Failing Series B funding threatens the UK’s fintech crown

The funding gap in the UK’s fintech ecosystem is widening; the chasm between the number of firms securing seed or Series A funding and those securing Series B and beyond points to a systemic issue, one which is set to threaten the UK’s fintech crown. The burgeoning number of seed and Series A firms seems to have come at the expense of later-stage funding as it is becoming increasingly difficult for viable firms to take the necessary next steps to scale.

The data reflects this gap in the funding cycle. Since Q2 of 2022, there has been a decrease in late-stage funding each quarter. Further to this, late-stage funding has witnessed a 64% year-on-year decline, indicating a retreat by late-stage investors.

The continued downward trajectory of Series B conversion rates, which last year halved from 16% to 8%, indicates that much of the initial effort put in by seed and Series A firms is going to waste. If fintech firms cannot access the funding and support they need to grow, this begs the question as to where the UK stands as a global industry leader.

Reasons for the funding gap

There is a cumulation of reasons as to why this funding gap exists. The post-pandemic economic climate and subsequent tech downturn sets the broader context in which limited partners (LPs) have been delaying investing in new capital, making it harder for Series A and Series B companies to raise the funds they need to scale.

Added to this, the siloed nature of the UK's VC market – designed around regimented funding stages and companies hitting certain revenue milestones and performance metrics – means that many firms are delayed from scaling up.

Deserving fintech companies are struggling to make it passed the Series A funding round, signalling that the UK must revisit its approach to investing. This is achievable given that most companies confront the same challenges: fundraising, leadership, people, partnerships and strategy.

Is the UK's fintech 'crown' slipping?

Fintech has long been described as "the jewel in the UK's financial crown", yet the UK has only managed to produce one fintech IPO in the last 36 months, calling into question the relative strength of London's fintech ecosystem.

London's established global power lies in its natural advantages in creating a welcome investing environment: time zone, language, the legal and regulatory climate, skills availability and the quality of further education in the UK. These factors allow London to be one of the world's strongest financial capitals, supported by the fact that in 2022 half of all funding in Europe was awarded to British fintechs.

While the UK's natural advantages ensure that London is an attractive place to invest, we must not become complacent. The UK must facilitate sustainable growth of its fintech ecosystem, specifically by looking to solve the Series B funding bottleneck. These nascent firms stuck in the limbo between Series A and Series B need support in accessing private capital, advice and mentoring on how to level up their company.

The fintech growth fund

One programme focussed on supporting scale up and ultimately incentivising UK listings is the Fintech Growth Fund.

The fund, financed by a number of well-known LPs including Mastercard, Barclays and the London Stock Exchange group, launched in August with the aim of investing between £10m and £100m into UK fintech companies, as varied as regulatory technology, financial infrastructure, and consumer-focused challenger banks.

Although the fund is available to firms from Series B to pre-IPO, there is a danger that the majority of the fund will end up financing later-stage investments, with a focus on listing companies in the UK. This is an issue, as fintech companies seeking later-stage funding have existing international capital options available, whereas those aiming to secure Series B funding do not have the same pool of capital available.

Although it is always positive to have additional capital in the fintech ecosystem, it seems that this new fund will be futile in correcting the existing Series B funding bottleneck.

Hope for the future

Solving this funding bottleneck will require funding vehicles and institutional investors to find viable fintechs at this critical Series-A to Series-B juncture and support the founders in scaling their businesses.

Undergoing the transition from Series A to Series B is the toughest challenge a company faces. Not only does it involve 10x-ing the business model, but it also involves moving from a great concept and broad customer base to a KPI-focused model with a fully-formed customer profile.

Over the past decade, the fintech sector has evolved in line with the companies who have gone through the early stages of the investment cycle. To ensure this growth continues sustainably, investors must also evolve too.

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