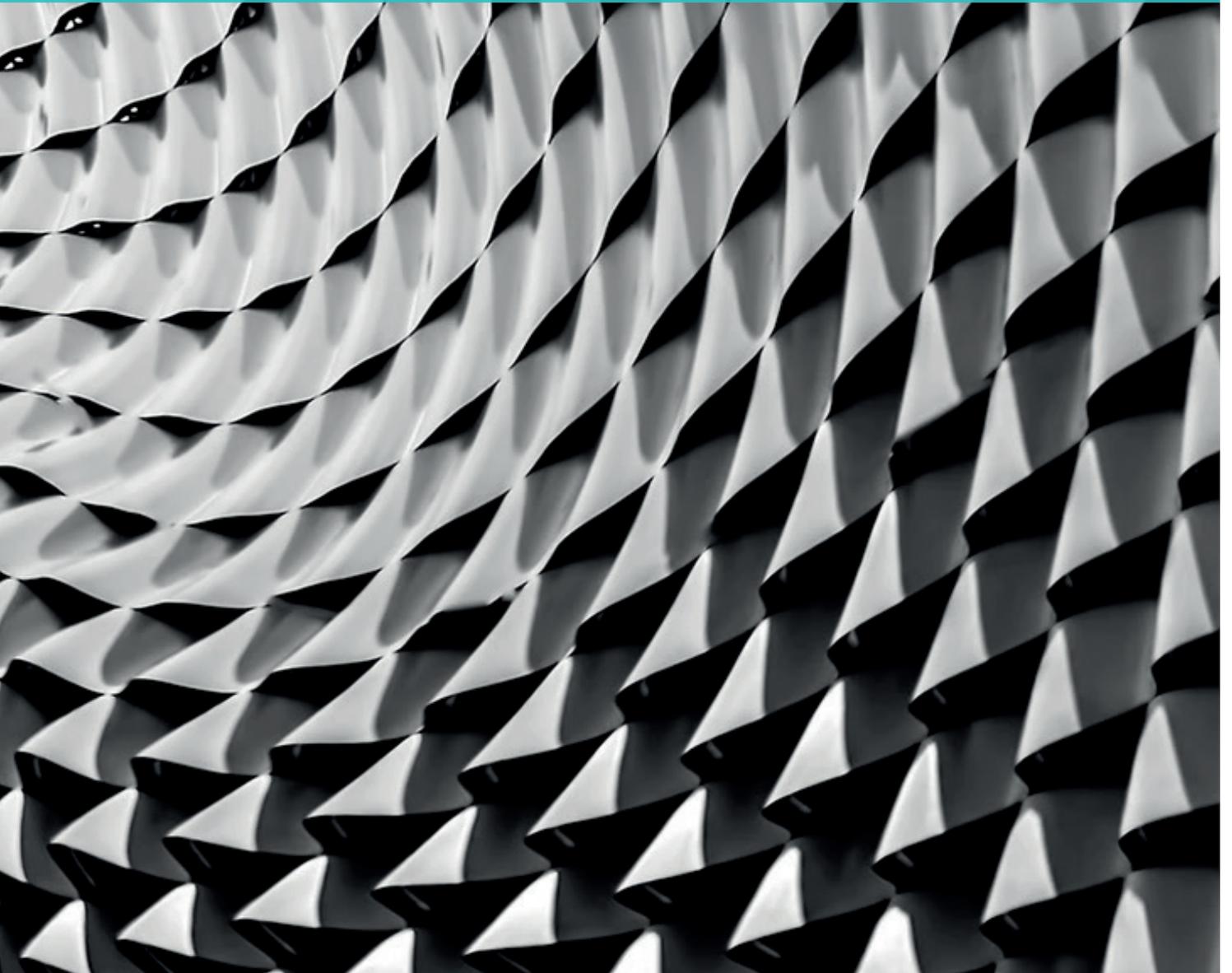


WHITEPAPER

Fintech Trends 2020



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About this report

This report was produced by the FINTECH Circle Institute and explores the broad trends we expect to see across Fintech, as well as trends in specific focus areas. It is based on a survey of the FINTECH Circle network - including Fintechs, traditional financial services providers, consultants and professional Fintech investors, from around the world – as well as desk research and in-depth interviews with a range of experts:

Akber Datoo Founder and CEO of D2 Legal Technology

Samiran Ghosh Emerging technology influencer and Senior Advisor to multiple start-ups

Barnaby Hinnigan Partner at Herbert Smith Freehills

Drago Indijc Managing Director of Oxquant

Anne Leslie Senior Managing Consultant, Security Intelligence & Operations Consulting at IBM Security Centre of Competence Europe

Anna Maj Fintech Leader at PwC

Michael Rolph CEO and Co-founder of Yoyo

Karen Rudich CEO and Co-Founder of ELEMENTARYb

Anna Tsyupko CEO of Paybase

Stefano Vaccino Founder of Yapily

Laura van Wyngaarden Co-founder and COO of Diligen

Thank you to all interviewees and survey respondents for sharing their views.

Continued growth in investment

Investment into Fintechs has grown exponentially and the expectation is that this boom will continue in 2020, if at a slightly slower pace. Venture capital (VC) poured about \$40 billion into Fintechs in 2018 – an increase of 120% on 2017, an up from just \$1.8 billion in 2011.¹ Almost a third of survey respondents believe that investment in 2020 will be at least 50% higher than in 2019, and just under half predict it will be somewhat higher.

Our interviewees also expect the investment bonanza to continue. According to Stefano Vaccino, Founder of Yapily (a technology provider for Open Banking): “Investment will increase as Fintechs are reaching maturity so there are more late stage companies to invest in and greater adoption by consumers is fuelling optimism.”

Michael Rolph, CEO and Co-founder at Yoyo (a mobile payment, loyalty and marketing platform), believes there is still plenty of money out there but that investors are becoming more discerning. “You can’t argue with the stats – investment is growing,” he says. “If a company executes its idea succinctly – like Monzo, Revolut or TransferWise – there are global VCs to fund them. There’s always money for ideas that are executed well. But if people are ineffective in articulating their ideas, or try to skip the early stage of the business, they won’t get money.”

Survey respondents are mixed on whether investment into early stage Fintechs will continue to decline in 2020. However, data compiled by PitchBook shows that despite an increase in total VC funding, investments in early-stage Fintechs decreased by more than half from 2014 to 2017² so that trend is likely to continue.

They are only slightly surer that more Fintechs will IPO in 2020 than in 2019. However they are definite that in 2020, more Fintechs will be bought by incumbent financial services providers than will IPO.

“Incumbent financial institutions have traditionally been hesitant to take minority stakes in Fintechs, even ones they have relationships with, because they see it as something they can’t control - it creates a risk exposure,” according to Barney Hinnigan, Partner at Herbert

In 2020, overall, global investment into Fintech companies will be:

Significantly more than in 2019 (ie, an increase of 50%+).

30%

Somewhat more than in 2019.

47%

The same as in 2019.

9%

Somewhat less than in 2019.

14%

Significantly less than in 2019 (ie, a decrease of 50%+).

0%

Smith Freehills. “But they are getting more comfortable with this. This investment by incumbents is complementary to venture capital. VC appetite still seems strong and not diminished by financial institution involvement.”

While this trend is partly due to incumbent players taking more stakes in Fintechs with which they partner, it is also down to the hesitancy of many Fintechs to go public. Some prefer to avoid the perceived burdens of a public listing, while others are put off by the battering that other Fintechs have received when they IPOed, with valuations dropping drastically from pre-IPO levels.

How strongly do you agree with the statements below?

Significantly disagree

Somewhat disagree

Neutral

Somewhat agree

Significantly agree

In 2020, more Fintech companies will IPO than in 2019.



In 2020, more Fintechs will be bought by incumbent FS providers than will go public.

1%



Investments in early-stage Fintechs will continue to decline in 2020.



1. <https://www.forbes.com/sites/forbesfinancecouncil/2019/09/09/five-trends-shaping-Fintech-into-2020/#1181c97b2f13>

2. <https://www.mckinsey.com/industries/financial-services/our-insights/synergy-and-disruption-ten-trends-shaping-Fintech>

Execution over promises

Survey respondents and interviewees are agreed that 2020 is the year when Fintech needs to deliver on its promise. For one, investors are becoming more selective - Fintechs with no clear path to monetisation are going to have a harder time getting funding than in the past, according to 85% of survey respondents. According to Michael at Yoyo: "The financial services industry shows you can make money in this space but when you're starting from scratch you need to show you can monetise. There is a lot of unproven monetisation in Fintech. But 10 years into this industry, investors want to see cash-flow and a return."

