Payments Group

Beyond “Peak Finance”

A report on the UK finance industry’s ‘peak finance’ moment, its subsequent decline, and uncertain future

Introduction

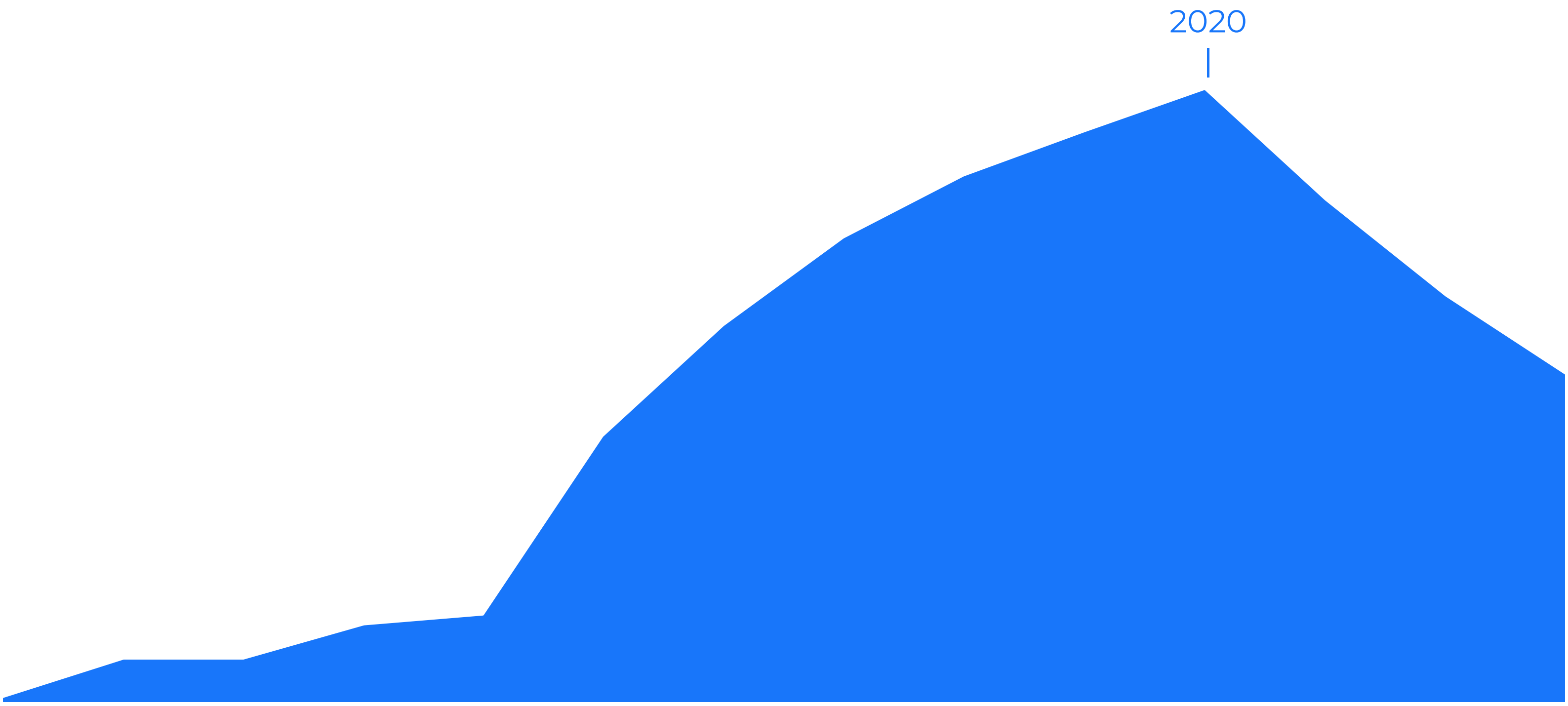
The pre-2020 boom and subsequent bust of the UK finance industry has gone relatively unnoticed. The world has changed so much in the last four years that we never fully appreciated how healthy the industry was before the turn of the decade, and how unhealthy it is today.

The simple truth is that the UK finance industry is sick, and there are numerous underlying conditions beyond Brexit, the pandemic and economic recession. The data is clear, we are now firmly in a new 'post-peak finance' era. The industry has consolidated, businesses have left, failed, while technology has made some legacy finance industries obsolete. The UK must navigate this period carefully.

Fortunately, the UK financial sector still boasts a strong reputation abroad, with unrivalled experience, amazing institutions, and access to talent. However, we cannot pretend that this will not be an incredibly difficult period.

We need the Government to act to ensure that one of the UK's strongest sectors does not continue to decline. We cannot allow American card giants and tech brands to run roughshod over our financial institutions, retailers, and consumers as they are doing today. The impact of an even weaker and even smaller UK finance sector would ripple throughout the entire UK economy. We also need to see UK finance organisations take full advantage of the technical opportunities available to them such as embedded finance, AI, Payments 3.0. These technologies could be as transformative for the sector as the smartphone was in the 2010s. This is what we aim to do at The Payments Group.

