

Can London lead?



The UK fintech revolution was born out of a time of crisis.

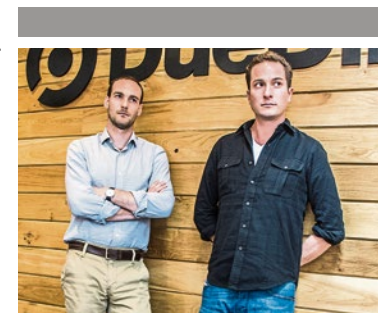
Claire Cockerton,
CEO, ENTIQ

The environment post-2008 gave everyone the imperative to change, and to build on the UK's leading position in financial services. The country's unique history and geography make it the perfect place for fintech to thrive. Having been at the forefront of financial services for more than thirty years, there are few places which could challenge London's financial pedigree.

Having a tech-savvy customer base always helps. UK consumers aren't afraid of trying out new things, exploring the range of financial tools that they're using.

The fact that there are more than 3,000 fintech startups in London alone shows we have the right

Continued on page 4



Damian Kimmelman and Justin Fitzpatrick, the co-founders of DueDil, are from the US. So why are they here, not there?

“

The UK is unquestionably a global leader in data provision. It has shown this in the way it has opened up data sources, especially by mandating the release of machine-readable formats for official data.

“DueDil has been something of a catalyst in this field. When we launched in 2011, one of the things we did was to take Companies House data on private businesses and digitise it, making it easier for people to search and access.

“Now, Companies House makes that data available for free, which is great news for everyone, including DueDil. We unlock value for our customers by providing information and insight about pre-existing data sets. What is great about the UK is that there is transparency and a level of access to data here that is a step up from other countries. And when this is combined with the UK being an important

Continued on page 4

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startup spotlight

Fair players



Startup insight by

Bailey Kursar

 Photo: Team Pariti
 Pariti.co.uk

The startup ecosystem here in London has already produced some of the world's most exciting fintech businesses. Just look at TransferWise and Funding Circle. But for every giant there are hundreds of true 'startups'- keen entrepreneurs and teams, huddled in coworking spaces, trying to pull together a great product on a shoestring.

Here we turn our attention to one such startup. Want to know about the next big thing? Look no further...

In a nutshell

Pariti is a personal finance app that guides users towards a secure financial future, helping them out of high interest debt. Effectively it's the anti-Wonga (my words, not theirs!).

Since starting up in August 2014, the team has launched a basic 'balance checker' app, with a larger, full feature product currently in beta. It promises to link up to all your bank accounts, track your day-to-day spending and show you where you might be able to save money.

In future, for those who need it, the data provided will help them work towards a better credit score, and in turn, give access to preferential loan options and rates. Just imagine a world where new data streams, helpful UX and the latest mobile technology actually help improve people's financial outlook. That's surely what fintech should be all about; democratising finance through clever new technology.

The company

Pariti CEO, Matthew Ford, as well as several of his team, have a great fintech pedigree. Their previous project, an app called On Trees, was sold to MoneySupermarket last year. On Trees is a personal finance dashboard app, and what their team found was that users were often people looking for help. Help controlling their spending, help getting out of debt, help accessing credit.

That's when Pariti was born.

The competition

There are a number of companies that do similar albeit slightly different things. There's On Trees, obviously, and there's the web app Money Dashboard (based in Scotland), both of which provide actionable data via Yodlee connections. In the credit scoring space, there's Aire, which gives people without credit history a new type of credit score. Tackling payday lending is Squirrel, a company that's aiming to help employers provide cheaper access to credit to their employees.

The experience

The current app is super simple. There's not much to it, but what it does provide is really practical- it tells you how much cash you have left until payday. That's it! Download the app (currently available on iOS only), create a Pariti account, and then hook it up to all your day-to-day bank accounts via a Yodlee connection. Once you're set up, you can use the app to proactively check on your bank balance. How much do you have left until you're paid next? How much minus any upcoming bills? Now you can find out in a jiffy.

Want to find out more?

Go to pariti.co.uk to apply for early access or download their 'balance checker' app from iTunes.



Real estate disruption

Interview with **Arya Taware**, founder of Real Funds

Real Funds is a fast growing financial technology startup. A property development peer-to-peer lending platform providing alternative finance to small and medium-sized house builders. Through Real Funds' platform you can invest as little as £10.

Founder Arya Taware shares:

In 2013, I worked for a small developer. We would go around seeking development opportunities but could hardly get finance to build the proposed housing schemes. Banks are reluctant to fund small-scale projects and would only back major house builders and big projects above £10 million. With the rise of fintech I saw an opportunity to fill this gap in the market by making alternative finance available to small and medium-sized house builders through a combination of crowd-financing and technology. For the past year and a half, I have been developing Real Funds, working on the business model, meeting with industry experts and building the team.