After clearing the hurdle of securing investment, to be successful, Fintechs will need to focus on effective execution, rather than using the latest technologies. Success will come from having an agile mind-set and utilising data-driven, user-focused testing processes to refine products and services – not from experimenting with new technology, which can complicate execution without providing quantifiable benefits.

And now that many traditional financial services providers are catching up and offering a user experience (UX) just as good, Fintechs need to up their game in order to convince customers to switch. Simple interfaces, ease of use and incentives to switch no longer equate to a viable business model. Fintechs need to find more demonstrable ways to differentiate themselves from incumbents.³

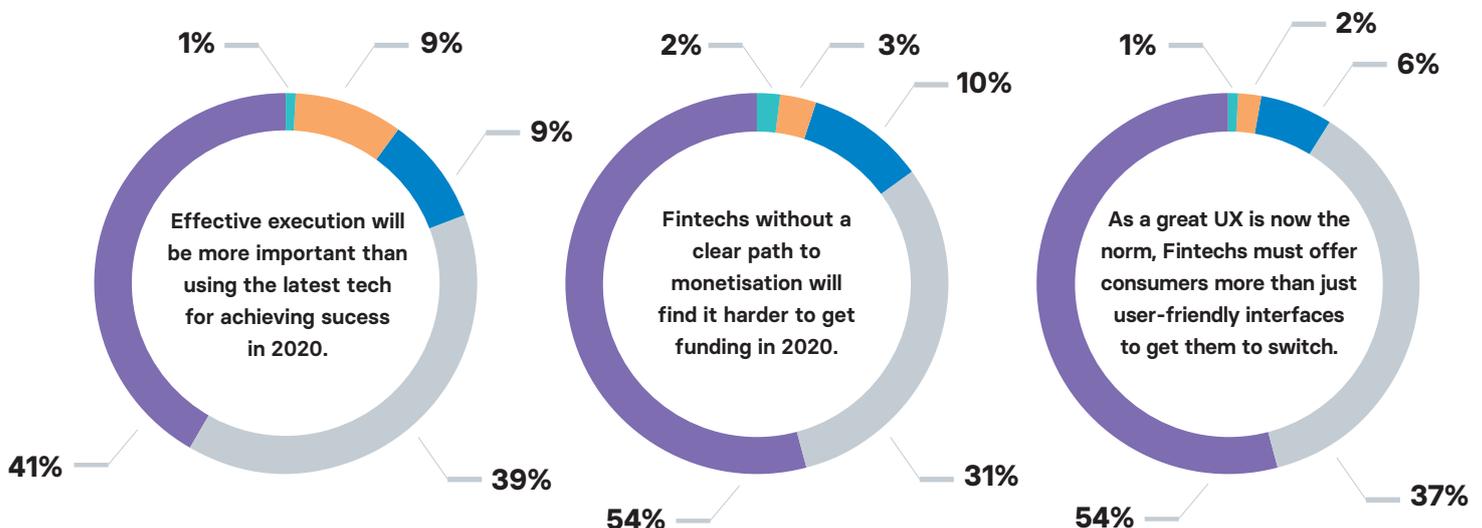
"A good user experience is increasingly the expectation," according to Akber Dato, Founder and CEO at D2 Legal Technology. "Some Fintechs were able to gloss over other bits of their business plan because of a cool UX but they can't now. Proof of concept is no longer cutting it, investors expect the next level of maturity. They want to hear how the concept will work in the real world and work commercially."

"There is a lot of unproven monetisation in Fintech. But 10 years into this industry, investors want to see cash-flow and return."

Michael Rolph, Yoyo

How strongly do you agree with the statements below?

