

# Will Volt spark a neobanking crash?

*Unless you've been living under a rock for the past three months, you've probably noticed that the once sunny fintech economic climate has become increasingly foggy. There are certainly specialists who can speculate on why exactly this has happened, but as someone in the field, and as a founder myself, I'm well-placed to report on how it's affecting the sector that I have called home for over thirty years.*

Temps de lecture : minute

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After years of momentous growth, the new world of fintech, not Financial Technology as I know it, is undoubtedly dealing with its first big dip. A few months ago, we all began to hear rumours about a slowdown in fintech funding. Fast forward to July 2022, and many of us have watched on in shock as Klarna, one of the sector's veritable big hitters saw its valuation slashed by 85% during a particularly tough funding round. If businesses of that scale are feeling the pinch, what about the smaller ones?

It's a question that is perhaps best answered through the prism of neobanking, which has been adversely affected by the ongoing economic downturn. Unfortunately, the ramifications being felt across the sector are seemingly seismic. Sadly, we have already seen companies in the field cease operations, perhaps the most notable example being Volt of Australia.

For context, Volt was the first exclusively online bank to gain an Australian banking licence. Only a year ago, the company raised AUD85M, in a Series E round led by major mortgage broker, Australian Finance

Group. Despite strong industry backing, the company failed to make inroads into the country's sizeable banking market and has now stopped trading.

So, was Volt an exception in the neobanking sector, that happened to be particularly ill-suited to the broader macroeconomic issues at play today, or does the company's collapse point to further troubles ahead for the industry in general? This probably isn't going to win me any friends, but I think the answer is more likely to be the latter. Right now, neobanks around the world are probably beginning to worry about their long-term viability.

In a matter of years, commentators have gone from deeming the neobanking sector as being a nonplayer, to something much more important. Countless articles and essays have been written and printed, which praised the sector's boundless potential and its almost divine right to overtake traditional banking companies. Those of us who were more sceptical about this 'inevitability' were seen as being behind the times.

However, I think it's now safe to say this is no longer the case. Over the years, the neobanking sector's potential ability to disrupt a trillion-dollar industry was routinely overstated. Ultimately, the banking market is very different to those affected previously by other disruptors, such as Uber. Simply put, replacing JP Morgan Chase and Goldman Sachs is infinitely more difficult than replacing privately owned taxi companies.



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In times of economic uncertainty, you begin to see the immense costs associated with being a bank. In turn, these insights provide clarity on the barriers to entry within the market and go some way to explaining why the sector has historically been considered as 'untouchable' when it comes to new market entries. Right now, while neobanks struggle to keep the lights on, the infrastructure of traditional banks means they are well able to absorb financial losses and continue to operate.

That is not to say that the neobanking sector has totally failed. Particularly in countries like the UK, rates of neobank adoption are constantly rising. However, rather than relying on these services to replace primary banking arrangements, customers often use neobanks to create secondary banking accounts. So, while these companies clearly

have a role to play, it may not be the one originally envisioned by the sector's loudest proponents.

All this ties back into one of my long-held beliefs about the fintech industry in general. For many years now, I've believed that the sector's primary aim should not be to replace traditional financial institutions, but rather, to support them as they look to improve services in light of an ever-changing world. In doing so, businesses from both fields can focus on delivering solutions and services to customers, which offer real value.

This might seem like a bit of a stepdown for some in the field, but it's just a case of being more realistic on the sector's true potential in the next decade. We have all heard that 'pride comes before a fall'. Right now, I'm worried we may see the broader fintech space take a major tumble, if it's not willing to wake up and smell the coffee regarding its misguided pursuit to displace legacy financial institutions.

Here at BankiFi, we've never been on board with that aim. As a business, we're built around the idea of helping banks to better support their small business customers. We appreciate the essential role that banking companies play in daily life, but simultaneously, are also able to recognise areas within their offerings, which need improvement. To put it succinctly, we understand there's a need for evolution within the sector, but no grounds for revolution.

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