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Fintech unwrapped 4.0

The tools taking on the downturn

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Fintech unwrapped 4.0

The tools taking on the downturn

For over a decade, fintech went up like a rocket. But after an extended run of outsized growth fueled by a booming economy and low interest rates, money into the industry slowed to a trickle in 2022. Falling investment numbers and a massive drop in tech valuations has everyone doing some soul searching.

In Fintech unwrapped 4.0, we look for the bright spots in the slowdown, and discover innovators putting renewed focus on tech to transform the stickiest business challenges, from moving money between companies or across borders, to making elegant, user-friendly software for finance and operations teams. We see more fintechs than ever vying to kill mundane company tasks; create alternatives to creaky back office systems; and put more power into the hands of the chief financial officer. And amid the obstacles for founders coming up in the downturn, we detect plenty of excitement too, and a sense of momentum building for European companies hoping to take on the world.

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Fintech is meeting the moment

By Benny Vazana, senior vice president of finance at Papaya Global

B2b SaaS was a bright spell in a difficult fintech year. What are the reasons for this demand?

Beyond the generational shift in finance/ops teams, these days, far more companies have the potential to go global, which means they need to.

Any global company that aims to grow must manage scaling together with minimising costs and operational burdens. And they must do so while navigating local rules and regulations to be fully compliant.

The challenge of sourcing, managing and paying a global, disbursed and hybrid workforce is more prevalent than ever and only becoming more common by the minute.

That's where technology becomes a game changer. Building and maintaining an innovative fintech stack is no longer a privilege of the early adopters but a necessity for every aspiring business.

Fintechs are under increasing scrutiny around the world from consumers and regulators. How should fintechs meet the moment?

The fintech industry is addressing a growing number of business-critical situations, as both scale and stakes are getting higher, and compliance becomes more crucial. To be considered by senior decision-makers in larger companies the promise of technology together with adoption of compliance, liability and security will be the way to the heart of the finance functions.

Embracing global compliance regulations, ISO and SOC and other certification, together with transparency, will help pave fintech's road into the deepest core of truly global enterprises.

What are some of the big trends you see for your fintech segment in the next five years?

In the dynamic fintech landscape, the upcoming five years promise nothing short of transformative shifts. We envision traditional banking transforming into seamless digital experiences, all powered by AI-driven insights together with consolidation of different market leaders.

What's truly enchanting is the synergy that fintech can foster with established institutions, birthing innovation and granting access to sustainable financial solutions.

The future of payroll is fintech

"By simplifying complex tax calculations and compliance tasks, fintech tools enhance accuracy and minimise legal risks. Overall, fintech transforms payroll into a more efficient, accurate and compliant process, saving time and resources for companies."

***Michal Regev**, VP FP&A, Papaya Global*

Introduction

Reality bites

It was a boom that seemed as if it would never end. The fintech industry — a near-revolution of new tech aimed at upending parts of the financial world, including payments, lending, investing, wealth management and currency conversion — has long been a golden vertical for investors, taking home the biggest slice of VC funding every year in Europe.

But in 2022, this exuberance was dealt a hefty dose of reality. Big beasts like buy now, pay later (BNPL) pioneer Klarna and payments company Checkout.com saw their price tags drastically slashed, while the gallop of "soonicorns" graduating into unicorns — startups valued at $1bn+ — slowed considerably. Fintechs found themselves in a new, tougher market, fighting for thrifty customers and wary investors. Though many were fortunate enough to bag funding under the bluer skies of 2021 and early 2022 — the dying days of rock-bottom interest rates — they now need to conserve cash and stretch their runways. Companies are hunched down, hoping to get through the funding crunch without the need to raise new funds at lower valuations.

The familiar VC growth strategy — losing money for years to acquire new customers — is not a winning pitch right now: for most, the focus is on survival in the immediate future and a faster path to profitability. At the same time, regulators are keeping a closer eye on fintechs, amid a swell of complaints. Several high-profile scandals have exposed the shoddy controls at certain finance firms. "The general trend is to be more stringent with fintechs — scandals like Wirecard have triggered this," says Sasha Makarovych, cofounder of Berlin-based payroll fintech Kadmos.

Fintechs thrived in easy money conditions and pandemic-era demand. A downturn later, they're being tested like never before. Can fintechs adapt to survive — or even grow?

'WE WENT TO PLAN B'

Most fintechs start with a single service, such as payments or trading, then add on. "Usually I'd have companies coming to me saying, 'I want a new market, a new product, a new customer segment' but now you're seeing a lot of, 'let's go back to the core premise of our company'," says Nick Parminter, founding partner of fintech consultancy Class35. "Simplification is the name of the game for most people right now."

Some fintechs changed tack almost overnight after the sudden collapse in March of Silicon Valley Bank (SVB), startups' favourite lender, instilled new caution and doubt into the tech world.

"I was travelling to London when the crisis hit," recalls Nick Root, CEO of Swedish fintech Intergiro. "This was a big, immediate refocus-er for us. I thought, that's it, we won't get money again for 12 months or maybe years."

Intergiro is an all-in-one platform which enables clients to embed financial services into their products or build new financial services from scratch. The company is one of the few providers on the market that is a card acquirer, card issuer, and bank account provider.

After SVB's collapse, however, the fintech's "explosive recruitment and growth plan went in the bin", says Root. "We switched to plan B: profitability." That meant trimming headcount, cutting waste and focusing on the company's most profitable clients, he explains. The results: the startup has tripled net revenue since January; reduced cash burn from €900k a month to €200-250k per month; and is targeting breakeven sometime in the autumn.

