

# RETHINK FINTECH

Crisis as an opportunity –  
UK

September 2020

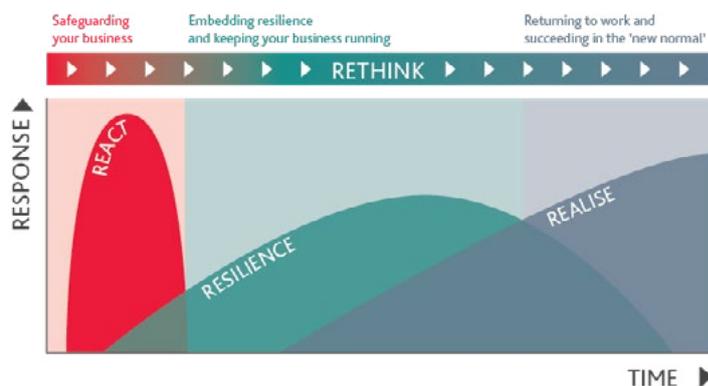
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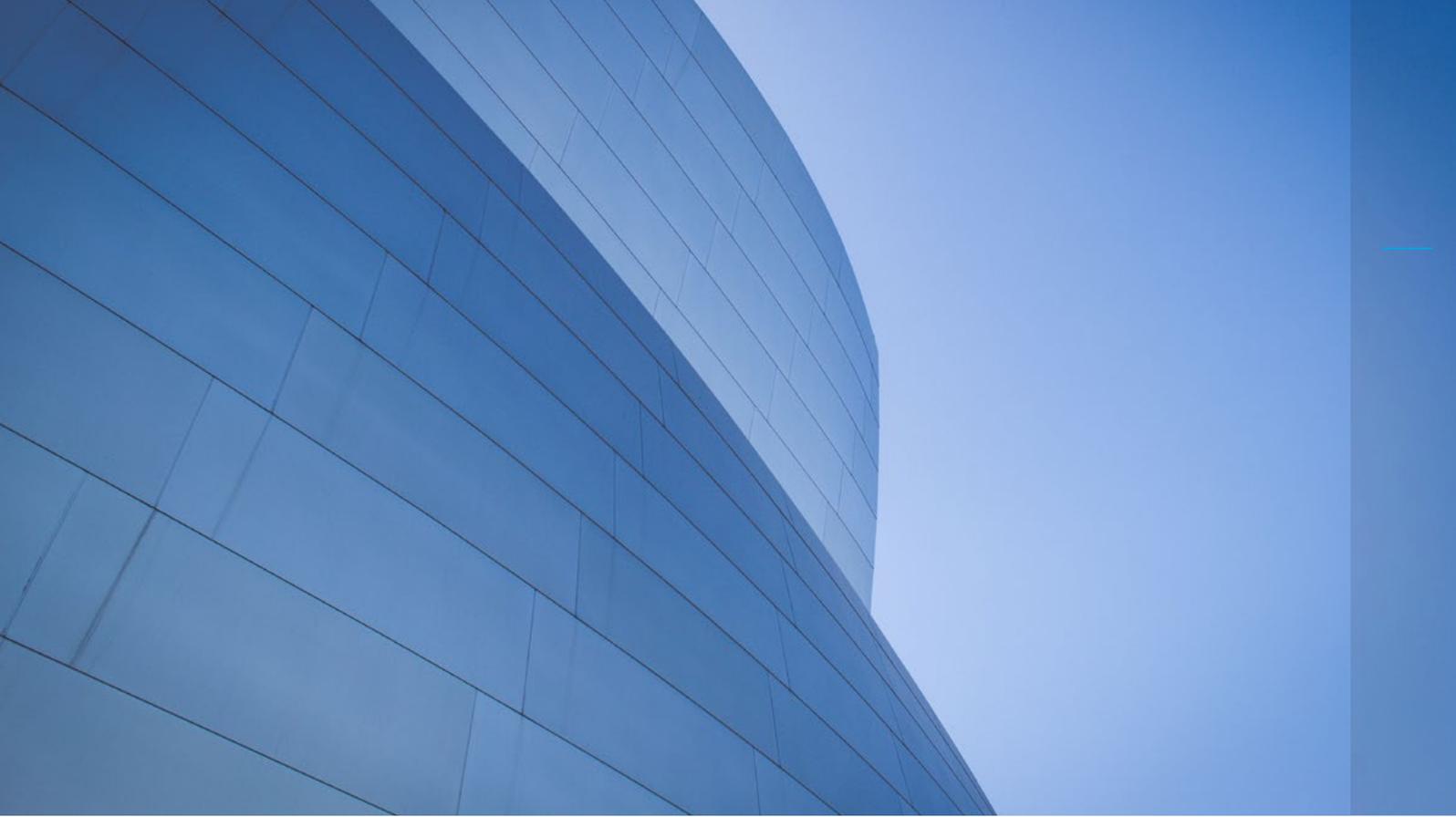
# INTRODUCTION

