A Guide to Challenger Banks in the UK

18 February 2013

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About this Report

This report considers Challenger Banks in the UK Banking Market. Why are there Challengers, what need are they fulfilling, who are they, How are they being financed, what is their strategy to grow market share and can they be successful? Does their challenge offer opportunities for the Financial Services Entrepreneur? How much money do you need to set up a Challenger Bank?

The objective is to give the reader an understanding of the UK Challenger Bank environment, providing sources of information and links to further research and to highlight the Entrepreneurial opportunities available.

> There are many Fintech innovators working in the banking market value chain. In this report we are only considering those with full banking licences. Looking at core retail banking markets gives a macro analysis of where and in what configuration other Fintech Innovators can achieve traction.

Contents

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This report will always be in Beta

This report is a work in progress and is continuously updated

An Apology in advance

As many readers of this report are involved intimately in FinTech transactions you may have much more additional information on the detail of specific transactions. A full and complete and unreserved apology is offered in advance for any misreporting, please contact the author(s) to report any inaccuracies.

Collaboration

An open call is made for Collaboration on data sources and ways to enhance the value of this report to members.

Finally

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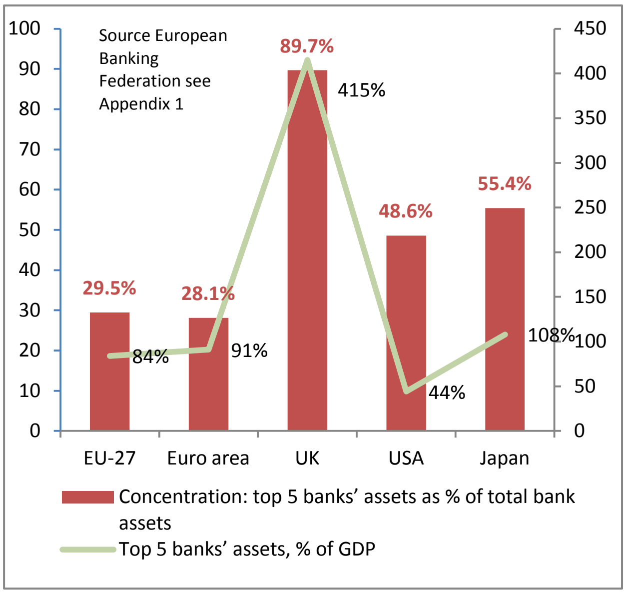
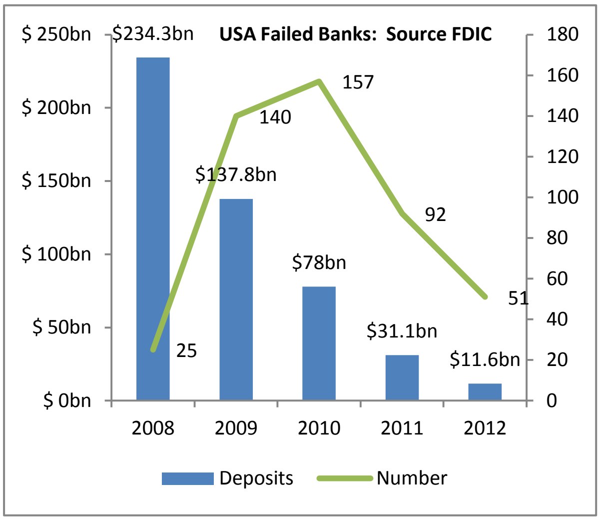
1.0 Preface and Executive Summary



The United Kingdom has one of the most concentrated banking systems in the world, its top five Banks[1] dominate banking assets.

A Treasury select committee report[2] concluded in 2011 the top five UK banks had 85% of the Personal Account market and the top 4 banks had 80% of the SME liquidity market. This syndrome of concentration has been called "Too big (important) to fail, Too big to compete against"[3] This structure of Banking concentration is propped up by implicit Government guarantees that act as a highly effective barrier to entry. Failed or uncompetitive Banks do not exit the market and create space for innovation and new competitors, the Big 5 Banks score lower than average customer satisfaction levels than peers see Appendix 6.



In contrast the USA has a tried and tested Banking failure and entry method via FDIC (Federal Deposit Insurance Commission) over the past 5 years, 465 institutions have failed covering $492.8bn in deposits. In the 5 years prior to the banking crash in 2008, 840 new bank charters were granted.