"It's not like we had a crazy hiring spree but we over-hired a little," says Root. "Lessons have been learned."

SOUL SEARCHING

But it's not just Intergiro: every company's been doing some soul searching.

But where pessimists saw an industry-wide bust, optimists saw a correction. The innovators are still going, and putting renewed focus on creating tech to help improve some of the stickiest challenges, from moving money between companies or across borders, to making elegant, user-friendly software for finance and operations teams.

"The big unmet needs in fintech are B2B [business-to-business] use cases," says Parminter. "Small businesses remain massively underserved by financial institutions, and any bit of tech that steps out of fintech and helps companies in the sweet spot between operations and admin, that's a big trend for sure."

Tech geared towards the back office — some call it "paytech" — is having a moment. "Consumer fintech has had a massive decline — B2B is the place to be," says Daniel Yubi, CEO and cofounder of Payable, which is making software to improve finance operations. As the downturn bites, cashflow management and payroll has become even more important for startups. "I'm very excited about making a change to the work of the CFO," adds Yubi.

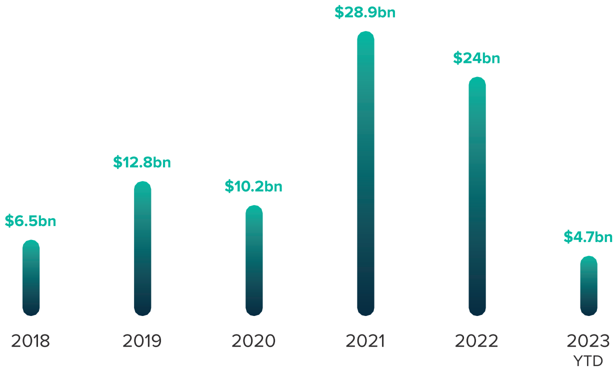
Evidence of this investing purple patch can be found in payroll/HR startups where, according to data by Notice.co, only three fintech startups have actually seen their secondary valuations increase since January 2022. All 3 were payroll/HR companies.

And while you might expect that waning tech optimism would infiltrate tech companies that are just getting started, we don't see this everywhere.

The slowdown was already biting hard in late 2022, when Dutch entrepreneur Kim Verkooij left his job at Adyen, one of the Netherland's biggest fintechs, to start a new fintech company called Solvimon. A perilous time to make the move, some'll think. Verkooij, however, is relaxed about it. "When you're a new company, you don't need to worry about valuations for a while," he says. "And hiring has undoubtedly got easier."

The great fintech decline

VC funding into fintech startups in Europe, 2018-2023YTD



Source: *Dealroom (data collected 10/08/2023)*

COMING UP...

In chapter 1, we investigate who's up and who's down in European fintech, and how startups are knuckling down — or branching out — in order to survive, amid rising interest rates and losses.

In chapter 2, we focus on an unmistakable trend: as the demands of the chief financial officer (CFO) have risen, startups selling knacky finance tools have surged. Balancing the books used to be the bread and butter of CFOs, but with more and more data at their disposal they're now asked to give advice on anything from growth strategies to planning cashflow. However, the tools available to the average CFO haven't kept pace with their growing remits. Most of a coin keeper's time is still taken up by manually stitching together information from disparate sources and making sense of it in a spreadsheet. We look at the new fleet of startups lending a helping hand.

Chapter 3 looks more closely at the regulatory pitfalls facing fintechs and discovers that, no matter how much technology is incorporated into finance, companies will always have to deal with new risks.

Finally, we ask founders and investors to give us their hottest takes for the future of fintech.

Chapter I

Has the fintech bubble popped?

With big plays like crypto (mostly) back on the shelf, investors turn their eyes to more down-to-earth pitches

From the late-2000s on, it's been a boom time for fintech, with new money arriving by the truckful. This multi-billion-dollar industry has spawned dozens of huge companies, created astonishing wealth for early adopters, and attracted many of the best and brightest minds in tech.

But in this chapter, we ask: has the fintech wave crashed? Some are sounding the alarm.

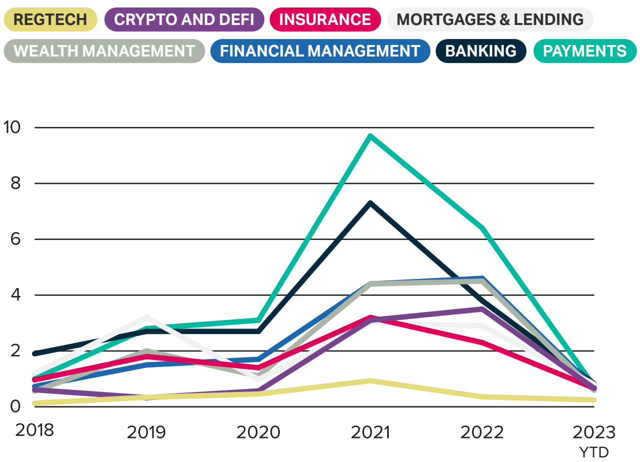
High inflation, rising interest rates, geopolitical challenges and devaluations have rolled in like cold fog. The collapse of several US banks early in 2023 has also kept many investors in "wait and see" mode.

It's not just the plunging valuations; it's the sudden lack of initial public offerings; it's the data that shows fintech has been Europe's hardest-hit tech sector in the downturn. The industry limped into 2023, enduring the worst quarter for dealmaking in Q1 than the continent has seen since Q4 2015.

We'll look at how VCs are moving their chips around these days and why. We also examine how European fintechs can beat the dip: doubling down or expanding their product remits?

