Fintech investment drop is the wake-up call the industry needs, says financial services leader

Fintech investment in the capital recently plummeted. Yet despite the doom and gloom, Andzejevski sat down with us to explain why the slump is actually a blessing in disguise. He is confident it will force fintech startups to grow organically, and become less reliant on venture capital firms for funding.

Temps de lecture : minute

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London has become the home of European fintech investment. It recently overtook San Francisco and New York as a hub for the sector, and its top-class regulators such as the FCA and PRA set the standard for financial centres across the globe. Its long history, stability, and lack of political interference are all reasons why I chose to found PayAlly in London over anywhere else in the world.

Venture capitalists adore fintech too. They’ve been a central part of London’s growing industry, producing numerous unicorns and international successes like Klarna and Monzo. Yet, in a recent report published by KPMG, UK fintech investment dropped by 56% in 2022 – and VC firms are to blame.

Many people in the industry are understandably concerned that the fintech bubble is about to burst. But this is exactly the wake-up call that the industry needs.

Venture capital’s love for fintech has left the industry in a weak position.

From the outside, it looks as though fintech is stronger than ever – but this is precisely the problem.

There is too much VC money in the fintech ecosystem. VC firms have pumped up valuations of fintech firms way too high, creating a false idea of what the industry is actually worth. These companies often stay afloat for years while making large losses, yet they keep their reputations as innovators and 'ones to watch'. Without VC investment, they simply wouldn't be able to survive.

Although, this isn't always a bad thing. Especially for companies that have strong foundations and a history of profitability. But startups are more concerned with gaining capital than they are on building quality businesses. We're overlooking the fact that building a company takes time, and can't be achieved overnight

I believe there are several key factors to building a successful financial services company – especially when it comes to compliance and regulation. But in my experience, success lies in building a good team and finding a niche in the market.

The bloated fintech valuations we're seeing today aren't too dissimilar to the Dotcom Bubble of the late 90s, when investors piled money into internet-based startups. Many of these firms were too obsessed with racing to the top, rather than long-term sustainable growth. And when the bubble burst, investors lost an estimated $5 trillion by 2002

Will VC firms learn from the lessons of the past? I hope so. The threat of a bursting bubble should be a primary concern for the industry – especially looking at how important it has become to the UK economy, making up 8.3% of its total economic output

Although the drop in investment should also be seen as an opportunity. With less VC investment coming into fintech, there's an opportunity for the industry to have a much-needed reset and be more realistic about its actual value

The benefits would be far-reaching. With VC investment becoming more difficult to secure, new companies will need to build firm foundations and focus on being efficient and profitable. And likewise, VC firms will see better returns on investment and be confident that their new acquisition will break even

Investors' purse strings are getting tighter. So, it's the fintech companies with unique ideas, strong foundations, and a blueprint to scale organically that will be successful. In comparison, the businesses who would have otherwise relied on VC cash to grow will get weeded out.

We need to stop relying on venture capital funding. Not only to ensure to ensure that fintech companies are poised for long term, sustainable growth, but that London maintains its status as the world's fintech capital.

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