The significance of a concentrated banking sector was magnified by the banking crash. The UK Government had a maximum commitment of a £1Trillion[4] . Since the banking crash it has had great difficulty in restarting lending to SME's, and consumers, through Project Merlin, Quantitative Easing, National Loan Guarantee Scheme[5], Business Finance Partnership, and now Funding for Lending[6] this has further exacerbated Government frustrations with the banking and financial services industry.

The UK fiscal and regulatory environment has undergone a sea change. The political class, Treasury and Bank of England are now determined that the United Kingdom's finances are never threatened again by a "Too big to fail" induced banking crash. This new regime starts with the formation of the Financial Conduct Authority on the 1st April 2013. It is into this banking environment that Challenger banks are now emerging as stronger competitors, the opportunities for meaningful market share growth are more favourable than for generations.

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[1] Barclays Bank Plc, HSBC, Lloyds Banking Group, RBS, Santander
[2] House of Commons Treasury Committee, Competition and Choice in Retail Banking, HC 612-1 April 2011 http://www.publications.parliament.uk/pa/cm201011/cmselect/cmtreasy/612/612i.pdf
[3] P79 House of Commons Treasury Committee, Competition and Choice in Retail Banking, HC 612-1 April 2011
[4] National Audit Office Maintaining the financial stability of UK banks: Update on the support schemes http://www.nao.org.uk/publications/1011/support_for_banks.aspx 15 December 2010
[5] http://www.hm-treasury.gov.uk/fin_sector_banking_business_lending.htm, http://www.hm-treasury.gov.uk/d/bank_agreement_090211.pdf
[6] http://www.hm-treasury.gov.uk/ukecon_fundingforlending_index.htm

1.1 Executive Summary

Competition is increasing in UK banking, due to Government policy, poor levels of customer service, brand erosion of existing players and forced disposals by bailed out institutions. Some retailers see opportunities in converting their footfall and data on customers into profits from a banking operation, existing Banking companies see an opportunity to get branch network and scale. Private Equity backers see industry weaknesses and smaller institutions seek market share gain.

Challenger Banks form into two groups:

1) Independent Challenger Banks backed by individuals, investors, or listed on stock markets 9 institutions.
2) Backed Challenger Banks created out of existing large commercial organisations, 10 institutions, such as Tesco Bank and Co-op Bank.

Independent Challenger Banks trade on offering innovation, focused product portfolios, higher levels of customer service.

Backed Challenger Banks use innovation, product portfolio and customer service as differentiation, this is added to scale, an existing brand and branch network. They in many respects follow the banking models of the "big 5 Banks" (Barclays, HSBC, Lloyds HBOS TSB, RBS and Santander) but aim to operate this kind of model more effectively or segment markets better than competition. The Co-op Bank being a mutual ploughs a different strategy to the other backed challengers.

Further competition may come from the internet giants, but apart from PayPal with a Luxembourg banking licence this is a very prescient sector. Other internet banking models with full banking licences are operating and about to operate in the USA and Germany but lack scale and market share.

Innovation and challenge was introduced into the banking sector over the past 20 years based on telephone and then internet banking. What has happened to this innovation, it is not without its casualties.

1.2 What is a Challenger Bank?

An organisation with a full banking licence issued by the FSA (Financial Services Authority or overseas equivalent) that takes deposits, makes loans and provides a range of financial services and has Government backed deposit insurance in case of default. In our analysis we have included one exception "Bank on Dave" it's an example of a retail peer to peer lending model.

In the UK FSCS[7] The Financial Services Compensation Scheme normally £85,000 the register of institutions is here The EEA European Economic Area has a compensation limit per account of Euro 100,000. *Important see note 8*

In the USA FDIC[8] Federal Deposit Insurance Commission compensation limit normally $250,000. *Important See note [9]*

[7] http://www.fscs.org.uk/what-we-cover/products/banks-building-societies/
[8] http://www.fdic.gov/consumers/banking/facts/index.html
[9] **Note**: *The compensation/guarantee figures illustrated are for guideline only, these schemes need very careful study when considering investment and banking products they may not apply, please consult your FSA registered Independent Financial Advisor for further assistance.*

There are many other FinTech innovators around the banking market value chain; in this report we are only considering those with full banking licences.