Deal value below $1bn for all segments so far in 2023

Fintech sub-categories by funding ($bn), 2018-2023



Source: *Dealroom (data collected 17/04/2023)*

TESTING TIMES FOR FINTECH

Spare a thought for the founders who missed out on heady times.

Danny Brewster, CEO of digital business banking startup twentyone, thought he had investment secured back in November 2022. It didn't go to plan.

"They [the investors] pulled out at the very last minute — at a quarter to seven in the morning when I was expecting the cheque to arrive," he said in a recent podcast hosted by finance consultancy 11:FS. "The LPs [limited partners] didn't want to take the risk at that point. We had to [keep] digging into our pockets." Raising money has got a lot harder, he says. It wasn't so long ago that you'd see "people take millions and millions in funding with no product, no MVP [minimum viable product], no customers: just an idea. Sometimes it was baffling", he adds.

> **"[The investors] pulled out at a quarter to seven in the morning when I was expecting the cheque to arrive."**
>
> ***Danny Brewster**, CEO of twentyone*

It's how many fintech watchers must've felt watching the last few years unfold. In 2021, global fintech investment reached fever pitch at $139.8bn, almost triple the previous year's level, according to researcher CB Insights.

After an unprecedented year of funding in 2021, the industry had further to fall than most tech sectors. And fall it has: European fintech bore the brunt of a global drop in funding for the industry, raising just $2bn in the first quarter of 2023 — a massive 83% drop from the year before ($9.7bn), making it by far the hardest-hit sector in tech.

Many of the continent's biggest fintechs have laid off staff. Deals have been on a steady decline since peaking in early 2022; mega-round funding fell to a six-year low, according to CB Insights. Payments and digital lending segments saw the biggest drops, globally.

WHO'S UP, WHO'S DOWN

Companies that looked like incredible bets during the pandemic have lost some of their sparkle. The buy now, pay later (BNPL) world — which offers people interest-free instalment loans — has been under huge pressure amid fears of a drop in consumer spending. Swedish BNPL lender Klarna last summer saw its valuation in fundraising slashed by 85% from a year earlier, partly as a result of fears that regulators would tighten the screws on the industry.

Banking-as-a-service companies — which deliver financial services to non-banking businesses — have also seen a funding crunch. Railsr, formerly a UK fintech darling that raised more than $100m from investors, entered liquidation in March after reports that it was struggling to find a buyer.

On the other hand, digital banks or "neobanks" that offer services such as debit cards and savings accounts have benefitted from a rise in interest rates; the UK's Monzo recorded its first monthly profits this year after a jump in lending volume.

There's been considerable pain for those founders promising to tear down the entire edifice of money and rebuild it, bit by bit, on the blockchain. The cryptocurrency crowd, the once-hot niche of fintech, is seeing tumbleweeds, after hype flooded the market with scammers and opportunists.

The collapse of the FTX exchange in the US, due to a lack of liquidity and mismanagement of funds, "has had far-reaching consequences for the industry, eroding consumer confidence in the entire segment", according to recent analysis from Boston Consulting Group. Valuations of companies in the digital assets space have taken major haircuts and efforts are underway globally to bring digital assets into the regulatory fold.

Many have proclaimed the death of crypto — this time, for real. And yet, in December 2022, Poland's Ramp announced a $70m investment — the biggest Series B in the history of Polish tech, and a signal that crypto's not going away. "If you imagine that this sector will achieve what we imagine it'll achieve, then the scale of the cake is unimaginable," Ramp cofounder Szymon Sypniewicz told Sifted last year.

BEATING THE DIP

Now that the big plays like crypto are (mostly) back on the shelf, investors have turned their eyes to more down-to-earth pitches.

Practical-sounding tools are at the front of the queue. One example is Lisbon-based Coverflex, which raised a €15m Series A in February 2023 for software that helps HR teams manage employee perks spending.

"The challenge for HR teams is having multiple products for different solutions," says CEO Miguel Santo Amaro. Many companies have separate Software-as-a-Service (SaaS) tools for meal cards, employee perks and health and wellbeing services. Coverflex bundles everything into one platform. Clients that sign up to Coverflex can customise their employee compensation packages by choosing from a pick 'n' mix bag — up to 10 benefits all available from an app or a wallet.

Looking at business models, it's B2B software companies that have attracted most of the fintech funding this year: 53% of all deals, the segment's highest share ever, according to Dealroom, a data company.

> **"They saw their companies' infrastructure and tools break constantly when they were growing super fast — so they know first hand what the market needs."**
>
> ***Zeynep Yavuz**, partner at General Catalyst*

As costs skyrocket, businesses must look to drive internal efficiencies to protect their margins, so it stands to reason that tools to help finance and operation teams are getting fresh attention. "We've seen a lot of CFO tools," says D'arcy Jade Whelan, head of platform at Outward VC, a London-based investor.

Many of the people building these products are the former employees of rapid-growth fintechs, according to Zeynep Yavuz, partner at General Catalyst, a VC firm (also in London) that's backed runaway tech success stories like Stripe and Airbnb. "They saw their companies' infrastructure and tools break constantly when they were growing super fast — so they know first hand what the market needs," she explains.

One new entrant is Mimo. In July 2023, Capchase ex-general manager Henrik Grim announced that he and a group of other European startup veterans were building a company focused on automating business payments and cashflow. "While fintech has advanced quickly, we are amazed that small business owners still struggle with the basics in financial management," said Grim, announcing his new company on LinkedIn.

