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Six fintech ideas VCs want you to pitch in 2023

A prolonged recession could be the furnace that forges the next great tech companies — but what will they look like? Six VCs weigh in

BY **AMY O'BRIEN** 24 JANUARY 2023

Rana Yared, general partner at Balderton

Investors keep telling Sifted that now is a great time to build. Some of the world's biggest tech companies — think Airbnb and WhatsApp — were born during the last recession, after all.

And even if late-stage funding has slowed, there's still tonnes of cash out there for early-stage ventures. Investors poured $1.5bn into seed-stage fintechs in Europe in 2022 — just a shade short of the record $1.6bn raised during 2021's funding frenzy.

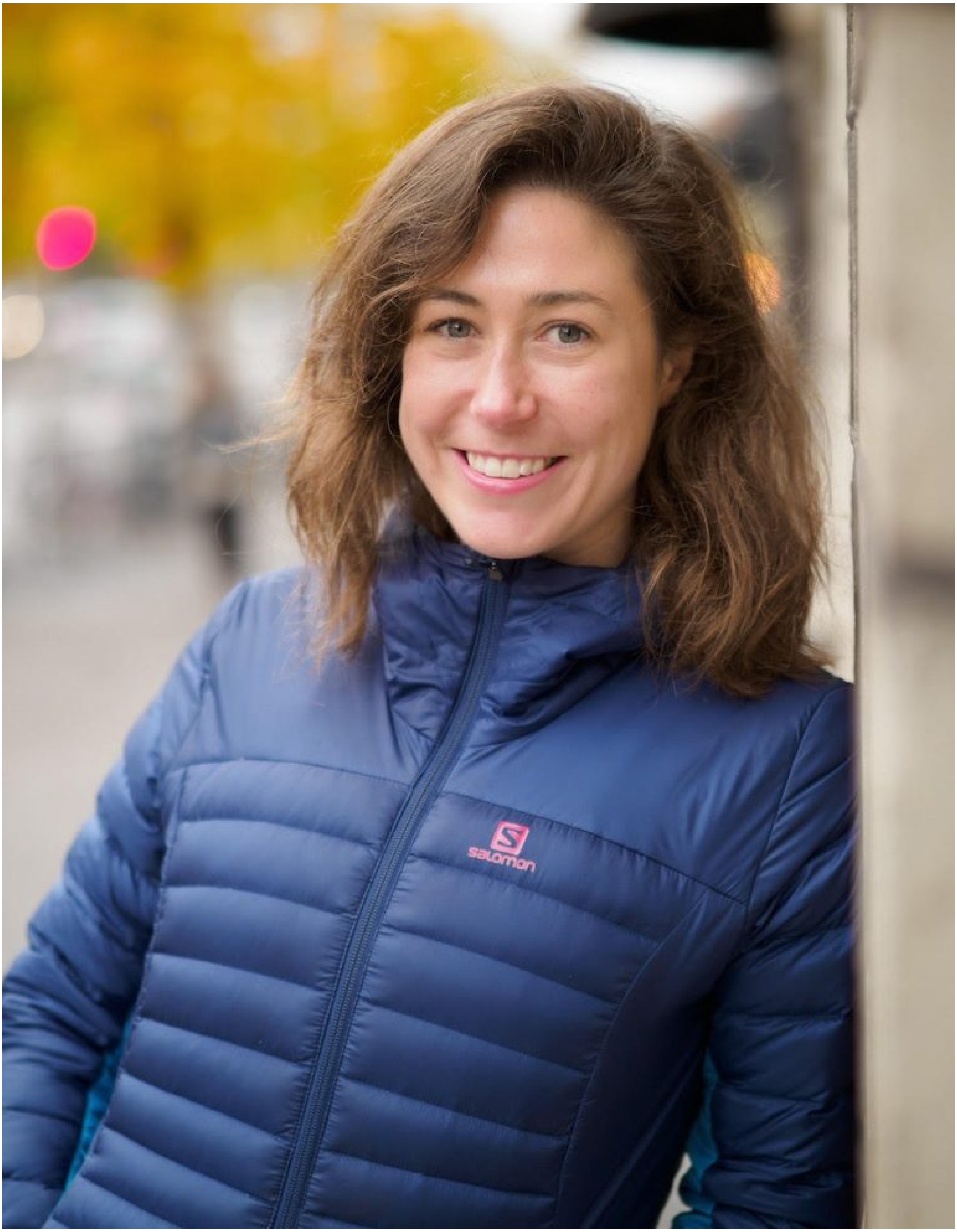
So what kind of fintech ideas would VCs like to see more of in 2023? And what market opportunities might the rocky macro climate create?