Jens Bader, The Payments Group founder and CEO



Methodology

In November 2024, The Payments Group analysed the latest data available from The UK Office of National Statistics' official Census and Labour Market Statistics service NOMIS. Including:

- UK Business Counts - enterprises by industry and employment size band (2010 to 2024)
- UK Business Counts - enterprises by industry and turnover size band (2010 to 2024)
- UK Business Counts - local units by industry and employment size band (2010 to 2024)
- Workforce jobs by industry (SIC 2007) - seasonally adjusted (Sep 1981 to Sep 2023)
- Annual population survey (2004-2023)

Key findings

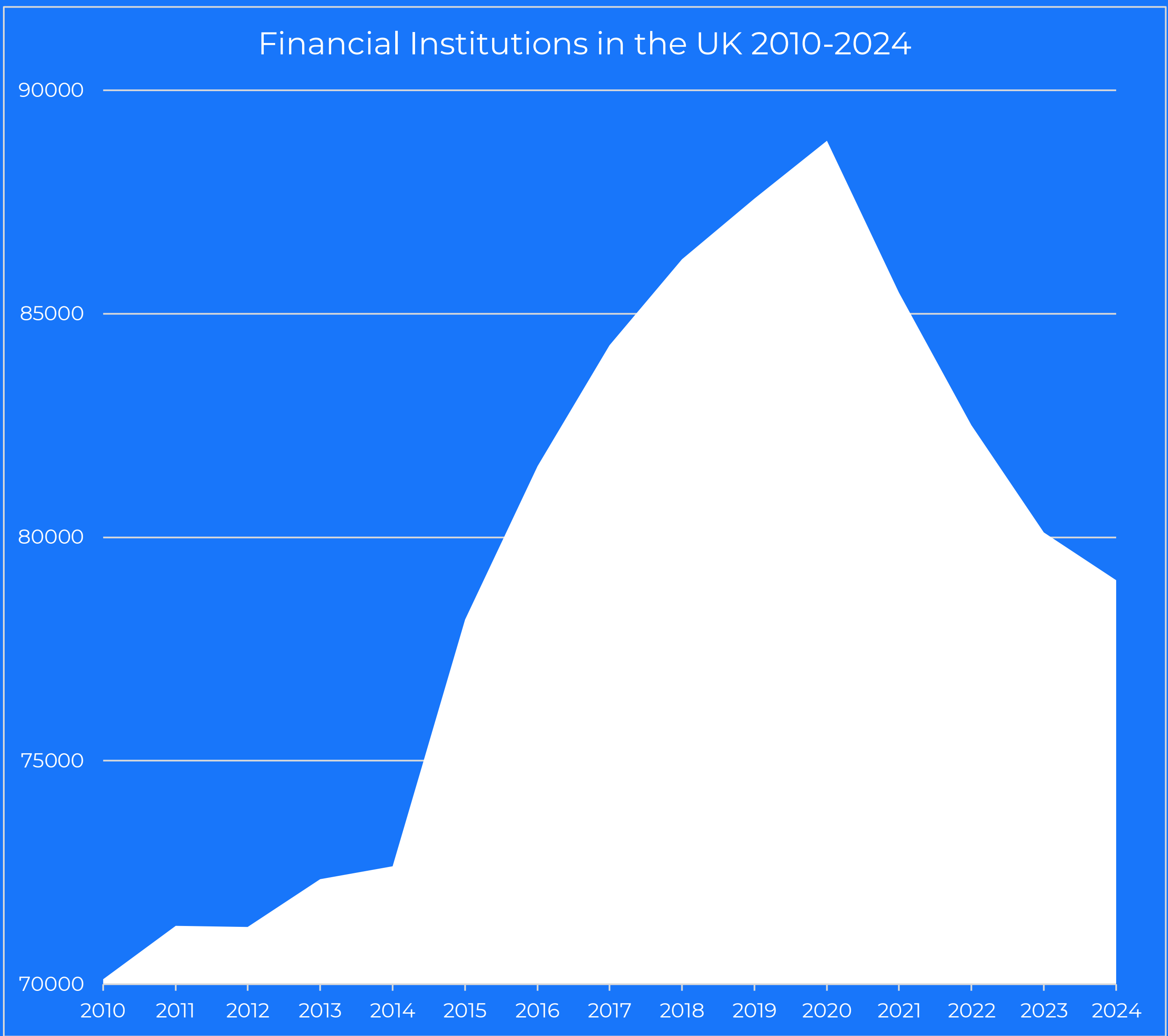
- The number of UK finance businesses peaked in 2020 (88,875) and has shrunk quickly since. It saw a net loss of 9,835 between 2020-2024
- The data shows that the finance sector can be viewed in three distinct periods since the 2008 crash 'Slow growth' (2010-2014), 'Peak finance' (2014-2020), and 'Collapse' (2020-current)
- The industries in the biggest decline are financial management, auxiliary financial services, and credit granting
- The number of banks has decreased since 2020, but this is a long-term trend that predates Brexit and the pandemic. The decline of high street banks contributes to the UK finance industry's contraction, but it is not responsible for it

As per the chart below, the UK finance sector has three distinct periods since 2010.

