



**THE
GLOBAL
CITY**

UK financial and
professional services tech:
**innovation and investor
opportunity**



Foreword



Chris Hayward
Policy
Chairman, City
of London
Corporation

"This is where cutting edge solutions are tested and scaled - led by creative entrepreneurs, backed by an unparalleled financial and professional services cluster, and facilitated by supportive regulators. And we are working to ensure that this position of global leadership continues into the future, in partnership with policy leaders and industry."

Over the last two decades, financial and professional services (FPS) technology in the UK has transformed into a globally competitive, mature investment landscape. Public UK tech companies have outperformed the wider UK market by 43% in the past five years. London attracts more fintech investment than the next 13 European cities combined. Venture capital in particular has exhibited significant growth in performance. Technology funds investing from 2014 saw a 30.3% internal rate of return. This compares to 15.5% for funds investing since 2000. Despite fears around the impact of European exit, illiquidity, and global exchange rate fluctuations, UK fintechs attracted record-breaking venture capital and private equity investment in 2021.

To date, media headlines have been focused on the boom in consumer fintech, whether challenger bank IPOs or controversial cryptocurrencies. However, the investors we interviewed about their perceptions and predictions made it clear there are exciting opportunities across the UK's fast-paced financial innovation sector. This includes the less visible B2B space. This brochure showcases the UK innovation landscape. We focus on four particularly promising areas of growth:

fintech, regtech, cyber and lawtech. These are subsectors where the UK has developed a leading edge - enabled by its globally-recognised strengths across FPS.

The UK is a unique innovation ecosystem. Cutting edge solutions are tested and scaled in close proximity to a dense concentration of FPS expertise, trusted the world over. A progressive, forward-thinking regulator has a unique mandate to support innovation and reduce regulatory barriers.

The UK also boasts deep and varied pools of capital and tech talent, alongside strong connections to global markets. This longstanding ecosystem makes us a world-leading centre for seeding and scaling technological innovation. And it creates a solid pipeline of investable businesses with pathways to international growth.

We are delighted to be showcasing FPS technology as a UK-wide success story. And there is more to come in this fast-moving space. The City of London Corporation, Innovate Finance and other partners are working closely with industry and Government to unlock the power of capital. We look forward to seeing the benefits, not only to investors who are taking

advantage of these opportunities, but also to innovative firms that will thrive. People and businesses in the wider economy will benefit from both financial returns, and access to new products and solutions to drive us into the future.



Nicholas Lyons
The Rt Hon the
Lord Mayor
of the City of
London

"The fintech sector is a major UK success story, offering investors a wealth of opportunities to diversify their portfolios and drive returns. By unlocking the growth and late-stage capital these fast-moving firms need to thrive, we can ensure that investors, businesses and communities across the UK will benefit from innovation."

Why invest in technology in the UK?

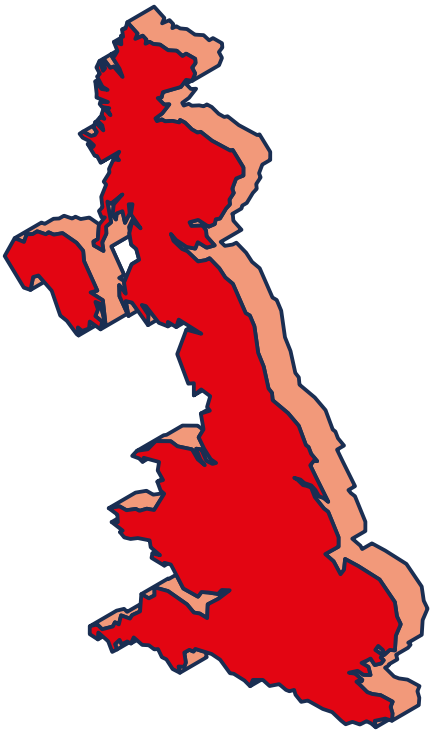
In spite of global economic headwinds, the UK remains a hotbed of successful and innovative fintech businesses. These are anchored by a leading financial centre with deep pools of expertise, talent, and capital - and strong connections to global markets.

Outperforming the market

UK tech companies have **outperformed the wider UK market** by 43%.



The UK's longstanding capital markets expertise makes it a world-leading hub for seeding and scaling technological innovation. It is the most globally connected banking hub, and leads for international debt issuance, commercial insurance and reinsurance, and foreign exchange trading. It is also the second largest asset management centre, with £11tn assets under management in 2020 (City of London Corporation, 2022).