People make or break a company. I spent a lot of time approaching industry experts on LinkedIn, and meeting them to share my idea. The initial stages were challenging:

you have to imagine a young entrepreneur venturing into an industry of established businessmen, very traditional in many ways, where deals are still agreed upon in pubs; and here I am telling them about a platform that will drastically transform the way property development is financed.

I believe gender does not affect being an entrepreneur overall. But when it comes to the real estate and construction industries, it is true that they are very much male-dominated. Being a woman breaking into these industries is definitely unconventional, but since Real Funds is itself unconventional, I see it as an asset.

Very early on, I knew our business would need a combination of senior property experts and young tech-savvy entrepreneurs. At this stage, half of our team is made of the latter, and half is senior talent. We are currently recruiting three more team members: a CFO, a Property Head of Investments and a Due Diligence Officer.

We are closing a £1million seed round. This investment will enable us to be Financial Conduct Authority (FCA)-regulated, and finalise our

peer-to-peer lending platform. We are gearing toward launch at the beginning of 2016.

I do strongly believe that more women can be encouraged to work in the construction and fintech industries as a diverse workforce creates innovation. The CEO of Lux Reality Marta de Sousa collaborated with other industry experts on the Built by Her campaign, encouraging women to work in construction. If more people recognise and support these campaigns, it will create a more productive industry.

My background in urban planning inspired me to see the impact mankind can have on our surroundings. My dream would be to reconnect people with their surroundings by providing them a way to directly influence how cities are designed as well as financed. I imagine a future where everyone will have the possibility to decide and fund projects in their local communities, making cities financially self-sustainable and less dependent on foreign capital.

I am also very excited to promote models of shared ownership and would like to introduce this in future development plans.



Could your digital innovation significantly impact the financial services industry?

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tech

Human assisted artificial intelligence

From **Digital Genius**

The Turing test explores one aspect of AI, the machines' ability to demonstrate human-like intelligence. But whether these software are true AI, or human mimics, is debatable. The question soon becomes, 'what is intelligence?'. Here we enter into the realm of the esoteric, of philosophy, and of academic exploration; and AI diffuses into a limitless futuristic intention. So a more practical question, a more commercially useful question is, what can we use our current AI achievements for?

The rising use of machinery during the Industrial Revolution replaced the most arduous and simplistic manual labour. Going forward, the rise of Artificial Intelligence systems is replacing the most mundane intellectual tasks, freeing up a new labour force to transfer their uniquely human intelligence to more interesting endeavours. This form of synergy between humans and AI is often called Human-Assisted Artificial Intelligence.

We visited DigitalGenius at Level39 for insight. DigitalGenius is utilising Human-Assisted Artificial Intelligence to automate customer service conversations for global financial institutions.

Imagine you're on a website, trying to find specific information. If you can't immediately find it, you'll either give up or start using a system to narrow down your query. FAQs will give a range of possibilities, based on keywords. A search engine will do the same. Although the information

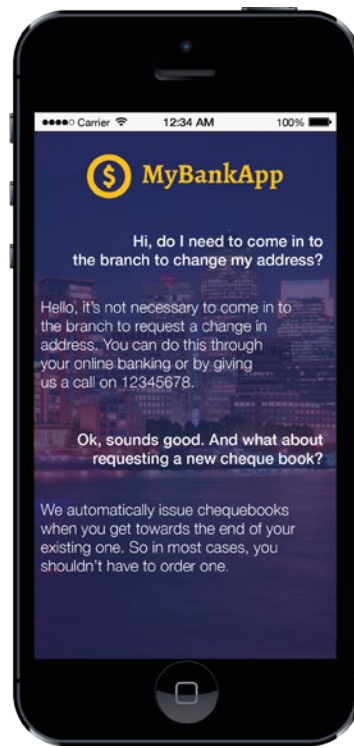
is available - somewhere - it can be difficult for a user to access the right answers to their specific queries.

The next advancement in brand-to-consumer communication is Human-Assisted Artificial Intelligence. It's a new way to engage with brands; instead of a call centre, a Human-Assisted Artificial Intelligence helps brands better communicate with their customers by combining Artificial Intelligence to answer simple, repetitive questions, leaving human intelligence to concentrate on more sophisticated queries.

Without AI, an agent may have as many as a dozen simultaneous conversations, with varying degrees of success. Even at a ratio of 12:1, it's hardly scalable for a million users. And it's not very popular; it has time lag and returns obviously pre-prepared responses. It feels like a patched up solution.

Agents are more efficient, however, when augmented with a conversational system that understands and responds to users' queries in natural language.