Slow growth – 2010-2014
The finance industry was still in recovery mode, but there were green shoots of progress in this time. Thousands of UK banks were disappearing from the high street due to the rise of digital banking, but the same technologies enabled other parts of the sector to flourish.

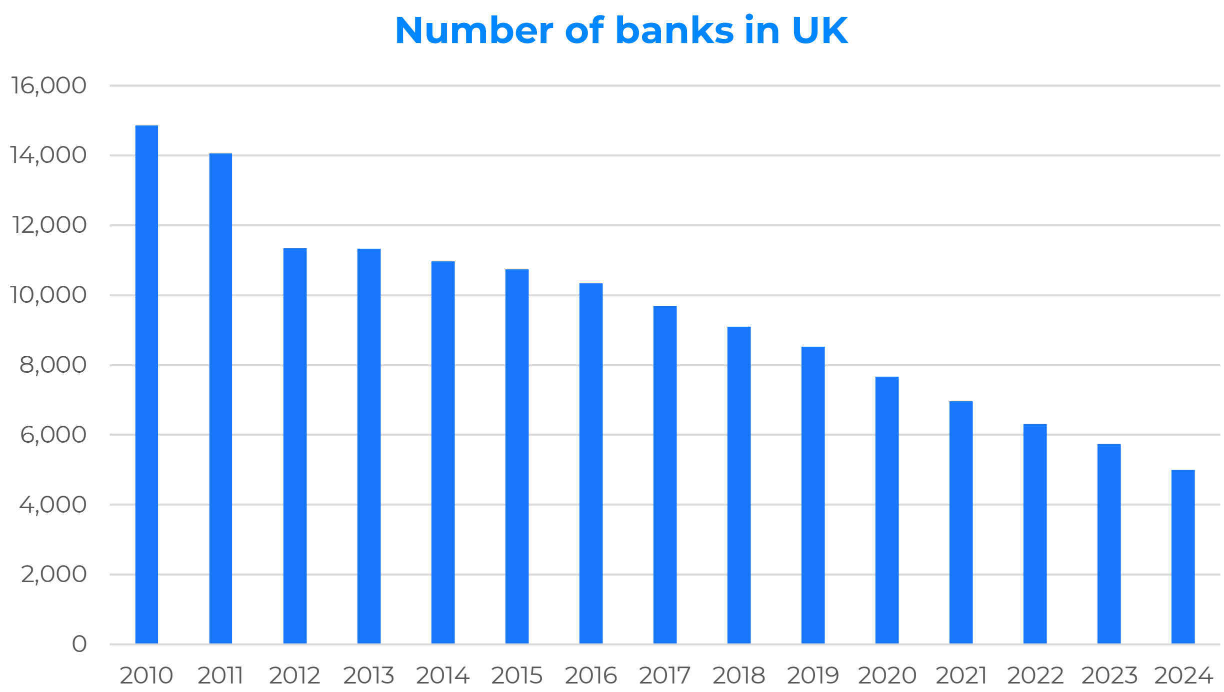
Peak finance – 2014-2020
This was a boom period for UK finance. Trust in new technology such as contactless payments and ubiquitous smartphone/internet access enabled a new breed of finance company to emerge and challenge the status quo. It had never been easier to launch a financial product/service in the UK, and the array of options available to consumers had never been greater.

Collapse – 2020-current
The post-peak finance era looks uncertain. There are major headwinds beyond the impact of the pandemic and Brexit. Many consumers have less money to spend, and have lost faith in the ability of challenger brands to really shake up the market. Meanwhile, it has become a much more difficult and competitive market for newcomers seeking customers, revenue, investment. Market consolidation is also a factor behind the decline.

