Growing trust in fintechs: How non-bank financial services providers are meeting the demands of startups

The rise of fintech shows that the game of finance is now wide open. Traditional services now find themselves sharing the pool of trust with the newest players in finance - across blockchain, neo-banks, embedded finance, payments and much more…

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Put simply, traditional financial services refer to high street banks and incumbent lenders - regulated financial institutions that include some of the biggest names in banking. The pandemic gave rise to neo-banking and financial services (although these were quickly gaining popularity pre-2019) as customers and business owners found themselves unable to visit banks in-person. This pushed everyday financial decisions, from applying for a loan, to understanding your finances with a bank manager, online or over the phone.

We’ve all engaged in the dreaded phone wait times to speak to our banks, or tried to apply for money, to then be told the evidence needed to be viewed in person. As the pandemic developed, the demand for online services increased dramatically in all sectors, and traditional financial services had an opportunity to adapt and improve their tech offerings, with many finding inspiration from new financial players.

In came neo-financial services - slick, streamlined, and with a simple user interface

A neo-financial service is just that, a new service that can operate outside the regulated financial institutions. Some are regulated by the FCA and others choose to embrace the codes of conduct, guidance, and principles of the FCA - all whilst having capacity to offer more in their services to customers - whether making transfers or applying for capital. Neo-financial services and banks are the next generation of finance, making digital banking services more accessible than ever.

Along with greater in-app integrations, as well as less stringent terms for embedded lending capabilities, new fintechs offered more innovative services, and ways of thinking - better understanding the complexities of everyday business. These benefits have allowed fintech and neo-banks to dramatically accelerate their acquisition of new customers, as they are able to offer customers, entrepreneurs and business owners what they need at the right point in time - such as supporting business owners to pay wages, or having the capital to launch a new product / service.

How fintechs are plugging the technical gaps

From streamlined user experience, to tech capabilities that allow you to make financial decisions in a few taps, fintechs are seizing their opportunity. Embedded payments and lending capabilities mean that business leaders are able to make crucial financial decisions within a single app, and single customer journey, allowing them to get back to what they do best - running their business.

Fintechs are not just able to partner with banks and traditional financial services, but also brands and retailers. This provides more B2B opportunities for global brands, and also makes it easier for smaller brands and businesses to work with consumers. It’s no longer just massive global brands able to offer extended payment terms and lending opportunities to consumers. Fintechs are able to take this hassle away from smaller players, allowing them to outsource the management to specialists. There are large global versions like PayPal that consumers recognise and trust, as well as regional specific versions like Germany’s Giropay and Denmark’s MobilePay.

At the same time, small companies and entrepreneurs have the capacity to leverage fintechs for more attractive options when looking to expand for their own businesses. The options are no longer just a trusted bank or a high risk loan company. Fintechs are lending their technology, and by using innovative underwriting, are supporting traditional providers to provide a far wider range of customers with much needed capital, and efficiency.

Machine learning, AI, and big data will allow Fintechs to step into the gap that high street banks have not yet been able to fill, leading to partnerships between incumbents and neo-banks. Barclaycard joined forces with Liberis to do so in 2022, with other leading banks such as Lloyds taking a Fintech Pledge to continue investing in this burgeoning market. In addition to Barclays, HSBC and Santander also made investments into UK fintechs to create trailblazing results for their existing customers.

What entrepreneurs, SMEs and startups still need from traditional financial services

Throughout 2023, we will likely see a rapid pull back from high street banks on lending and services as the economic downturn starts to bite and businesses will need the most support.

We’re also becoming aware of new solutions to long-term financial challenges, whether banking security and fraud technology that aims to protect our future finances, or the popularisation and adoption of blockchain finances.

Embedded banking services, including debit and credit cards, lending, and insurance, will all be offered within the ecosystem of best-in-class SME service providers such as Klarna, Revolut and Tide.

Growing loyalty has and will continue to emerge thanks to the ease of these 'super apps'. Their infrastructure will bring in new customers as they can offer hyper-personalised experiences based on actual SME performance, meaning they can offer the right product, to the right customer, at the right time.

What makes a trustworthy Fintech, and why should entrepreneurs be getting involved?

FCA authorisation is obviously a sign of trust for many when it comes to fintech. But even with those who are not, businesses should look out for those fintechs already embracing the codes of conduct, guidance, and principles of the FCA. The prominence of fintechs and neobanking solutions incorporating these values give SMEs, startups, and entrepreneurs the funding they need to grow and expand, whilst ensuring they main control over their own businesses and finances.

The embedded customer journey taking place in a single platform inspires trust and loyalty amongst their customer base. Alternative platforms who still haven't imitated this format are already falling behind, and will feel this especially in 2023. Embedded finance transactions are expected to hit *$7T by 2026* in the US alone, indicating the growing strength of embedded Fintech offerings.

Entrepreneurs can now access more options when fundraising, in addition to traditional bank loans, enabling them to succeed. This is especially important for female and diverse entrepreneurs, who continue to struggle obtaining anywhere near the same level of funding as their male counterparts.

Flexible fintechs are well versed in understanding the risks and legality in providing embedded and flexible finance to their customers, engendering trust by using their customer insight and research to deliver sustainable financial solutions. Delivering on their goals through a simple interface, a trustworthy fintech is transparent about their investors, how their platform operates, and crucially, how the funding is delivered and repaid.

What's the next stage of innovation in Fintech?

Non-bank financial services are not here to replace incumbents, and partnerships between traditional banks and fintechs are reflective of this relationship. Fintechs are operating in the space as helpmates, rather than competitors, and working towards serving as wide a range of customers as possible.

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