industry winning over customers on the virtue of improved user experience and capitalising on a decline in levels of confidence in banks following the Global Financial Crisis (GFC)[1]. London proved to be a remarkably fertile ecosystem for the emerging sector on account of three major factors: talent, regulation, and funding.

TALENT

While employment numbers in the financial services sector have fluctuated because of technological changes and economic cycles, the financial and insurance sector remains the most specialised sector in terms of labour – with information and communication coming a close second.

Economic shocks played a role in early fintech start-up formation. The global financial crisis saw an exodus of talent from the financial services industry, equipped both with industry knowledge and a desire to improve the transparency and efficiency of the sector.

London boasts a large and strong tech talent base, particularly when compared rival European cities such as Berlin and Paris.

Fig 1: *Stack Overflow users by city

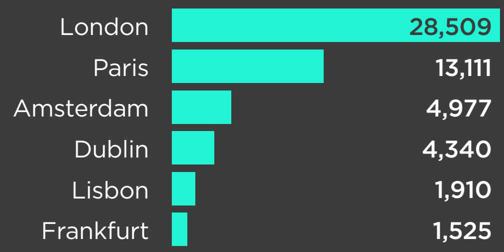
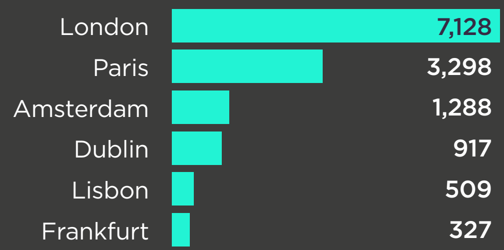


Fig 2: *Github users by city



London's high-skilled population, including world-class universities and diverse start-up scene means the capital has been at the forefront of the technological advances that support fintech activity, including Artificial Intelligence (AI), machine learning and blockchain technology.

1 Trust in banks in the UK dropped from 47% in 2008 to 23% in 2013 – Edelman Trust Barometer http://www.ey.com/Publication/vwLUAssets/Landscaping_UK_Fintech/$FILE/EY-Landscaping-UK-Fintech.pdf

* Github is an online platform used for storing code, version management, and online collaboration. Stack Overflow is the world's largest online developer community where users can ask questions about coding-related problems. Both platforms are useful indicators of developer talent pools.

FUNDING AND CAPITAL

All tech start-ups require capital, but none so much as fintech start-ups, particularly those in the lending space. While the UK may have relatively low liquidity in comparison to China and the US, it does boast a strong funding ecosystem, with most activity concentrated in London and the South East.

The capital has long been Europe's top venture capital hub and over the past two years the UK has almost attracted twice as much VC than France, its closest rival in terms of tech funding[2].

London firms raised over **$980M (£769.41M)** and accounted for over **90%** of all investment into fintech companies across the UK in 2017[3].

The latest figures on UK fintech VC investment show signs of a maturing sector, as deal volumes dropped slightly following a peak in 2016, against a **153% INCREASE** YoY in capital investment.

GOVERNMENT SUPPORT AND REGULATION

Government support and regulation: The UK's regulatory system has been particularly accommodating of innovation in the financial services sector, particularly on the part of start-ups. Established in June 2016, the Financial Conduct Authority (FCA) regulatory sandbox "allows firm to test innovative products, services and business models in a live market environment." In practice, this means firms working alongside case officers who can provide regulatory expertise and tools throughout the testing process.

Taken in isolation, these factors provide a compelling case for the emergence of fintech in London. These factors are strengthened by the high degree of sectoral specialisation in London and the agglomeration benefits of the above activities taking place within a small geographic area. This proximity provides the opportunity for sharing, matching and learning between firms, making the sector more efficient and productive. London's finance and insurance sector is 50% more productive than the sector is in the whole of the UK.

2 https://blog.dealroom.co/wp-content/uploads/2017/09/EuropeanFundsFINAL.pdf
3 http://www.londonandpartners.com/media-centre/press-releases/2017/20171019-europes-number-one-fintech-hub-for-global-investors
4 https://new.innovatefinance.com/wp-content/uploads/2018/02/2017-vc-fintech-investment-landscape.pdf
5 https://www.fca.org.uk/publication/research-and-data/regulatory-sandbox-lessons-learned-report.pdf
6 https://www.london.gov.uk/sites/default/files/chapter1-economic-evidence-base-2016.pdf

FINTECH IN LONDON TODAY

THREE THINGS WE'VE LEARNT

01

'MOVE FAST AND BREAK THINGS' IS A TRICKY SELL IN FINANCE

A successful fintech product needs to cover the three C's: compliance, capital, and customers. Given sector regulation and the scale and dominance of incumbents, none of these come easy and require a significant amount of expertise, time, and resources. Not all Business to Customer (B2C) start-ups have gained the customer traction expected and, for many, getting beyond early adopters has so far proved a challenge. Incumbents have relied on the strength of customer loyalty and trust as, while many customers may complain about their service, far fewer of them are willing to vote with their feet.

A number of start-ups have pivoted from B2C to Business to Business (B2B), avoiding the costs of customer acquisition and making the most of FSI's need of digital solutions. This can include improving operational efficiency in back and mid-office functions or easing regulatory burdens by using AI and machine learning to improve compliance.

02

SOME START-UPS HAVE SCALED, BUT GROWTH DOESN'T TRANSLATE EASILY TO HEADCOUNT

London boasts some clear success stories, particularly when it comes to challenger banks, several whom have made the most of supportive regulatory frameworks and access to accelerator space[7].