£11tn

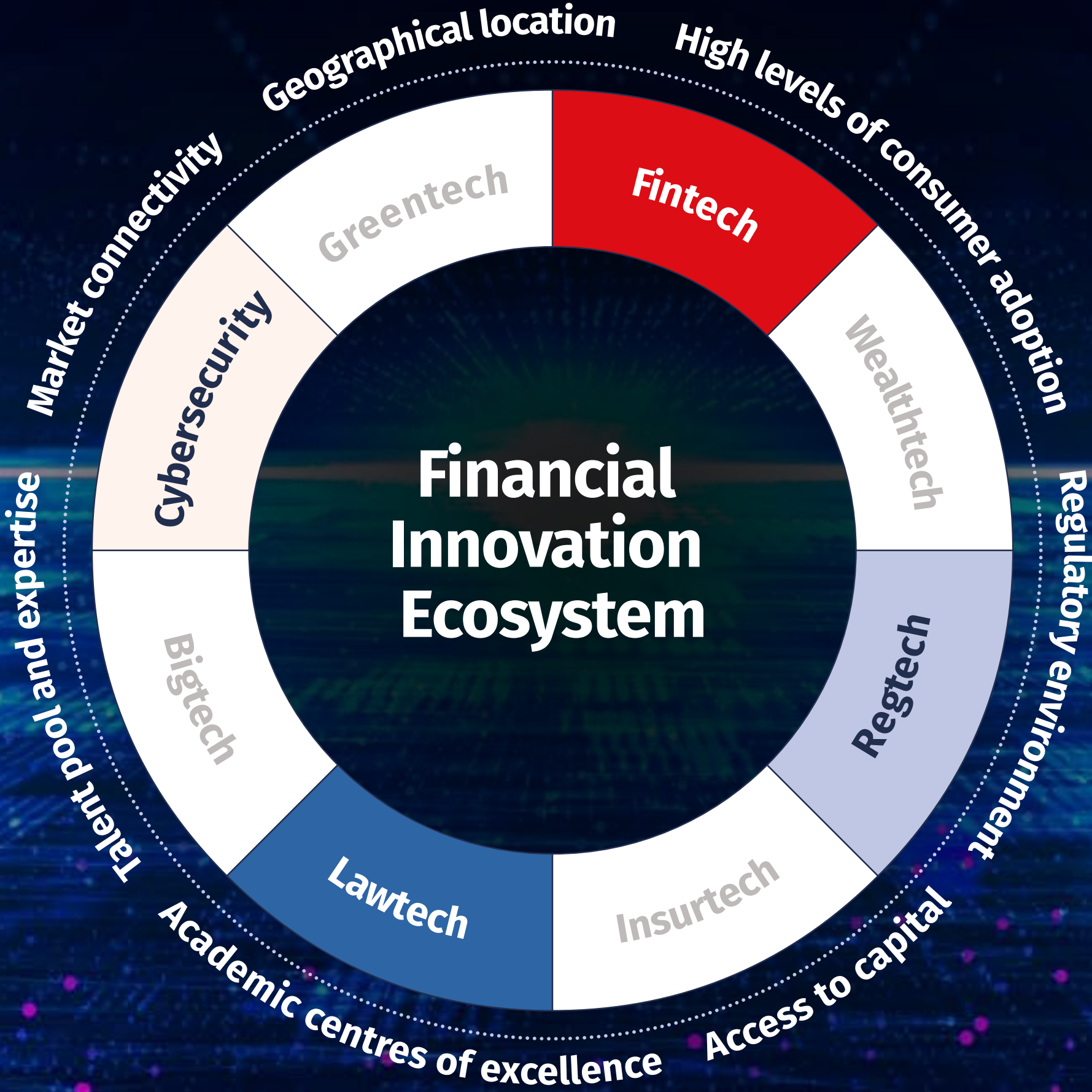
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"There is often a misperception that funding into UK fintechs fell after Brexit. In truth, 2021 was a record-breaking year, as more investment flowed into the ecosystem than ever before. And in 2022 investment into UK fintech amounted to \$12.5bn - a testament to the resilience and strength of our sector even in the midst of a global economic downturn.

Janine Hirt, CEO, Innovate Finance

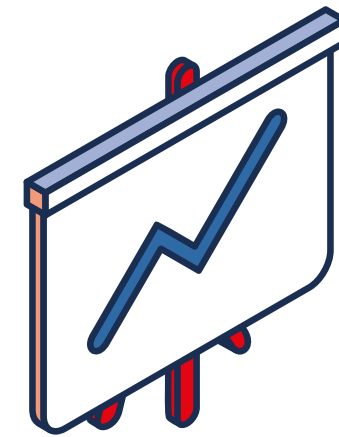




Charlotte Wood
Head of
Innovation
and Fintech
Alliances,
Schroders

"The growth funding gap in the UK is quite well publicised. But actually that can create opportunity for investors to find really good fintech companies looking for scale-up funding, with perhaps less competition for deals than they might face in other markets, particularly in the less visible B2B space. **It's also hard to replicate the talent we have here, of founders with really strong financial services expertise.**"

30.3%



The **internal rate of return** of tech funds investing from 2014 onwards. This is up from 15.5% for funds investing since 2000.

The UK's tech ecosystem is second only to the US in size and activity. It also has more fintech investment than the next 10 European countries combined (Innovate Finance, 2023). There's a wealth of opportunities to be had for both fintech founders, and investors.

UK tech companies have outperformed the wider UK market by 43% in the past five years (Refinitiv, 2023). The internal rate of return (IRR) of technology funds was 15.5% for funds investing since 2000, but 30.3% for funds investing from 2014 onwards (British Private Equity & Venture Capital Association). This represents significant growth in performance. This strong growth is also reflected in the multiples, with the total value to paid-in capital reaching 2.7x for the funds investing from 2014.