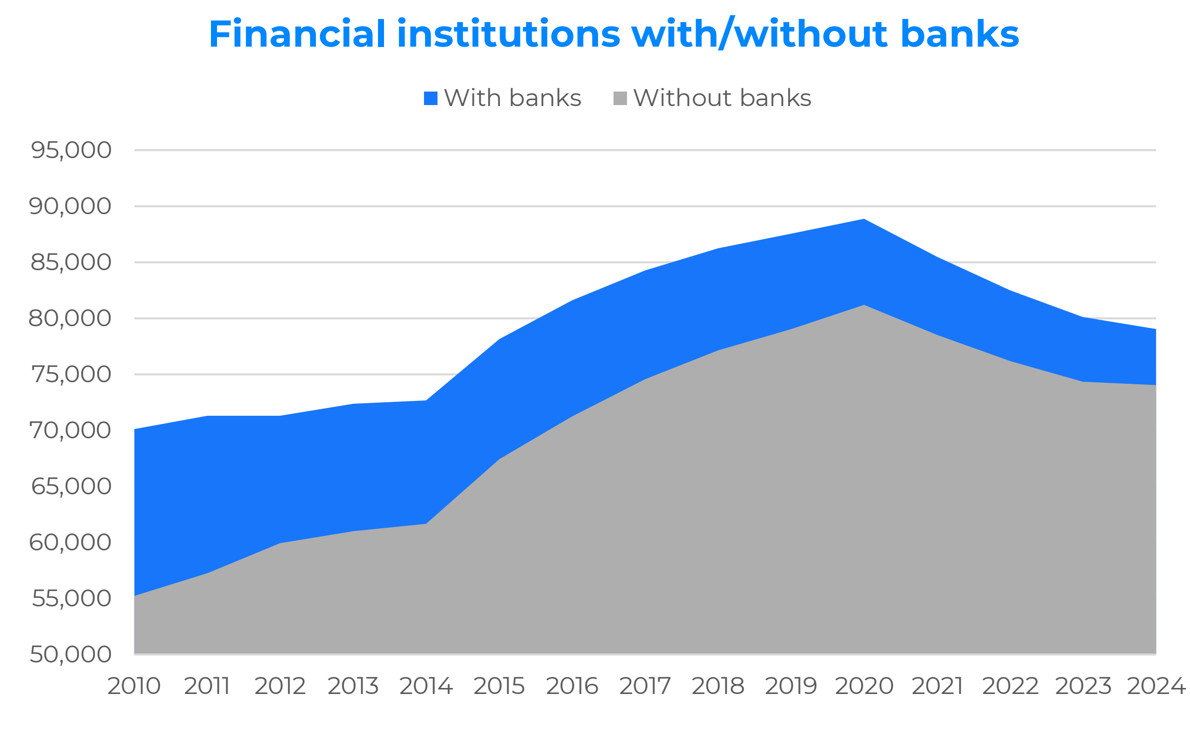


There is not just one area of the UK financial services sector that is to blame for the post-2020 decline. Virtually every finance related industry has contracted in this period.

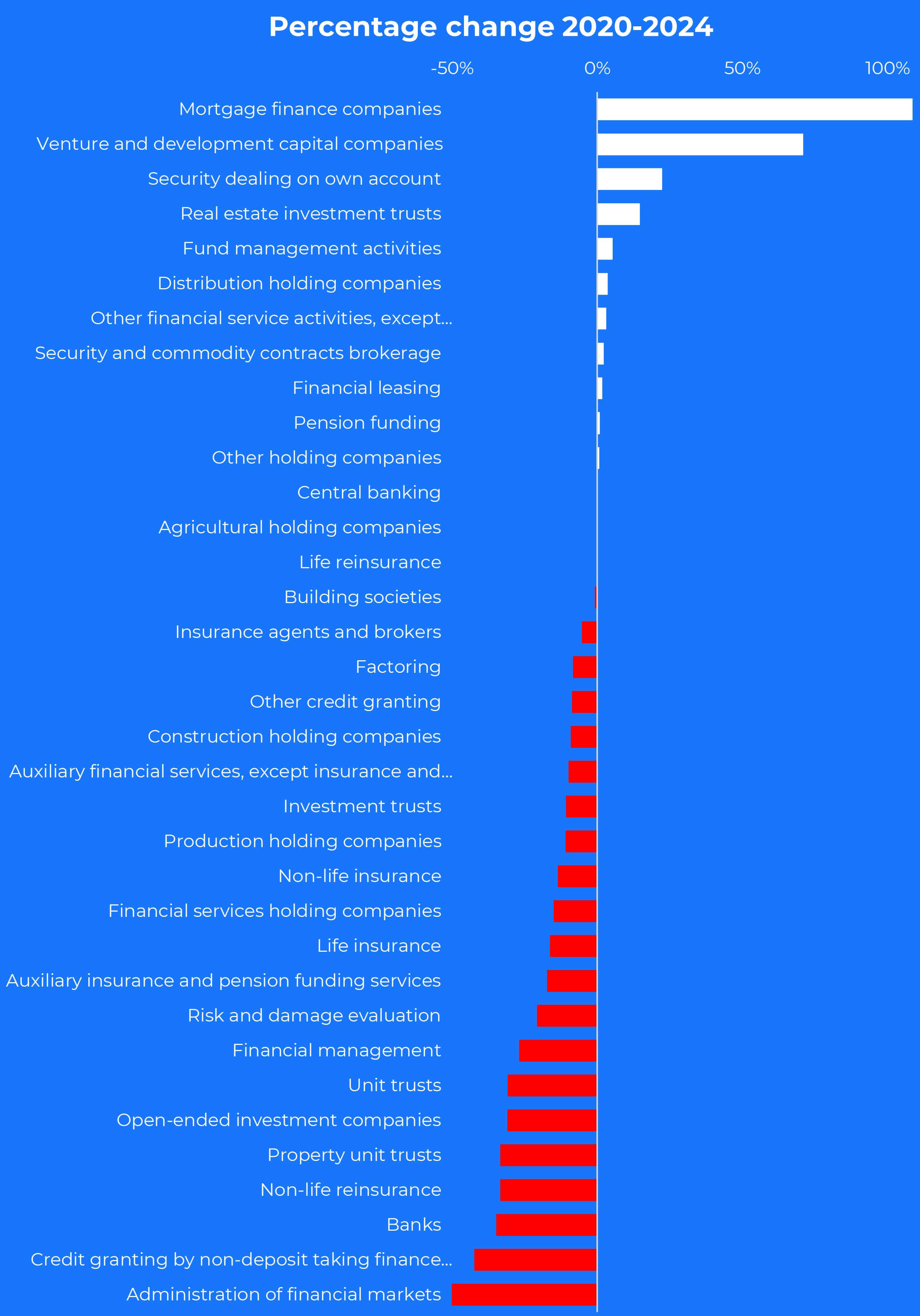
Retail bank figures are a good demonstration of why this is an industry-wide issue. Their disappearance from the high street may be how most people imagine the decline of the UK finance sector, but they are only part of a wider problem. Between 2010-2023, the UK saw an estimated net loss of 9,000 banks – a staggering 61% decrease.



