

The UK Fintech Sector Research – An Overview

An In-Depth Analysis and Model of Fintech Start-Ups from 2009 to 2020

Clarus Investments

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About the UK Fintech Sector Research



For the past 3 years, Clarus Investments has been researching and monitoring the development of fintech startups in the UK. We have created a unique sector model which includes all fintech startups since 2009 and covers:

- Financing
- Valuation
- Investor returns
- Survival rates
- Exits
- Financial performance
- Employment
- Founder shareholdings
- Investor types and trends e.g. angel, corporate etc.

The research sample of over 1,000 companies can be segmented by type, sector and sub-sector. By “type” we mean whether the company provides a financial service or whether it provides a technology or processing service to another institution.

The analysis can help investors, entrepreneurs, corporates, regulators, government, advisers and others with identifying trends, benchmarking performance, and understanding critical success factors.

In the following pages, we have profiled the banking sector within fintech to illustrate just some of the analysis that is available. This covers the banks and non-banks providing bank-like financial services to end users e.g. Monzo and GoHenry.

Clarus Investments specialises in research and advisory projects in developed and developing markets. Our focus is on financial services, and in particular the topics of strategy, corporate development, innovation, growth and entrepreneurship.

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UK Fintech Sector (Companies Founded Since 2009)



* As of 31st December 2020



The analysis in the following pages is a sample from the research which covers the banking sector within fintech, and specifically the companies providing a financial service to an end customer, such as a consumer or small business.

The sector includes those companies with a banking license (or applying for a license) e.g. Starling Bank, and those companies providing bank-like services (typically using pre-paid cards) e.g. Monese.

From the chart opposite, you can see that the banking sector represents a disproportionate level of financing, valuation, revenues, losses and employment relative to the number of companies in the sector.

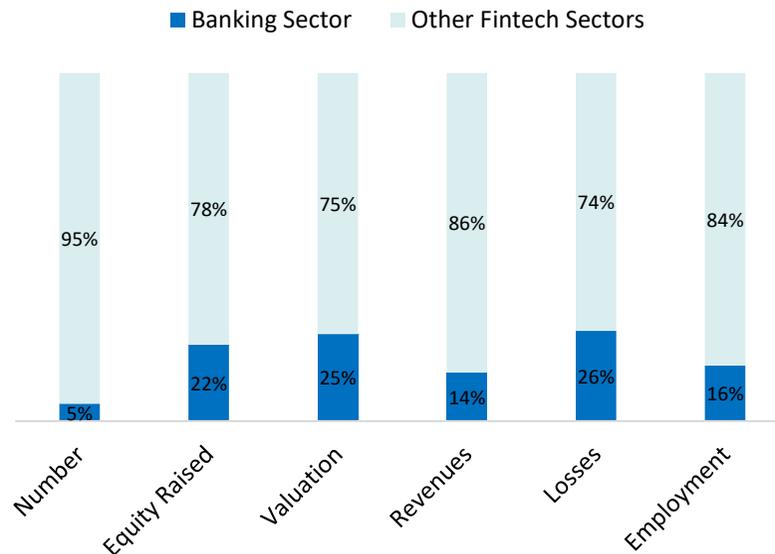
The amount raised and valuation is highly concentrated in companies such as Revolut, OakNorth, Monzo and Starling.

Note that companies providing banking technology services or banking-as-a-service are not included here but are part of the overall research. Start-ups which were funded by large initial private equity rounds and/or based on acquisitions have also been excluded e.g. Aldermore and Shawbrook.

Banking Sector As A Share Of All Fintech On Selected Measures

Companies Founded Since 2009

“The banking sector represents a disproportionate level of fund raising, valuation and losses relative to the number of companies in the sector”



Fintech Sectors

- Banking
- Payments
- Lending
- Insurance
- Wealth
- Markets
- Regulation
- Other

Each of these sectors can be further analysed in the model by sub-sector

Notes:

Equity raised 2009-2020; Valuation at latest round of financing; Revenue, Losses and Employment for 2020

Losses are shown after tax



The database and model includes 54 companies in the banking sector. Of these, 70% were founded before 2018 so are at least 3 years old. To assess status and progress we have looked at these companies which are more than 3 years old.

We found that in the banking sector 16% have closed (or gone into administration). The companies closed (or gone into administration) include for example Loot, Osper and Ffrees.

