

## Insideview

# The State of FinTech

INTERVIEW WITH PETER BARKOW

**FinTech has received growing interest in the last few years. Which topics have been the most important ones – and which topics will be of special importance in future?**

FinTech is a very dynamic sector with a constantly changing face. It is striking how far the sector has developed in just a few years. We are observing continuous growth both in number of startups as well as in investments. At present the bitcoin/blockchain category is performing best benefiting from a buoyant ICO market. Personally, I think that FinTech startups combining advanced analytics and (big) data will have a bright future given the data intensity of the finance industry. Incumbents have vast room for improvement in this area and can leverage startup know how extensively. In addition, startups that help incumbents to become more efficient are likely to thrive given high costs of traditional banking players especially in Germany.

**If you compare the situation in Germany to other EU Member States or the US, what are the most striking differences in the field of FinTech?**

Each country seems to be at a different development stage and Germany is doing relatively well in a EU context. The UK sector is, however, the clear European benchmark combining financial, tech, and venture capital in an ideal fashion and in one spot, namely its capital London. London is de facto a combination of Silicon Valley and Wall Street in just one location. Germany is, given its federal structure, more decentral. Without doubt, Berlin is the German startup capital, whereas the banking center is based in Frankfurt and Munich/Cologne are clusters of insurance companies. As a consequence, most FinTech startups are spread across four major German cities. Globally, the US is ahead of Europe, and Asia seems to be pulling ahead of the USA. Compared to these regions, Germany still has a lot of catch-up to do.



Peter Barkow  
Managing Director  
Barkow Consulting GmbH

**You gain deep insights into the daily business of FinTech startups. What are the main problems and obstacles that FinTech startups are facing – especially in Germany?**

In B2C, most startups underestimate customer acquisition costs. German retail customers are generally cautious, especially when considering providers of financial services. We see that customer acquisition costs are very high for most startups and extremely low for top players. The B2B segment is strongly benefiting from the desperate search of incumbents for innovation and efficiency. Consequently, we are observing an explosion of co-operations between startups and established players. Most of these co-operations are, however, facing a tough time in practice as they need to be "filled with life". Established players need to back co-operations with human and financial resources to make them successful. Focusing on a few co-operations seems a winning strategy. Co-operating less can, therefore, surprisingly be a more efficient strategy.

**Growth needs capital. How do you judge the current situation of venture capital for FinTech companies?**

The German startup ecosystem has achieved a lot during the last years. Early stage capital is currently readily available from domestic backers. Larger rounds, however, are almost impossible to raise without international venture capital firms. Thus, we are observing only a few so-called Private IPOs, meaning rounds of at least USD 50 million in Germany. There is an increasing funding gap compared to Asia, the US, or UK for larger deals. For instance, the Asian FinTech ANT Financial raised USD 18.5 billion in just two rounds. This is a whole decade of venture funding for all German startups a comdirect study has recently found. Surely, this is an extreme comparison, but indicative for the later-stage funding gap in Germany.

**Thank you for this interesting conversation.**