Significantly disagree Somewhat disagree Neutral Somewhat agree Significantly agree



3. <https://www.mckinsey.com/industries/financial-services/our-insights/synergy-and-disruption-ten-trends-shaping-Fintech>

Data (and security) are everything

Our survey respondents strongly believe that success in Fintech in 2020 will directly correlate with the ability to derive meaningful insights from vast swathes of data, and, just as crucially, on how companies harvest and interpret user data. Acquiring the right data-driven expertise is key to do both well.

Our interviewees see two data challenges for Fintechs in 2020.

Samiran Ghosh, emerging technology influencer and Senior Advisor to multiple start-ups mentor, worries about the localisation of data. "International Fintech becomes difficult with data staying in the country," he says. "There is a trend to move to the cloud but the onus of proving its safety to regulators will continue to stay with the providers."

Anne Leslie, Senior Managing Consultant, Security Intelligence & Operations Consulting at IBM Security Centre of Competence Europe, worries about architecture. "Not all Fintechs are thinking enough about and investing in how to architect their data," she says. "The winners will be the companies that are willing to make the time, effort and investment in creating a data fabric that is embedded across the business. In 2020 and beyond, this will be the absolute trump card."

Having your data ducks in a row is important as the threat of cyber-attack grows. According to survey respondents, the growing use of mobile technologies by customers, including the Internet of Things, which exponentially increases the amount of data, and the increased use of third-party vendors, which requires the greater sharing of that data, are seen as the biggest contributors to FS cybersecurity risks in 2020.

While large financial institutions have been proven vulnerable, Fintechs are not immune either. In fact, they have not spent years building governance policies and compliance procedures as the incumbents have.

What will be the biggest contributor to FS cybersecurity risks in 2020? Choose up to 2.

Use of third-party vendors.



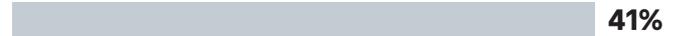
Rapidly changing and complex technologies.



Cross-border data exchanges.



Increased use of mobile tech by consumers including IoT.



Heightened cross-border data security threats.



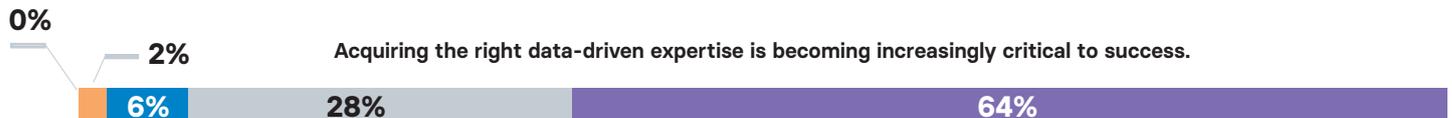
Other (please specify).



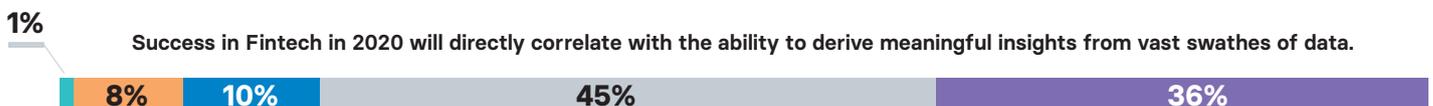
Anne from the IBM Security Centre of Competence Europe, says companies of all sizes should be worried. "No institution is strong enough on its own to withstand the intensity and velocity of attacks to come," she says. "With the interconnection of our financial system, we need a mesh of protection across both the public and private sectors in order to anticipate and respond to threats. The bad actors are better organised to share information and cooperate than the people on the right side of the fence. Organisational restraints and policy can get in the way of information sharing and mutualising intelligence for the greater good."

How strongly do you agree with the statements below?

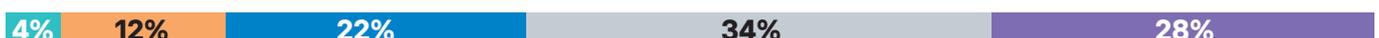
Significantly disagree Somewhat disagree Neutral Somewhat agree Significantly agree



In 2020, FS incumbents and Fintechs will increasingly use the Internet of Things to both gather data and improve financial processes.



2020 will be the year of hyper-personalisation as companies learn how to use contextually rich data sets.



