



INSTITUTE OF WORLD ECONOMICS  
Centre for Economic and Regional Studies  
Hungarian Academy of Sciences

## THE BREXIT IMPACT ON FINANCIAL SERVICES AND FINTECH INDUSTRY

Globalization in an Age of Rising Nationalism

Young Scholar Initiatives Workshop

Trento Festival of Economics

YSI Europe Convening 2017

Jun 1–4, 2017

Trento, Italy

Dipartimento di Lettere e Filosofia, Via Tommaso Gar 14; Room: 004

Ádám Kerényi



● Young Scholars Initiative

Institute for  
New Economic Thinking

# Contents

2

- Introduction
- The UK economy after EU-referendum
- Definiton of FinTechs
  - ▣ The emergence and nature of FinTech phenomenon
  - ▣ Level of FinTech investment
  - ▣ Fintech industry's sectors
- The FinTech industry in UK
- Official supports
- Current concerns
- Conclusion, policy recommendations

# The UK economy after EU-referendum.

3

- It's almost 1 year since the UK's vote to leave the EU in June 2016
- **UK monetary conditions loosened significantly**, there was a **rate cut** and **asset purchases** occurred through the Term Funding Scheme
- At present, **households** and **companies** appear to be looking through Brexit-related uncertainties.

# The UK economy after EU-referendum.

4

- However, analyses suggest that **Brexit would reduce UK potential growth slightly over the next 10-20 years**
  - Possible factors include
    - depreciation of £ would lift inflation above target, eroding consumers' real incomes and spending.
    - reduced trade openness,
    - reduced inward investment,
    - reduced competition in some sectors,
    - lower net inward migration,
    - and the need to reallocate resources between different sectors
  - The sharp drop in sterling is down by 16-17% since late-2015, with about two thirds of that depreciation occurring after the referendum.
- There is huge **uncertainty**, and **elections are coming** in UK.

# The definition of FinTechs

5

- **FinTechs** (**Financial Technology**) as **service providers** are mostly **innovative start-up**, highly focused companies that continually **improve their technology** to deliver a **more appealing and lower-cost experience to customers**.
- **Any** service currently offered by the **traditional financial services** industry could in theory be offered **by a FinTech company**.

# The definition of FinTechs

6

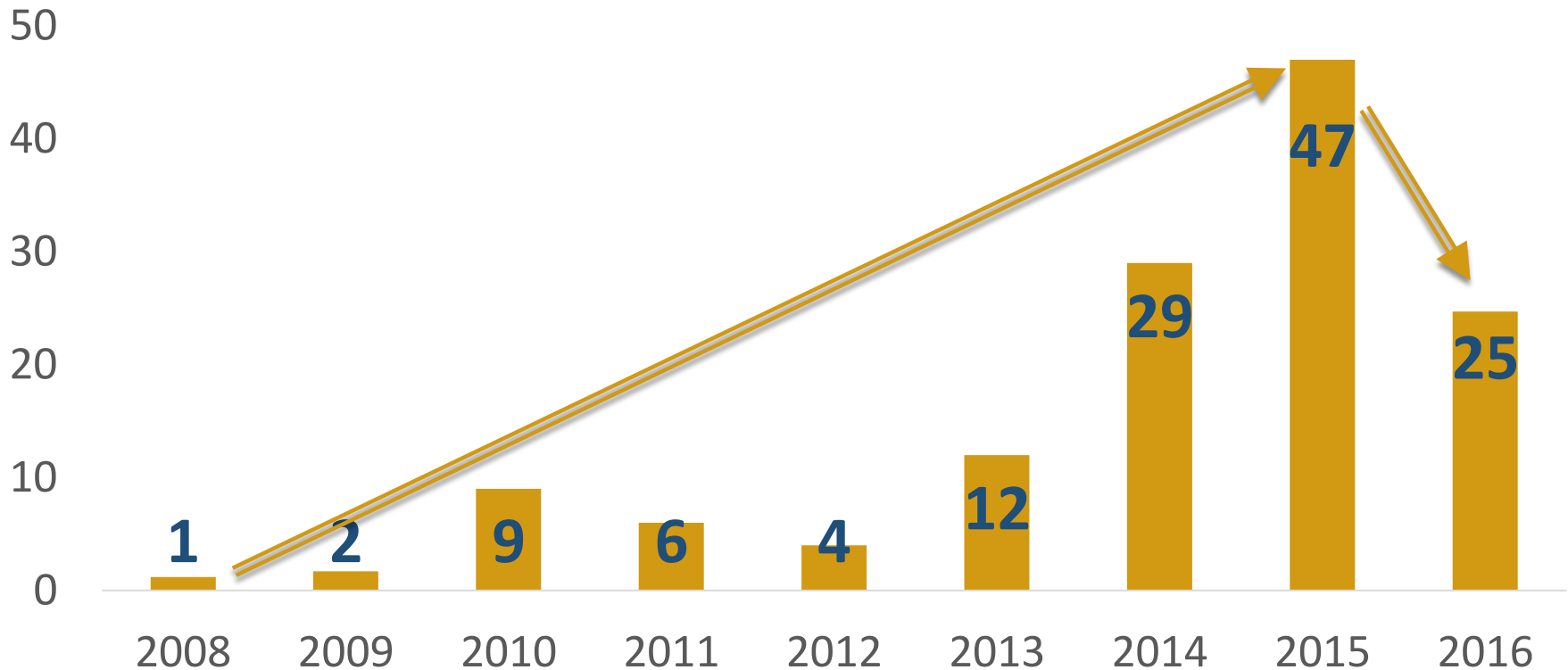
- **FinTech area** as an “amorphous space”. There is no industry code or SIC code A **list** of some of the major services currently **offered** by FinTechs:
  - Peer to peer lending
  - Crowdfunding
  - Money transfer
  - Payments
  - Robo advice
- More than **15,000 “FinTechs”** are vying to win a **share of banking, and its huge profit pool**
- Prior 2017 UK and *the City* used to be the leading FinTech center in the world