"

The speed with which fintech start-ups are able to roll out new features is typically hard for an incumbent to achieve. Their absence of legacy infrastructure, and use of cloud-based computing coupled with an ability to aggressively and effectively hire talent means start-ups can often outpace incumbents in the product development space.

ASIF FARUQUE, LEVEL39

Of the 29 London-based fintech companies featured in the 2017 Fintech50, around half have their own office space. The remainder are split 50/50 between co-working spaces, run by operators including WeWork and The Office Group, and incubators/accelerators. This includes Level39. Runway East, and the RBS incubator in Angel.

Space demand from fintechs remains modest and is not increasing at the expense of FSIs. This should not be surprising. The cost advantage of many fintech verticals, particularly in retail banking, is based on a limited headcount and low physical distribution costs. Use of more recent technology such as cloud storage as opposed to legacy server systems means most start-ups are asset light in terms of infrastructure as well as headcount.

7 https://thefintech50.com/

03 MAJOR INCUMBENTS ARE THROWING EVERYTHING BUT THE KITCHEN SINK AT FINTECH:

Whether investing, acquiring, co-locating or Innovating in-house, incumbents have been under pressure to respond from start-ups and shareholders alike.

Back in 2014, JP Morgan CEO Jamie Dimon warned the banking industry that “Silicon Valley is coming”, and that they are here to “eat our lunch.” One response, not just by JP Morgan but a range of banks, has been to pull up a chair and offer fintechs a seat at the table, so long as there’s enough food to go around. Another is to beat fintech start-ups at their own game. Goldman Sachs, for example, has invested heavily in online lending using a mobile platform, resulting in the creation of Marcus, a $1bn lending fund which is due to open in the UK later in 2018. Goldman Sachs achieved this largely by hiring in talent – as of 2016 almost half of the company’s job postings were for digital roles.

The largest FSIs have opted to adopt a range of initiatives at any one time. This can include increasing internal R&D spend, mergers and acquisitions, and corporate venturing. Several corporates have established specialist funds, including Axa Strategic Ventures, Santander Innoventures, and the recently announced Standard Charter Ventures. The fintech sector is now the most funded industry in Europe in terms of Corporate Venture Capital investments[8].

The trend towards greater collaboration and convergence, whether in the form of partnerships, investment or purchasing looks set to grow. A recent survey of global FSIs indicates **60% ARE LOOKING AT PARTNERING WITH FINTECHS**, and a further **37% ARE PLANNING ON INVESTING**. Half of large UK FSIs surveyed by PwC plan fintech acquisitions over the next three to five years, with **81% PLANNING TO INITIATE PARTNERSHIPS OVER THE SAME PERIOD**[9].

The implications of these partnerships, or indeed of increased competition from start-ups on FSI headcounts in London, are difficult to establish. Decisions around quantum and location of employees tends to be impacted by a range of factors, including wages, technology, regulation and business strategy. Meanwhile, FSIs are not particularly forthcoming about reasons for reductions in head count, particularly where politically sensitive factors such as the decision to leave the EU are concerned.

8 In 2016, Fintech scaleups received 42 deals worth $499 million from 48 corporate investors. http://www.cityam.com/260335/fintech-funding-trends-2017

9 https://www.pwc.com/gx/en/industries/financial-services/fintech-survey/report.html

THE CAPITAL’S CHALLENGER BANKS

Founded in 2015, London-based start-up Monzo is a cloud-native, mobile-first digital bank. The start-up places a strong emphasis on digital customer experience, including instant balance updates and notifications. The company secured a full banking licence in April 2017, allowing Monzo to hold customer money and offer current accounts. In receiving the licence, Monzo demonstrated the ability for a young start-up to secure the required capital and technology infrastructure to meet the requirements of regulators. In 2018, Monzo was granted regulatory approval to operate in the Republic of Ireland, although there are no current plans to open an office.

Earlier this year, the bank agreed to a 47,000 sq ft sublease from Bloomberg at 38 Finsbury Square. The company was previously headquartered at 230 City Road (close to Old Street Roundabout), occupying some 13,000 sq ft and accommodating around 100 staff. The sublease runs until May 2020, so there is an opportunity for further expansion in the future.

Revolut was started in 2015 by a team of six and the company has grown rapidly, currently employing some 300 individuals. A third of these are in Canary Wharf (the company initially started at Level39), and a further 200 in eastern Europe.

Other challenger banks, such as Starling Bank, have opted for flexible solutions to accommodate their potential expansion. Starling Bank occupy over 14,000 sq ft in British Land’s Storey concept at 2 Finsbury Avenue.

LOCATING LONDON'S FINTECH ECOSYSTEM

The result of these three trends has been the emergence not so much of a distinct fintech start-up cluster, but an ecosystem in which the distinction between disruptor and incumbent, financial and tech, is increasingly blurred. This blurring is reflected across the range of special strategies adopted in the fintech ecosystem.

Initially, the City of London's response to the emerging fintech sector was a focus on regulation and competition. As the sector has evolved, we've realised fundamental importance of talent in the changing financial services ecosystem. This means thinking not just about creating the right regulatory environment, but the right physical and cultural environment. And it's not just about incubators and accelerators. One thing we've seen as the sector matures is the diversity of approaches to office location and style. We've seen the emergence of companies willing to pay premium rates for City locations, to take short-term leases in consented schemes or opt for the increasing amount of co-working space available.