1.3 Why Challenger Banks

Confidence in Financial Institutions or Banks, by Country in 2012

Sorted by proportions of adults, aged 15 and older, expressing confidence in their country's financial institutions or banks

	Yes	No
Malta	72%	19%
Finland	68%	29%
Luxembourg	66%	30%
Denmark	56%	40%
Estonia	55%	33%
Sweden	53%	40%
Czech Republic	50%	42%
Poland	50%	39%
Austria	46%	48%
Slovakia	46%	41%
Netherlands	43%	54%
Germany*	40%	57%
Cyprus	37%	55%
Portugal	36%	54%
Slovenia	36%	61%
Bulgaria	34%	50%
Belgium	33%	56%
United Kingdom*	33%	66%
France	33%	63%
Latvia	32%	56%
Romania	30%	55%
Lithuania	29%	63%
Hungary	27%	67%
Italy	24%	72%
Spain	17%	81%
Ireland	16%	83%
Greece	13%	82%

March-July 2012
*October-December 20(

GALLUP

http://www.gallup.com/poll/158531/residents-confidence-banks-sinks.aspx

The trust and confidence in the existing banking establishment has been seriously eroded, trust being the central element of any intermediated fiduciary transaction.

The list of financial scandals over the past ten years is long and extensive, see appendix 2 for detail. From failure of the UK's oldest Life Office – London Life, charges for overdrawn accounts, Personal Protection Insurance miss-selling, Banking Crisis and subsequent Government spending cuts, HSBC Money Laundering, LIBOR rigging, RBS Account computer problems, JP Morgan failing to segregate client account cash, Rogue Trader UBS, Bank Bonus, aggressive tax avoidance at Barclays £500m fine. Only one third of UK Adults have confidence in banks and financial institutions borne out by a Which study which illustrated lower level of confidence over a wider set of metrics.
Appendix 2 details 17 major events with a cost of c£20bn, with the UK Governments maximum exposure during the financial crisis being at least $955bn.

This follows on from industry trends to close branch decision making structures and branches, centralise customer handling in call centres, many of them located overseas and to offshore any ancillary processing functions, service levels and consumer confidence already had deteriorated before the financial crisis.

This erosion of confidence creates space for competitors to enter or to gain market share by offering a differentiation strategy of superior service, or by simply been available to customers. Around 77% of the Independent challenger banks compete on this basis.

As an example of effective service offerings, Secure Trust Bank's current account has been granted a 4* rating by the Fairbanking Foundation a independent product certification body, the other 4* rating was given to Thinkmoney account (not a bank) an aggregator using RBS as banking process provider RBS/Nat West gained a 4* rating for a savings account "Your Savings Goal", Lloyds TSB 3* for "Classic Account with control" the final account given product certification was Saffron Building Society's "Goal Saver" account.

The Big 5 Banks are diminished brands in consumers' eyes and this opens up the prospect of more account switching. Three other factors are affecting the competitive environment, the OFT's 5 year effort to inject more competition in the PCA (Personal Current Account) market, removing the consumer fear factor in switching. Big 5 banks lack of lending capacity (ex Government schemes) they also need to rebuild their balance sheets through profit to meet Basel III, the determination of the UK Government to tackle the “Too Big to Fail” banking concentration problem.

One of the most corrosive banking brand erosion actions has been the large volume of TV advertising effort by PPI (Personal Protection Insurance) claims companies. PPI compensation has reached a massive £12bn.

1.4 Who are the Challenger Banks?

1.4.1 Consumer Secure Trust Bank Virgin Money – Northern Rock Tesco Bank Sainsbury’s Bank Marks & Spencer Bank Vanquis Bank, Burnley Savings and Loans*	35%	24%	**1.4.3 Business** SVB – Silicon Valley Bank Cambridgeshire and Counties United Bank Plc (Islamic) Bank of London and Middle East (Islamic) Investec Bank 10%
1.4.2 Consumer and Business Metro Bank Aldermore Shawbrook Bank Handlesbanken UK Co op Bank RBS Disposal of 316 Branches	35%	6%	**1.4.4 Wealth Management** Weatherbys Bank