When taken into a commercial context, this becomes a clear brief. An intelligent Human-Assisted AI not only automates repetitive questions, it understands the brand and can hold an intelligent conversation with its customers. Traditional systems can be clunky and unhelpful; a Human-Assisted AI knows what it knows and knows what it does not know. When the AI



recognises the customer's query is out of scope, it seamlessly passes to a human who can briefly intervene, then pass it back again.

Is this true AI? Or perhaps a hybrid Humanistic Interface? It's definitely a more intelligent design. When it actively learns from its experiences, and is able to write extensions of its own code as a result, then perhaps we can call it a truly intelligent machine, comparable to its organic counterparts. Evolving within the context of simple commercial briefs can be seen as the first baby steps. Each one a notable achievement and definitive success.

And if it makes waiting in the call queue obsolete, it's already earned its keep.

future

Be careful of what you ask fintech to do

Nils Elmark

consulting futurist, Bankinglab.london

A few weeks ago, the Swiss bank UBS launched a fintech competition "The future of Finance Challenge" in search of innovative ideas and solutions that will support the transformation of the banking industry. At the launch, Global CIO of UBS Oliver Bussmann said it was critical for UBS to work in collaboration with the fintech community, because he recognised that banks can learn a lot from entrepreneurs and startups. For those who choose to participate in the competition UBS is offering cash prizes and accelerator places worth \$300,000 plus more than 300 hours of dedicated coaching from UBS mentors and partners. The bank is looking for help in four broad areas that are summarised in one of the competition's first tweets: *#fintech #startups can your idea help banks in operating efficiency?*

The first thing that comes to mind is: what took this banking giant so long? This is what the most innovative global competitors have done for years and we even hear voices talking about "An Accelerator Bubble". The second thing is: what if this approach to innovating a bank is wrong?

For the last three or four years we have seen thousands and thousands of startups all over the world pitching for their lives – being evaluated by banks, and later coached and mentored by banks. What most banks are looking for is clearly improved efficiency in their processes. They are not for a moment questioning their own core business! Maybe they should.

In 2012, one of the strongest brands in history, Kodak, went bankrupt and their portfolio of patents was sold for \$500 million. The company that once had an almost 90% market share in film and cameras hadn't been able to imagine what digital photography and mobile phones could do to their business. In the same year 2012, Instagram was sold for twice as much, \$1 billion, to Facebook and they weren't selling anything – they just shared digital images for free.

Can you imagine Instagram's founders Kevin Systrom and Mike Krieger pitching in front of a Kodak panel that is looking for ideas that will make operations more efficient in 1996 when the company peaked with \$16 billion in revenue? I think they would have been sent home and even if they had been accepted for a Kodak incubator they would have been mentored to death.

This is why I think the banking industry should question what it is asking fintech to do. Instagram won over a mighty opponent because it suggested radical innovation and asked questions like: which services are not offered today? Are there customers we have not thought of? How can we give the market something completely new?

Maybe bankers need mentoring from startups more than the opposite.

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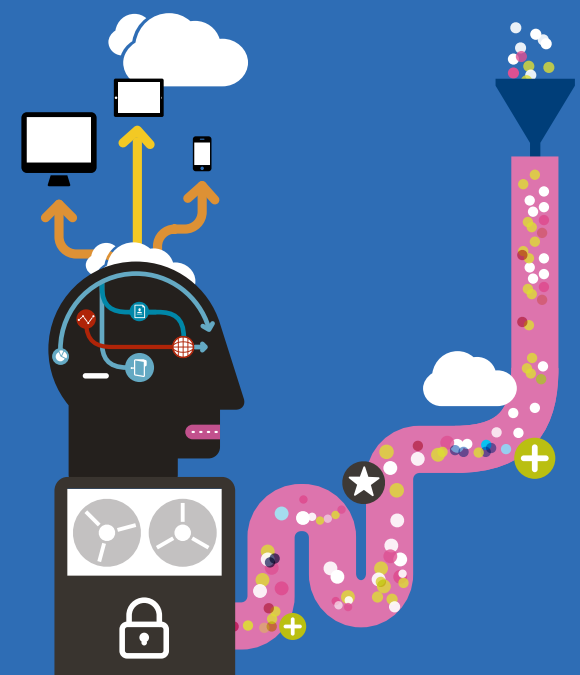
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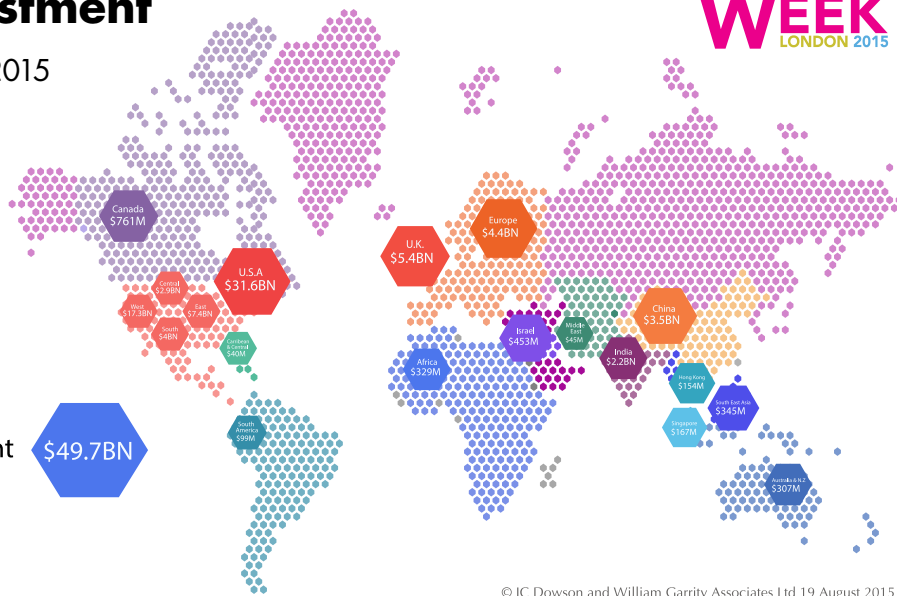
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Fintech investment