SIMON MCGINN, CITY PROPERTY ADVISORY TEAM MANAGER AT CITY OF LONDON CORPORATION

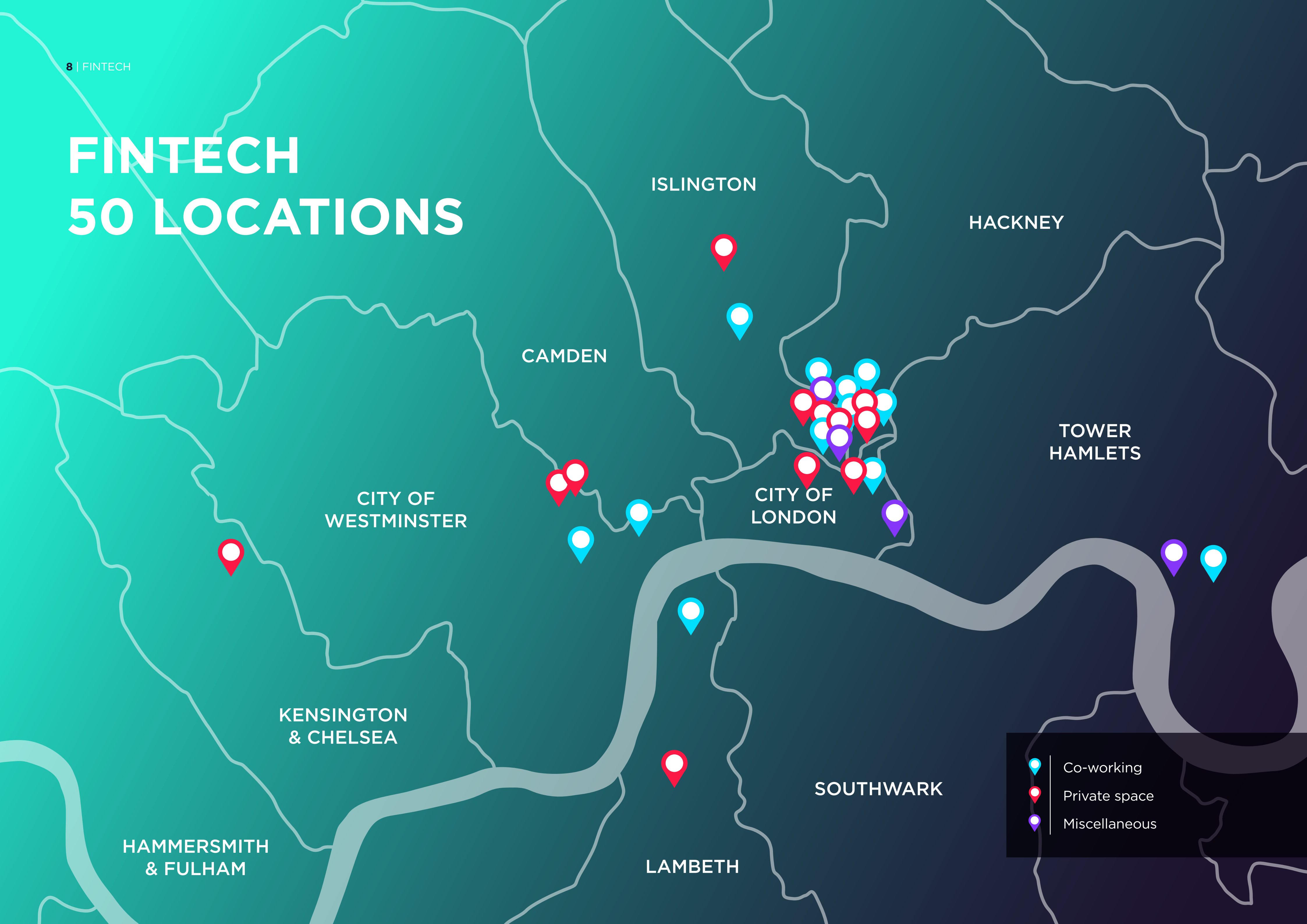
GENERAL TRENDS

01 Companies committing to partnerships, including B2B start-ups and FSIs seeking to externalise their R&D value proximity.

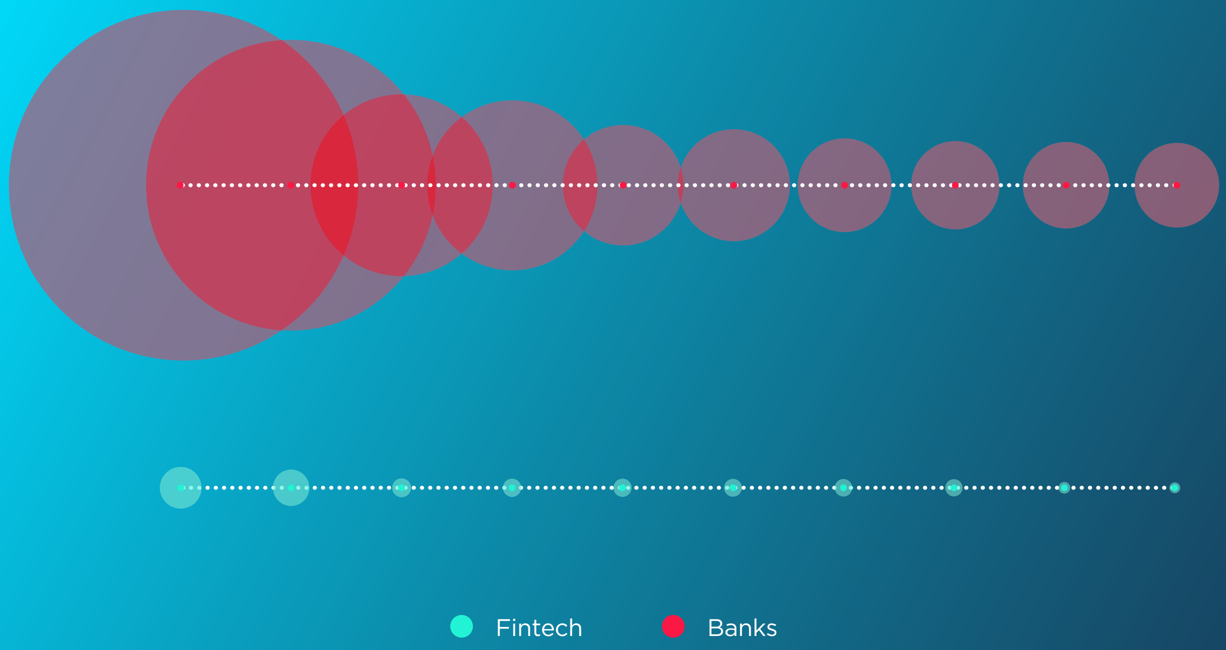
02 Unless you're determined to go it alone, in which case, creating the right culture for the right talent comes first proximity matters for partnerships. Smaller hubs are emerging around the Southbank and Victoria.