*Not a Bank but a High Street based P2P lender

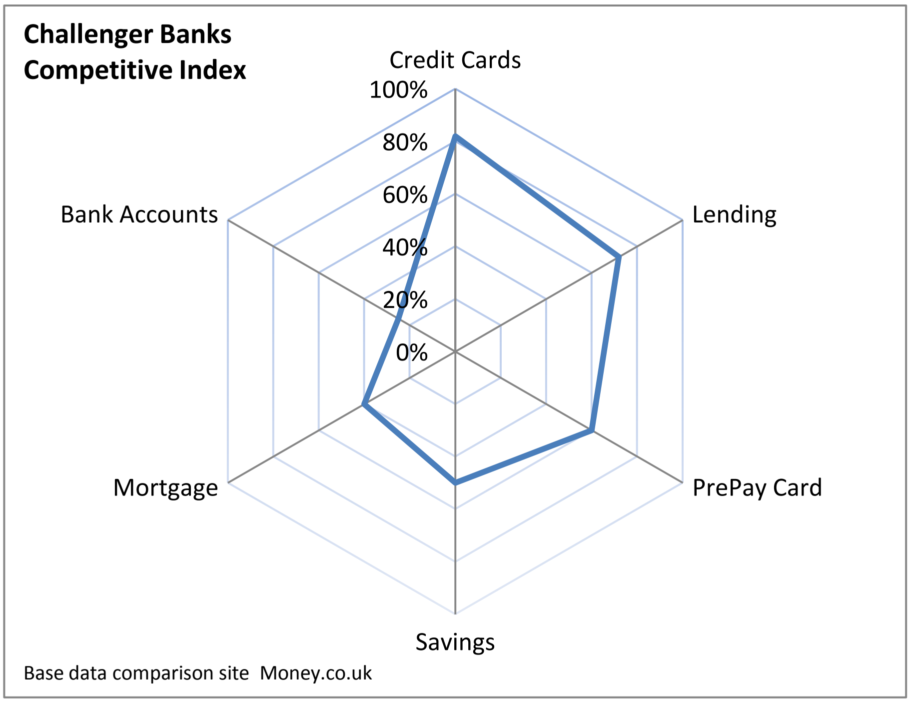
1.4.1 Who backs the Challenger Banks.

10 of the Challenger Banks are independent, 9 of them are backed by host organisations

Independent Challenger Banks		Backed Challenger Banks	
Bank	Backer	Bank	Backer
2.1 Aldermore	AnaCap Financial Partners LLP, Morgan Stanley Alternative Investment Partners	3.1CoOp Bank – TSB (ex Lloyds) Project Verde	Co-operative Society- Mutual
2.2 Burley Loan and Savings (Bank on Dave)	David Fishwick Entrepreneur	3.2 HandlesBanken	Skenska Handlesbanken AB Mk Cap $26bn
2.3 Cambridgeshire & Counties Bank	Trinity Hall Cambridge and Cambridgeshire County Council Pension Fund	3.3 Investec Bank 3.4 Marks & Spencer Bank 3.5 Vanquis Bank	Investec Plc Mk Cap $4.5bn 100% Owned by HSBC, name licensed from M&S. Provident Financial Plc Mk Cap $3.2bn
2.4 Bank of London and Middle East BLME	Middle Eastern Investment Group	3.6 Virgin – Northern Rock 3.7 Tesco Bank	Wilbur Ross Tesco Plc
2.5 Metro	Fidelity, Rueben Bros, Veron Hill, Richard Le Frank	3.8 Sainsbury Bank 3.9 United Bank UK	J Sainsbury Plc 50% Lloyds Banking Group 50% 45% National Bank of Pakistan
2.6 Silicon Valley Bank	NASDAQ MK Cap $3bn	3.10 RBS Disposal of 318 Branches 1.8 million customers	
2.7 Secure Trust Bank	LSE Listed Mk Cap $414m 70% Arbuthnot Banking Group Plc		
2.8 Shawbrook Bank	RBS Equity Finance/ Laidlaw Acquisitions Ltd		
2.9 Weatherbys Private Bank	Weatherby Family and Family Trusts		