The UK is a global hub for Fintech companies, with London as its epicentre. As the Pandemic unfolded during the first half of 2020, it has been inspiring to follow how Fintech companies across the country have adapted to the impact of COVID-19. We've seen new solutions and services aimed at assisting British companies survive the short-term fall-out. In the long-term, consumer and businesses can look forward to a number of initiatives which make accessing financial services more seamless. It has been a testament to the UK's ability to innovate in the face of adversity, and has served as an opportunity for Fintech companies to showcase their abilities and innovative solutions to a wider audience of potential customers - who are increasingly focussed on services such as contactless payments and mobile banking.



At the same time, the crisis has stressed the need to increase the speed of digital transformation – with incumbents being challenged to service their changing consumer behaviours and expectations, whilst also ensuring acceleration to meet new demands are met through stringent risk protocols.

Before COVID-19, the traditional bank was on a slow decline in the UK. [Reports](#) estimated that  $\frac{1}{4}$  of incumbents were beginning to close their branches, with the Big 4 responding to digitised experiences faster - with nearly three quarters of their bricks and mortar branches closing in the last five years. Yet, while traditional banks have made progress in meeting demands for consumers by shifting online, the Pandemic has shown just how far they need to come. While challengers quickly offered end-to-end engagement in real time, traditional banks were limited to providing consumers digitised experiences that were self-service and transactional in nature. While there are fewer stores, there is still a reliance on branches to complete many tasks consumers require.



Furthermore, traditional banks differ in their approach when compared to the customer-centric responsiveness of challenger banks. Banks were criticised for their slow response in passing on the UK Government's business loan interruption scheme to consumers – compounded by some asking banks for personal guarantees – which the government later banned. What this has highlighted is that opportunities await Fintechs to close these gaps.

Online behaviours have also intensified during lockdown, with citizens adopting a rapid shift to carrying many activities from home. When the world reopens fully, this is a behaviour that will be normalised and one that consumers take into the future.

However, Fintech companies are also facing unprecedented challenges. For some, their very existence may be threatened, as the world economy reels from the influence of COVID-19.

So, how will all these learnings enhance the post COVID-19 landscape? Rather than competitiveness, the future of banking relies on collaboration between digitally savvy Fintechs to enable incumbents to service their strong customer base in the way they now expect.

BDO UK have a dedicated team of industry experts covering areas such as business development and strategy, financial consulting and technological development helping fintech companies through the immediate fallout of COVID-19 and helping them prepare to grasp the opportunities awaiting on the other side.

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**MATT HOPKINS**  
*Fintech Leader, BDO UK*



# THE UK'S FINTECH ASCENDANCY

The UK is a global Fintech leader, which is one of the most rapidly developing sectors in the UK. The sector is worth £9.9bn in revenue, with an annual growth of 9.9%, according to [IBIS World latest report](#) on Financial Technology in the UK. Leveraging of the UK's history of talent and innovation in both financial services and technology to provide the perfect environment for digitisation in financial services Fintech is getting increased recognition from stakeholders and industry bodies with increasing presence on broader industry rankings, such as [Tech Track 100](#). We are now seeing the market start to mature in UK.