January 2010 - June 2015

FINTECH
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Can London lead?

continued from page 1

environment to help them flourish. London and the UK are magnets for startups because they act as a launchpad into huge international markets, which is vital to globally-oriented fintech offerings. Startups in London can be rapidly accelerated through co-creative schemes, by learning from industry experts, and getting access to resources and investment. The government has done a lot to incentivise the entrepreneurial community here, too. Schemes like EIS, Patent Box, British Business Bank, and others are all great examples of government-backed projects designed to spur the sector on.

For the last four decades, the UK has had financial services at the very heart of its economic strategy, so there are a great many businesses involved in the sector here. From the biggest multinationals, right down to basement developers, a large part of the UK economy relies on financial services. In fact, fintech alone is employing 135,000 people in the country.

Traditional fintech accounts for 75% of investment in the sector. We all may be spellbound by the possibilities of cloud computing, peer-to-peer exchange, and blockchain, but let's not forget that it's only the investment in, and successes of, traditional fintech that allow us to experiment with innovative and disruptive products, services, and business models.

Distributed Ledger Technology (DLT) is certainly one of the areas with the potential to cause huge disruption. This technology can overhaul existing systems of value exchange,

authentication and security by providing an almost irrefutable, transparent, and decentralised ledger of fact. The technology that helped turn bitcoin from fantasy to fiat in just four years is now promising to revolutionise every industry where a transaction takes place.

Right now, some of the biggest players in financial services are running their very own labs to work out how best to develop and harness the incredible possibilities offered by DLT. I don't think we'll see DLT hit the mainstream for some time yet, but there is a lot of exciting work going on here.

UK government

The UK government has already done a lot for the industry, but there's so much more to be done. If we are to see even greater innovation in fintech, the government needs to lead the way in creating sandboxed regulatory environments for experimentation, giving those willing to innovate the support they need. Perhaps it's time for the government to actually start procuring fintech for themselves, putting this cutting-edge technology into action and creating greater efficiencies and value-for-money for the taxpayer. Industry bodies are vital to creating an open dialogue between the industry and the legislator. Innovate Finance works with the government on behalf of the sector as its convening voice, and cheerleader. We showcase the successes of our industry and work to improve the commercial and cultural environments that will help us all to thrive.

Future of UK fintech

The firms which have been leading

the fintech revolution in the UK over the last few years will go from strength to strength and become much larger organisations than they are currently. These SMEs will grow even more as their products and services become better refined, more widely adopted, and profitable, creating a new generation of financial services players. With a little luck, their diverse range of offerings will go a long way to making us all happier as consumers. Also I'd look out for biometrics. Britain is in a great position to take the lead here, thanks to its incredible academic and scientific institutions working in this increasingly important field. By tapping into this knowledge, fintech entrepreneurs will be able to use biometrics to set new standards in identity and verification. That could go a long way to creating more trust between banks and the consumer – a relationship that urgently needs to be repaired.

DueDil are here, not there

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market in its own right, with London being the largest financial centre in the world, huge opportunities are created.

"Why is the UK this way? Well, it has been at the heart of a lot of data revolutions, in part because of the work of people like Sir Tim Berners-Lee and the Open Data Institute. There have also been some very forward-thinking people in government, combined with a mandate to be transparent.