1.5 How do Challenger Banks Compete?

1.5.1 Market Segment Analysis

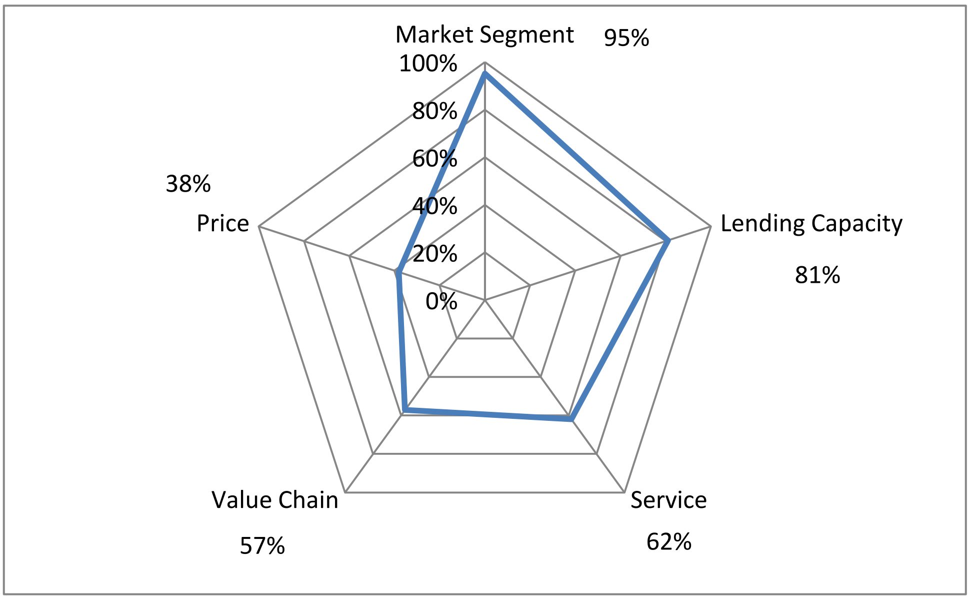


See Appendix 3 for details

The Challenger Banks competitive index is 59%. This result based upon an index calculation, data and product ranking from the price discovery site Money.co.uk, the index is calculated by ranking the top ten products from all providers.

Challenger Banks are strong in : Credit cards, APR rates, 0% purchases period, credit building, lending rates in unsecured, secured, debt consolidation and car loans. One challenger providing a strong prepaid card, mortgages less competitive, although Virgin is top in direct BTL (Buy to let) category. Good in basic bank accounts 5th out of top ten for Secure Trust Bank.

1.5.2 Basis of Competition



The Challenger Banks main basis for competition is market segment focus see appendix 4

1.5.3 Market Segment - 95%

Each of the 19 Challengers focus strongly on defined market segments and products. The segment can be based on location and expertise such as Silicon Valley Bank - startups technology and London, or simply location such as Cambridgeshire and Counties Bank. Focus is the key competitive weapon against the big 5 banks.

1.5.4 Lending Capacity - 81%

Simply having lending capacity will attract customers; particularly SME business as the big 5 providers have been forced to shrink their balance sheets, Basel III will keep the pressure on their balance sheets.

1.5.5 Service – 62%

The strategies of the big 5 , eliminating branch office functions moving to a call centre/ relational manager business model, 100% dependency on credit scoring systems for credit decisions, reinforces customer remoteness and alienation. Challenger banks realise this and bring back the relationship into banking. Metro Bank has much longer opening hours than the big 5 competitors. Handelsbank by stealth has developed a 136 strong branch network in the UK predicated entirely on customer service and long term relationships.

1.5.6 Value Chain 57%

The Supermarkets and M&S aim their banking proposition at shop floor footfall and integration with multichannel retailing strategies, mobile and online. They combine this with very precisely targeted market leading loan rates. Although Tesco has a £2.8bn ($4.4bn) revenue online business it has not yet developed an integrated PayPal type payments model. Another example of the value chain at work are Weatherbys Private Bank. Weatherbys separate but connect by common shareholding administers and manages racehorses for owners, having an established relationship with a wealthy customer base, it uses its relationships and understanding of this market, built up over 200 years, to provide then Banking services.

1.5.7 Price – 38%

Price is used by Challenger Banks in a targeted fashion. By supermarket backed banks it is used to reinforce overall brand value proposition and to gain market share in specific lending markets. Virgin has been using price to grow their BTL (buy to let) mortgage loan book but price is not the major competitive weapon of the Challengers

1.6 Are Challenger Banks real competition

In the Jan 2013 OFT report stated the Personal Current Account (PCA) is the cornerstone of the UK's retail financial system with 76million accounts in the UK, 61 million live. The OFT estimates providers earned $8.8bn in revenue from PCA's in 2011, equivalent to £139 per active account.[10]

Challenger Banks are on the edges of the UK market. The Big 5 Banks having 85% of PCA's and 61% of savings against 6% PCA and 14% for Challenger Banks (see appendix 5)

[10] P 26 OFT /1005rev Review of the Personal Current Account Market Jan 2013 http://www.oft.gov.uk/shared_oft/reports/financial_products/OFT1005rev