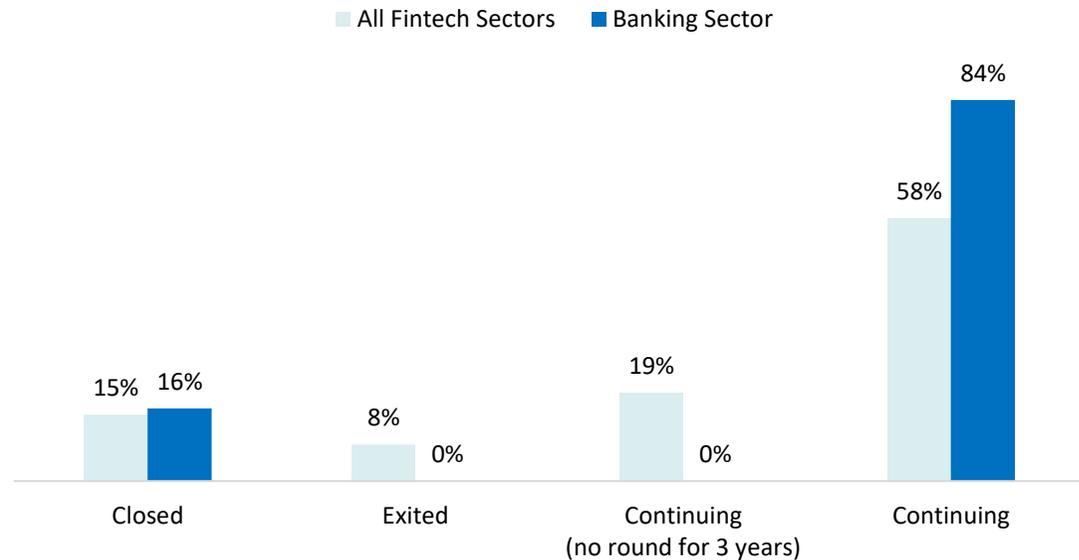
We assume (confirmed by inspection) that companies which have not raised for at least 3 years are unlikely to progress in the long term and are simply hanging on. There were no cases of this type in the banking sector and all the other companies which are still operating have raised funds in the past 3 years.

This outcome for the banking sector compares well to the fintech sector as a whole where the closure rate, plus the proportion of companies not raising for at least 3 years, is much higher.

There have been no exits in the banking sector, whereas 8% of the companies in fintech as a whole have exited. However, only a few of these exits are successful exits and in many cases the exit was essentially a rescue transaction.

Status Of Companies Founded From 2009 To 2017

“Survival rates are relatively high but no profitable exits have been achieved yet in the banking sector ”



Notes:
Status as of December 2020. No round for 3 years means 2018, 2019 or 2020.



The total equity raised by the banking sector companies has been £3.5bn, with 2020 being the highest fund raising year.

The largest fund raisers have been:

- Revolut
- OakNorth
- Monzo
- Atom Bank
- Starling Bank

These 5 companies account for 80% of all the funds raised in the sector.

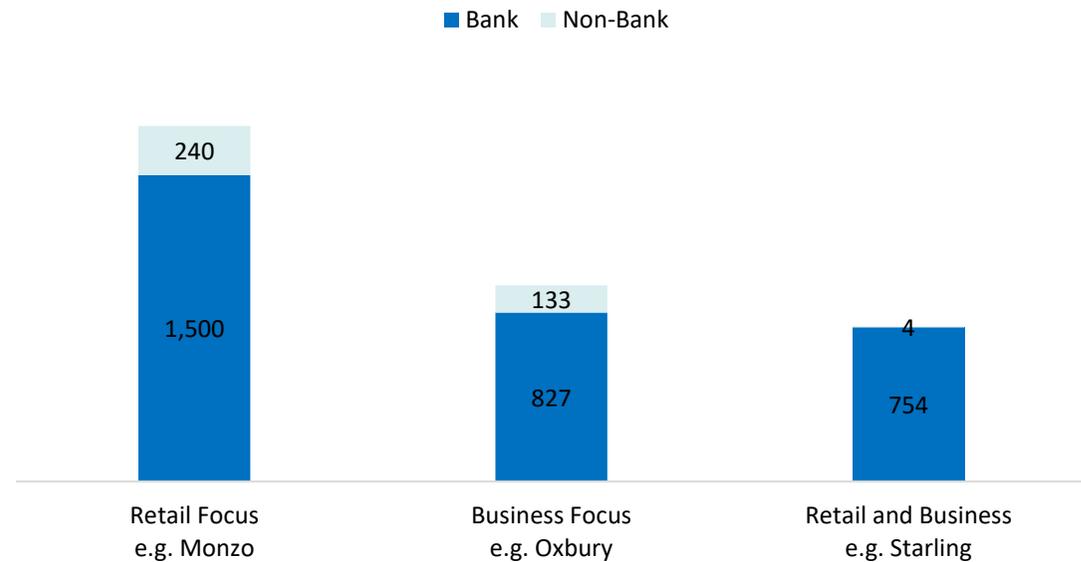
The chart opposite shows that approximately £1.7bn has been raised by retail focused companies, £1.0bn by business focused companies, and £0.8bn by companies which serve both retail and business customers.