Sifted asked some of the continent's top fintech investors for their thoughts.

Potential founders: take note!

Embedded finance for enterprise

Sophie Winwood, principal at Anthemis and cofounder of WVCE



I would like to see more embedded finance solutions and financial operations software aimed at enterprises. Given the increased complexity of the product and longer and more difficult sales cycle, I would assume companies would take a more sector-specific approach than the more payment plans.

There's a gap in the market here because the current solutions have mostly targeted SMEs — and for good reason, as it's a huge, underserved market; the need is usually simpler; and they more often adopt tech solutions. But the SME market is likely to be worse impacted by the recession, which paired with the already-increasing customer acquisition costs of going after SMEs, will mean they become less attractive.

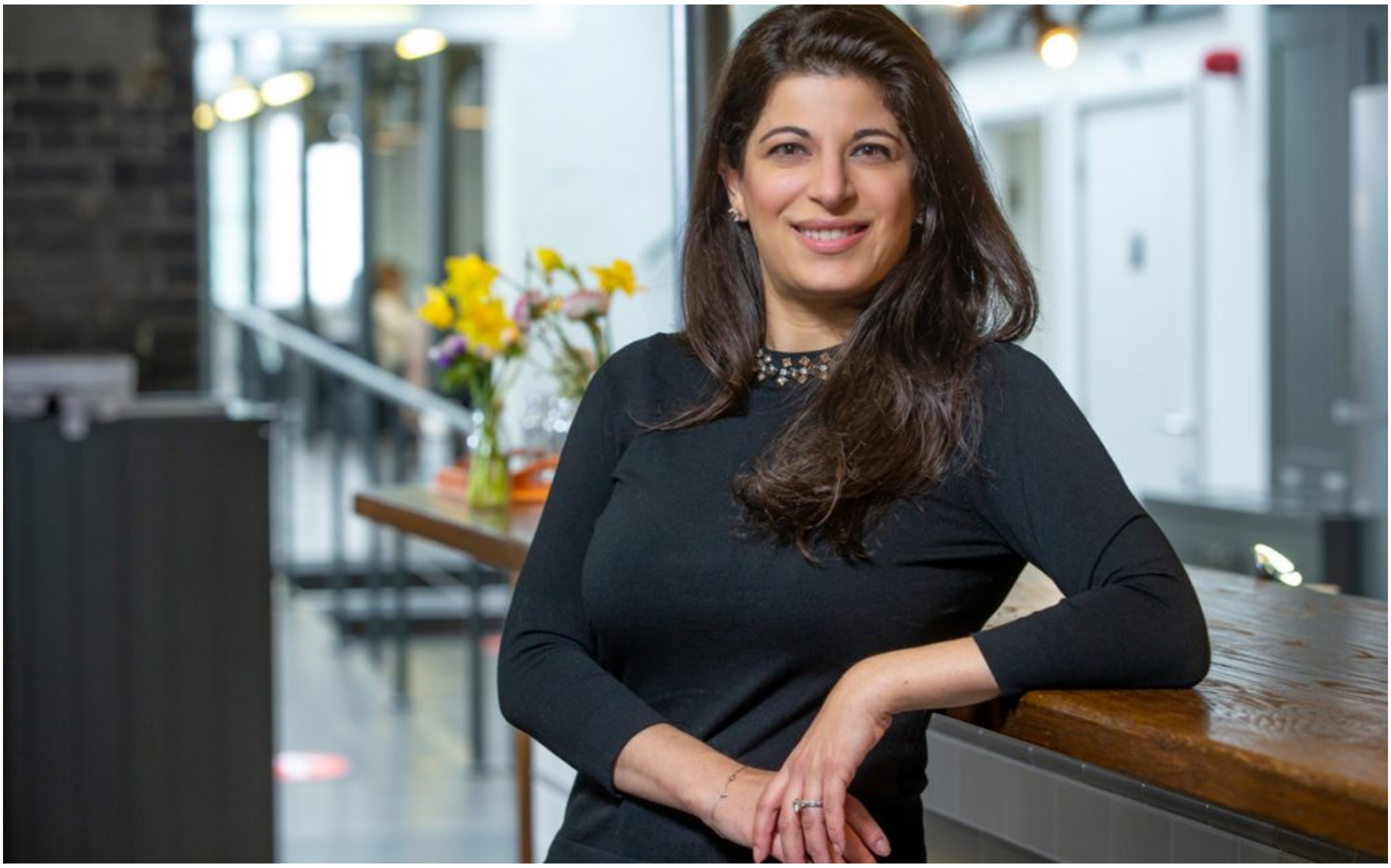
Medium-to-large enterprises, however, are more likely to be recession proof, and will be looking to diversify their revenue streams right now. I think the innovation at SME level has now laid the groundwork for fintechs to move upstream.