Figure 3.6 Retail banking revenues in 2008 and 2011

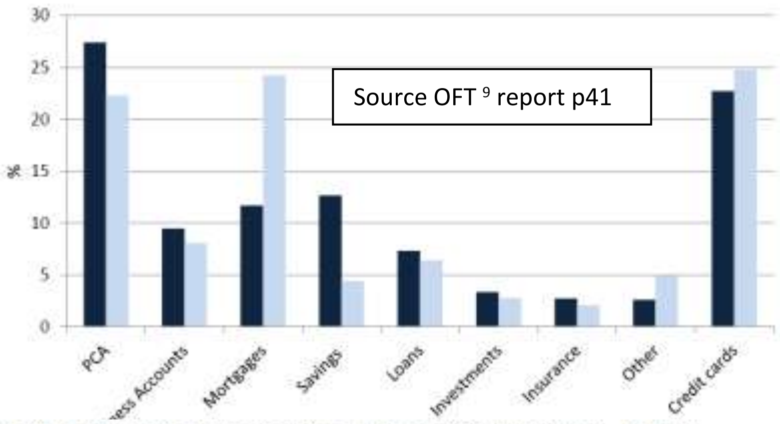
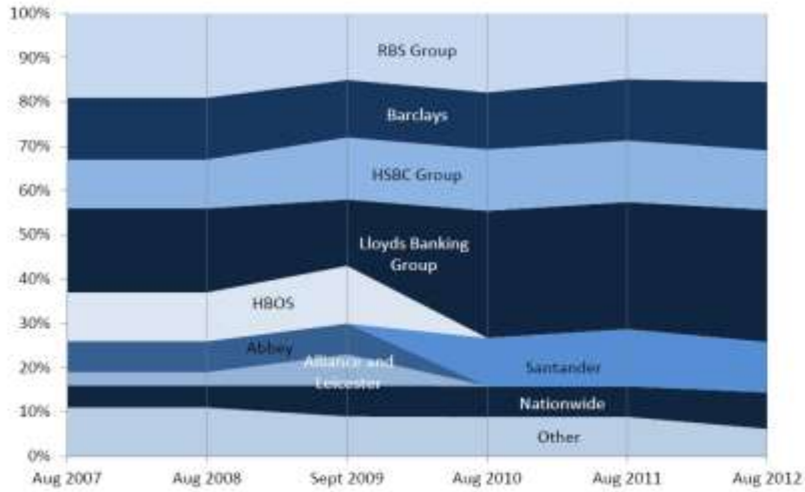


Figure 4.2 Market shares for the largest PCA providers, annual snapshots 2007 - 2012



Source: Mintel Retail banking overviews, 2007 – 2012.

By revenue category:

Credit Cards, Mortgages and PCA's are the highest revenue generating categories. [11] The efficiency of the Big 5's value chain is underpinned by market concentration that delivers scale and volume efficiencies.

The result of the 2008 market crash with the subsequent consolidations, Alliance & Leicester, Bradford and Bingley, HBOS, has been a further concentration of the Big 5's share of the PCA market to 85%, with 6% in the Challenger Bank sector. In SME's business accounts the share is 80% for the Big 5[12].
The Co-op will have c10% market share, 11m customers and 1,000 branches, once the sale of the 632 branches from Lloyds HBOS completes in 2013[13]. The remaining sale to be completed is 316 RBS branches with 1.8m customers and £21.7bn deposits.

Conclusion
Challenger banks are a competitive threat to the Big 5 banking companies. But in market share terms they operate in the margin aiming at specific market segments. That does not mean they cannot become large successful businesses earning in excess of £100m profit pa, Tesco Bank made £168m in 2011-2012. The competitive environment is good and the regulatory framework is set towards more competition, core customers, particularly in the SME Banking sector desperately seek alternatives.

The real challenge to the dominance of the Big 5 banks will come from industry restructuring implemented by the political process and competition authorities, discussed in section 1.8. This will allow easier entry and exit to the industry, opening up of payment systems, more effective account switching systems and an equal playing field for regulated capital requirements, that does not discriminate against smaller Banks.

[11] P41 OFT /1005rev Review of the Personal Current Account Market Jan 2013 http://www.oft.gov.uk/shared_oft/reports/financial_products/OFT1005rev
[12] P16 House of Commons, Treasury Committee **Competition and choice in retail banking**
[13] http://www.co-operativebank.co.uk/servlet/Satellite/1342592967915,CFSweb/Page/CFSCtplStandard

1.7 Do the Mutual's offer any challenge?

Nationwide Building Society has 7% of the PCA market and the Co-op Bank will have 10-11% post Lloyd's branches merger at the end of 2013. Only four other building societies offer current accounts, Yorkshire, Coventry, Leeds, and Cumberland. Mutual's (December 2012) have 20.8% share of the UK retail balance market[14] with a total value of assets of £308bn, the number of building societies has fallen from 206 to 46 in the thirty years since 1983.

1.7.1 Nationwide – has a full product portfolio of financial services, it is well run with high customer satisfaction and the exemplar for the Building Society movement, many of its customers would not be aware that it is a mutual. It will maintain this position and expand through projecting high service levels propositions to disenchanted Big 5 banking customers and through its continued lending capacity.