03 Finance hubs want to look like tech hubs and maturing tech hubs are starting to look like finance hubs. A process of osmosis is taking place, in which the City is taking on not just the types of tenants associated with the City fringe, but the amenities and perceived culture. At the same time, the City fringe accommodates occupiers and amenities previously more associated with the traditional CBD.

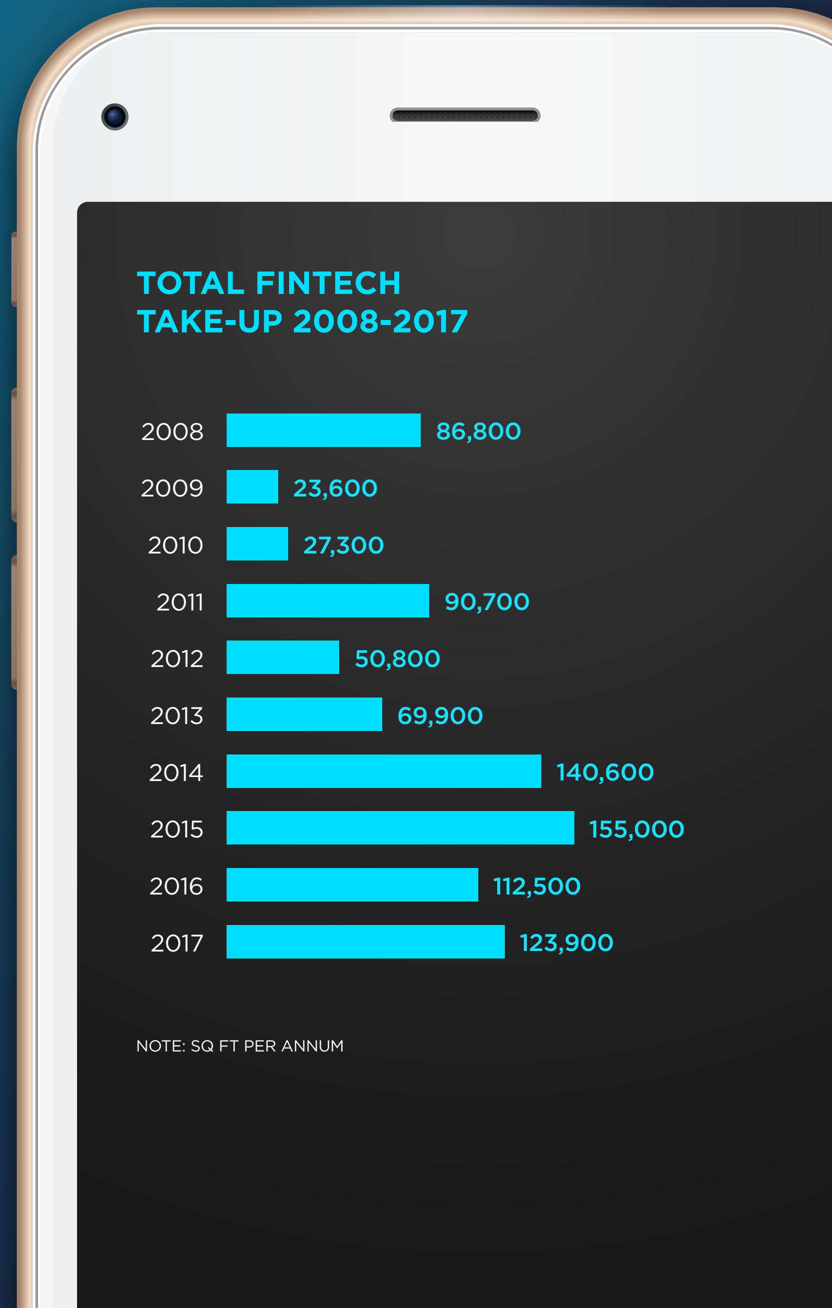
FINTECH
50 LOCATIONS



LARGEST TRANSACTIONS BY SQ FT (2015-2018 YTD)



NOTE: SIZE OF BUBBLE DENOTES RELATIVE SIZE (SQ FT) OF EACH TRANSACTION



SPACE SOLUTIONS

MONITORING AND ACCESSING THE START-UP ECOSYSTEM BY EMBEDDING CORPORATE TEAMS WITHIN CO-WORKING SPACES AKA THE TROJAN HORSE

A few major corporates are seconding small teams to co-working spaces, as a means of tapping into the latest ideas, products, and talent of the fintech ecosystem.

