

Where next for European fintech after the Wirecard debacle?

Once lauded alongside the likes of Revolut, Monzo and Transferwise as a shining beacon on European fintech prowess, the dramatic – in fact almost cinematic – collapse of German payments group Wirecard has raised broader questions about the future of Europe’s fintech scene.

Whilst the deeply entrenched dominance of US tech companies, expressed most notably by the exceptional performance of the so-called FAANG stocks, has become an immutable feature of the business landscape which UK and Eurozone firms simply have to live with, fintech has long been seen as a sector where Europe could compete with the US.

However, as details about the scale of fraud and malpractice at Wirecard slowly dripped out in the global business press, the US reaction was clear: “this proves the European’s can’t do fintech!” Meanwhile California and New York remain open for business, and global talent in the fintech sector seemed to have little reason to continue to pin their hopes on EU financial hubs as innovation incubators.

In reality the narrative is significantly less simple and one-directional than this. European fintech is far from dead, but it’s future may well lie outside the Eurozone and closer to the traditional centres of global finance, Canary Wharf

and the City of London.

In fact, whilst London's fintech startups already enjoy a unique set of advantages over their continental rivals, the capital is set to cement its primacy as a European and global hub for disruptive finance in the coming years.

A new arrival on the East London skyline: Wood Wharf

The rapid progress being made on Wood Wharf, a state-of-the-art new tech hub taking shape right alongside Canary Wharf, is testament to the energy and pace that characterise the London startup scene in general, and fintech in particular.

Billed to be less 'corporate' and more creative and disruptive than Canary Wharf, Wood Wharf aims to attract startups wanting premium office space with excellent facilities and transport connections at a rental price that younger, disruptive firms can afford. As such, it promises to provide just the right mix of incumbent firms and new entrants side-by-side which should generate the competitive energy similar projects elsewhere in the world have lacked.

Whilst some have been sceptical that fintech and other disruptive firms will want to mass together, it's well worth remembering a similar set of objections were raised in the early days about Canary Wharf itself, and for most of us by now it is almost impossible to imagine London without it. Well-researched and documented agglomeration effects, the availability of superfast fibre broadband, and the synergies to be gained from locating so close to both competing startups as well as the banking behemoths fintechs seek to steal market share from strongly suggests Wood Wharf will soon be a highly desirable location.

Smarter regulation for smarter finance

Incubating the next generation of fintech innovators will also require world-class regulation. Part of what made Wirecard's sudden implosion so shocking was the manifest and multiple failures of German regulators and auditors. When seen in conjunction with the ongoing travails of Deutsche Bank, it really does great a poor impression of German and Eurozone banking prowess across the spectrum.

Whilst in an immediate sense Brexit may simply pose headaches for UK firms, over a medium-term horizon there is substantial room for optimism around the

prospect of a post-Brexit UK financial regulation system which can generate a superior environment for innovation than that either the Eurozone or US. Quicker, more targeted regulation can allow for stability and accountability whilst not choking off growth or innovation.

One example where there is space to improve on existing regulation would be the accelerated processing and approving of banking licence applications, allowing more challenger banks to enter the deeply over-concentrated retail market. By contesting the dominance of incumbents, challenger banks should ultimately serve to lower prices and raise the quality and choice of services provided. A recent success in this light would be Starling Bank, who have made business banking easier to access through increased use of online functions, thus bringing elements of both price and non-price competition back into a segment of the market which had previously been a little static.

Another recent example would be Vive, a fintech startup who gained a restricted licence to offer certain financial products from the Bank of England in January, 2020. Vive originated back in 2017, and whilst a Thatcherite bonfire of regulations wouldn't be in the interests of either UK consumers or startups, the possibility of a less bureaucratic, more targeted and more flexible framework of regulation post-Brexit should assist London's fintechs to carry on innovating. Prohibitively long waits for regulatory approval ultimately act as a barrier to entry, further entrenching the advantage enjoyed by established banks.

Strength in depth

Finally, whilst the possibility of more flexible and better-quality regulation may give the UK a comparative advantage over the Eurozone, the real distinguishing factor is the sheer depth and diversity of London's fintech scene.

Unrivalled in Europe, London boasts a cornucopia of dynamic SMEs working to revolutionise everything from payment systems to insurance, fundraising and investments to current accounts. Whilst the likes of Revolut and TransferWise have by now attained global success, making the label of 'fintech startup' somewhat redundant in their cases, the next generation of innovators is coming through at a pace and in numbers unrecognisable anywhere else outside the US.

This diversity of fintech projects fuels London's unique entrepreneurial energy; for every sector and sub-sector of the financial services universe, there are almost certainly multiple firms present in London solving problems related to each specific sector.

Extremely exciting in this regard is the nascent application of AI to the field of financial advice, for example on the topic of how to save more and make better

use of said savings. Based in EC1, Cleo AI have developed a virtual AI adviser, 'Cleo', offering data-science powered financial insights tailored to each customer's needs.

In short: don't give up on non-US fintech just yet!

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