1.7.2 Co-op Bank – has a very distinct service offering, extending into customer segments retreated from by the Big5 Banks, it is competitive on price, it has an ethical and moral emphasis and profits accrue to members. Its lending policies consider the social aspects of lending. With the purchase of 632 branches from Lloyds HBOS it gets scale to challenge the Big 5.

1.7.3 Challenge potential

Nationwide will continue to grow organically and due to its effectiveness, regardless of the fact it's a mutual bank.

The Co-op Bank faces the problem of integrating 632 branches in 2014/2015. Its ability to grow will be determined how it manages this integration, the development of new marketing messages and how it uses technology to position its bank as a mobile offering.

The Co-op's story may be within the spirit of the times, ethics, real not cosmetic social responsibility, inclusive lending and saving within a mutual wrapper, achieving an effective marketing message for UK mutual movement has proved difficult. In Europe mutual banks have 20% of the market[15] the attractiveness of mutual ownership of financial services has not diminished; mutual is a message that can be sold in highly competitive consumer markets. The Co-op 2013-2015 will be absorbed in managing a major integration and the same time it needs to redefine its core marketing proposals to drive growth.

Both Mutual's need to embrace the new mobile banking value chain as shown in appendix 7. For The Co-op with its broader lower income customer demographic this is vital, it is the only way it will reduce and contain its cost base, attract new customers, raise its appeal to a younger more affluent customer profile and maintain customers transferred from Lloyds and. A weak marketing message, a better than average service delivery package and limited mobile strategy makes it a "me too Bank" it will not maintain its customer base with this strategy. The M-PESA mobile banking model and the 266[16] mobile banking systems deployed or about to be deployed in the developing world have proved beyond doubt that a lower economic demographic and even a financially excluded sector of society can be served profitability by using the mobile banking delivery channel.

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[14] Building Societies Association http://www.bsa.org.uk/docs/statisticspdfs/savingsshare.pdf

[15] Oliver Wyman report "The Outlook for Co-operative Banking 2012 European Association of Co-operative Banks https://members.woccu.org/functions/filemanager.php?id=6459

[16] http://www.gsma.com/mobilefordevelopment/programmes/mobile-money-for-the-unbanked/tracker

1.8 Government Policy and Regulation - Challenger Banks

Fundamental changes in Government policy and regulatory structures are underway. These will have profound impacts on the capacity of the Challenger banks to compete and will change the structure of Banking industry in the UK.

The impetus of Government reform has been building since 2000 when the Cruikshank report [17]concluded there was a poor competitive environment in UK Banking; its conclusions were ignored by Gordon Brown. Since then we have had OFT Reports on Bank overdraft mischarging and the PCA market, the financial crash with a Government funded rescue, a series of financial scandals, (Appendix 2) the inability of the Government to implement fiscal and monetary policy through the banking system post-crash otherwise liquidity support for SME's.

The actions being taken:

- Abolition of the FSA into three constituent parts: Bank of England, Financial Conduct Authority and Prudential Regulatory Authority.[18]
- Independent Commission on Banking[19]
- Draft Legislation – Financial Services (Banking Reform) Bill[20]
- Review of Banking market entry - BOE
- OFT ongoing PCA competition Investigation[21]
- Full implementation of Basel III capital requirements, reducing capacity of Big 5 to lend, creating competitive space.

All of the above coalesced in to the Chancellors speech 4th February 2012 delivered at JP Morgan's Bournemouth offices.

Extracts:

> *"2013 is the year when we re-set our banking system. So the banks work for their customers – and not the other way round"*
>
> *"We're going to give customers **the most powerful weapon of all: choice**. Real choice about who you bank with – and choice to change who you bank with if you want a better deal"*
>
> *"No more rewards for failure, No more too big to fail, No more taxpayers forking out for the mistakes of others"*
>
> *"I want upstart **challengers offering new and better services that shake up** the established players".*

[17] **Competition in UK banking: a report to the Chancellor of the Exchequer Don Cruikshank March 2000**

[18] Financial Services Act 2012

[19] http://www.hm-treasury.gov.uk/d/ICB-Final-Report.pdf

[20] http://www.hm-treasury.gov.uk/fin_stability_regreform_icb.htm

[21] July 2008, http://www.oft.gov.uk/shared_oft/reports/financial_products/OFT1005.pdf January 2013, http://www.oft.gov.uk/OFTwork/markets-work/othermarketswork/pca-review/#.UR0OJx1WFlk, Jan 2013 report http://www.oft.gov.uk/shared_oft/reports/financial_products/OFT1005rev