Kirsty Rutter
Fintech
Investment
Director, Lloyds
Banking Group

"At Lloyd's, our innovation strategy includes making smart investments and **there is no better place to look than UK fintech.** 10% of the world's fintechs are here, around 2,500 companies. This density of talent and product innovation, adjacent to a global financial centre, cannot be matched."

Investors in these funds have already received back almost all of the funds invested to date via distributions. Only two funds are completely liquidated, leaving significant unrealised capital to be distributed.

Over 800 international fintechs were operating in the UK market in 2021. This is second only to the US and almost double the number of Singapore, the next closest financial centre (City of London Corporation, 2022). While global economic instability and rising interest rates led to a decrease in investment worldwide, UK-based fintechs showed comparative resilience. They received \$12.5bn in investment across 546 deals in 2021, 8% less than in 2020. This represents a much smaller decrease than the global average. Many other countries, including the US, suffered a double digit decrease. Similarly, in 2022 the UK showed greater resilience than most other top countries for venture capital (VC) investment. And despite slower value growth, the combined value of UK tech companies reached over \$1tn by the end of 2022 (Tech Nation, 2022).



Tim Levene
CEO,
Augmentum
Fintech

"Over the last 20 years, there has been both a generational and cultural shift in appetite for risk in the UK, that has filtered through to an incredibly talented and compelling generation of entrepreneurs. It is now a myth that founders don't have the same vision or ambition as their Silicon Valley counterparts, and sell too soon. **We have some extraordinary talent that is both building and will go on to build hugely valuable businesses in the UK.**"



A supportive environment where investments can scale

The UK has a track record of financial services innovation, underpinned by a supportive environment where disruptive technology businesses can start, scale, and stay.

The UK was the first financial centre to pioneer both a regulatory Digital Sandbox (a virtual testing environment) and open banking. The Digital Sandbox has created an ecosystem where businesses can collaborate and develop proofs of concept in a safe, trusted and industry-wide environment. A further 'scalebox' will provide additional regulatory support to growth stage fintechs. This and other improvements contribute to the UK's ranking as the preferred regulatory regime for financial services. In 2021, 31% of senior executives surveyed by Duff and Phelps named it the most favourable, ahead of the US and Singapore.

In partnership with industry, UK policymakers are driving progress and building a stable ecosystem for investment across asset classes. In late 2022, a new Financial Services and Markets (FSM) Bill mandated competitiveness and growth as secondary objectives for UK regulators. This will integrate economic impact as part of decision making, alongside consumer protection and market stability. The Bill demonstrates a commitment to innovation in financial services from policy makers. It provides an opportunity to ensure the regulatory framework in the UK stays agile, coherent and competitive.

Much progress has been made in recent months and there are exciting developments ahead. The UK Government and the City of London Corporation helped to launch the Centre for Finance, Innovation and Technology (CFIT). This private sector-led body focuses on driving forward financial innovation in the UK. Its remit is to bring together experts from across the ecosystem to address barriers to growth in UK financial innovation. His Majesty's Treasury (HMT) is also working with the Bank of England and Financial Conduct Authority (FCA) to launch a Financial Market Infrastructure Sandbox in 2023. This would support firms to provide tech-enabled market infrastructure services by allowing temporary modifications to legislation. For investors, this builds the pipeline of investable opportunities, as well as making it easier for investee companies to scale.

800



Over 800 international fintechs in the UK market in 2021 - second only to the US, and double the next closest market.

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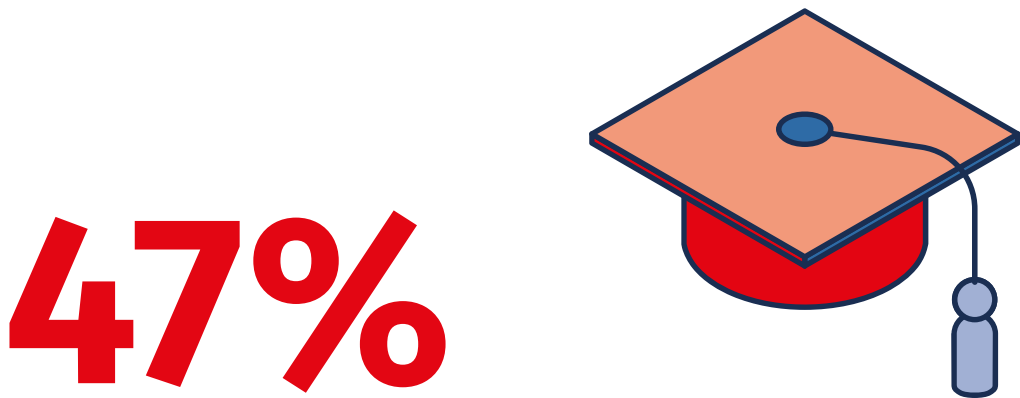


Tim Levene
CEO,
Augmentum
Fintech

"A thriving fintech ecosystem needs a progressive, forward-thinking regulator, a central bank that understands the importance of innovation and competition and, of course, a government that recognises the significant potential of innovation and financial services. **In the UK, all of those constituent parts have come together in a meaningful, coordinated way, which has allowed the UK to invest more venture capital into fintech than the next 13 European centres put together.**"



The UK also offers a diverse, international and highly skilled talent pool with a unique combination of technology and FPS expertise. It is home to three of the world’s most intensive science and technology clusters - Cambridge, Oxford and London - and 47% of all graduates come from business, mathematics or IT programmes. This gives both established businesses and startups easy access to cutting edge research and people. London also has 350,000 software engineers, more than any other European city. To retain this access to talent for fast-growing FPS firms, the UK Government launched a scale-up visa in August 2022. This allows successful overseas applicants to qualifying companies to relocate for two years, and matches leading offers from Singapore and France.