# The level of FinTech financing is booming

## Investments in FinTechs 2008-2016

7

Since 2008 \$135bn has been invested in FinTech companies throughout 5,500 deals, however 2016 was a challenging year for FinTech investment.



Total global investment in FinTech companies - USD billions

Source: Pulse of Fintech Q4'16, Global Analysis of Investment in Fintech, KPMG International.

# Why are FinTechs so popular as investment target?

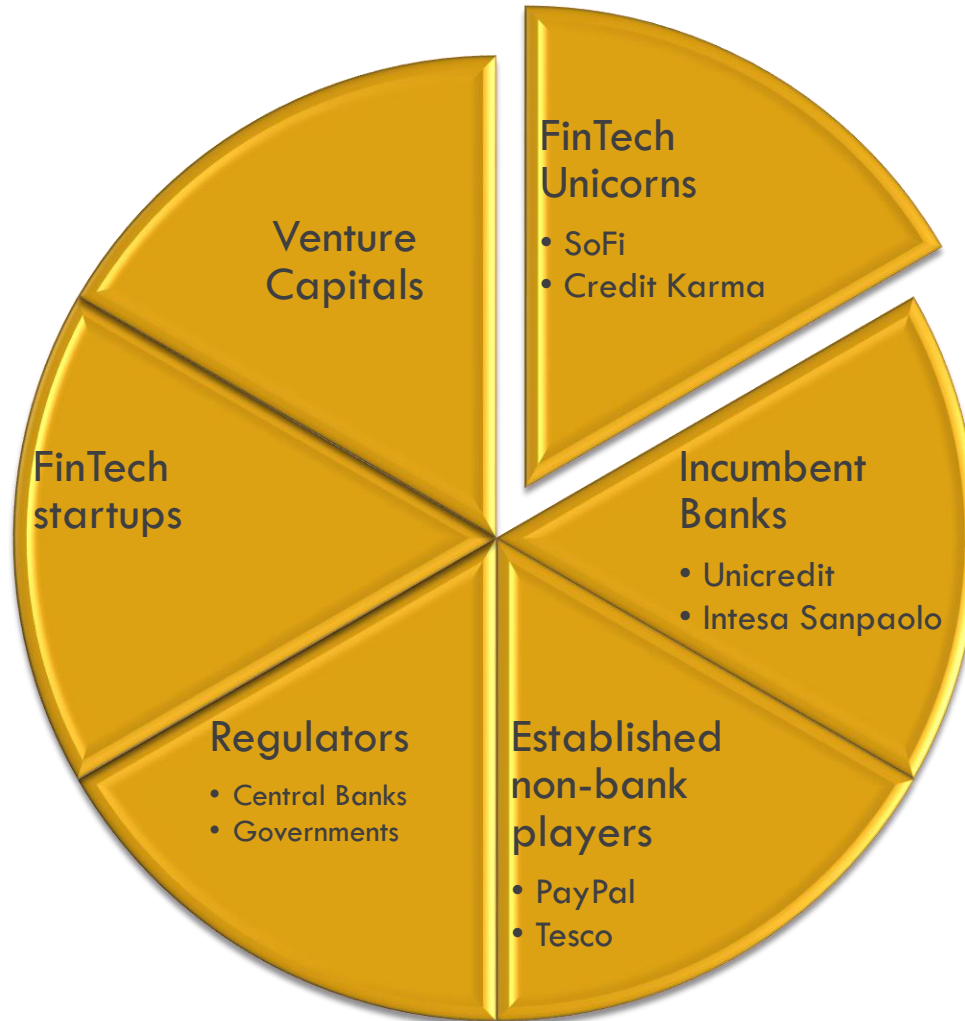
8

- Customer base is big: the **online population**
- The number of **connected devices** today is about **14 billion**
- The **average income** is rising across the globe
- **The share of the middle class** is growing. Many of these people are still **un- or underbanked**, but have internet and mobile access, presenting a big opportunity for FinTechs.
- The **cost of starting a business is drastically low**, considerably diminishing one of the few barriers to entry.