"Managing money in, money out and the resulting cash flow is complex. The process is fragmented across banks, accounting platforms, FX brokers, accountants, lenders and more. At best, this complexity is an annoyance. At worst, it kills your company," he adds.

> **"At best, this complexity is an annoyance. At worst, it kills your company."**
>
> ***Henrik Grim**, CEO & cofounder of Mimo*

SAAS PROVES ITS WORTH

Some companies hope AI can be the answer to their problems and a way to refresh ageing product lines that haven't changed much in recent years. Many European banks are putting "AI skills" in their job ads, for instance.

AI/machine learning is already very useful in detecting financial fraud: the tech is able to sift through reams of paper or digitally scanned documents with ease. But just how the rapidly evolving generative AI (GenAI) — some of which can also generate images and video, and carry on a conversation — will impact fintech is more of a debate for now. One to watch: US fintech Ramp's recent purchase of Cohere, which builds GenAI tools that can extract and analyse historical customer support data to resolve questions similar to ones support teams are seeing in real-time.

The scope of GenAI use in fintech will surely widen, but many people Sifted spoke to were cautious. After seeing years of hype tech — most notably, crypto — fizzle, few are showing a blind faith in ChatGPT and its cousins.

"Exciting doesn't necessarily mean investable," says Seb Wallace, investment director at VC firm Triple Point. "Sure, it'll be nice to ask GenAI to make me a formula, rather than having to learn a load of formulas on Excel. But GenAI may just be a feature of products, rather than a product in its own right." "AI is like an intern for now," adds Yubi. "You need to give direction to the AI, you need to supervise it."

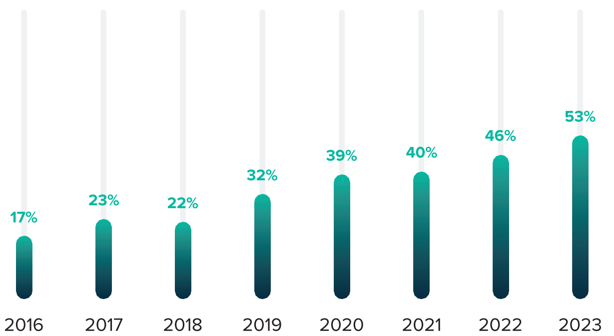
SaaS is where the more immediate investor rewards are. At first blush, the world of business software might not sound as exciting as flashy new GenAI projects. Investors argue otherwise.

"There needs to be a mindset shift from the people who invested in the last five to ten years," Yavuz argues. "The revenue potential may not look as amazing here as for B2C fintech — but because you're selling software licences, it's recurring revenue, so it's really solid."

Triple Point's Wallace is resolute: "SaaS is the best business model we've ever made," he says. Herein lies another downturn lesson: the makeup of a company's customer base will help determine how it navigates the dip. "If you're working with a lot of startups, you're getting hit right now. If your clients are enterprise-leaning, I think you'll be okay," says Integiro's Root.

B2B SaaS, your time has come

53% of all fintech deals in 2023 involved B2B software



***Source:** Dealroom*

Chapter II

The bright spot: fintechs helping CFOs navigate the downturn

Meet the startups helping to modernise the creaky back office

With European tech investment falling to its lowest level in six years and layoffs running into the tens of thousands, startups are fighting for survival. As a result, number crunchers have rarely been so in-demand. The chief financial officer (CFO) is a hot hire in 2023 — and an increasingly important voice in the boardroom.

As the top financial manager, the CFO keeps track of cashflow, does strategic planning, oversees accounting and taxation, ensures financial reports are complete and accurate, and interacts with the capital markets.

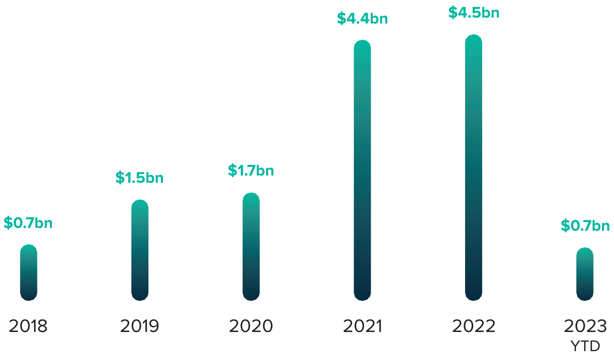
This year, we see more fintechs than ever vying to firm up the CFO's hand on the tiller by automating mundane tasks and providing alternatives to old, legacy software.

"As companies scale, the pains of using Excel-based processes just keep increasing," says William Fairbairn, country manager UK at Agicap, a software startup which simplifies cash management for small to medium sized businesses (SMEs). As a result, investors have been pouring capital into these fintechs and paytechs (fintechs which focus specifically on payments and transactions).

It's also a niche many serial founders are building in. Recent newcomers include Pivot, a startup focused on helping companies handle procurement expenses, cofounded by a pair of French tech operators, and Berlin-based Payrails, an "all-in-one" spending tool for the CFO, cofounded by three ex-Delivery Hero workers.

CFO tech stack saw big jump in 2021/2022

VC funding into financial management startups, 2018-2023YTD



Source: *Dealroom (data collected 10/08/2023)*

FIRMING UP THE HAND ON THE TILLER

Many activities once requiring a human hand, from invoice-matching to automated reports, can now be done via automation. Fintechs are coming with nifty software to upgrade a number of systems in the CFO stack — from B2B payments and payroll to strategic planning — which aren't quite cutting the mustard.

