

Senedd Cymru
Pwyllgor yr Economi, Masnach a Materion Gwledig
Ymchwiliad i Fanc Datblygu Cymru
DBW08
Ymateb gan: FinTech Cymru

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Welsh Parliament
Economy, Trade, and Rural Affairs Committee
Development Bank of Wales inquiry
DBW08
Evidence from: FinTech Wales



Development Bank of Wales Inquiry, February 2024

The Senedd Cymru Welsh Parliament launched an inquiry on the [Development Bank of Wales](#). This inquiry approached FinTech Wales requesting us to seek inputs from our membership.

The inquiry committee welcomed views on any or all of the issues covered in the terms of reference below.

The overall performance of the Development Bank of Wales since it was established in 2017, including areas of success as well as any areas of under-performance.

- The extent to which the Development Bank has met the specific objectives as set out in [The Development Bank of Wales – a strategic asset for a more prosperous Wales](#), published in July 2017 and in the [‘Term of Government remit letter’ for the Development Bank](#) published in November 2021.
- Exploring examples of global best practice and to understand how the Development Bank of Wales compares with other similar sized development banks – in terms of scale of funds, types of support provided and impact etc.
- Any other comments.

FinTech Wales

- Founded in 2019, FinTech Wales is a not-for-profit organisation who champions the tech and financial services industry in Wales.
- Their vision is to establish and empower Wales as a globally recognised hub of fintech excellence, by creating a fully inclusive and supportive fintech ecosystem that enables fintechs to flourish and succeed thanks to the availability of the best talent, skills and investment, and enabling the Welsh fintech ecosystem to make a tangible impact on the global and local stage.
- FinTech Wales has over 100 members made up of startup, scaling and established fintechs and supporting associate organisations. Such members include Sonovate, Delio, Yoello, Dynamo Cover, Wealthify, Voltric, Bikmo, Mazuma, Sero, ShipShape, AGAM, Finalrentals, Deloitte, EY, FAW, Illustrate Digital, various universities and colleges and [many more](#).
- FinTech Wales’ partners include Admiral, Principality Building Society, Confused.com, Go.Compare, Hodge Bank, Monmouthshire Building Society, The Royal Mint, Starling Bank, Veeqo and PwC.
- FinTech Wales’ accelerator programme, [The Foundry](#), has taken 23 startup fintech organisations through a 12-week course, who have collectively raised over £20 million investment and created 150 jobs in Wales

- FinTech Wales has recently celebrated 81% success rate in its first year of [coding and data academies](#)
- See the latest Fintech in Wales Annual Report [here](#)

The Development Bank of Wales (DBW) promotes itself as a Strategic National Asset for a more prosperous Wales, and the feedback we received was shared in the spirit of improving operationally to truly realise this ambition. Overall FinTech Wales and our members see great potential and that DBW and Angels Invest Wales (AIW) are essential to grow the Welsh economy by supporting startups. We would be happy to support further engagement fostering collaboration to support DBW in its mission.

FinTech Wales interviewed a number of members who have experience of the Development Bank of Wales and have summarised the common themes and recommendations discussed.

Themes:

- **Offer Clarity & Access** - DBW promotes itself as a strategic national asset for a more prosperous Wales. The feedback received was that the offer is unclear. We heard it was extremely hard for Founders / Startups to access the DBW / AIW process. Some quote having difficulties with the DBW / AIW tech platform.
- **Communication & Pace** - the process is far too slow which means startups are failing as they wait for updates. Deadline promises are frequently being missed, delaying the process for months and in some cases up to a year. When startups do receive updates, the communication is frequently inconsistent and contradicts previous updates throughout the process.
- **Risk & Competitiveness** - the overall approach is risk averse which stifles innovation and the true potential of Welsh startups. DBW positions itself as a VC however its actions fall short and is often not attractive compared to other VCs. Term sheets were quoted as requiring fairer market terms. Currently terms could often make it untenable for businesses to do a further raise, and are a risk to inexperienced Founders. Valuations were felt to be frequently undervalued.
- **Angels Invest Wales** - AIW is an valued and important scheme - it has employed a technology platform to promote investment opportunities for a number of years. The match funding and structure of a lead investor was commented to be valuable and unique. It was however felt that the pool of angels was too small and that the education on the benefits of angel investing were not amplified enough.

- **Lack of tech capability** - both in terms of tech and VC investment, DBW are seen to fall short on expertise, with teams lacking the capability to understand potential value. It was also felt that their bench strength was falling short with Founders commenting they were going elsewhere to seek business support and coaching.
- **Lack of aspiration** - There is no incentive for staff to support higher risk startups and therefore the perception is that staff choose the safe option for the short term, and are not willing to investigate the longer-term, higher return opportunities.
- **No focus on the Entrepreneurs / Founders** - DBW needs to focus more on the Founder(s) rather than the business. The perception is that many decisions are being made behind the scenes without meeting the people applying or attempting to understand the business they are assessing.
- **Risk of losing good staff** - DBW has some really great people. There is a risk in the current form that high capability staff will get disillusioned and leave if DBW doesn't start to compete with other VCs.

Recommendations:

- Provide a clear narrative on the services and financial support vehicle offered. Provision of a relationship manager who can help guide and support the Founder startup through the offerings to identify the right vehicle.
- Faster decisions need to be made and regular updates need to be communicated. A fast no is more helpful than a long drawn process. Must avoid giving false hope to allow the Founder to seek funding elsewhere.
- Communication needs to be clear, honest, constructive and not contradictory. When deadlines are given they must be adhered to.
- To contribute to making Wales a successful economy, DBW need to place some high-risk equity investments each year and not decline investments based solely on valuation or because they're pre-revenue or pre-profit or might take a long time to deliver ROI. Many of the most successful businesses in the world started without revenue or profit for extended periods. DBW needs a more patient (long-term) approach to capital investments for a proportion of its investments, particularly in technology sectors.

- Term sheets need to be more competitive if the DBW truly wants to be a VC. DBW should consider bringing in more VC expertise to be able to compete, and reduce the risk of losing existing staff.
- DBW needs to take a realistic approach to failure, most startups will fail. DBW should be looking to identify high potential Founders and back them to form successive startups.
- AIW / DBW should work much harder to find and encourage angel investors to join and participate in investments. The relationship between AIW and DBW is a critical one. DBW should take a more active role in AIW, which should be the pipeline of the best opportunities for investment at later stages from DBW.
- Should look into introducing a Welsh Combinator and give small grants to startups.
- Look at other programmes all over the world - there are significant startup success programmes in Berlin, Poland, Korea and Chile.