# Fintech “industry” is relevant for multiple sectors, beyond banks

9



Source: McKinsey

# Official supports

10

- UK has a particularly **good policy environment** for FinTech, with the most **supportive regulatory regime**.
- Through the **Innovation Hub** and the **Regulatory Sandbox**, the Financial Conduct Authority are lowering the barriers to entry across all areas of financial services.
- The government is supporting the development of an **Open Banking Standard**, which is a key intervention to allow customers to safely use their own data, held by their banks, in powerful ways.
- Besides the UK government the **Bank of England** provided special platforms and other opportunities to FinTechs.








# The FinTech industry in UK

11

- FinTech is a relatively small but **growing part of the UK's financial services industry**, estimated to generate **annual revenues of around £20 billion**.
- The **UK**, and **London in particular**, has successfully positioned itself as an **attractive location for FinTechs**.
- The cross-over between
  - ▣ global **financial institutions located** in UK,
  - ▣ the access to talent,
  - ▣ funding
  - ▣ and the flexible and favorable regulatory regime for FinTechs has developed **London's reputation** as a **global hub**.

# 2015 EY rank by ecosystem attribute

12

Region		Talent <ul style="list-style-type: none"> <li>▶ Talent availability</li> <li>▶ Talent pipeline</li> </ul>	Capital <ul style="list-style-type: none"> <li>▶ Seed</li> <li>▶ Growth</li> <li>▶ Listed</li> </ul>	Policy <ul style="list-style-type: none"> <li>▶ Regulatory regimes</li> <li>▶ Government programmes</li> <li>▶ Taxation policy</li> </ul>	Demand <ul style="list-style-type: none"> <li>▶ Consumers</li> <li>▶ Corporates</li> <li>▶ FIs</li> </ul>	Total points
UK		2	3	1	3	9
California (CA)		1	1	6	2	10
New York (NY)		3	2	7	1	13
Singapore (SG)		4	7	2	6	19
Germany (DE)		6	4	5	5	20
Australia (AU)		5	5	3	7	20
Hong Kong (HK)		7	6	4	4	21

Source: EY analysis

Note: Please see section 3 for a detailed breakdown of each Attribute by region

Relative rank: 1 = highest, 7 = lowest

# 2016 rank Global financial centers indexes

13

City	GFCI 20 Rank	GFCI 20 Rating
London	1	795
New York	2	794
Singapore	3	752
Hong Kong	4	748
Tokyo	5	734
San Francisco	6	720
Boston	7	719
Chicago	8	718
Zurich	9	716
Washington DC	10	713
Sydney	11	712
Luxembourg	12	711
Toronto	13	710
Seoul	14	704
Montreal	15	703
Shanghai	16	700
Osaka	17	699
Dubai	18	698
Frankfurt	19	695
Vancouver	20	694
Taipei	21	692
Shenzhen	22	691
Geneva	23	689
Melbourne	24	687
Los Angeles	25	685
Beijing	26	683
Munich	27	680
Cayman Islands	28	676
Paris	29	672
Casablanca	30	671

Source: Long Finance, Global Financial Centres Index 20, September 2016

# FinTech could be one of the most Brexit-affected sectors

14

- FinTech area as an “amorphous space”, within which “Brexit will hit each sector differently”.
- An exodus of “FinTech” companies from UK has begun. Many companies – involving e-lending, money transfers and the banking markets – is now actively looking at moving staff and investment out of the country because of the uncertainty caused by Brexit
- The potential impact of the Brexit-negotiation has yet to be determined for the FinTech sector in UK, but there are a number of areas which will need a watchful eye over the coming months.

# FinTech industry concerns in UK

15

- There are concerns of the industry over
  - ▣ future adherence to the EU data protection regime,
  - ▣ and over its ability to recruit adequately qualified staff,
  - ▣ and to attract the entrepreneurial talent needed for innovative startups.

# Conclusions

- The actions by government and the financial services regulators have led to the UK being ranked as the best location for FinTech, they are committed to building on this position as a world-leader in FinTech.
- **London's role** within the global FinTech scene **remains considerable**, despite uncertainties stemming from Brexit remain unresolved
- The **government has been engaging with firms** from across the **FinTech industry** and is aware of these **concerns and opportunities**.



# Policy recommendation

17

- The government and financial services regulators have created a world-leading environment to support the growth of FinTech in the UK.
- Should note that the FinTech industry has thrived in London, but could potentially move elsewhere.
- The UK government should be particularly mindful of the opportunities for FinTech to develop further in the UK and of the effects of Brexit on a promising industry.

Thank you for your kind attention!

*kerenyi.adam@krtk.mta.hu*