

More than one-fifth of fintechs in the UK regulator's sandbox have collapsed

Article

Twenty-two percent of fintechs that participated in the Financial Conduct Authority's (FCA) regulatory [sandbox](#) have since gone out of business, [per](#) research from AltFi. The UK

sandbox, which was the world's first and launched in 2015, allows select fintechs to test their services on a small group of consumers and get support from the FCA in identifying appropriate consumer protection safeguards.

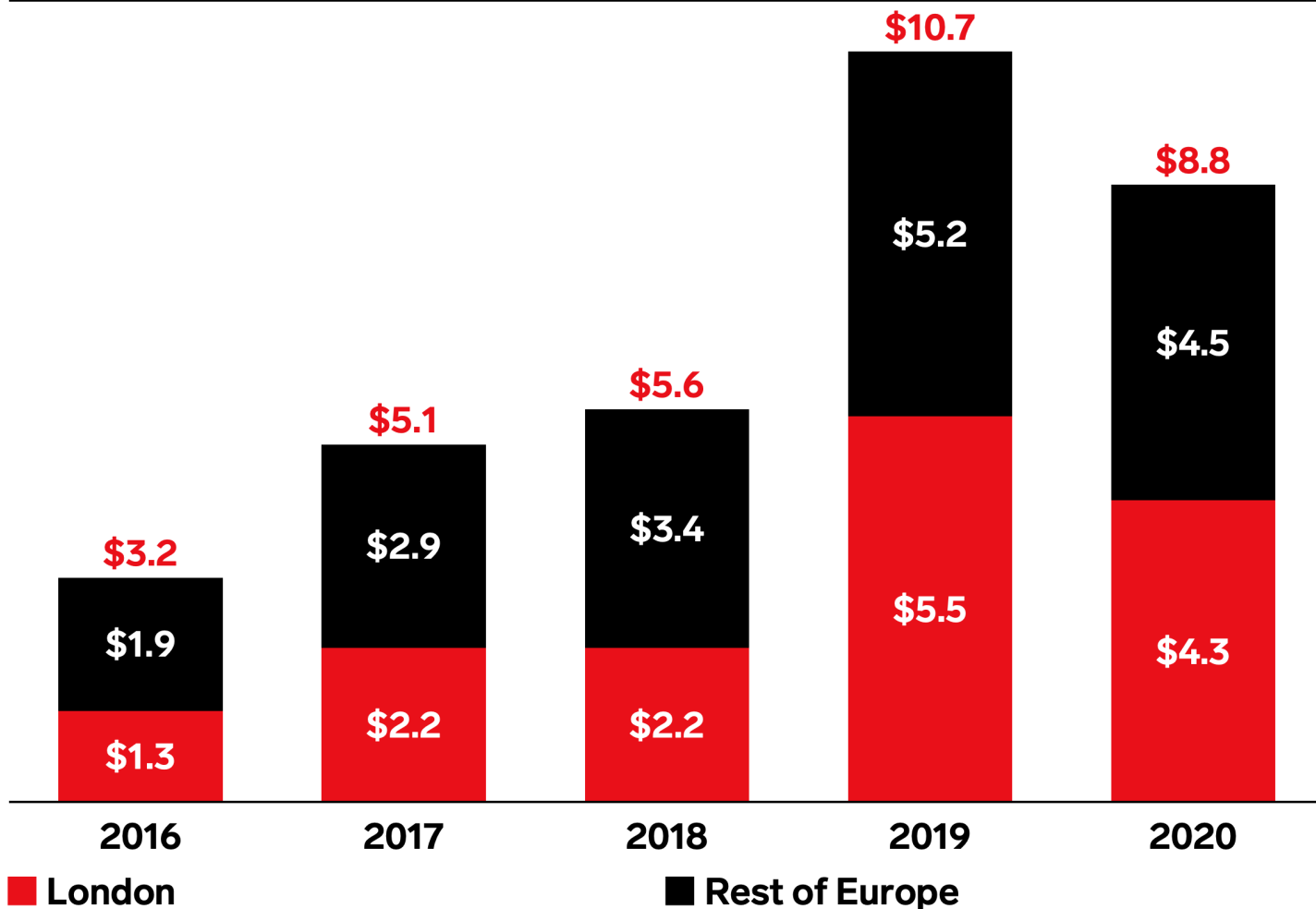
The findings highlight that participation in the sandbox doesn't guarantee success in the market.

- **So far, the regulatory sandbox has hosted 108 entries across six completed cohorts.** A number of participants have since shut down, including nine out of the 24 fintechs in the second cohort and five out of the 29 in the fourth cohort, per AltFi. To put this in context, **60%** of new businesses in the UK fail in the first three years compared with the 22% among the FCA's cohorts, highlighting how difficult it is for startups to go the distance irrespective of sandboxes.
- **Startups face a host of challenges in scaling and it often takes years for them to turn a profit, making them more vulnerable to shutting down.** More than **two-thirds** of small UK fintechs had six months or less of cash runway in July due in part to private funding drying up amid the pandemic. Cohort participants may also have attempted to grow in a fiercely competitive market: RBS-owned **Bó** lasted less than six months, for example, partly because it didn't offer advanced features, such as fingerprint login, like its much larger peers, including Starling and Monzo.

However, fintechs should still apply because the sandbox can support their scaling and the FCA is planning more initiatives this year. Despite not guaranteeing market success, being a sandbox participant can still provide some competitive advantages. For example, fintechs can pilot solutions and stress test them under different scenarios to see how they hold up to regulatory requirements, potentially reducing time-to-market at a lower cost than if they didn't work with the FCA from the beginning. The FCA is also planning more sandboxes for fintechs of all sizes, in addition to the regulatory sandbox's incoming seventh cohort: Last week, it announced the second iteration of its **digital sandbox**, first launched in May 2020 to address pandemic challenges. It will now test concepts that support the transition to green finance. It's also planning a **regulatory nursery** in the fall to oversee fintechs immediately post-authorization to steer them in the right direction.

Share of Fintech Funding in Europe

billions



Source: Dealroom, "London: Europe's global tech city," January 14, 2021

Methodology: Investment numbers refer to venture capital investment rounds such as seed, series A, B, C, etc, late-stage, and growth equity rounds. It excludes debt or other nonequity funding, lending capital, grants, and ICOs.

1029861229492

[InsiderIntelligence.com](https://www.insiderintelligence.com)