The UK is home to three of the world’s most intensive science and technology clusters - and 47% of all graduates come from business, mathematics or IT programmes.

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Largest investment rounds into UK fintech companies, 2022.

The UK accounted for some of the largest fintech deals outside of the US. The number of \$100m+ fintech deals demonstrates the range of opportunities for institutional investors.

FNZ \$1.4bn Growth Equity VC	Checkout.com \$1bn Series D
Bloom £300m Series A	SumUp \$312m Late VC
GoCardless \$312m Series G	Lendable £210m Growth Equity VC
ClearBank \$229m Growth Equity VC	Paddle \$200m Series D
Genesis Global Solutions \$299m Series C	

Sector overview

The UK is an established leader in the technology enabled revolution in finance. It is home to some of the most innovative, leading edge subsectors that are powering this global shift.



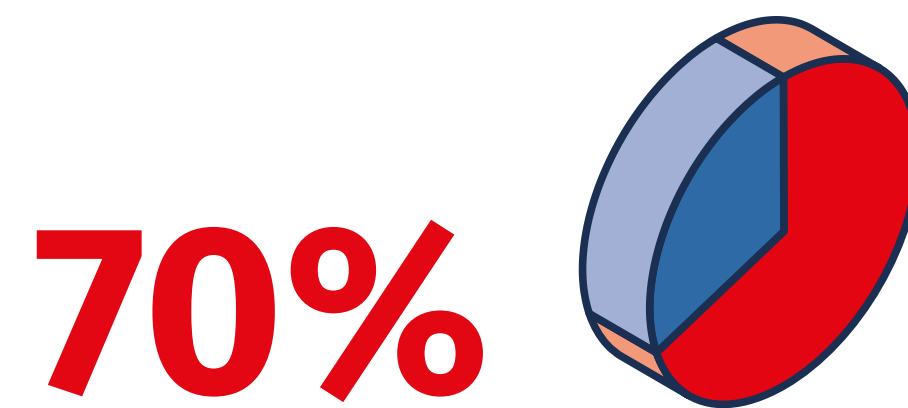
Sector overview: fintech

Fintech is financial innovation, enabled by technology. Over recent decades, it has grown and is now a mature, diversified sector spanning everything from cryptocurrency to challenger banks like Monzo and Starling.

Investment opportunities abound across asset classes, accelerated by demand from FPS firms. 70% of the top 50 fintech companies in the UK operate on a B2B model. This offers benefits to investors in ease of scaling. Proximity to tech's incumbent customers in London's dense cluster of FPS firms is also a unique advantage. Fast growing fintechs include payments software provider checkout.com, which has raised a total of

£1.36bn across four equity rounds; Insurtech platform INSTANDA, and B2B 'buy now pay later' solution Hokodo.

The UK was home to 3,000 fintech headquarters in 2021. Fintechs accounted for 59% of all UK unicorns, a higher share than any other financial centre (City of London Corporation). There is a promising pipeline for institutional investment: 1,980 fintech companies in the UK are currently classed as high growth. While most are at the seed or venture stage, 320 are scaleups. (Beauhurst, 2023).