However, when we remove bank figures from the chart on the previous page, the trend lines remain more-or-less identical. The three distinct periods are still evident. This is not a banking issue, it's a finance issue.

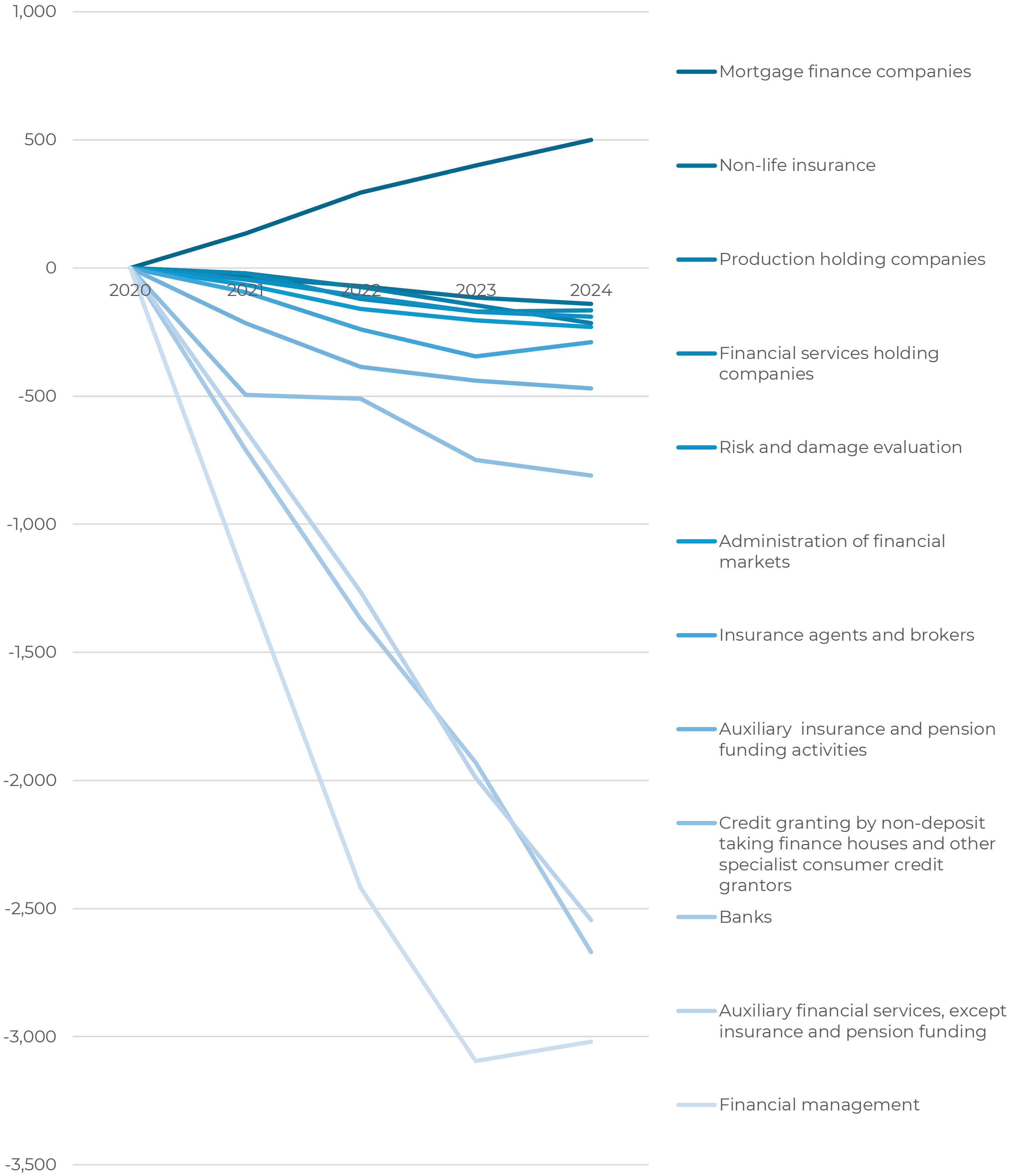


Indeed, this chart tracks the net growth and loss of 35 financial industries in the UK since 2020 – those recognised with a designated UK SIC code eg. 64191 for banks. Virtually all of them are in decline. Most of those that have increased have only demonstrated modest growth. Mortgage finance and VC companies