"When considering the CFO tech stack, it's helpful to first understand some of the obstacles holding CFOs back: incomplete or inaccurate data, siloed teams that aren't working together and technology that isn't fit for purpose, such as spreadsheets and complex systems," says Eléonore Crespo, co-CEO of Paris-based Pigment, an all-in-one business planning platform for finance and revenue teams. In May 2023, Pigment snapped up an $88m Series C to speed up automation on its platform and in June, it topped Sifted's ranking of 100 SaaS soonicorns.

Fintechs are coming with nifty software to upgrade a number of systems in the CFO stack which aren't quite cutting the mustard.

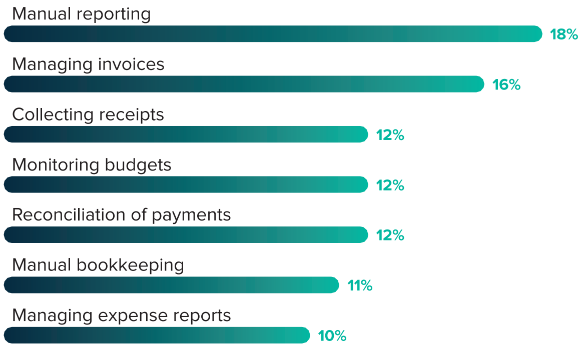
Utrecht-based Solvimon, a bootstrapped startup founded by two former Adyen leaders, meanwhile, wants to do better invoice automation — meaning finance teams will experience a "significant reduction in manual work and reduce the potential for human error".

Solvimon helps companies' commercial teams provide customisable pricing, based on real use, user count or a combination of the two. It also offers a mechanism for the finance teams to effectively invoice items on a wide scale without manual labour.

London-based Payable — which is run by two ex-Checkout.com heads — is looking at payments. It raised $6.1m in autumn 2022 to create an automated payments product so companies could stop using EBICs, bank files and spreadsheets to move and reconcile money.

Ranked: finance's time-killing tasks

% of finance heads who rate each of the following as a time-sapper



Source: *Spendesk (2021 survey of over 1,000 finance professionals from SMEs in the UK, France and Germany)*

"We're growing because we know companies want to scale without hiring more people — so they need new technology," says Daniel Yubi, Payable's cofounder and CEO. Yubi — originally from Cancun — saw an opportunity with Payable to upgrade creaky finance systems.

"I was looking at the typical CFO software and thought: why are they settling for a clunky UI [user interface] for bank payments? These people get out of work and have this amazing experience using apps like Monzo, but they return to work and waste their time with spreadsheets."

AN EXPANDING ROLE

As part of Fairbairn's role, he talks to a lot of CFOs. He says he's seen a "massive" shift in the role — from reporting focused to more strategy focused.

"As soon as a business is getting to a sufficient scale — a few million in revenue, or a bit beyond that maybe — there's a real expectation a CFO will help advise on strategy, from fundraising and M&A, to which growth path is best, and you can see that reflected in stats: more CFOs become CEOs than ever now," he says.

"Robust and quick decision-making has mattered so much recently, given the market volatility and with cash being so expensive. Software with more holistic and real-time reporting really helps, alongside teams thinking more about 'what if' scenarios."

"Software with more holistic and real-time reporting really helps, alongside teams thinking more about 'what if' scenarios."

William Fairbairn*, country manager UK at Agicap*

HYPE FOR HYPER AUTOMATION

At the higher end, "hyper automation" promises to automate entire processes and workflows, rather than just individual tasks. Norway's Vic.ai and Tel Aviv-based Trullion want to take your invoice handling from "semi-automated" to fully automated. Vic.ai closed a $50m Series B in 2021.

AI is making hyper automation increasingly possible. For example, AI-powered payment reconciliation can automatically match incoming payments with outstanding invoices, reducing the need for human intervention and speeding up reconciliation times. Vic.ai is one case. It leverages a unique dataset to provide intelligent spend and bill payment capabilities, which can identify deviations in typical patterns or handle new invoice templates sent by existing suppliers.

Pigment's Crespo agrees, adding that business planning software has become an integral part of the tech stack for CFOs.

"Business planning software brings together everything a CFO needs to make decisions — the right data, people and processes — into one place," she says. "This gives them a single source of truth for their business that allows them to break down silos — so everyone has a shared understanding of the numbers that matter — create financial models quickly and easily, and run 'what if' scenarios around any eventuality within minutes."

Fairbairn adds that a focus, as companies ride out the downturn, has been on tools that help finance teams drive a short- to medium-term return on investment (ROI). "ROI-driven tools — anything that prove[s] to a CEO that you can drive lower costs — alongside higher revenue, and for sure better cash efficiency — [all of] that's been a real focus for CFOs," he says. "There's a bucket of tools that would be billed as 'let's save your finance team or your business's time'; that's a slightly harder sell, where there's cost pressures and budget pressures."

Tracked: 74 finance/ HR software startups

Early-stage company benchmarks

Average launch year	2019
Average launch-to-seed	1.8 years
Average seed-to-A	2.3 years
Average seed funding	€2m
Average seed valuation	€12m
Average Series A funding	€16.7m
Average Series A valuation	€72.4m

Source: *Sifted proprietary data*

TACKLING CROSS-BORDER PAYMENTS

Cross-border payments, another focus area, have long been slow and arduous. Cost, speed and transparency are all issues being tackled by paytechs, as companies of all sizes send money abroad.

"There's a lot of pain in B2B payments," says Zeynep Yavuz, partner at General Catalyst. "With cross-border payments, the rails are not real time; they're incredibly inefficient, and you have a high exposure to changing FX rates. Banks dominate here, and their customer service is pretty awful."