"As a result, we've been very successful at developing DueDil in the UK - around 1 million people a month use our product, and we've attracted nearly \$30m in funding from some of the UK and the US's leading investors. But with us both hailing from America, we'd also love to see a product like DueDil in the US, as well as other countries.

"One obstacle to this happening in the US is the large amount of bureaucracy at both the state and federal level. Attitudes are also different; in the US, there's a huge amount of information on individuals - and it's therefore possible to carry out background checks which are really quite invasive - but company data is seen as being quite private. So there will definitely be challenges to establishing such a product over the Atlantic. By developing our company in the UK first and solving problems we encounter here, we will prepare ourselves to better address those issues when the time comes.

"With regard to Europe, there are of course differences in approach between EU member states on open data. However, we already do provide information on companies in eighteen other European countries, and the prospects for expansion on the continent look very bright."



Justin Fitzpatrick, COO and Damian Kimmelman, CEO of DueDil

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Taking the transatlantic leap

Daniel Glazer

Partner, Fried Frank



UK market conditions are kind to fintech startups. London is a global financial capital, and the regulatory environment is supportive. From an early stage, however, UK fintech companies frequently feel a strong pull to expand to the US, especially New York. Many companies find that their key clients are in the States and anticipate strong US demand for their products and services. Additionally, they often seek investment from US venture capital firms who want them “on the ground” with a founder present.

What key challenges do these companies face in coming to America?

First, UK fintech companies will find a substantially more complex, harsher financial services regulatory environment than in the UK. US regulators do not make special accommodations for startups, and oversight and enforcement are fragmented among numerous different agencies. The tax environment also is more complex, with a variety of national, state and local taxes. Combined US corporate income tax rates are much higher than UK rates, often exceeding 40%. Consequently, it is critical to establish a tax-efficient corporate structure and a system for ensuring US tax compliance.

Further, the liability risks in the US are considerably higher. Unlike the “loser pays” approach in the UK, each party to US litigation typically bears its own costs regardless of outcome.

Daniel Glazer leads the Tech Group at the New York-based global law firm Fried Frank and is co-resident in the firm’s London and NYC offices. Dan’s team provides US legal advice and practical business guidance to UK and other European early-stage and growth-stage companies seeking to expand to the US, raise US capital, and transact with US business partners. Dan can be reached at daniel.glazer@friedfrank.com

As a result, litigation – or even the threat of it – frequently is used as a business negotiation tool in the US, even where the claims may be weak. Intellectual property litigation (whether from competitors or so-called “patent trolls”) and claims by disgruntled former employees are particularly significant risks. Regulatory enforcement risk also is greater in the US, not just in financial services but also in areas such as tax, employment, and consumer protection.

Finally, finding the right people, and successfully transferring company culture, can be challenging. Early-stage companies typically must choose between building US operations with relatively unfamiliar local hires or relocating key leaders from the UK.

These challenges all can be managed, but require careful advance planning before you leap.

Bitcoin technology translates to regulation in real time

Were the US Securities and Exchange Commission to oversee every transaction in real-time, it would need to monitor a massive 20 terabytes of data per second, every second. Such a large volume of data is by no means an all-American problem - regulators in the UK, EU, and beyond all have to meticulously monitor the reams and reams of financial information generated by the very frameworks they put in place.

So, what’s the problem? After all, Google handles more than 20 petabytes every day. The issue for any regulatory body is that this oversight is retrospective, listing deals which have already been done. For a regulator to take a truly proactive approach, these labyrinthine paper-based processes need to make way for a truly high-tech solution, and Distributed Ledger Technology (DLT) could be just that.

The technology which underpins crypto-currencies such as bitcoin could hold the key to revolutionising the ways in which we transact, not only in financial services but in any industry where two or more parties exchange value. Some of the largest financial services firms are opening their very own labs to explore just how DLT can offer a completely transparent, secure way of transacting. Because DLT offers the possibility of an irrefutable ledger of fact, the possibilities for the regulator are plentiful. If both financial services firms and the regulator shared the same view of all transactions, there would be no room for error. Where we have a cumbersome, subjective system

which requires a huge amount of time, effort, and importantly, money to operate, we could have an intelligent, real-time system which flags anomalous transactions, creating a level of security that legacy systems have failed to deliver so far.

DLT could be as beneficial for the regulated as it is for the regulator. Firms would have much tighter control over their transactions, ensuring that any mistakes are rectified before they’re completed by receiving early-warning signals instead of using the current system to rectify simple mistakes. Company directors, too, would be able to divest themselves of the legal burdens surrounding the protection of client funds, accountability, and so on, proving to the regulator and the industry that they’re always on top of their game.