70%
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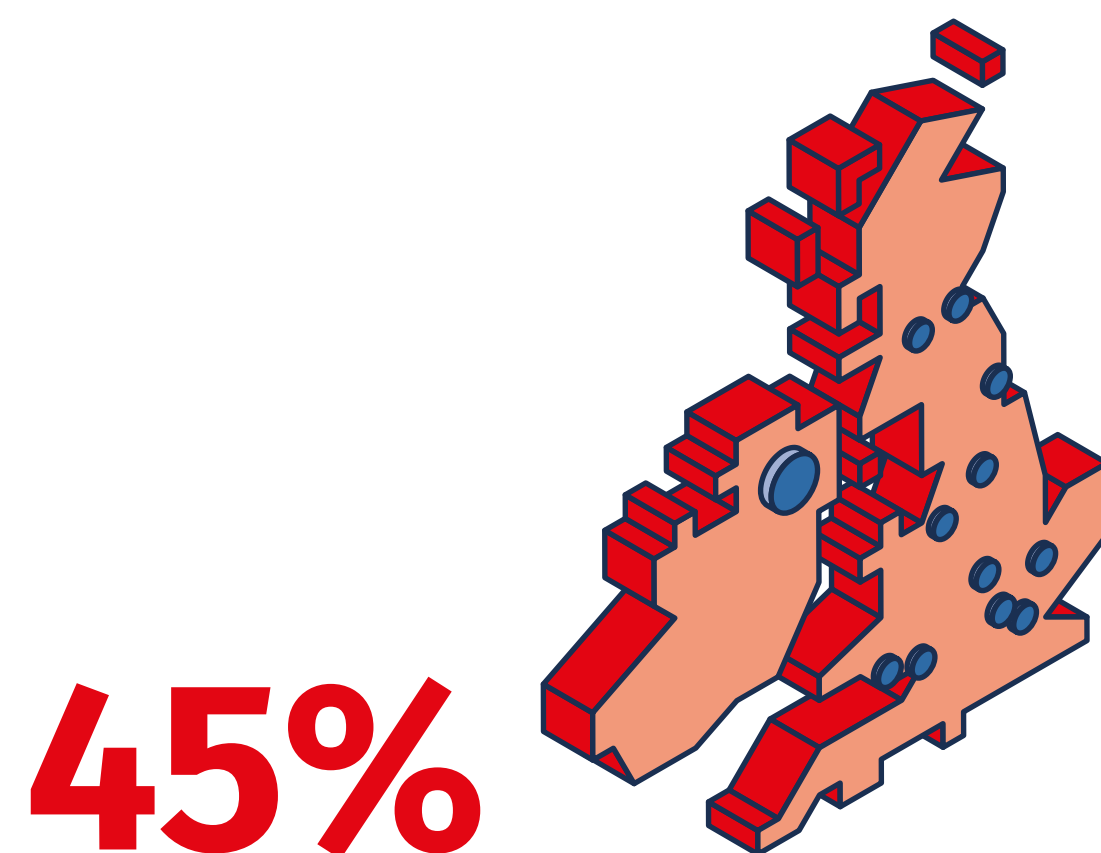
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Kara Byun
Head of
Fintech,
Venture
& Growth
Investments,
HSBC Asset
Management

"The UK has fantastic foundational support, strong STEM and engineering capabilities; and a very supportive and active angel community. The EIS/SEIS tax benefit really helps to motivate super early stage risk capital – I'd say this is unique."

Why invest in fintech in the UK? The UK has a solid pipeline of investment opportunities across VC and private equity (PE), and returns that outperform the market. The UK also has an abundance of experienced local investors - potential co-investors - and a vibrant corporate venture ecosystem backed by the credibility of large institutional players. These include Lloyds and Legal and General Ventures, who invested in Moneyhub in October 2022 (Lloyds also launched a fintech Innovation Sandbox the same month). The UK also has one of the highest fintech adoption rates in the world (EY, 2019), providing a healthy consumer base and creating myriad investable opportunities.



Established clusters account for 45% of scaleups outside London, and investment in these regional hubs is growing faster than within the city.

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Government regulation and strategy is also stepping in to ensure the UK benefits from the potential of digital assets and crypto-technology. While media attention has tended to focus on volatile cryptocurrencies, the UK's strategy on crypto assets and underlying blockchain technology seeks to unlock its benefits across FPS, driving value and efficiencies across the economy. The UK benefits from an early mover advantage in this space. It's amongst the first jurisdictions globally to recognise crypto assets as regulated products. It claimed the highest crypto transaction value of any European nation as of October 2022.

Finally, the fintech opportunity is not concentrated in the capital. The Kalifa Review identified nine high growth fintech clusters outside of London, including Edinburgh and Glasgow, Manchester and Leeds, Birmingham, Cambridge and Bristol. The established clusters account for 45% of scaleups outside London, and investment in these regional hubs is growing faster than within London. Global fintech investment grew 183% in 2021 (from 2020), while investment growth in the UK was 217%. Outside London and the South East this was 237%.

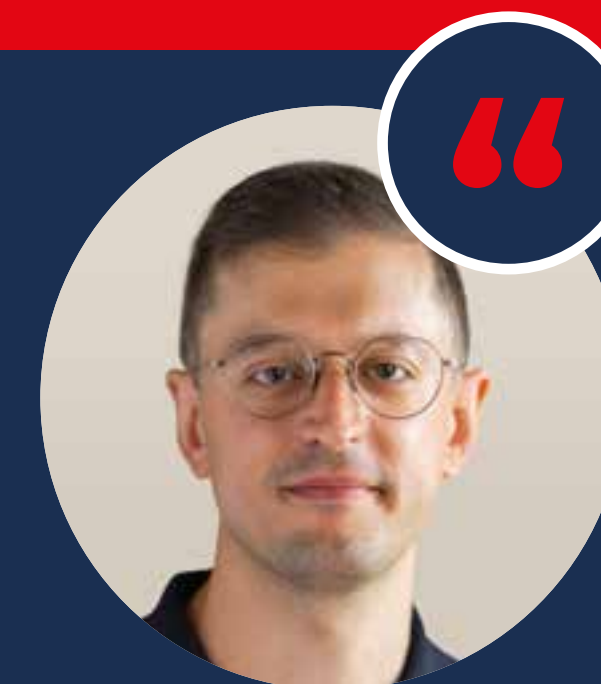
CASE STUDY

GoCardless

Founded in 2011, GoCardless is an open banking company committed to making payments faster, cheaper and more secure. They specialise in direct bank payments - from direct debits connected to customer bank accounts, to one-off authorisations. They now help more than 75,000 businesses collect payments from customers in 30 countries.