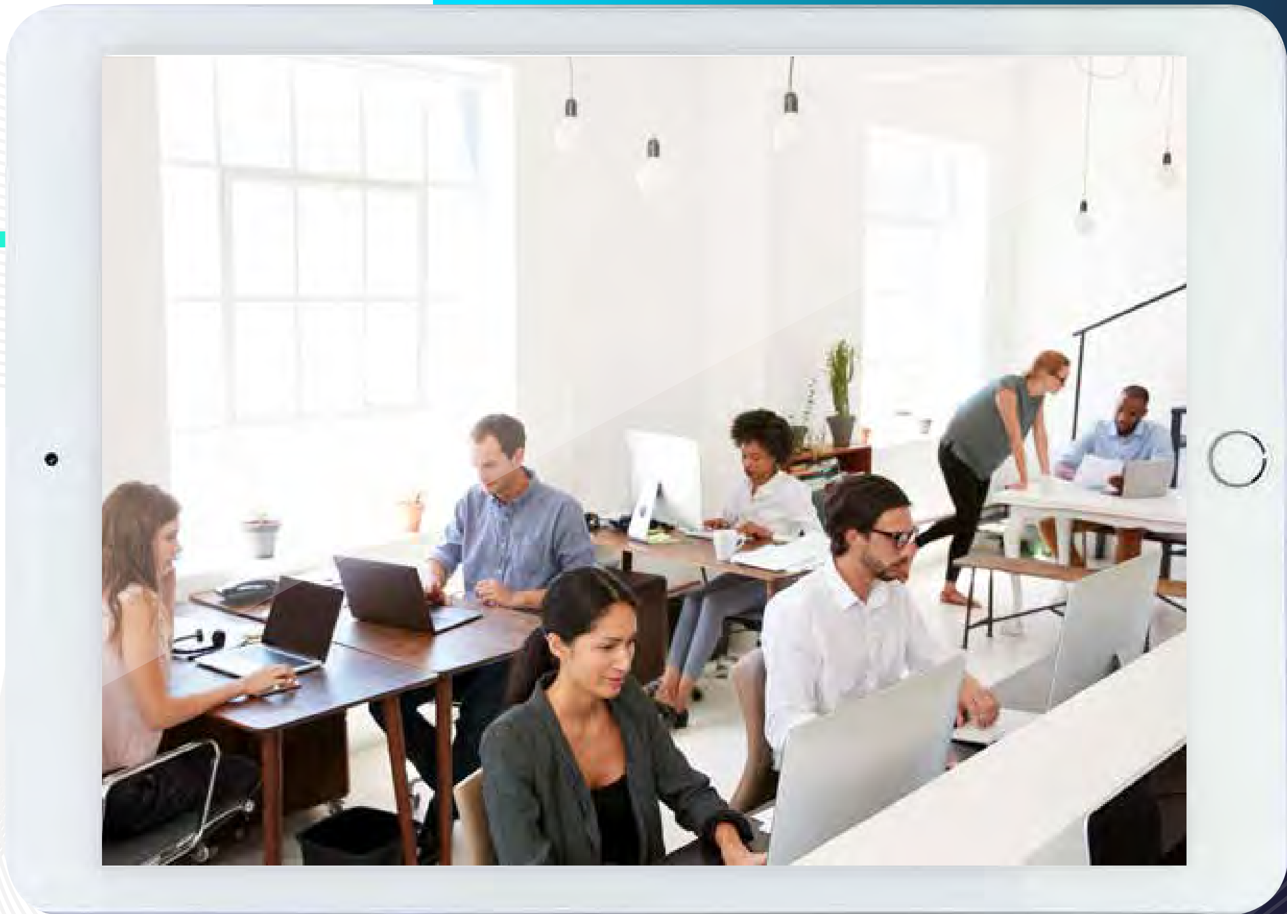
Citibank recently announced the opening of a corporate innovation hub at WeWork in London. The group cited access to “one of the world’s largest pools of diverse talent when it comes to hiring advanced technologists with a strong business background” as a motivation for establishing an innovation hub in London[10]. The benefits provided by WeWork include a light-touch commitment to space, a culture and aesthetic that is distinct, and indeed physically removed from the C-suite, and the possibility of taking on further space should projects require it.

10 Stuart Riley, global head of operations and technology at Citi’s markets and securities division.

OPENING CORPORATE HEADQUARTERS TO START-UPS TO BUILD RELATIONSHIPS AND PLATFORMS FOR COLLABORATION AKA THE OPEN DOOR

While the ‘open door’ approach is often dismissed on the ground of security or IP concerns, this can be one means of incumbents making use of surplus space while introducing a culture of innovation into the company without a major investment in additional space or third party accelerator programmes. The most notable example to date is the JPMorgan ‘in residence’ programme, which gives selected B2B fintech firms access to office space and relevant business teams for between 6 and 18 months. The programme emphasises co-creation and side by side collaboration, with the possibility of continued partnership via investment or other commercial arrangements.

SPACE SOLUTIONS



INVESTING IN PHYSICAL SPACE AND BUSINESS SUPPORT TO ATTRACT START-UP TALENT AKA THE CORPORATE CO-WORKING HUB

A more long-term investment involves leasing space to run as a co-working space specifically for fintech start-ups. These can be run either on a commercial basis, with service providers charging for desk space, or as part of an incubation process. Barclays Rise, for example, provides an office as a service specifically targeting fintech start-ups. Previously located at Central Working in Whitechapel, Rise London now occupies over 30,000 sq ft in the heart of Shoreditch. The office also hosts Barclay’s own 13-week accelerator programme.