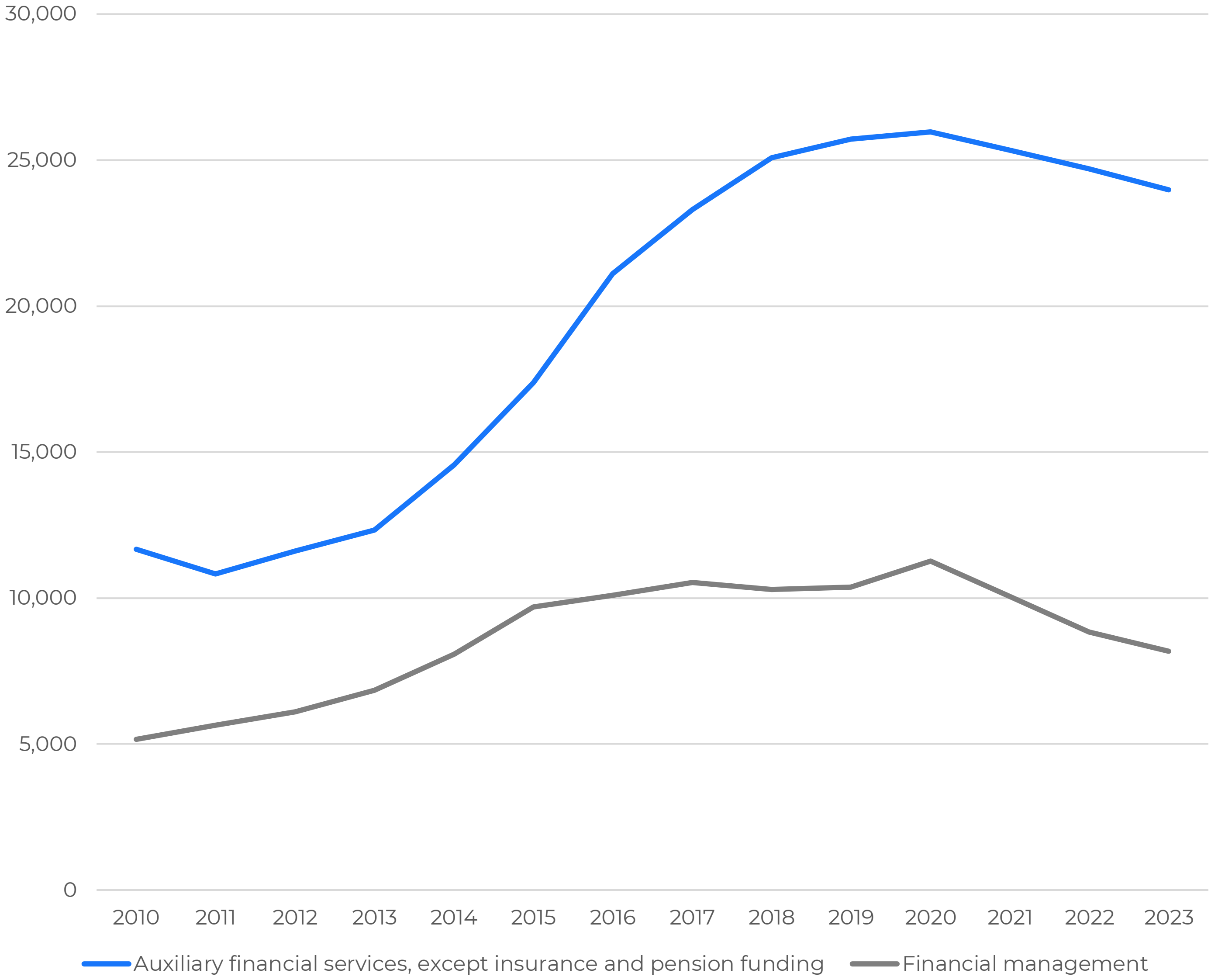


Most of the 35 financial industries in the previous chart have only changed slightly, or are such small industries that they cannot fluctuate significantly Y-O-Y. The chart below shines a spotlight on the 12 finance industries that have increased or decreased by more than 100 units between 2020-2024. Mortgage finance is the only sector to show modest growth, while financial services and financial management figures have fallen off a cliff.

Growth/decline of financial industries since 2020



Interestingly, the industries that declined the most since 2020 were among the fastest growing sectors between 2010-2020. The number of financial management and auxiliary financial services companies both doubled prior to 2020 before their recent slump.