The company's latest funding was a series G private equity and VC round in February 2022, bringing their total raised to date to over \$500m. Since then, the company has made strides towards delivering on their vision of becoming the world's bank payment network. They acquired Latvian open banking company Nordigen in July 2022, and most recently, they launched GoCardless Embed to allow other payment providers to build their offerings on the GoCardless network. The company has partnered with fellow UK fintech Wise since 2019 to offer FX on customer payments, making it easier for businesses to collect payments wherever their customers are.

"Open finance has huge potential," says Ahmed Badr, Chief Operating Officer, "but it's more than just payments. Data sharing, for example - having a secure way to do this will help create better experiences across the ecosystem such as retail banking, and really increase competition in those markets."



Ahmed Badr
**Chief
Operating
Officer**

"London's a very open, exciting, vibrant city, and that is key to us being able to attract the talent we need to continue growing and innovating. **There's a lot of fintechs in London, all learning from each other, innovating, competing, collaborating, to help deliver better customer experiences.** A lot of those companies are going through the same growth journey as us, which means that there's a real ecosystem developing as well as infrastructure, regulators, government bodies who really engage on topics that matter to companies at all stages."



Sector overview: regtech

Regtech is software that helps firms to fulfil their regulatory obligations, reducing friction and cost. It is primarily used in financial services and is now expanding to other sectors including healthcare and telecoms.

Globally, the regtech industry continues to attract significant investment. Estimates put the level of funding raised worldwide from 2017 to the end of June 2020 at between \$11bn and \$18.7bn (KPMG, 2020). It is difficult to obtain a more granular breakdown of funding for UK headquartered firms but RegTech Associates estimates that the figure for investment in UK-based regtechs for the same time period is roughly \$3bn.

There are over 200 regtech firms currently based in the UK. High profile UK investments in the last year include Bregal Milestone's stake in automated regulatory intelligence platform CUBE Global, and SteelEye's \$21m growth round - the largest for a European regtech company in 2022.

Regtech's recent growth has in part been driven by the switch to remote working, which has created a need for secure and resilient infrastructure. The sector is arguably a cornerstone of a healthy innovation ecosystem - mitigating risk and keeping the entire innovation technology sector operational and compliant. As more FPS firms develop hybrid and distributed workforces, investors can reap the rewards from further market share.



Kara Byun
Head of
Fintech,
Venture
& Growth
Investments,
HSBC Asset
Management

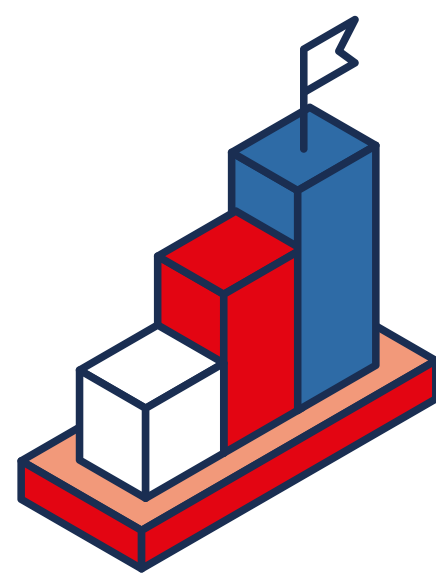
"If I think about historic trades, and trades on the books - **the UK is an incredibly strong space for regtech.**"



Another driver in the sector's growth has been the digital transformation in the regulators themselves. For example, the FCA has been investing heavily in the skills and technology foundations that will make it a regulator fit for a digital future. The FCA is keen to support, and learn from, regtech solutions that help firms to comply with regulations.

However, education is needed about what regtech can and cannot do. Some firms expect a solution that will solve all of their compliance issues in one hit. In reality, the nuance and complexity of regulations requires specialist services, whether ESG, financial crime, or cyber security. This is an opportunity for investors as there is scope for

as many innovations as there are use cases. Institutional players are starting to invest, including HSBC, Santander, and Deutsche Bank.



200

Regtech firms in the UK.

CASE STUDY



TAINA is an award-winning regtech business that aims to transform regulatory compliance into a competitive advantage for financial institutions and their service providers. Customers include some of the world's largest global financial institutions, online trading platforms, fund administrators, fund managers and the Big Four.

The platform started with tackling FATCA (Foreign Account Tax Compliance Act) and CRS (Common Reporting Standard), two global anti-tax avoidance regulations, for which it has since been independently rated the best-in-class solution. It is now expanding to other regulations.