Fintech in the UK 2019

**£9.9bn**  
in revenue

annual growth of  
**9.9%**



**David Butcher,**  
Global Leader  
Crypto /  
Blockchain



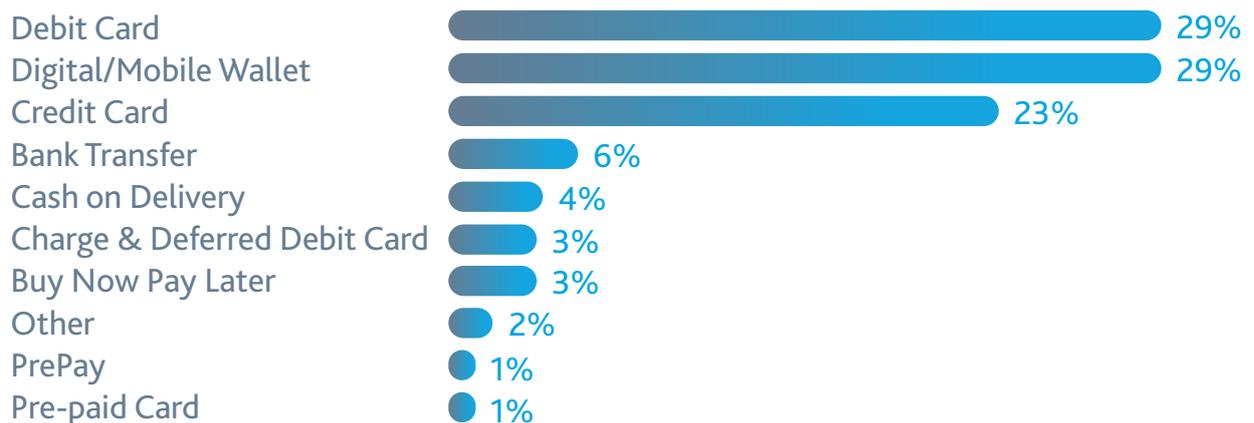
*The emergence of the Fintech sector in London has been building for a number of years now. It has accelerated significantly in recent times, as the pace of tech enabled solutions is rapidly disrupting the traditional Financial Services sector.*



2019 was a record year for Fintechs in terms of investment in the market. According to a report from Innovate Finance, Fintech companies received a total of US\$4.9 billion in investment during 2019. For reference, the UK attracted more capital and completed more deals than all other European top 10 countries for Fintech combined. We have seen a lot of funding activity, with interest from public markets, private markets and strategic investors such as banks, MasterCard, Visa and PayPal. Payments and digital banking are estimated to be the largest Fintech subsector, with revenue accounting for an estimated 23.8% of the industry total, according to IBISWorld. According to [World Pay's Global Payments Report](#), in 2019 in the UK, the percentage of eCommerce spend using Digital/Mobile Wallet was 29%, this clearly shows a trend towards the use of mobile apps.



#### 2019 eCom mix by payment method



Source: 2019 eCom mix by payment method – UK, World Pay's Global Payments Report 2020

# COVID-19 FELT DIFFERENTLY BY FINTECH COMPANIES

Location, sub-industry, business stage and funding structures have all played a pivotal role in how UK Fintechs have been affected by COVID-19. For Fintech companies, their national, and often international customer base makes them more susceptible to feeling the macroeconomic effects of COVID-19. However, many Fintechs are equity financed, which helps ensure that they have cash and runway to mitigate some of the short-term effects, such as changes to cash flow. However, according to a [recent report](#) by Innovative Finance, the smallest UK Fintech companies only have a cash runway of six months or less – with many turning to government-funded support.