Factors behind the 2020 boom

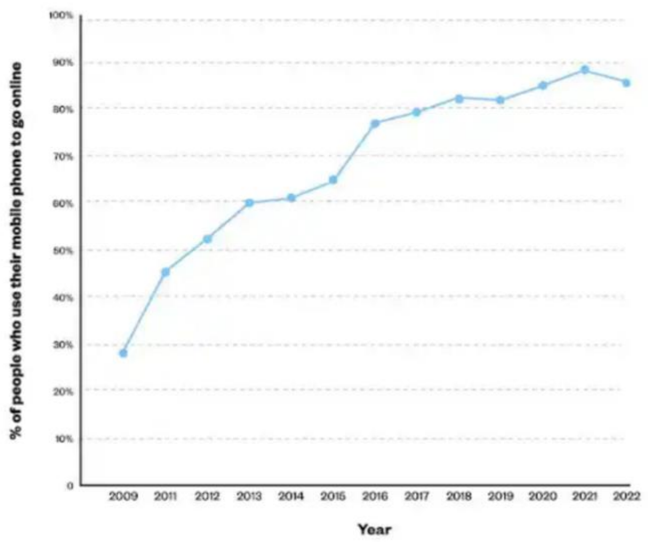
Our analysis proves that the UK finance industry grew steadily, then rapidly after the 2008 financial crash. There are several major reasons why:

Technological leaps

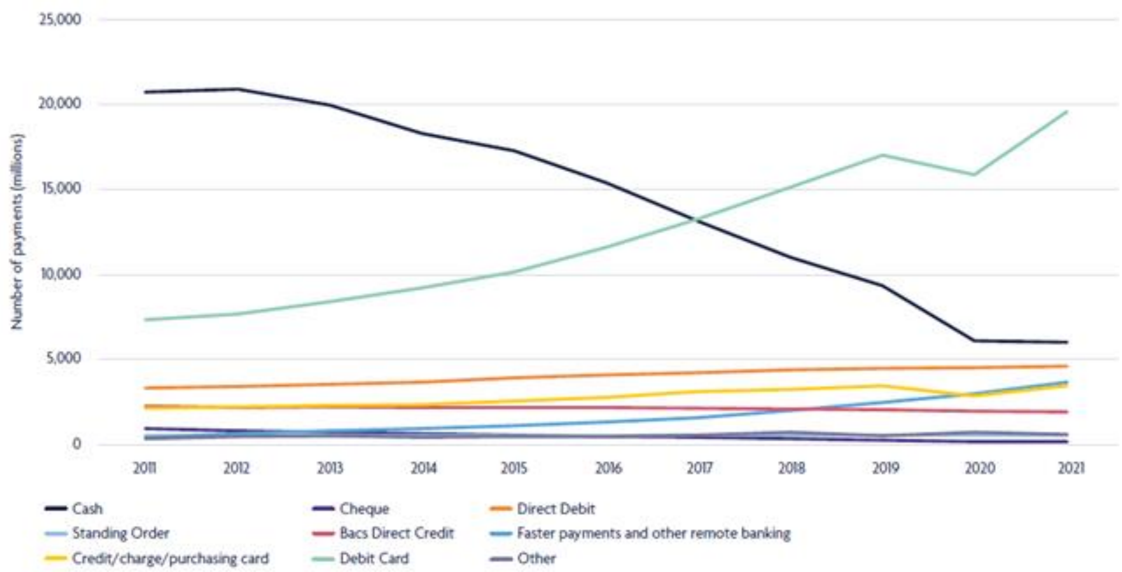
The pre-2020 growth was surely aided by the rise of mobile and digital technologies. Suddenly, everyone had a smartphone, and every financial institution had a mobile app.

It's hard to underestimate the incredible digital opportunities made available during this period. Smartphones were a new payment method in themselves, and quickly became the main way people accessed financial products and services.

Meanwhile, card and contactless payments became the most popular option in the UK as cash use dwindled. This was yet another sign of a wholly changed UK market and how technology was enabling innovation.



(Source: Ofcom)



Appetite for disruption

After the 2008 financial crash, the British public did not like that big banks were bailed out with public funds. The same people behind the financial crash were now benefitting from it, or at least being shielded from feeling the full impact of their actions.

Consumers lost trust with the big banks and there was a strong appetite for disruptor brands that promised something different – like Monzo, Sterling, Revolut. In many respects, it was the perfect time to launch a new finance business.

Regulatory wild west

It should be noted that, during this time, UK financial regulations around digital and mobile banking were far laxer than they are today. New financial institutions benefitted from the fact that regulations always struggle to keep up with technology. They were allowed to operate and flourish with minimal intervention.

As this article will explore later, there has been an overcorrection in UK financial regulations, which have subsequently caused the UK finance sector to decline.

Factors behind the post-2020 bust

Even with the looming threat of Brexit, few would have predicted how quickly and significantly the UK finance sector would contract. Here are some of the contributing factors behind the post-2020 bust.