SPACE SOLUTIONS

LOCATING INTERNAL R&D TEAMS IN SEPARATE LOCATIONS AKA REMOTE CONTROL

One response to perceived competition from start-ups has been to establish internal innovation/R&D or digital teams, with an emphasis on developing an innovation culture, rapid product development and the recruitment of relevant expertise. A few FSIs have opted to locate these teams remotely, either as a means of fostering the right sort of workplace environment, with sufficient distance from management and core operations to promote independence and agility that may not be found within the main corporate culture, or to attract a different type of employee.

CASE STUDY

HSBC, for example, cited the cultural amenities of the Southbank over the relative conventionality of Canary Wharf as a key factor in choosing the Blue Fin building for its fintech hub – occupying some 50,000 sq ft and paying a rent of £65.00 per sq ft. This compares to an average rent of around £42.50 per sq ft in Canary Wharf, although is comparable with the City Core.

CASE STUDY

Level39, a technology accelerator owned by Canary Wharf is now five years old and occupies some 80,000 sq ft of accelerator space, having started with an initial 28,000 sq ft in March 2013. The accelerator is expected to see further expansion, while several of their start ups have taken space within the Canary Wharf estate. These include Digital Shadows, a digital risk company, who moved from Level39 to 7 Westferry Circus in 2017.

Our model works on a pay per desk basis, which is great for start-ups. As with many companies though, there's a challenge when you hit a certain size of business (around 50 desks), and it becomes more economical for the venture to opt for office space charged on a square foot basis. Longer lease lengths, administrative processes, and overheads means there's still a gap in the market for spaces catering to fast growth businesses. A lot of fintechs tend be more 'mature' when they begin, and a certain degree of professionality is required, especially for those in the B2B space. Office aesthetics aren't everything, but they help provide a level of professionalism for startups dealing with corporate clients.

ASIF FARUQUE, LEVEL39

SPACE SOLUTIONS

WHOLESALE RELOCATION IN TECH-RICH LOCATIONS AKA IF YOU CAN'T BEAT THEM, JOIN THEM

For a small number of FSIs, a response to the challenges and opportunities posed by fintech has been to relocate into the heart of London's tech ecosystem. Wholescale relocation of an FSI sends a clear signal of how the company self-identifies, moving from finance towards technology. Relocation is also linked to ensuring FSIs are in the right location and the right type of space to access tech talent. As fintech's impact has grown, FSIs have placed increasing importance on hiring digital talent, including data scientists, UX designers and software engineers. As a result, the fintech labour market is very much a seller's one, meaning competitive amenities and location, as well as salaries, form part of the talent war arms chest. At the same time, several 'tech-heavy' fintech start-ups look to emerging Eastern European talent hubs for developers, with hotspots including Poland, Hungry, and the Czech Republic.[11]

Nottingham headquartered Capital One moved in to the White Collar Factory in March 2017. Their office accommodates some 200 new staff, alongside an existing 50 London-based employees who had been based at 350 Euston Road. Capital One cited access to the local talent pool as an important motivation behind the relocation, as well as plans for business expansion. The office's location on Old Street roundabout places the company at the heart of London's tech cluster, with amenities including an events space providing facilities to engage with neighbouring start-ups and businesses.

11 Polish, Czech, and Hungarian developers rank fifth in 10 out of 15 domains in the HackerRank programming challenges, some way ahead of the UK and US. The relative lack of tech giants in these locations means brain drain from start-ups to big tech and the subsequent pressure on wages is less of an issue.

SPACE SOLUTIONS

ACCESSING START-UPS BY SUPPORTING ACCELERATOR PROGRAMMES AKA PEDAL TO THE METAL

While it increasingly seems like every major bank hosts or supports a fintech incubator programme, a handful of companies struck out as early movers. However, not all accelerators are created equal. Compared to other types of product, fintech services tend to have a long route to market due to regulatory requirements, making it hard to align with 3 to 6 month accelerator programmes.

ACCENTURE INNOVATION LAB

Rather than opening a permanent physical space, Accenture's Innovation Lab operates for a three-month period. The lab, opened in 2012, was initially hosted by Level39, but moved to The Trampery at Republic in 2017. Given Accenture's wide range of clients, the accelerator both allows start-ups to access major corporates with a view to collaboration or partnership, but also allows incumbents to keep up with fintech innovation, without necessarily needing their own dedicate programme or space.

It's hard for start-ups to even knock on the right door of a major financial company with some 100,000 employees. But it's equally hard for incumbents to even go about identifying the next big thing, especially with so much activity in the fintech space. Our accelerator improves this matching process, helping start-ups validate their product with a view to scaling or collaboration with FSIs.

LAURA MCGUINNESS, FINTECH INNOVATION LAB PROGRAMME LEAD, ACCENTURE

THE FUTURE

The fintech ecosystem is strongly regulated and heavily reliant on highly skilled labour. As a result, the sector is, in some aspects at least, particularly sensitive to regulatory and political change.

Opinions (at this stage, these are opinions rather than forecasts) are mixed when it comes to how London's ecosystem will fare. This final section outlines the two major changes set to impact fintech and financial services in London – regulation and the decision to leave the EU – and sets out three scenarios for the future of the sector.

