What next for fintech?

Fintech, or financial technology, has been one of the fastest-growing areas in the startup ecosystem in recent years. However, we're currently seeing a significant drop-off in funding across all startups, with the fintech sector suffering most of all – fintech funding dropped faster than any other sector in Q1 2023, down 83% from the same period in 2022.

Temps de lecture : minute

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This negative trend has been compounded by recent events, such as the near collapse of Credit Suisse and the downfall of Silicon Valley Bank, which have made a difficult situation all the worse for fintech. External funding is essential for growth and scaling; even at the top level, *only a fraction of Europe's largest scaleups actually report turning a profit*. It would be easy to look at the sector and predict a crisis – but one shouldn't.

While the downturn in fintech funding might sound like a bad omen, it might serve as a spiriting wake-up call to startups in the financial services space. Less funding means more competition, and more competition means greater innovation. The past few years may have been halcyon days for fintech funding, but all of that investment did not bring about the degree of progress and invention that we had hoped for after PSD2 was implemented in 2015.

In order to grow and scale in a low-funding environment, fintech startups will have to put consumers first, developing new and improved solutions that meet users at the point of need and reducing barriers to entry to make fintech more accessible for all.

Going digital

The rise of neo-banks – fast-growing challengers to the high street institutions that have dominated the market forever – was expected to bring about a sea change in financial services. By designing platforms that were digital-first, or in many cases digital only, these new banks were expected to leverage analytics and open banking to offer a more convenient and personalised service to users.

But while challenger banks may have dominated headlines in recent years, they haven't dominated the market – the vast majority of consumers have not moved away from the high street for their banking needs. We are still seeing a *tiny proportion of consumers in the UK (12%) using a digital-only bank as their primary bank account* – this suggests that there is still a lot of room for innovation in the financial services space, and this is where fintech startups need to turn their attention.

For fintechs to grow in a low-funding environment, they need to win a greater share of the market, and doing so will require them to build trust. Bringing the gap between incumbent banking users and digital financial services is possible, but they must more impactfully utilise the tools at their disposal to do so.

Open banking

For fintechs to stand out in the eyes of consumers, they need to offer a personalised experience and value-adding benefits like financial advice, greater access to financial services and more seamless connections between different accounts and providers. The key to this is open banking, which makes it possible for users' banking data to be immediately and securely shared between third parties, enabling improved data analytics and the provision of personalised financial advice.

Solutions such as real-time budgeting tools, faster and cheaper payment solutions, and comparisons of available credit products can create a superior experience for banking users, but there is still a lot of room for innovation in this area, and fintech startups and traditional banks alike could benefit from developing new technologies that help customers better manage their finances and access to novel, personalised embedded financial solutions.

The whole idea behind Open Banking was to create greater transparency and put the customer first, but this vision has not yet been fully realized. With so much data and insight available, it should be much easier for customers to switch to better products that are suited to their needs and requirements. Fintech startups and traditional banks could work together to develop new tools and services that make it easier for customers to find and compare financial products.

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Building trust

One factor that may have had an impact on the uptake of open banking is mistrust – many banking users remain cautious about allowing third parties access to their banking data. By offering customers greater control over their financial data and allowing them to approve which providers they want to share it with, fintechs can build trust with their user base and elicit organic growth.

What’s more, fintechs can leverage their relationships with users not just to provide financial advice and access to better financial products, but to help improve their financial literacy. Budgeting tools and investment guides can guide users to manage their money better, and providing educational resources can help them to build their financial health and credit scores.

As well as implementing solutions that support customers, fintechs could use this opportunity to focus on another important issue that requires attention – accessibility. With an increasingly older generation potentially excluded from newer, digital-first solutions, fintechs and banks have an opportunity to develop solutions that are easier for older customers to take advantage of.

Fintech’s new age

Overall, the fintech sector is facing some challenges, but there is also a lot of potential for innovation and growth. Traditional banks and fintech startups alike could benefit from investing in new technologies and services that help customers manage their finances better and gain access to more tailored products and services.

By improving users’ banking experiences, supporting them with useful tools and resources and making banking more accessible, fintechs can still elicit organic growth at a time when external funding is harder to come by. In the end, the investment will return, but until then, the future of fintech is in the hands of banks and startups that are willing to take risks and drive innovation.

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