> **"Cross-border payments are incredibly inefficient, and you have a high exposure to changing FX rates."**

Zeynep Yavuz*, partner at General Catalyst*

In recent years, digital payment channels have helped to make certain global money flows more visible. TerraPay, a London-based mobile payments provider, runs infrastructure for partners including MoneyGram, Western Union and Visa, and covers thousands of corridors across more than 200 countries.

"During the pandemic, any conversation with a CFO about their top three priorities typically involved the digitisation of B2B payments," says Robin Gandhi, CPO at Nium, a global payments and ecommerce company, which reached unicorn status at the beginning of 2022.

"In the current market, with a lot of uncertainty and necessity to have a clear view of the health of the business, finance teams have been looking for tools to help them with this need."

PROBLEMS WITH PAYROLL

Payroll is another area being addressed by paytechs. Finance teams need to navigate taxes, exchange rates and how people actually want to be paid. Yes, sometimes it's in crypto.

By automating payroll (sometimes incorporating AI), paytechs can bring the whole process — from hiring to making global payments — all into one place. This allows for accurate, secure and efficient payments that also meet compliance requirements, which can be tricky to navigate but come with penalties if not taken seriously. Israeli unicorn Papaya Global is currently the only regulated payroll vendor.

Some startups are also targeting particular sectors or employee types. Germany's Kadmos has created tech to help migrant workers get paid, while alleviating many of the costs and administrative burdens for employers. The company today helps 20 shipping companies pay over 2,000 employees.

Neither of the two founders have shipping backgrounds. “The idea came from a family member,” says Sasha Makarovych, one cofounder. “I am Ukrainian, and the south is big on shipping, so many of my family are seafarers.

“One day I got a call from a relative, who’s working as a chief officer on a Greek ship, and he told me how the crew was getting paid: via SWIFT transfers every month — and some workers need you to also transfer money to partners and children — or they would get cash, which is very annoying to procure and reconcile.”

The industry’s pain points were immediately clear. “Shipping is very old school, very relationship-heavy; it’s a difficult business — one that’s yearning for innovation,” Makarovych says.

> **“Critical processes, like payroll payments, cannot be eliminated when times are tough. Leaders need to focus on making them more efficient.”**
>
> ***Laetitia Moncarz**, global head of payments at Papaya Global*

Kadmos offers a mobile app and e-wallet that holds workers’ salaries in US dollars or euros, while also allowing them to send money home instantly, with predictable fees. This system is able to strip away many of the costs associated with paying cross-border workforces: Kadmos makes a sub-1% markup, which compares favourably to the typical 1.5-4.5% that traditional banks may charge.

In a downturn dominated world, companies are getting more familiar with outsourcing tasks like payroll. “The build versus buy debate really comes down to two things: time and money. While the idea of outsourcing something as fundamental as payroll might seem counterintuitive, this not only frees up a significant amount of resource but also improves cashflow, reduces costs, and ultimately unlocks growth,” says Gandhi.

COULD TECH ELIMINATE THE CFO ALTOGETHER?

Finance teams are increasingly playing a cross-functional role within organisations, so new products are made to cater to a range of departments including HR, legal, procurement, the go-to market team, product and engineering.

Payable’s Yubi sees a generational shift that’s creating demand for better systems. “There’s this collision, with younger people — who are used to dealing with neobanks or other cool fintechs in their everyday — now becoming CFOs and realis[ing] the back office could do with a spring clean.”

Pigment and London-based Causal are building on existing spreadsheets or seeking to replace them entirely. The main selling point here? Cleaner user interfaces and modular capabilities that enable users without finance backgrounds to make informed decisions.

Of course, this also poses the question: by providing an all-in-one solution, do some tools eliminate the need for small business owners to hire a dedicated CFO?

Swiss startup Numarics might think so: it raised a €10.2m seed round for its digital CFO tech for SMEs in July 2023.

Chapter III

Fintech's next task: get customers and regulators on side

Growing complaints and circling regulators puts new focus on compliance and customer service

Fintech products are often more efficient — not to mention nicer to use — than the legacy systems underlying global financial systems. But does efficient and nice mean better?

The answer from a growing number of customers and regulators: not always.

Fraud complaints against three of the UK's biggest neobanks — Revolut, Monzo and Starling Bank — for example, are at a three-year high, according to data gathered by the UK's Financial Ombudsman Service. Now, disgruntled users want the so-called e-money providers to install better protections.

Exacerbating the problem is patchy customer service: the downside of digital services is how hard it can be to find help when things go wrong. The Financial Times reported in April that an Irish businessman had his account frozen at Revolut, but he "couldn't get a human being" to tell him why.

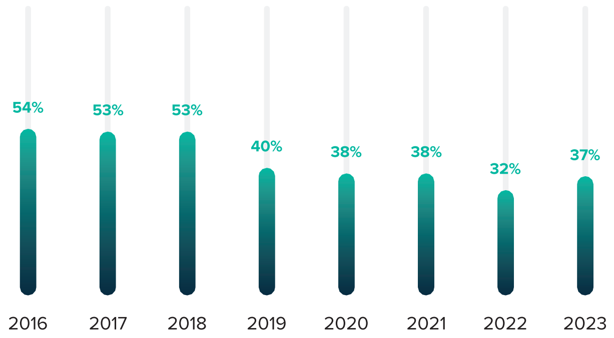
Some customers are turning their backs on fintechs and returning to the "[arguably] worse user experiences provided by banks", where they at least know their money is secure, says Tim Pietsch, CFO at Ledgy, an equity management platform.