For financial services providers, compliance procedures like KYC and AML can be hugely costly and lengthy, and these costs are then passed on to the consumer. DLT could effectively replace these hugely expensive processes and offer the consumer much better value-for-money as a result. What needs to happen to ensure this becomes a focus?

A barrier to innovation is often when regulators or large enterprises are institution-led rather than technology-led, and that must be addressed. An initial significant investment in technologies like DLT could pave the way for huge savings in time, effort, and staff costs further down the road. For this to happen, CTOs and CIOs of regulatory bodies

need to be empowered with the resources and funds they need to deploy these systems, becoming proficient technologists themselves. At the moment, the regulator relies on dated risk reports, stacks of statistics, and sometimes subjective judgements to inform decisions. The future of DLT, though, could prove that to be forewarned really is to be forearmed.



Claire Cockerton is a serial entrepreneur and a global leader in financial services, technology and smart cities industries.

Claire is Founder, CEO, and Chairwoman of ENTIQ, an innovation and economy enabler, and a leader in innovation delivery, new venture development and ecosystem creation.

Having designed and developed the Level39 Technology Accelerator in its first two years, and run world-leading innovation programmes such as Cognicity (a smart city technology pilot programme in Canary Wharf), Claire is a specialist in fintech, entrepreneurship, innovative technologies and economic development.

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globe

Looking East

You thought fintech in London was hot? **Try looking east.**

Asian fintech developments may not seem very noticeable if you look at typically reported investment figures. Accenture estimates that only US\$ 700m of a total of \$12bn in new investment in fintech went to the APAC region. Rather, the characteristics of the stakeholders and environment in Asia explain its rapid growth and development as a rising fintech hub.

Generally in the APAC region, people are less ingrained to traditional banking due to corruption and inefficiencies, and they are more receptive to alternatives provided by private, non-financial companies. There's also a digitally savvy young population with mobile devices and a massive untapped market opportunity of 1.2 billion unbanked people. There's also a growing middle class – by 2030, 60% of the world's middle class will be in Asia.

Compared to London the market is not very transparent, and the dominance of finance maintains high barriers to entry in the retail banking space, paving the groundwork for the demand and development of fintech. IT spending by traditional banks has been lagging compared to those in Europe or the US because of the slightly less competitive nature of the market, which is still heavily controlled by state-owned banks.

On the regulatory side, most national regulators have initiated a fintech strategy. In Hong Kong the SFC is part of the government's fintech Steering Group, in Singapore MAS has made a S\$ 260m investment

in research, while Southeast Asian countries have implemented new rules on alternative finance (debt and equity). There are also laxer data protection laws, which for example would allow e-commerce platforms to grow into large conglomerates. Governments are also creating "light license" models that only cater to specific banking activities. Korea now has a regime for online-only banks and India is pushing for payment banks.

Furthermore, the non-unified regulatory regime (especially compared to Europe) puts B2C fintech companies at a disadvantage compared to B2B companies, as they put the compliance burden to the client, to a certain extent.

There is an infrastructure gap in APAC, whether it's in telecom or physical banking. For example, the branch/ATM distribution in the APAC region is nowhere near where Europe or the US are right now, paving the way for mobile-based financial services to be the most cost-effective solutions.

China is a good example of the characteristics discussed above, along with a government heavily involved with the market. In less than 50 years, China went from a mono-banking model to having over 80 banks, 2,000 P2P lending

platforms, 5 new private banks (e.g. mybank, webank), and another 40 in the pipeline. To put things in perspective – the UK took over a 150 years to issue a new retail banking license (Metro Bank in 2010). In addition, the Chinese government's recent Internet Finance Guidelines will help promote further growth.

The future of fintech shines bright in Asia, in certain ways even brighter than in the EU and US.



Janos Barberis

Janos Barberis' expertise regards the new regulatory considerations generated by the development of the fintech sector. He founded FinTech HK, which he established to spur Hong Kong's fintech eco-system. This led him to produce Hong Kong's first fintech report viewed over 17'000 times. He was appointed as a Senior Research Fellow at the Asian Institute of International Financial Law (at The University of Hong Kong) specifically focusing on developing regional fintech regulatory frameworks. In parallel, Janos sits on the advisory board of the World Economic Forum's (WEF) FinTech Committee.

FintecHK

Fintech is in the blood of Hong Kong people! Not only did people grow up knowing Hong Kong as the financial centre of Asia but they also use daily the most widely used contactless payment system in the world: The Octopus card. Yet even with these prerequisite Hong Kong needs to think about reinventing itself and its financial industry. Since the start of 2015, Hong Kong has been going through a process of learning and adaption to understand how to best benefit from this new economic sector.