Pandemic economics

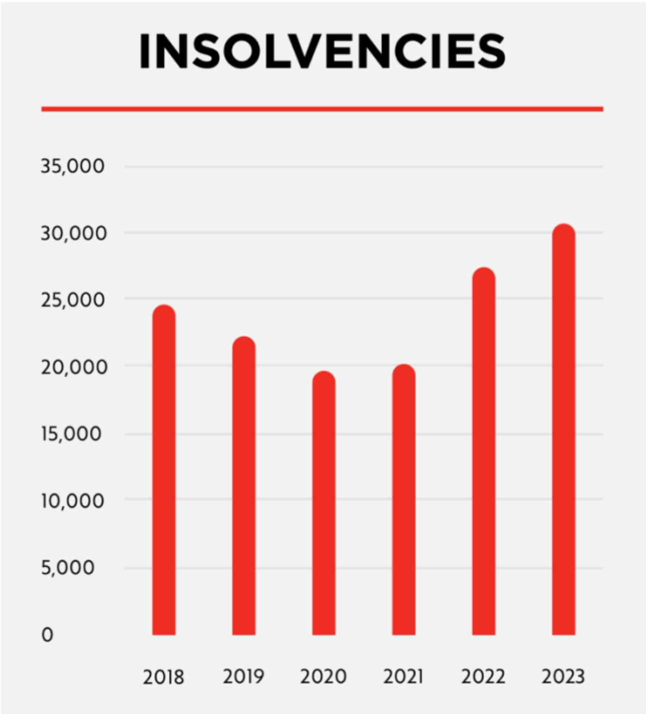
The pandemic caused incredible economic disruption, and was followed by an extended period of economic uncertainty. The rise of interest rates and the cost-of-living crisis has made the UK a much harder place to do business.

Markets hate uncertainty and it is much harder for businesses to get funding. Money isn't flowing to fintech startups in the same way as it once was. This means that more UK finance businesses are collapsing due to insufficient funds, and fewer new ones are emerging.

Brexit

The UK leaving the European Union in 2020 was a huge moment for the finance industry. UK businesses that traded with European companies or consumers suddenly had to comply with new regulations and limitations. Meanwhile, international companies may be far more inclined to register their business in countries with more beneficial regulations like Ireland or Malta.

Data from Creditsafe, a credit checking agency, shows that UK business insolvencies increased by 52% between 2021-2023. From less than 20,000 records to more than 30,000.



US squeezing out the UK

The UK has stood by and watched as US card and tech giants have squeezed out every local competitor. From Visa and Mastercard to Apple and Google, these brands now dominate every part of the UK finance ecosystem.

Visa and Mastercard are de-facto monopolies and the lack of competition enables them to routinely put profits over people. They will always act in ways that are detrimental to retailers and consumers so long as they are in the interests of shareholders.

We cannot allow Apple Pay and Google Pay to follow suit. Apple Pay does not have a UK licence but is starting to dominate the UK mobile payments space because it is such a convenient service. This is far from ideal, and we should not implicitly trust US brands to do the right thing by UK consumers. The government should demand that all US companies obtain a UK licence, and do more to encourage local competition.

Regulatory over-correction

Many recent regulations introduced by the UK Government are designed to protect consumers, but they have seriously hurt the financial sector. Profit margins in many parts of the industry have shrunk, while compliance costs have ballooned. A lot of the pre-2020 business models, like payment issuers, are no longer profitable or viable.

For example, to combat VAT avoidance, new regulations state that payment companies must track any customer that makes more than 25 cross border transactions per quarter. They must then share their data with all the relevant European law and tax authorities in multiple countries. It’s a good idea on paper, but this is a huge administrative burden on the payment company, which should be carried by the regulator instead.

How to fix the UK finance industry

“The European and UK finance sector should view the dominance of the US tech sector as a cautionary tale. With no serious European competition, these companies have acted in their best interest for years, often to the detriment of European businesses and in conflict with European regulations. It has always been an uphill challenge for European regulators to keep US tech giants in line on issues such as social media harms, abuse, monopolistic practices, misinformation, election interference. We cannot allow the finance industry to follow suit.

“We need a strong European finance sector, which can compete with US companies. This requires top-down and bottom-up intervention. Governments must support local finance businesses, and people should adopt European payment and finance services wherever possible. We also need to see European finance firms keep pace with international competition, which means taking full advantage of the latest technology including AI, embedded finance, crypto.

“I also want regulators and governments to employ a lighter touch when it comes to financial regulation. A heavy hand can hurt businesses, and this can have an adverse effect in the long-term. If we discourage European financial organisations from the market, it will be firms from the US and Asia that fill the void. I simply do not believe that a Europe dominated by Asian and American financial services businesses is in the best interests of Europeans.

The Payments Group is a new European payments business that serves some of the biggest brands in the world, such as gaming giant Razer. It provides 360˚ payment solutions including embedded services, payment processing, virtual IBANs, debit cards, cash payments and gift card solutions. It’s white label services allow any company to launch their own branded financial programme or prepaid/debit card service in just weeks.

In an incredibly challenging market, TPG stands out as a trusted payment partner that can handle any challenge.

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