> **"Fintechs should be reviewing their customer support or service models [now], particularly if they're in macro sensitive areas or in investment businesses."**
>
> ***David Newman**, cofounder of Delio*

So for fintechs, a key area of improvement is the level of support offered when things go awry. One company that's seized on customer dissatisfaction is UK neobank Suits Me, which announced this summer that it was ditching its chatbots in favour of "a more personal touch" — the introduction of a new virtual face-to-face appointment service.

B2C: declining since 2016

Investors are backing fewer consumer-facing fintech deals



Source: *Dealroom*

Decent customer service is vital for retention, particularly in difficult times when winning new business is hard, says David Newman, a banker-turned-cofounder of Delio, a company that offers "white label" software to financial services firms. "Fintechs should be reviewing their customer support or service models [now], particularly if they're in macro sensitive areas, like credit businesses, where there are going to be more defaults — or in investment businesses where there is going to be poor performance; they absolutely need to be thinking about their customer support model."

Newman says both B2B and B2C fintechs can learn from each other when it comes to improving user experience (UX) and customer service. "B2C businesses are very, very good at focusing on UX and user journeys, while B2B tends to be clunkier, in order to handle the onboarding and regulatory challenges that come with selling to a financial institution.

"But [on the other hand] B2B businesses have very good customer success teams because they rely on change management, engagement and identifying user behaviour earlier and working with a smaller number of cohorts," he adds.

FINTECHS UNDER HEIGHTENED SCRUTINY

Regulators are coming with tougher rules. "B2C fintechs have had an easy run for the most part, as in the past, regulators focused on accommodating innovation," says Newman.

That's changing: the UK's Financial Conduct Authority issued a warning in March that it would close payment companies unless they addressed issues generating an "unacceptable risk of harm" to customers. The watchdog could also force fintechs that become banks to offer phone support, as traditional banks do.

Regulators have woken up; fintechs should too, according to Newman. "B2C businesses that do not put regulation, compliance and governance first will struggle as the regulators come down hard, and [these companies will] find it very, very hard to fundraise because VCs are getting more and more judicious in their regulatory due diligence.

"Businesses need to make sure their compliance and governance frameworks scale at the same rate as their business," says Newman.

FURTHER REGULATION PLANNED

General Catalyst's Zeynep Yavuz points out that fintech regulation is relatively strong in Europe but even as regulators try to take an active approach to tech, offering sandbox-type controlled environments where fintechs can experiment and grow, new rules can stifle innovation.

"Look at open banking, which has been very regulatory-driven. That's a bad thing, I feel — it has been too top-down. You're not having the same adoption rates here as you see in Brazil, with companies like Belvo, or with Venmo and Plaid in the US, where open finance has been market-driven," she says.

BNPL lending is one segment where government looks set to pull the reins in in Europe; another is cryptocurrency, which most agree needs clear rules. The crypto industry — filled with fraud scandals — is volatile, with high-profile blowups like the FTX exchange in the US. Under rules approved this April in Europe, crypto companies will need to register with a financial regulator in at least one EU member state. This would put them under the watch of two of Europe's top financial authorities — the European Banking Authority and the European Securities and Markets Authority.

"I'm quite excited by the pan-European crypto licence — it's exactly what's needed," says Intergiro's Root. "It will harmonise things and make everything so much easier. We need to pay such close attention to crypto payments and what jurisdictions they flow from. This non-standardised approach makes life really hard for us."

> **"B2C businesses that do not put regulation, compliance and governance first will struggle as the regulators come down hard."**
>
> ***David Newman**, cofounder of Delio*

GROWING COMPLIANCE PITFALLS

By contrast, B2B fintechs don't fall under the same piercing regulatory gaze as the neobanks or crypto sites. Most SaaS developers or B2B payment firms are not holding customer money in accounts so the risks are not the same. Still, these companies must stay up to date and compliant with a whole range of rules that cover data privacy, security and chartered banking laws.

And there are some B2B fintechs, such as Papaya Global, that do have licences to hold and transfer funds in segregated client money accounts with tier one banks. This makes those fintechs responsible and liable, but also allows them to provide more substantial services.

Thunes, a company that makes infrastructure to enable cross-border payments, acquired anti-money laundering (AML) company Tookitaki in 2022, so it could embed automated compliance systems within clients' payment processes.

Thunes CEO Peter De Caluwe says the company's "laser focus [on compliance] has paid off. We have gained the trust of tier one banks, investors and a multitude of highly reputable operators within the payments industry," he adds.

The great remote work experiment has created new compliance headaches around employees' payroll. The pandemic unanchored many from their big-city offices, allowing them to work from other countries. But the mass migration has opened up pitfalls for companies, which are struggling to figure out how to pay employees dotted across the map.

"Global employment laws and tax institutions are very, very far behind how quickly [remote] working practices have become much more standardised around the world," says Sabrina Castiglione, chief operating officer at Copenhagen-based automated payroll company Pento.

> **"Global employment laws and tax institutions are very, very far behind."**
>
> ***Sabrina Castiglione**, chief operating officer at Pento*

Specialist companies have capitalised on the situation by absorbing responsibility for international payroll, benefits and other compliance matters — shielding employers from knotty situations. For instance, Portugal and Spain have worlds of difference in how they define a salary, which the majority of us probably don't want to devote time to unpicking.