Overall, the majority of Fintechs have been unable to access private funding during the crisis – however, as markets start to normalise, investors sitting on underplayed capital, should begin to invest in the fastest growing sector again.

We will be entering a new phase of co-operation and consolidation – for example, incumbent Metro Bank's acquisition of peer-to-peer lender Ratesetter. It's likely that we will see more trade sales, with volatile markets meaning listing exit events will be paused and reserved for the largest entities.

Many Fintechs will delay funding during their **React** and **Resilience** phases of BDO's RETHINK [framework](#) for dealing with the fallout of COVID-19. Some Fintech firms will be more impacted than others, such as Alternative lending platforms, who will be affected by payment holidays. Regulatory compliance and conduct risk will remain top of the agenda for many Fintechs – with customer outcomes a key performance driver.



**Tim Aman,**  
Global Fintech  
Leader

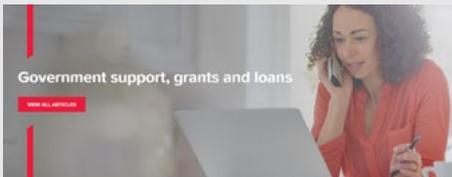


*Online behaviours intensified during lockdown, with citizens adopting a rapid shift to carrying out many activities from home. When the world reopens fully, this is a behaviour that will be normalised and one that customers demand. The future of banking relies on collaboration between digital-savvy fintechs and incumbents to service their strong customer base in the way they now expect.*



# GOVERNMENT SUPPORT AND NEW INITIATIVES ARE ORDER OF THE DAY

The UK Government has launched a series of support schemes, many of which may apply to Fintech companies. However, there are several boxes which must be ticked in order to qualify for each individual scheme. One example is the Future Fund, where applicants must be able to show that they have raised at least £250,000 in aggregate between April 1st, 2015 and April 19th, 2020 from third party investors. Documenting such requirements and handling the application process may put extra stress on management teams focused on short-term survival.



[CLICK HERE](#)

We have developed a page on our COVID-19 hub dedicated to the government support available and stand by to assist companies with the process.

## SUPPORT SCHEMES AND PROGRAMMES APPLICABLE TO UK FINTECHS

Below is a list of some of the support available to firms in the UK:

- Government-backed loans to businesses
- Business Rates reliefs
- Direct business grants
- Supporting the self-employed
- VAT deferral
- Tax - Improved Time To Pay arrangements
- Paying Statutory Sick Pay (SSP)
- Coronavirus Job Retention Scheme
- Potential tax issues arising from international travel restrictions
- Package for Innovative Businesses: Future Fund and £750m R&D commitment

BDO UK assists companies across the country identify which support schemes may be applicable for them, help with the application process and administer the tax and auditory consequences. [Contact](#) us to hear more about how we can assist your company.

During COVID-19, the UK Fintech industry has shown resilience, innovation and community spirit. Very early on, we saw the [COVID Calculator](#), a top-level, free tool, developed by Fintech companies, to help businesses calculate how much relief funding they may be eligible for.

# UK FINTECH SCENE REMAINS STRONG

As we slowly move towards the 'new normal', UK Fintech companies find themselves in an opportune position. Since the early days of COVID-19, customers and financial institutions have been extra geared toward using the types of digital solutions that Fintechs provide. While it is still uncertain what exactly the new normal will be, it seems likely that digital and contactless payments, AI and algorithm-based loan provisions and similar Fintech innovations are here to stay. Those who do not adapt to changing customer demands through increased digital transformation will likely find themselves left behind.

These are some of the reasons why we expect to see an acceleration in consolidation in the market, with a bifurcation between niche and mass market. Less differentiated or developed business models will see inherent weaknesses exacerbated.