This opportunity is also a particularly "2023" idea, because of the increased consumer need for both credit products like BNPL and protection (ie. insurance) in the current economic climate.

And added bonus points if it's a woman or founder from a diverse background!

Solutions to capital markets pain points

Rana Yared, general partner at Balderton



We tend to think of fintech as the big, consumer-facing brands that are well-known by the general public. But we forget the huge, behind-the-scenes, highly profitable fintech companies that are built to address the key challenges of the pipes and plumbing which are critical to powering financial services.

For me, the greatest opportunity exists in this latter bucket. I'm particularly interested in companies that are trying to solve the most pressing problems of capital markets: efficient capital management, cost-effective servicing of products to non-institutional clients (like retirement or alternatives), and bulky workflows on archaic systems. Having spent 14 years at Goldman Sachs, with a front-row seat to the capital markets division, I've seen firsthand how critical these processes are in driving value for everyone from the individual investor to big banks, and also how much room there is to improve on the way things are currently done.

Successful companies in capital markets don't necessarily need to break new ground in engineering. But what they do need is to materially reduce the cost of operation, improve the quality of data and have a deep understanding of the regulations that impact their clients — traditional financial services providers.

One example that's already yielded a large successful company in the US is iCapital. It built a tech stack that made the cumbersome and operationally expensive process that is access to alternatives investing (think hedge funds, credit funds, venture and private equity) for advised

Open banking for financial services

Luca Bocchio, partner at Accel

One area I'm particularly excited about is the evolution of open banking into open finance and then eventually open data.

We've already seen a proliferation of open banking aggregators, focusing on developing and maintaining connections to banks across Europe. This explosion was largely driven by the EU legislation PSD2 (the Second Payment Services Directive) and the UK's CMA (Competition and Markets Authority) order that created standards around bank APIs in Europe and mandated that banks provide API access to regulated third parties.

What's currently missing is the ability for open banking providers to easily access non-banking data, including insurance, loans, mortgages, payroll and pension data. I believe this will shift given the success of open banking, and governing bodies will accelerate open access to new data sources beyond banking data. Consequently, we'll see a wave of new and exciting open finance players and financial products.

data. Think utilities, automobile, smartphone and smart home/IoT data. We'll start to see a world where the data created and owned by individuals and businesses will be used — with permission — to unlock better products and services driven by emerging open data platforms.

More financial superapps

Jeppe Zink, partner at Northzone

A key value driver for fintech has been delivering convenience to customers, from the likes of Stripe (B2B) and Klarna (B2C), who are simplifying cumbersome processes into a great simple UI for the customer.

I believe customer convenience continues to be the North Star for traction and that the market needs more "superapps", whereby they can handle a host of related but complex services within one UI/platform.

Wealth management; enterprise resource planning (ERP) software that businesses can use to manage daily activities like accounting — think SAP but for small businesses; and B2B payments are prime examples of segments that are ripe for these ideas.