"There's a lot of things to think about," says Gandhi from Nium, which helps payroll and human resources platforms disburse payments around the world. "The way people want to be paid in every country is different — they may want it in a bank account, they may want it on a card; if they're in China they may want it in their Alipay wallet. It gets complex quickly. Even if there's a few pennies of discrepancy in the amounts you send people, it's really frustrating from a reconciliation perspective."

ANYONE FOR "RESPONSIBLE FINTECH"?

If many fintechs spent the last few years focused on fast growth, at the expense of much else, then the slowdown might be the ideal time for everyone to get their houses in order, argues Ledgy's Pietsch: "If you're in this vicious circle of needing to raise more money and grow, then it's tough to be a 'responsible fintech'.

"Fintechs should not just scale fast and then not give a shit about the boring things — because these boring things need careful attention; these aspects were crucial before the downturn, and even more so now," he adds.

Regulators and customers are no longer shy on calling out shoddy controls at fintechs — and this pressure will force the emergence of more responsible actors, argues Newman. "Companies will be taken out of the market quickly, either by the regulators, or by the VCs who aren't prepared to invest in [companies] without robust governance — [so] the market will naturally drag up a more responsible fintech environment."

Conclusion

Sunnier times ahead?

The fintech party's not over: it's adjusting to a less lavish era. While you can't minimise the pain many companies have felt since 2022, there's also a view that the historic boom couldn't last indefinitely.

Almost every deal metric was down sharply in the first half of 2023 but, as we've seen in this report, there are rays of sunshine peeking through.

> **"I'm exceptionally grateful to have seen both sides — the boom and the bust — it makes you more rounded, for sure."**
>
> ***D'arcy Jade Whelan**, head of platform at Outward VC*

The founders and investors Sifted spoke to say there's plenty of innovation still to come in fintech. "I'm exceptionally grateful to have seen both sides — the boom and the bust — it makes you more rounded, for sure," says Outward VC's D'arcy Jade Whelan.

It's B2B software companies that probably have the most optimism right now. With the volume turning down on hype tech like crypto and BNPL, investors are exploring down-to-earth pitches, and seeing opportunity in better tools for the creaky back office.

As the demands of the CFO have risen, startups selling knacky finance tools have surged. You only have to look at finance software maker Pigment, which had investors queuing up this year. The startup announced a — largely unplanned — $88m Series C raise in June 2023.

"We still had the money from the last raise sitting in the bank," says co-CEO Eléonore Crespo. "Our customers did a big word of mouth campaign and investors came to us in April and said, 'we want to invest now'. We weren't sure we wanted to but in the end having the biggest security cushion is the best thing we can do," she adds.

Investors are seeing many pitches from companies creating tools like Pigment's, though it's not always clear what the winning products look like. "It could be AI-powered tech, for example, that'll be the real differentiator in the future," says Whelan. "If it's someone who's just really pulling data and surfacing it, we'd probably need to see more about what's the secret sauce that's going to win. We're not won over by any particular company in that space — yet."

Asked how the downturn will change investor behaviour, Whelan says to expect "more discipline in the future, as there's been a number of investors that were hard hit in the downturn. The 2023/2024 fund vintage is going to be interesting".

> **"I think it'll be 2024 when we go back out there looking for investment."**
>
> ***Nick Root**, CEO of Intergiro*

While it hasn't been the best year for raising money, many see sunnier climes ahead. "I think it'll be 2024 when we go back out there looking for investment," says Intergiro CEO Nick Root. "Once we breakeven, we can afford to be choosier."

Predictions

What trends are fintech's brightest founders and investors keeping a close eye on?

Who masters AI wins

"Over the past five years you've had this Web2 style boom in fintech, where there's options to deliver far better user experience and far better products for things that were previously Excel-based or overlooked by incumbents. The next race is going to be who's got the strongest relationship with the customer to build the next suite of products, which in the next five years is going to be AI-driven."

***William Fairbairn**, country manager UK, Agicap*

Cross-border payments: the route to global success

"Most fintechs in the UK and Europe — with the notable exceptions of Adyen and Klarna, which have their own headwinds to contend with — haven't been successful in breaking into the world's largest market for finance: the US. [But] the startups showing signs of potential global success are the ones solving cross-border payment issues."

***Nick Parminter**, founding partner, Class35*

Enterprise fintech becomes the main money spinner

"The next great fintech companies will be in enterprise software, built by talent that has left the fintech unicorns. They're going to target the dinosaur solutions that we don't have a choice but to use today. A lot of the tech around treasury management and ERP [enterprise resource planning] sucks — no one has done enough to innovate here. But it's the tech that runs your whole company, so there's a big prize for whoever can claim this category in Europe."

***Zeynep Yavuz**, partner, General Catalyst*

Gen Z gets a new kind of bank

"Gen Z is very different to the millennial generation, so I'm very curious to see how banking evolves with their needs, because they're super engaged and savvy with their finances. I've yet to see anything super compelling in this space. I don't know how it begins: maybe on TikTok?"

***D'arcy Jade Whelan**, head of platform, Outward VC*

Embedded everything — and bitcoin takes over

"Most companies in the future will use embedded finance features. There are quirky wins when you create more money-based products. Look at Starbucks, for instance, which reportedly claimed $181m in revenue from money on gift cards and loyalty accounts that customers didn't spend in 2021. I also still think bitcoin will be the internet currency of the future."

***Nick Root**, CEO, Intergiro*

Regulation will help fintechs get ahead

"Fintechs need to start embracing regulation. As the industry matures, compliance becomes crucial; fintechs that proactively champion this are the ones that build trust among consumers and investors and prove they're in it for the long haul."

***Tim Pietsch**, CFO, Ledgy*

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