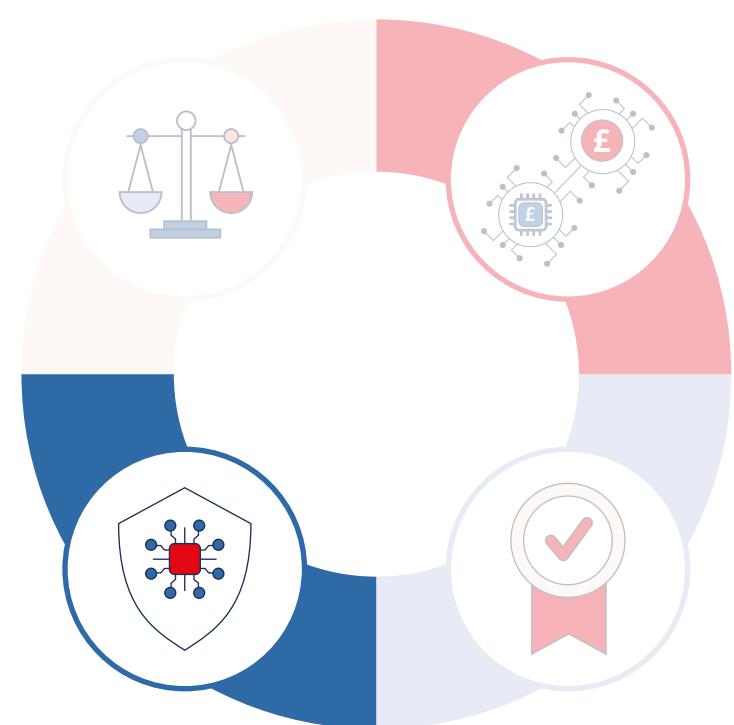
TAINA's innovative approach has led to a slew of awards; six in 2022 alone, including Best Regtech Solution at the Digital Finance Innovation Awards, and the UK Regtech Top 50 for the second year running. "It's communities like these that make growing a business in London and the UK exciting," said Founder and CEO Maria Scott.

TAINA currently operates in the UK, US, Canada and Switzerland, with expansion plans for Asia Pacific. Investors include Deutsche Bank, HSBC Asset Management, Anthemis and SIX.



Maria Scott
CEO

"The talent and regtech ecosystem in the UK are some of the strongest in the world. With the support of many amazing networks, programs, investors, and mentors based in the UK, TAINA has been able to grow their team, customer base and market share both nationally and internationally."



Sector overview: cybersecurity

The UK is home to a booming cyber security sector, sometimes called the jewel in the UK's tech crown. UK cybersecurity startups are now worth \$30bn, a 7.6-fold increase since 2017. (Dealroom, 2022).

UK cybersecurity startups raised more than \$600m in 2022 - a record investment driven by an increase in late stage and megarounds of funding. The UK cyber sector's combined worth is only slightly less than that of the whole EU, with 2,000 businesses spread out across the UK. Alongside regtech, it is a fundamental building block in a secure and sustainable digital future. It underlies all other sectors and is integral to supporting and safeguarding the UK's business potential. As internet-of-things networks proliferate

and create potential new vulnerabilities, so will demand for sophisticated cybersecurity solutions - and investor opportunity.

The UK's cybersecurity sector is distributed across the nation with the South West, South East and Northern Ireland home to some of the most promising startups. The sector benefits from increased support and expertise from a wide network of cyber clusters which work to drive economic growth.

The UK is home to specialist advisers which make it a safer place to invest and do business. These include the globally-recognised National Cyber Security Centre (NCSC), and the City of London Police, who advise businesses across sectors on how to protect against cybercrime. There are 19 Academic Centres of Excellence for University Research, to help the next generation of cyber businesses successfully start and



\$30bn

UK cybersecurity startups are now worth \$30bn, an increase of 7.6x since 2017.



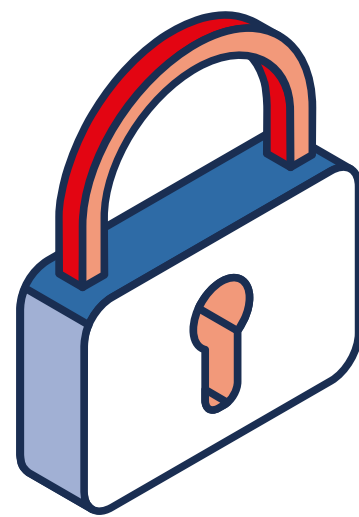
\$600m

UK cybersecurity startups raised more than \$600m in 2022.

scale. One of the most notable examples is Darktrace, now a public company worth over £2bn, founded at the University of Cambridge. In fact, academic spinouts represent 18% of the combined enterprise value of the UK cyber ecosystem.

These are bolstered by accelerators like LORCA. The ecosystem is underpinned by explicit recognition from the UK Government that cybersecurity is integral to safeguarding the nation and achieving status as a science and tech superpower. To address the long-term demand for cyber skills, the Government has implemented a Cyber Explorers youth programme, the CyberFirst bursary scheme and skills bootcamps. The Government also recently published its new National Cyber Strategy with detailed plans for growing the sector between now and 2030.

2030



The National Cyber Strategy sets out ambitious growth plans to 2030.