Whilst the reflection is still taking place Hong Kong has two narratives when it comes to fintech. Firstly, it should empower the seventy international banks that are located in Hong Kong, developing B2B solutions catering for the financial industry in the view of making them more competitive. The second strength of Hong Kong is that for decades business people there have been looking into China and the opportunities there. Today this financial maturity and expertise that Hong Kong holds, combined with the market opportunity and dynamism that it has due to its geography, is creating a unique moment in time for the city to take the global lead as a fintech hub. Fintech growth is driven by an institutional necessity to adapt and collaborate in the face of competition coming from new startups. What's more, the current financial market reform occurring in China will inevitably open opportunities for new fintech startups or as they should more accurately be called,

internet finance companies. On the last point, fintech in China is not a "fad" driven simply by the law of large numbers. Yes, there is over two thousand P2P lending platforms but we have a population of 1.2 billion people. In other words there is one platform per 600,000 people. Compare this to the UK, and you have one platform per 800,000 people. The proportion is not that far off but it is a perfect example of how China is benefiting from the size of its country skewing the size of the industry upwards.

The limit with this law of large numbers is that it does little to illustrate how truly innovative the country is. Innovation is instead found in the behaviour of people. People skip the cash economy and pay for their taxi fare, rent or even investment products directly using their mobile wallets. Innovation is also supercharged by governments with the new Internet Finance Guidelines released in July. Tsinghua University already had a fintech accelerator two years ago and it now has a co-working space in Hong Kong, the SuperCharger, that solely focuses on fintech companies entering the China market and vice versa.

Fintech in China is not only here to stay but governments will accommodate to create a harmonious regulatory environment to support a balanced growth, especially with the traditional players.



Joanna Cheung

Joanna is the Managing Director of TusPark HK and leading TusPark Global Network

The Global Fintech Network

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FTech.London

Hong Kong

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Singapore

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VC View

Jeppe Zink

Partner at Northzone

I joined Northzone in 2013 to establish the London division and since then we've made over 40 investments. Our strategy focuses on sectors and themes where we see disruptive growth potential and we then find the leading start-ups within those areas.

My most recent London-based investment is in MarketInvoice, a disruptively modelled version of the old style factoring services, which allow small businesses to borrow money against raised invoices.

As well as a business-facing front end, MarketInvoice is an investment platform: the funds the companies receive against their invoices are provided by investors. It's an elegant fintech product, a great example of reinvention at both ends of the process. The company delivers a level of online service and low rates that traditional banks and lenders can't compete with due to their structural costs and organisation.

MarketInvoice started trading with the founders' own money, and didn't attract external investment for several years. With all lending models it takes times to understand the default rates, the client cycle, and analytics of how the market responds to the product. It doesn't matter if a credit based product has a 1% default rate or a 10% default rate. What matters is that the likely default rate is known, and knowable. The MarketInvoice statistics are transparently presented on their website.

Credit sector fintech is not e-commerce, it's not all about super-fast growth and market share. It's about creating profitable long term business models, and client cycles can be measured in years.

The UK invoice finance market is worth £13bn. MarketInvoice had already proven the model and even reached profitability before we invested. When we initially bought in last year, it was to prepare the company for scale. This is now happening, our recent investment will enable them to really shift gears and take a big chunk of the market. They are just reaching £500m lent and growth is accelerating.

We have seen wider growth in the fintech sector in the last few years, both in Europe and the US, and make active investments in a number of areas. Viewing it as an umbrella term for a number of

investment themes, we are primarily interested in companies that both deliver a fundamentally better customer experience by applying a disruptive business model, such as iZettle or Klarna - our most recent investment. But we also think the entire technology stack of financial institutions is being unbundled. Security is an obvious example and here we have invested in Behaviosec and are looking to find more investments. Data warehousing and analytics are bound to be disrupted to create new data driven service models and we are actively looking at that space too.

Jeppe is a General Partner with Northzone, based in London. Originally from Denmark, Jeppe has lived in the UK since the early nineties. Having started his career as an M&A banker with Deutsche Bank, he has been investing in technology startups since 1998. First, with DB Capital Ventures, Deutsche Bank's proprietary venture arm, then as a Partner with Amadeus Capital before joining Northzone in 2013 to open their London office.



New fintech fund announced

Susanne Chishti
CEO, Fintech Circle

Fintech 2016 SEIS Fund – the first SEIS fund purely dedicated to British “startups” in the financial technology sector.

A new SEIS fund is emerging as a collaboration between organisations with unrivalled expertise in startup investing in the UK: Startup Funding Club, Fintech Circle and Innvotec.

This is an opportunity to invest in one of the fastest growing sectors of the global economy. The financial technology market in the UK is estimated to be worth £20bn in annual revenue of which new market contenders already account for 20%.