**Tim Aman,**  
Global Fintech  
Leader



*While recessionary impacts are being felt across the globe, overall Fintech remains resilient. The last quarter has seen immense market activity including consolidation and IPOs, demonstrating that change is coming to the sector. Beyond financial Services, Fintechs are making their mark in other areas that enable them to embed their technology, by integrating it into non-banking verticals - such as payments in retail sectors, or the back office of SMEs.*





**Matt Hopkins,**  
Fintech Leader  
UK



*Acceleration of demand for digitalisation provides an opportunity for Fintechs, particularly platform-based businesses with minimal customer friction points.*

*Fintechs unencumbered by large balance sheets and legacy underwriting decisions who can offer a differentiated digitised and frictionless customer proposition are in an almost uniquely strong position to take advantage of the new post C19 reality.*

*For larger fast growth players there is an opportunity to take stock, ensure back office infrastructure and governance has time to catch up, and look for collaborative opportunities in the market.*



**Orla Reilly,**  
Global Leader  
Payments



*The rise in card payments and online shopping as a result of lockdown has demonstrated that payment platforms are well equipped to deal with the changes in consumer preferences.*



**David Butcher,**  
Global Leader  
Crypto /  
Blockchain



*The nature of the global lockdown has provided a great opportunity for Fintechs, as the whole world accelerates the adoption of digital solutions and embraces innovation.*

*Fintechs that offer a clear cost saving solution to their chosen market, supported by a robust go to market strategy will be very well placed to take advantage of the new normal and attract the funding required to maximise this opportunity.*



# BDO RETHINK – ASSISTING FINTECH COMPANIES DURING AND AFTER THE CRISIS

Risk mitigation and overcoming short-term challenges are priorities

In the short term, Fintech companies will be greatly impacted by regulatory compliance, particularly in respect of reporting obligations and conduct risk. The UK regulator will remain alert to customer outcomes, and with any regulated firm – especially those with consumer credit permissions - they will be looking to ensure optimal customer outcomes are at the forefront. While navigating the challenges of COVID-19, Fintechs must also ensure they have strong finance and compliance functions to maintain and monitor the adequacy and effectiveness of their compliance controls, as well as responsibility for the compliance of staff and oversight of capital adequacy and client money.

We have identified three key areas when looking at the impact of COVID-19: operations, markets and financing.



**a.** Operations – Most Fintechs have not been impacted operationally, as they had the capabilities to work remotely. Generally, they are more agile than other businesses, with good systems, rather than some legacy systems more traditional firms would have in place.



**b.** Markets – While COVID-19 has dampened M&A activity - with transactions falling by 30% overall in Q2 2020 - activity is resuming, particularly in the [area of technology](#).

The market might move a bit slower, such as where Fintechs are selling into larger Financial Services businesses and decision-making might take a bit longer. In most cases, larger Financial Services businesses have extra rigour to make sure they are controlling costs. Conversely, those Fintechs that are consumer-facing and with a primary digital offering are continuing to see growth opportunities albeit in more localised products due to the temporary restrictions on travel.



**c.** Financing / funding options - Existing investor down rounds, there is still transactional activity but reduced and with more covenants and targets.



For Fintech companies, finance sector incumbents and consumers alike, COVID-19 has brought home the advantages – and necessity of - digital transformation. This is one of several factors driving market consolidation, which will particularly affect smaller players. Sub-industries are likely to see different types of fall-out with alternative lending platforms being an example of a space heavily affected by the payment holidays.