Overall £3.1bn has been raised by companies with a banking license (or applying for a banking license), and £0.4bn by companies without a banking license.

Equity Raised By Type Of Banking Sector Company From 2009-2020 (£m)

Companies Founded Since 2009

“The 5 largest fund raisers account for 80% of all funds raised in the banking sector”



Notes:

The categorisation is based on the primary focus of the business.



The total valuation of the banking sector, based on the latest rounds of funding and estimates, is approximately £10bn. Note this valuation is on paper only as there have been no exits.

The amount raised, valuation and investor returns is shown in the table opposite for several of the largest fund raisers in the sector which have disclosed funding.

The highest IRRs for first round investors, based on the valuation at the latest round, are:

- Revolut (212%)
- Monzo (111%)
- Monese (91%)

Atom Bank and GoHenry have achieved relatively low IRRs for first round investors so far. These companies have been able to keep going but have struggled to make substantial progress in terms of customer numbers or revenues.

Further analysis of the total returns to investors taking into account closures and exits (hence removing the survivor bias) is also available.

Amount Raised, Valuation and Investor Returns For Banking Sector Companies

Largest Fund Raisers With Disclosed Funding

Company	First Round Date	Latest Round Date	Equity Raised £m	Valuation At Latest Round £m	IRR For 1 st Round Investors
Revolut	04-15	02-20	696	3,825	212%
OakNorth	01-15	02-19	664	2,154	n/a
Atom Bank	05-14	09-19	454	529	18%
Monzo	08-15	07-20	438	1,103	111%
Starling Bank	12-15	05-20	226	445	n/a
Tandem	10-14	02-20	169	80	n/a
Monese	04-15	01-20	77	108	91%
Tide	07-16	10-19	57	n/a	n/a
GoHenry	11-11	10-19	25	62	15%

Notes:

Including equity funding rounds up to 30th September 2020. Some of these companies have raised funds since then.



The revenues and profit after tax of the whole banking sector have been consolidated from 2010 to 2020 and are shown in the chart opposite.

The banking sector is demonstrating strong growth in revenues but at the same time very high losses.

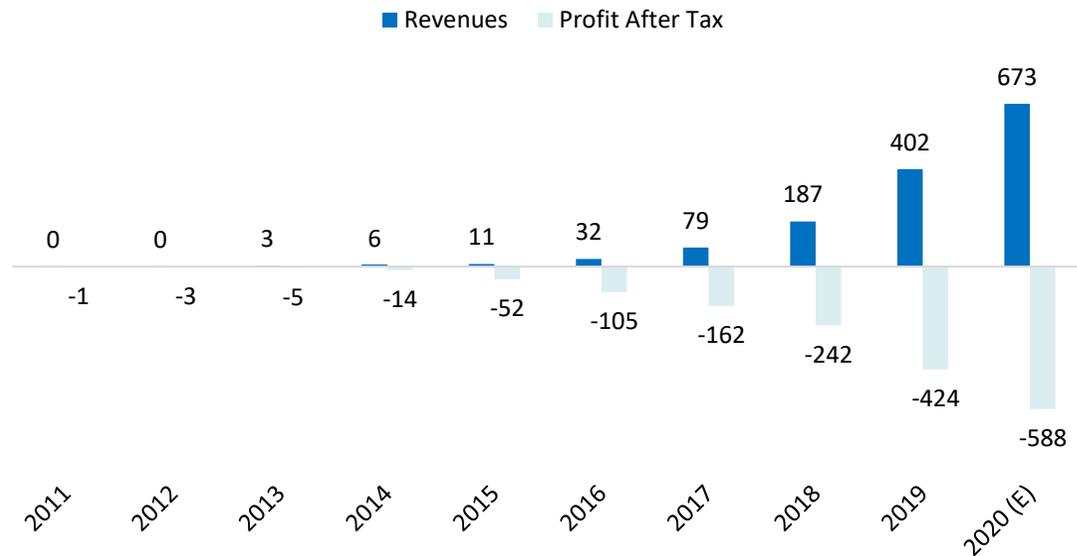
The losses being incurred by the companies with banking licenses are relatively high. Monzo, for example, had cumulative losses of £199m up to February 2020.

Though some are now signalling progress toward profitability e.g. Starling, only OakNorth has reported a full year of profits. In 2020, OakNorth reported revenues of £140m and profit after tax of £59m.

Revenues and Profit After Tax for the Banking Sector (£m)

Companies Founded Since 2009

“Cumulative losses from 2009 to 2020 for the banking sector have been £1.6bn”



Notes:

Most companies have reported to the end of 2019 but 2020 is an estimate based on age and historical trends



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