*"I want to make it easier to **start a small bank** and grow the business"*

*"Why, in the age of instant communication, do small businesses **have to wait for several days** before they get their money from a credit or debit card payment? It should be much quicker.*

*"Why do cheques take six days to clear? Customers and businesses should be able to move their money round the system much more quickly. Why is it that big banks can move their money around instantly, but when a small business wants to make a payment it takes days? **The system isn't working for customers,** so we will change it."*

*"I can announce today that the Government will bring forward detailed proposals **to open up the payment systems.** We will make sure **that new players in the market can access these systems in a fair and transparent way**. This Government will make sure payment systems serve the needs of consumers, not the needs of the established banks"*

This speech is important as it represents a ***sea change*** in the attitude of the UK's political class to the big 5 banks and the UK retail banking competitive environment, these kind of fundamental policy changes only occur once every 10-15 years. HMG (HM Treasury) is determined to reform the Banking market through increased competition and to have an industry structure that cannot bring the whole of the British economy to the threshold of meltdown.

There is a precedent that the Big 5 banks should take into account very carefully when determining their response, that of the Brewing industry. Prior to 1989 the UK had 6 massive brewing companies controlling beer supply and public houses (bars) it was called "the tied house system" after a number of post war monopoly commission reports, the political establishment finally decided to reform the industry. The monopoly commission produced a report in 1989 "The Supply of Beer" and concluded that a "complex monopoly restricts competition at all levels"[22] 23 years later none of the Big 6 Brewing companies exist or brew beer, the exception is Diageo Plc who stills brews Guinness Stout, but having divested its beer and pub interests. The companies were large employers, had 200 yrs worth of entrenched political influence, were rich and employed the very best legal, financial and public relations brains but still could not save themselves.

For the Challenger Bank and FinTech entrepreneur this sea change by the UK's political class to change the structure of UK banking from one based upon 5 Big Banks is profound. The competitive landscape has turned significantly in their favour.

[22] http://webarchive.nationalarchives.gov.uk/+/http://www.competition-commission.org.uk/rep_pub/reports/1989/245beer.htm

1.8 Entrepreneurial Opportunities

- The competitive environment for Challenger Banks is about to change in their favour.
- Government and Regulators are now orientated towards competition and innovation.
- The Big 5 Banks lending capacity will be constrained for the next 5 years at least by structural change as a result of Banking Commission, Basel III and he actions of the new Regulators.
- Technology, consumer behaviour and FinTech Innovation is poised to change retail banking in as profound a manner as online retailing.

Opportunities

- Build a mobile Challenger Bank. You are not going to be turned away by HM Treasury, Bank of England or the Regulator, if you have a proven professional management team, financed by reputable backers, a viable business plan, prudent risk control strategies, effective and secure ICT systems, you will be issued with a Banking licence.

- The Challenger Bank Sector is already a large and vibrant sector. There is a technology and process supply opportunity for all FinTech Entrepreneurs into each of these institutions. All of them are still in an early emergent phase of repositioning their institutions towards the mobile banking revolution. They do not have in-house FinTech innovation capacity.

- Challenger Banks operate in specific market segments or have an aspect of a valve chain that gives them competitive advantage. FinTech entrepreneurs should focus their product and market mix offerings to align challenger bank strategies to facilitate joint ventures and alliances.

- Licence your business model or technology, Challenger Banks need these if they are to compete.

- Build your FinTech business up to positive revenue earning levels and sell it to a Challenger Bank.

- The Coop Bank is a supply opportunity; they are going to need to purchase a lot of innovation post integration of the Lloyds TSB branches and subsequent repositioning their new Bank.

- Provide SAAS/ FinTech cloud solutions aimed at the Challenger banks aimed at part of their value chain.

- The UK Payments system, BACS, Payments Council, Faster Pay is about to be opened up, study the changes carefully and position your FinTech business to benefit from this change.

- There are some interesting supply niche supply opportunities, e.g. using FinTech to market ethical/moral banking and service differentiation. The mutual sector is weak at communicating their message and financial propositions. Use distinctive FinTech to market wealth management services.

- Two of the Challenger Banks have part of their focus on Islamic banking markets. FinTech in Middle Eastern Islamic banking markets is embryonic with maybe 6 text based mobile phone banking systems. Using a UK based challenger bank to developing your Islamic Banking FinTech proposition would open up a vast underdeveloped market.