#### HOW BDO UK IS HELPING

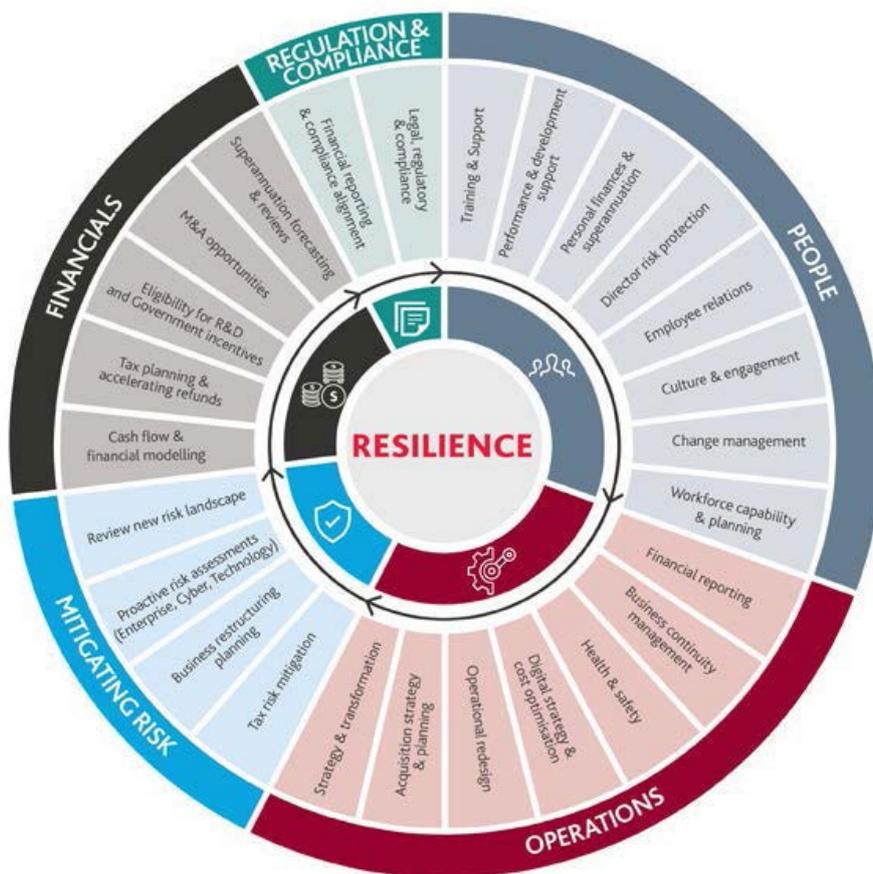
We are staying close to our clients, understanding their immediate needs. We are working closely with our Business Restructuring, Debt Advisory team and Tax teams, ensuring our clients have access to support available from the Government and understand their options.

We have developed a COVID-19 hub and we have a strong webinar and comms programme to support our clients.

Overall, we have been trying to make it business as usual for our clients, we are still very much open for business and are here to support.



# BDO UK'S SERVICES FOR FINTECH COMPANIES



Fintechs can use this wheel to identify the largest threats and potential opportunities within each area, as well as a framework for what actions your findings necessitate. Following a review, plan and track progression. You will be able to follow up initiatives and react in a timely fashion to the unforeseen – and often unforeseeable – changes that will manifest themselves over the coming months and likely even years. The wheel also represents many (although not all) of the areas where we are assisting Fintech companies with navigating the crisis.

# ABOUT BDO IN THE UK



BDO UK

**17** LOCATIONS **350** PARTNERS  
**5,150** STAFF

**97%** OF OUR CLIENTS  
WOULD RECOMMEND US<sup>1</sup>

**2018/2019** RESULTS:  
REVENUES<sup>2</sup> UP **25%** TO **£578m**

<sup>1</sup>. Client Listening Programme (December 2018 BDO LLP)

<sup>2</sup>. Gross Revenues for BDO LLP.

BDO UK provides tax, audit and assurance, advisory and business outsourcing services to companies across all sectors of the economy.

We operate from 17 locations, covering all major business centres, so that we can be close to our clients. We employ 5,000 people who are allowed to be themselves; taking responsibility for their work and their relationships with clients. All our people share core values that underpin both our culture and the value that we bring to our clients.

BDO LLP is a key member of the BDO global network of public accounting, tax and advisory firms. The firms have representation in 167 countries, with 88,000 people working out of over 1,800 offices. Being a member of the BDO global network allows us to meet the needs of clients who are growing and trading internationally.

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