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CASE STUDY RISK LEDGER

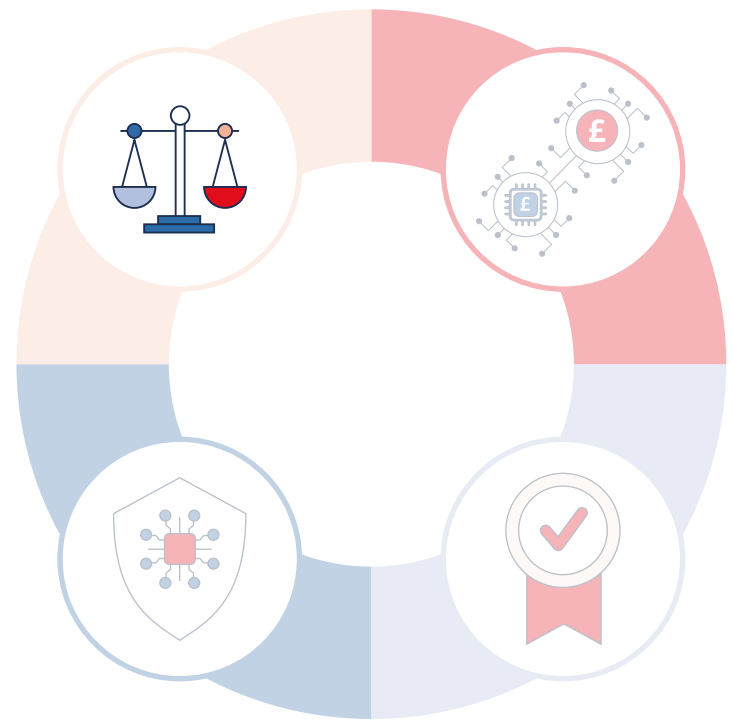


Haydn Brooks,
CEO

Founded in 2018, Risk Ledger is an award-winning cybersecurity platform that makes supply chains more transparent and resilient by identifying and addressing security risks. It's based on the idea of a social network, highlighting those suppliers connected to the greatest number of customers where security incidents might potentially impact an entire sector rather than a single client. "We're then able to map out supply chains and solve risks that previously were unable to be identified, like concentration risks or systemic risks," says CEO Haydn Brooks.

Risk Ledger now integrates supplier profiles from over 3,500 organisations, and has over 10,000 users. It has raised £3.5m to date across three rounds, from investors including Lifeline Ventures, firstminute capital, Seedcamp, Village Global, Cylon, Episode 1, and LORCA.

"The UK is a really good environment to refine and test your value proposition. It's known for having a harder sales environment, for example, so it's a place to make sure that the product you're building does bring value to your clients. In the US, we see that deals tend to be quicker to win, and they are more open to working with younger companies. The knock-on effect is that in the US the exit prices and round prices tend to be higher as well. This means that **for an investor in the UK, there's potentially a much better deal to be done because you're buying into a stronger company at a more realistic price without the Silicon Valley bubble.** The British brand still means a lot - It is still a very trustworthy, reliable brand to build a company on."



Sector overview: lawtech

The UK lawtech market has picked up pace with an increase of 101% in the last three years — faster than other tech sectors during the same period (Lawtech UK, 2021).

One possible reason for this is the global trust and recognition granted the English legal system, which forms the basis for numerous international transactions. Over 200 foreign law firms have chosen the UK for overseas offices and English law is used in 40% of all global corporate arbitrations (Oxera, 2021). The UK also has an incredibly active lawtech ecosystem, with at least six specialist incubators and accelerators.

Numerous recent policy shifts will continue to strengthen the sector and create future investment opportunities. Law Commission consultations on digital assets, Electronic Trade Bill, and smart contracts are just some examples. This, combined with the fairly nascent but fast growing nature of the sector, bodes well for investment opportunities now and in the future. Lawtech UK estimates that there is an £11.4bn per year market opportunity to address the unmet legal needs of SMEs and consumers by providing accessible and affordable services. These include projected savings from online conveyancing services of 9 million hours and £25m per year. There is also an estimated potential £1.7bn annually in productivity gains for legal services providers, and £8.6bn per year in cost savings. This makes lawtech services increasingly attractive to prospective customers, and a solid opportunity for investors too.

CASE STUDY Legatics



Anthony
Seale
CEO

Legatics is a UK technology company whose software allows legal teams to run legal transactions online, cutting out laborious administrative tasks and giving clients ongoing visibility. In addition to increasing efficiency and deal momentum, Legatics reduces risk by providing a clearly tracked digital audit trail.

The company has just launched Legatics 2, a flexible new version that can be configured to a greater number of use cases, from mergers and acquisitions to real estate and litigation. They have raised £3.5m to date, and have 50 employees.

"Because of the certainty that sits behind the English legal system and the confidence in our courts, we've got a brilliant client base on our doorstep. That combination of legal, financial, international institutions and a great investment market, makes London and the UK a great place to start and grow a business. If I think about Legal Geek, which is one of the leading legal technology conferences in the UK, it has gone from a few people in a room to thousands with Britney Spears-style microphones on stage. And that's backed up by what we see in the market in terms of customers using our product."

**For more on the UK's uniquely
investable financial and professional
services innovation sector:**

www.theglobalcity.uk/innovation



About the Global City campaign:

The Global City campaign is the City of London Corporation's overarching initiative to promote the UK as a world-leading international financial centre. It showcases the UK as a great place for financial and professional services firms to invest, locate and grow.

www.theglobalcity.uk



About the City of London Corporation:

The City of London Corporation is the governing body of the Square Mile dedicated to a vibrant and thriving City, supporting a diverse and sustainable London within a globally successful UK.

We aim to:

- Contribute to a flourishing society
- Support a thriving economy
- Shape outstanding environments

By strengthening the connections, capacity and character of the City, London and the UK for the benefit of people who live, work and visit here.

www.cityofondon.gov.uk