The future of fintech in light of COVID-19

2020 will be challenging for fintech companies, but prosperous times remain ahead post-crisis where disruptive winners can take it all as demand for AI, Tech and IoT companies that can help digital transformation will surge.

Temps de lecture : minute

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COVID-19 is having a terrible impact on society and is reframing our way of life on a daily basis. Never before have we seen such a drastic and immediate impact on business across multiple sectors. FINCH Capital is an investor with a track record of investments in European and South-East Asian fintech businesses, AI and IoT companies including Digital Insurance Group, Goodlord, Grab, Twisto, Brickblock, Trussle and Hiber. Here we share insight from their recent report.

The uncertainty of the current situation puts pressure on fundraising, cash management, marketing and staff management. In the short-term, we may see many hurdles that startups need to live with to survive and limited opportunities. However, post-crisis, the lasting impact on society may create conditions which favour increased momentum, growth, and the unleashing of a virtuous cycle for fintech companies.

Despite the government's commitment to injecting trillions of dollars to help enterprises, SME's and employees, the need for cash management has never been more important. Overall, startups in the earlier stages of their life cycle are particularly vulnerable if growth stagnates or even drops for a period of three to six months.

Unfortunately, this crisis will accelerate fundamental shifts in how we work and interact in both private and business contexts. Actually, it may result in rethinking how investors and potential buyers perceive value in this new normal, with some verticals expected to have a rude awakening, while others are embracing opportunities created by this difficult time.

Here are FINCH Capital key predictions on how the fintech landscape is and will be impacted.

The future of fintech: 8 major trends

At this stage, the economy will be in a crisis mode until the third quarter of this year, followed by a 12-18 month period of recovery. Here are some essential observations:

1. The COVID-19 pandemic has accelerated *Digital Only* to becoming the new norm, a shift we already started to see in developed markets.
2. The shift to digital opens up disruption of Mortgage and Life Insurance, which were dominated by intermediaries.
3. The sanitary crisis revealed operational issues with incumbents and challengers, but in general both perform well.
4. *Digital only* triggers a "Big Pocket" battle between incumbents and challengers to win the online customer.
5. Financial Institutions turn into tech companies to accelerate the digital transformation versus in-house solutions.
6. Fintech enablers come out as winners as demand for AI, IoT and software to help Financial surges.
7. The bar has gone up for funding and expect pressure, particularly on late-stage valuations.
8. Increase in M&A by financials and fintech as IPO windows close, funding bar rises and valuations drop.

Surviving the crisis: a checklist

This is the advice for startup founders to ride through these major economic difficulties.

1. Manage losses with speed and adequacy: cut staff costs, be open and empathetic, use force majeure clauses, renegotiate contracts.
2. Be realistic about the fundraising landscape: use the short term lack of appetite for new deals to protect your portfolio.
3. Use equity to reward and incentivize your staff: your remaining staff need to be 100% onboard with the mission of your company and needs now to over-perform to survive.
4. Communicate openly with your staff: this should help gain the support of your teams while making tough decisions.
5. Put as much effort as you can into product development: now is the time to make sure your product stands out from the crowd.
6. Marketing spend: focus only on high ROI channels.
7. Seek government support: make use of local rescue packages where you can and explore opportunities early.

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