A platform for due diligence

Julia Andre, partner at Index Ventures

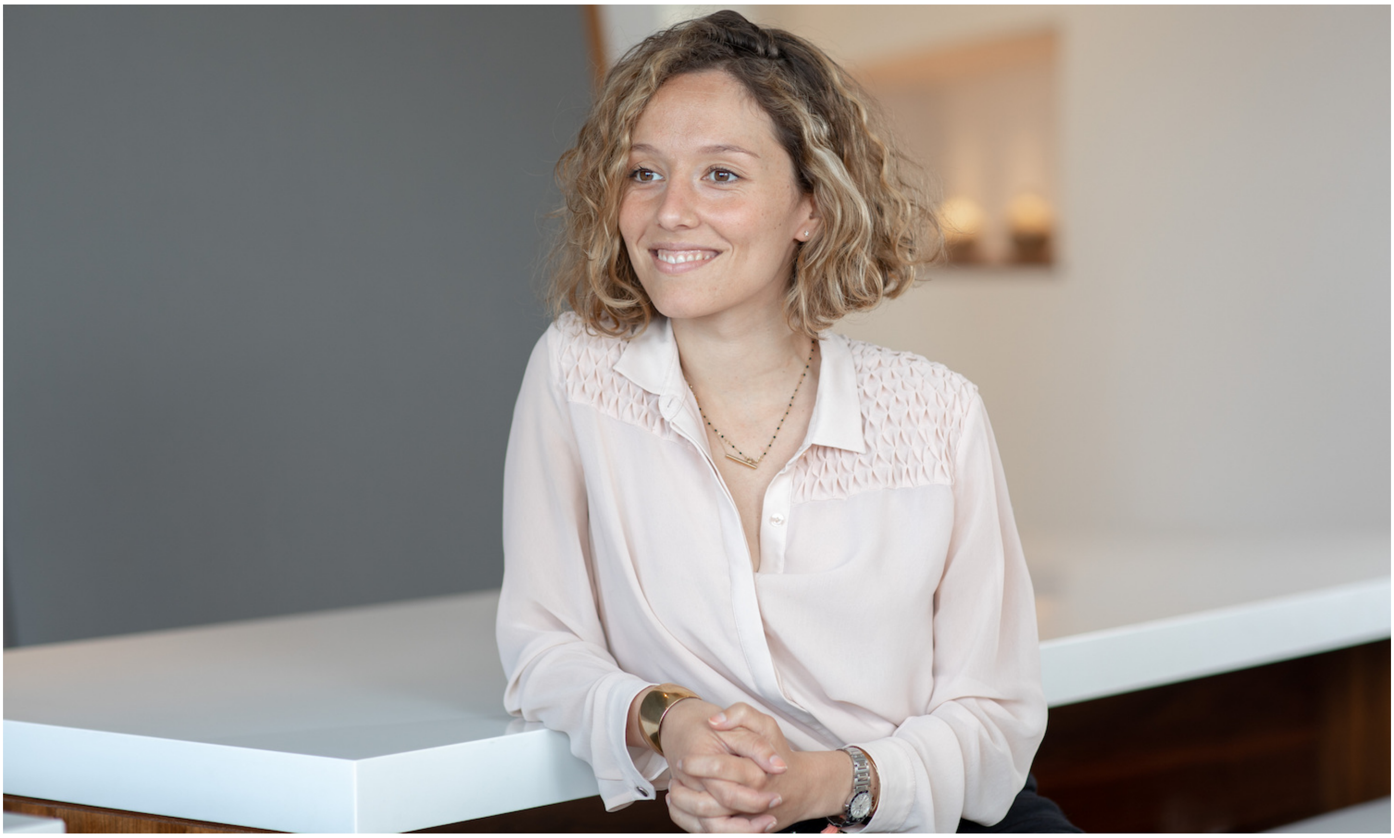


Image: Daniel Jones

With increasing global pressure on counterparty vetting, businesses must spend significant time and resources on frequent, manual and repetitive checks.