REGULATION

Regulatory changes are likely to see competitive advantage to starts-ups who can demonstrate an ability to navigate the changing regulatory process. Indeed, two of London's most successful fintech companies, Monzo and Starling Bank, have already completed the process of obtaining a banking licence which sets them apart from numerous competitors. Incumbents may look to start-ups, who tend to be more agile and more innovative when it comes to dealing with such changes, to provide solutions. Thus, we can expect growth in the regtech space.

REGULATION

OPEN BANKING REVOLUTION?

Up until early 2018, data about how UK customers use banking services was confined to major banks and credit rating agencies. Following a ruling by the Competition and Markets Authority, the UK's nine biggest banks are required to open their APIs, permitting licenced start-ups to directly access transaction data.[12] Account holders must consent to this data being shared.

GDPR

The EU General Data Protection Regulation aims to standardise data privacy laws across industries and make individuals aware of the personal information held on them by institutions. Compliance is required by 25 May 2018. The implications of GDPR are wide-reaching but will lead to a greater focus on the management and compliance of IT systems, including when third party fintech providers are used.

12 Application Programming Interface

PSD2

Open Banking coincides with the Second Payment Services Directive (PSD2), an EU directive aimed at creating a more level playing field between payment service providers. It requires banks to open their payments infrastructure and customer data assets to third parties. Unlike Open Banking, PSD2 applies to all payment account providers and all types of payment account. However, Open Banking goes further in the extent to which it mandates a single standardised approach to data sharing through the use Application programming interfaces (APIs).

It is still too early to know for certain the impact of Open Banking and PSD2 on FSIs and fintech start-ups, not least because the success of innovative products and services developing as a result from Open Banking is strongly dependent on the amount of account holders who consent to sharing the data. However, it is likely that PSD2 will provide opportunities for start-ups to develop APIs and niche products that make the most of newly available data, particularly concerning personal spending habits. Such products are likely to be of interest to FSIs seeking to keep up in the post Open Banking era.

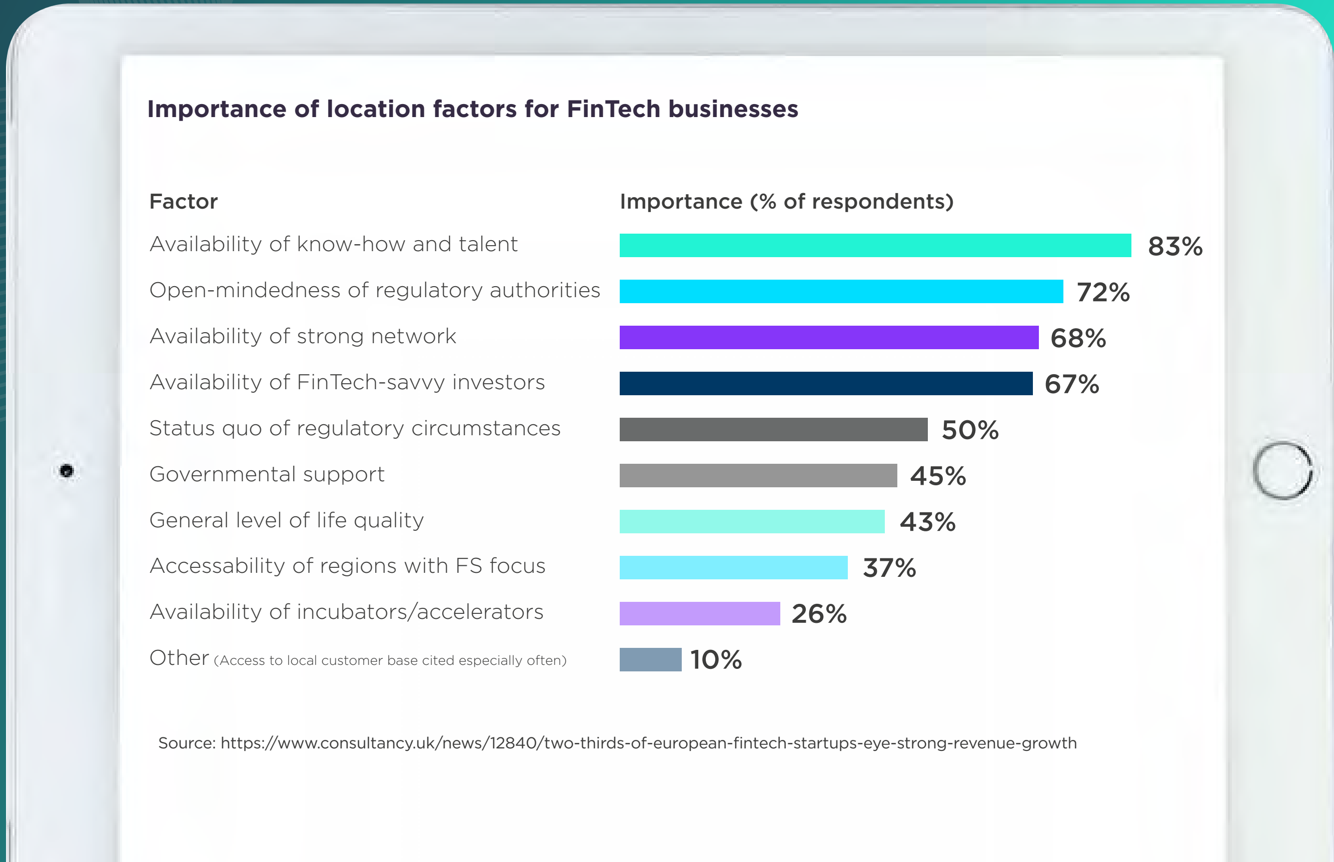
BREXIT

Despite an initial dip post EU referendum, VC investment in UK tech remains strong. UK companies in fact raised twice as much venture capital in 2017 than in 2016 [13]. London-based fintechs performed particularly well. Transferwise received £212m from Old Mutual Global Investors and IVP. Funding Circle raised £82m and challenger banks Monzo and Revolut raised investments of £71m and £64m respectively[14].