London provides all the ingredients to become the world capital of and together with favourable global trends and a supportive regulatory environment in the UK, investment at the earliest stages should generate significant potential for capital appreciation with valuable SEIS tax benefits for investors.

Startup Funding Club is a team of entrepreneurs, mentors and business angels specialised in sourcing early stage investments and accompanying startups in their development. Innvotec is a long-established and leading UK venture fund manager working alongside knowledgeable and trusted strategic partners to consistently deliver above average performance for its clients.

Innvotec and Startup Funding Club have already collaborated on two SEIS funds and invested in high potential companies across various sectors: software, technology, e-commerce and consumer goods. These funds have performed well over the initial period. A number of SEIS investments were also made by both funds in financial technology companies including Chored, Evoque, Pariti and Ixty.

This fund will be supported by the third partner with a strong background in the industry. Fintech Circle is Europe's first network focused on the sector and brings together over 5,000 entrepreneurs, investors and industry experts.

Find out more: innvotec.co.uk

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big picture



Name: **Gary Turner**

Occupation: MD Xero

Age: 47

Born: Glasgow

Education: High School to O levels and A levels. Dropped out of a Computer Science degree to join a software startup.

CAREER

1995 – 2006

Pegasus Software, four years as Managing Director

2007 – 2009

Microsoft

2009 – Present

Xero, Managing Director

FAVORITE

Books: The Cluetrain Manifesto (read during the dotcom collapse) Biography of Elon Musk, The Hard Thing About Hard Things

Films: Interstellar, The Matrix

Restaurant: Any good Italian

Hobbies: Xero. Tech. Business. (Self confessed huge nerd)

Politics: Disillusioned with them all

Business philosophy: What if you could take something that people hate doing, and make it enjoyable, wouldn't there be money in that?

The Internet of Money

The financial web will do to money what the internet did to communication.

There's been a lot of hype about IOT (Internet of Things) but the real action is happening somewhere else. IOM. The Internet of MONEY.

I'm talking with **Gary Turner**, the driver behind Xero's UK growth since 2009, and it's insightful.

It takes a particular mindset to target the small business sector.

It's both massive, with small businesses contributing over £700 billion per year to the UK GDP, but also very granular, comprising of over 5 million individual companies, most of them micro. It's a churning sector, with 40-50 thousand new UK businesses forming each month and a percentage of those closing as quickly as they're formed. As a customer base there are no barriers to entry in terms of regulation, compliance, or permission seeking. It's very easy to nibble at the edges, and extremely difficult to take and hold a big slice.

To engage the sector on an industrial scale requires a number of criteria to be met. The product and service must be ubiquitously required and nothing short of excellent in terms of design, functionality, and price.

If you want to take the SMB sector, whatever you've got needs to be good enough to sell itself from user experience and recommends. And it needs to scale to millions of users and horizontally evolve with them.

Increasing efficiencies across the SMB sector by a few % is enough to influence the entire GDP.

Talking with the MD of Xero, I briefly see it as he sees it. As a collective sector, an industry.

Which leads to the financial web, a subset of fintech, the connecting of millions of companies financially across a single platform. Which, when it is achieved, will bring financial tech opportunities and solutions to millions of SMBs, and in doing so revolutionise business

as everyone currently understands it. The financial web will do to money what the internet did to communication.

Xero isn't just accounting software, Xero is a platform. In five years from now it might also be an automated lending facility, a seamless tax return service, a peer to peer loan facilitator, a crowd funder, a B2B invoice discounter, and a peerless source of insight into the UK's trading economy. All of these and more, either directly, or through API enabled third parties, like MarketInvoice or TransferWise.

Already Xero integrates with 400+ business applications, so that small businesses can easily sync and streamline their data. Last year alone, \$300 Billion in invoices were sent across its platform. They're fast approaching 100,000 small business customers in the UK, and

have recently bypassed 500,000 customers globally, experiencing 80% year on year growth.

Scale that up for five more years and the effect a mega fintech like Xero could have on the UK (and Global) economy is statistically significant. Increasing efficiencies across the SMB sector by a few % is enough to influence the entire GDP in a way that nothing else can.

The SMB sector might not have the profile of the big B2C names, nor the same attention of the media or government. But as a financially connected bulk sector, it is 99% of all UK businesses, nearly two thirds of all employment, and a half of the UK GDP. If it were a single company, it would be the place where a 1% change changed everything. Imagine 5 million small businesses financially connected across a single platform, invoicing and paying each other, lending to each other, it has the possibility to remove banks entirely from the process, or completely redefine what it is a bank is and does.

The financial web. The internet of money. It's the biggest picture I've seen today.



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