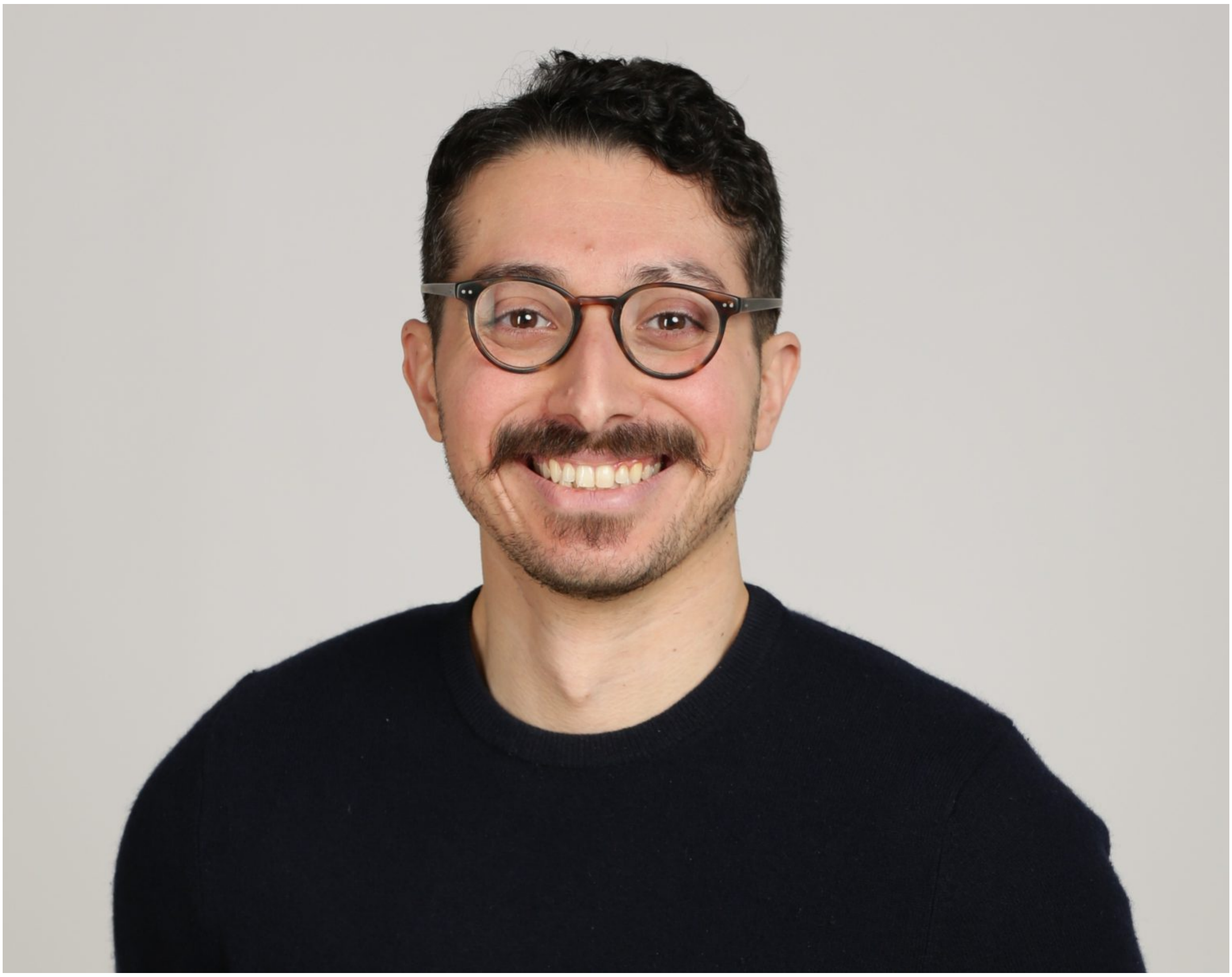
But what if there was a way to simplify financial and compliance risk? If there were a single platform, where every business could be continuously passported?

This would resolve a huge bottleneck and allow easier access to financial services by increasing B2B trade, global partnerships and enhancing the SME economy.

We are in a world with unlimited access to data and incredible AI progress which creates an opportunity for a new entrant to disrupt how entity risk is vetted. I'd love to speak with entrepreneurs who are rethinking the due diligence market.

Companies with great unit economics

Khalil Hefaf, investment manager at Target Global



I think many early-stage investors were happy to underwrite seed deals pre-revenue in 2021. That’s starting to change.

We’re looking for unit economics that confer positive gross margin from the very beginning. Scaling loss-making businesses for the sake of growth at the expense of profitability isn’t going to attract investors anymore.

Product-market fit can be defined by many different parameters. In the absence of monetisation, compelling engagement metrics will go a long way, eg. repeat users, retention, limited churn, cohort growth (newer cohorts grow in size and existing cohorts increase activity).

Amy O’Brien is Sifted fintech’s reporter. She tweets from @Amy_EOBrien and writes our fintech newsletter — you can sign up here.