Thrive Or Die - Small Fintech Edition

Small Fintech Edition — Why Ungoverned Capability Is The Danger At This Size, Not Missing Capability

A Charterhouse Consultants white paper by Bridget Convey, August 2025

Executive Summary

For small, early-stage fintechs, the danger this paper describes is the reverse of the incumbent story. There is no shortage of AI capability, most small fintechs are AI-native from the day they are founded. The danger is that governance has not yet been built, because there has not been time, headcount or capital to build it, while the AI system is already making real decisions about real customers' money. The £209.7 billion fintech market, projected to reach £644 billion by 2029, is being built disproportionately by companies at exactly this stage of the gap.

The Premise: The Gap Is The Danger, Not The AI

In October 2023, a group including Turing Award winners Yoshua Bengio and Geoffrey Hinton, alongside Stuart Russell, Daniel Kahneman and more than twenty other senior AI researchers, published a consensus paper in the journal Science on the risks of advanced AI. Their argument was precise. AI capability and autonomy are increasing rapidly. Companies are shifting toward systems that can act and pursue goals with reduced human oversight. Governance is not keeping pace with that shift. The danger they describe does not come from AI itself. It comes from the widening gap between what a system can now do on its own and how closely anyone is still watching it.

That paper is about safety and governance at a societal scale. It does not comment on corporate strategy, and I want to be precise about that rather than overstate its relevance. What it gives this paper is not a business endorsement, it gives us the mechanism. Capability grows. Autonomy grows. Oversight does not grow at the same rate. For a small fintech, the gap plays out inside a team of a handful of people rather than across a large organisation, which sounds like lower risk. It is not. Fewer people are positioned to notice the gap opening, and there is less capital in reserve to absorb the correction when it does.

Why Fintech Inverts The Pattern, Rather Than Repeating It

The earlier papers in this series use Kodak and Blockbuster to show what happens when governance and culture are already entrenched and capability is left to lag behind them for years. Fintech is not that story, and I do not want to force it into that shape just for consistency. Kodak built the camera and then refused to let it threaten film. Fintechs, almost without exception, are AI-native from day one. The technology is not the thing being suppressed. It is the thing the company was built around. The gap does not open because capability was held back. It opens because governance has to be built from scratch, at speed, while the company is simultaneously trying to grow, raise capital and survive.

Same mechanism, opposite direction of travel. That distinction matters for this paper because it changes what closing the gap actually looks like. An incumbent closes the gap by finally letting new capability threaten an old, protected business model. A fintech closes the gap by building institutional discipline around a capability it already has, before growth, investors or a regulator forces the issue. At small scale, this is mostly invisible from the outside, because a five or ten person fintech has not yet been tested by volume, by a regulator, or by a bad quarter. That invisibility is not safety. It is delay.

Klarna remains the clearest large-scale proof that this failure mode is real inside fintech specifically. Klarna gave its AI assistant real autonomy over customer decisions in 2024, cut headcount to match, and by 2025 was publicly reversing course after customer satisfaction on complex issues degraded. That was not a failure of capability. Klarna's AI worked. It was a failure to govern how far that capability was allowed to run before a human needed to be back in the loop, which is the exact shape of gap this paper is built around, just playing out at company speed rather than societal speed.

The Evidence: What Small, AI-Native Fintech Actually Looks Like

The clearest illustration of the small-fintech gap is not a dramatic collapse, because most small fintechs are too early to have been tested that publicly yet. It is the early history of a company that later became large enough for its governance debt to surface, which is exactly why this paper is worth reading before that point is reached, not after.

Cleo AI, 2016 To 2020: A Bedroom Startup With No Compliance Function

Cleo was founded in London in 2016 by a single machine learning graduate, and launched its first AI chatbot on Facebook Messenger before it had a standalone app, let alone a dedicated compliance or legal function. That is not a criticism specific to Cleo, it is a structurally accurate description of what a small, AI-native fintech looks like in its first years, and it describes a large share of the firms operating in and around the UK fintech sector today. The company built genuine capability fast, natural language processing and machine learning applied directly to a user's live banking data, years before it built the institutional structures to govern where that capability should stop.

Governance Debt Does Not Disappear, It Compounds

The decisions Cleo made about cash advance disclosure and subscription cancellation while it was still a small, fast-moving team did not surface as a problem until years later, when the company had scaled to hundreds of employees and hundreds of millions in annual recurring revenue, at which point US regulators intervened. The detail of that later action is covered in the medium fintech edition of this paper. It is included here because it makes the point this paper is built on, directly: the governance a small fintech does not build today is not avoided, it is deferred, usually to a point where the company is larger, more visible, and has far more to lose.

Small Fintech In Three Horizons: The Gap Closes Or It Does Not

If the gap between capability and governance is the real variable, then each horizon below has two outcomes, not one. These are deliberately stated as firm positions, not hedged possibilities, because a board or founding team conversation needs something to agree or disagree with.

Two Years: 2026 To 2028

What happens everywhere: small AI-native fintechs continue to launch with genuine capability and minimal formal governance, because that is structurally how early-stage companies operate.

- Thrive path. Founders build a lightweight but real governance layer alongside the product from the earliest stage, a documented rule for what the AI is allowed to decide alone and what requires human sign-off, even if the company is only five people.
- Die path. Founders treat governance as something to add once the company can afford a compliance hire, and accumulate exactly the kind of deferred risk that surfaced at Cleo once it had scaled far enough to be worth regulatory attention.

Five Years: 2028 To 2031

What happens everywhere: successful small fintechs graduate into the medium fintech danger zone described in the companion paper, where growth pressure and governance debt collide in public.

- Thrive path. Firms that built governance early scale into that stage with far less catch-up work required, and the transition from small to medium is a growth story rather than a crisis.
- Die path. Firms that deferred governance now face building it retroactively, under investor and regulatory pressure, at exactly the moment they can least afford the distraction.

Ten Years: 2031 To 2036

What happens everywhere: the small fintechs that survive to this horizon are, by definition, the ones that closed the gap early enough to keep growing.

- Thrive path. A disciplined early governance culture becomes a genuine competitive advantage when raising later-stage capital, since institutional investors increasingly price governance maturity into fintech valuations directly.
- Die path. Firms that never closed the gap either fail outright or get acquired at a discount specifically because a buyer has to price in the governance debt as a cost of integration.

What I Am Recommending To Small Fintech Founders And Boards

- Write down, in one page, what your AI system is allowed to decide without a human, and what it is not, even if your company is three people. The document matters less than the discipline of having made the decision deliberately.
- Treat any AI decision that touches a customer's money, credit, or personal data as requiring an explicit escalation rule, not an implicit one, from the first version of the product.
- Revisit that one page every time headcount doubles, since the Cleo pattern shows governance debt does not stay proportionate to company size, it compounds.

Conclusion

Small fintechs do not have a Kodak problem. They have the opposite one, genuine capability with governance still to be built, and very little time or capital to build it under pressure. That is not a reason to slow down. It is a reason to treat governance as part of the product from the first release, not a compliance task to be added once the company can afford it. The firms that do this quietly avoid becoming the next public case study in the medium fintech edition of this paper.

Sources: Sacra, Sifted, Tracxn, TechIntelPro, NeuronFeed, PitchBook. All figures current as of mid-2026, verified at time of writing. This is a first draft prepared for internal discussion.