However, sector bodies and start-ups express concern about the ability to attract and retain foreign talent, especially given the high level of EU and non-EU individuals working in London's fintech sector[15] – around one in three individuals. Competition for tech talent with FSIs, many of whom have the funds to pay a premium for data scientists and developers may also prove a challenge for fintech start-ups with more limited funds. While these concerns around talent may impact both fintechs and FSIs, the scale, existing global reach and institutional infrastructure of FSIs places them in a better position to navigate such hurdles.

This report does not seek to examine the potential impact of Brexit on fintech in London in terms of regulating the financial services sector. However, it is worth noting that the scale and clustering of the financial services and fintech sector is likely to stand the capital in good stead, even if firms do consider locating some staff outside the capital or establishing multiple headquarters in target locations.

While it is too early to determine the impact of Brexit and regulatory change on the sector, a potential constraint on migration alongside greater demand for data and regulatory solutions may well exacerbate competition for talent.



[13] The UK experienced its best year on record with $1.8BN over 224 deals of VC investment, up 153% on 2016. The UK ranked second globally in total Capital Invested and Deal Volume, behind the United States. Source.

[14] http://www.cityam.com/278258/londons-tech-scene-pulls-record-gbp25bn-2017-venture

[15] https://www.slideshare.net/innovatefinance/innovate-finance-postbrexit-member-survey=

SCENARIOS AND IMPLICATIONS

A BOOST TO START-UPS

Existing start-ups pivot or diversify their services because of access to new data, where large banks had once used ownership of customer data to stave off major disruption. Availability of data opens the flood gates to a range of new start-ups attempting to develop new products by combining banking data and account holder data. As London's ecosystem matures, barriers to entry drop as established locations, talent pools, capital and regulatory know-how support the emergence of a second generation of fintech start-ups, increasingly without an ex-industry founding team.

More successful start-ups diversify their product offer through partnering with or acquiring younger start-ups – a form of 'rebundling' of specific banking services. Recent examples include Revolut partnering with Trussle to offer mortgages, and a partnership between Berlin-founded N26 and London-founded Transferwise, or Squarecash adding payment in bitcoin. In theory, these rapidly scaling start-ups may be able to rival incumbents in terms of customer share, though are highly unlikely to match existing companies in terms of headcount and therefore in terms of space needs.

SCENARIOS AND IMPLICATIONS

FSIS AS TECH COMPANIES

The largest and most well-resourced banks continue to invest in partnerships, start-ups and talent to raise the bar for innovation. The path to FSI as a tech company may take more than one route – including partnering with those start-ups best placed to exploit the benefits of Open Banking or hiring fintech talent to develop new products in-house. These initiatives allow incumbents to build on existing strengths in terms of consumer trust and scale. Shared legacy infrastructure, such as Swift, will shore up the dominance of incumbent banks and any perceived threats from major tech companies may prompt further industry initiatives.

TECH COMPANIES AS FSIS

The advent of Open Banking means it will be possible for major tech companies, not just start-ups to access transaction data should customers give permission. This builds on existing forays into financial services such as Amazon Lending, which provides B2B loans to online merchants, or Google's listing as a digital payments provider. Existing experience combined with a vast number of already committed users puts tech companies in a strong position for picking up certain banking services – subject to regulation[16].

16 A survey by Accenture showed that one in three global banking and insurance customers said they would switch their accounts to Google, Amazon or Facebook if they could

CONCLUSION

If the past five years saw the disintermediation and disaggregation of banking and financial services – a process often referred to as 'unbundling' – the next five may well see the convergence and contraction of these service into fewer, larger companies, including established fintechs and challenger banks, and FSIs.

The question, however, is whether these consolidated businesses continue to locate in the capital. While the exact impact of current challenges remains to be determined, London's head start in not just adapting to, but leading change in financial services through a combination of concentration of talent, competition and collaboration places the capital in a strong positon.

Looking forward fintech companies, whether start-ups or incumbents, will continue to expand their need for space in the capital but it is highly unlikely that we will see the sheer scale of real estate footprint that the FSIs have demanded in the past, as they will use a range of accommodation options. As FSIs consolidate their space needs across London, regardless of Brexit, the wider banking & financial services sector could be overtaken as the dominant space taker in London.

OUR RESEARCH SERVICES

Cushman & Wakefield is known the world-over as an industry knowledge leader. Through the delivery of timely, accurate, high-quality research reports on the leading trends, markets around the world and business issues of the day, we aim to assist our clients in making property decisions that meet their objectives and enhance their competitive position. In addition to producing regular reports such as global rankings and local quarterly updates available on a regular basis, Cushman & Wakefield also provides customized studies to meet specific information needs of owners, occupiers and investors.

To access our industry-recognized research, please visit **www.cushmanwakefield.com/research**

You can also follow us on our social channels:

ABOUT THIS REPORT

The information contained in this report has been collected as at April 2018 and is based on Cushman & Wakefield's proprietary data and third party information.

For further information please contact:

KAT HANNA (REPORT AUTHOR)
Insight Associate, Research & Insight
kat.hanna@cushwake.com
+44 (0) 20 3296 4947

ELAINE ROSSALL MRICS
Head of UK Offices, Research & Insight
elaine.rossall@cushwake.com
+44 (0) 20 3296 4297