Incumbents strike back

Big banks used to be the innovators. Bank of America introduced the first credit card in 1958 and Barclays the first ATM in 1967.⁴ But particularly since the global financial crisis and the subsequent regulatory crackdown, caution has held back innovation at many financial institutions. That meant that most were slow to respond to the challenge from Fintechs. But the big retail banks in particular are now taking what Barnaby at Herbert Smith Freehills describes as “a three-prong approach: an innovation lab to try to develop new products separate from the main business; taking minority stakes in Fintechs with which they have relationships; and, ultimately, full acquisition of complementary proven businesses.”

According to Anna Tsyupko, CEO of Paybase (which provides flexible payments solution for online marketplaces): “Open Banking is a big driver of partnerships as it forces banks to open up to working with Fintechs.” Survey respondents agree

– three-quarters say retail banking will continue to be the area that sees the most partnerships between Fintechs and incumbent providers.

Almost 80% of financial institutions have entered into Fintech partnerships⁵ and survey respondents believe that trend will continue in 2020. Four in five think that Fintechs are increasingly looking to partner with incumbent FS providers, and even more believe incumbents are increasingly looking to partner with Fintechs.

The benefits for both sides are clear – “the complimentary assets of start-up agility and a bank’s long-term relationships with customers,” according to Samiran, a start-up adviser. Fintechs need the broad, sticky customer bases of the incumbents (and it accompanying data sets), and can learn from their compliance and regulatory expertise. Incumbents need Fintechs’ speed, flexibility and risk-taking in order to truly innovate.

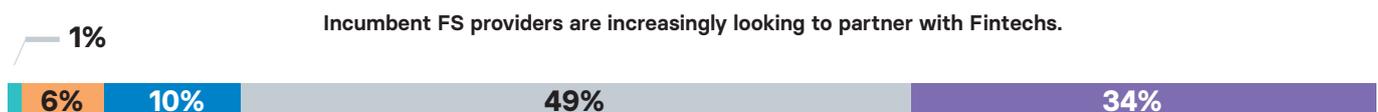
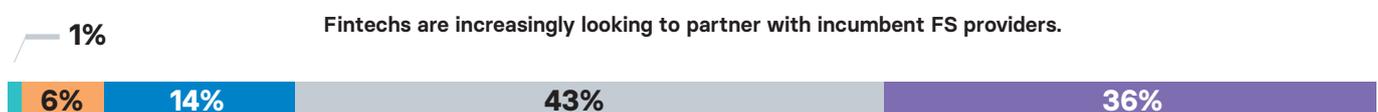
But despite clear benefits, hurdles to successful partnership remain. “There is still a cultural and expectations clash between Fintechs and incumbent FS providers,” according to Karen Rudich, CEO and Co-Founder of ELEMENTARYb. “Fintechs don’t see the full set of rules the banks have to deal with. We’ve seen that with the adoption of cloud – banks need to be more risk averse because of the various data, privacy and security requirements their diverse client base demands. They ask ‘who owns the risk if something goes wrong?’ and they’re more comfortable if they have a clear answer. There are a lot of governance issues; mistakes can have serious implications and that sometimes overwhelms their ability to be pragmatic about delivery. This informs how they integrate technology and work with Fintechs. For wide-ranging initiatives spanning multiple

“There is still a cultural and expectations clash between Fintechs and incumbent FS providers.”

Karen Rudich, ELEMENTARYb

How strongly do you agree with the statements below?

Significantly disagree Somewhat disagree Neutral Somewhat agree Significantly agree



4. <https://www.forbes.com/sites/forbesfinancecouncil/2019/09/09/five-trends-shaping-Fintech-into-2020/#1181c97b2f13>

5. <https://www.mckinsey.com/industries/financial-services/our-insights/synergy-and-disruption-ten-trends-shaping-Fintech>

“Both sides are now accepting that they both have something to offer. Banks see that Fintechs can help them innovate faster. It’s the only way to stay relevant and gain market share.”

Stefano Vaccino, Yapily

What will be the biggest challenges for incumbent FS providers in 2020? Choose up to 2.

Ensuring employees’ digital skills are kept relevant.



Hiring tech talent.



Choosing the right Fintechs to partner with.



Choosing the right Fintechs to acquire.



Selecting the right IT infrastructure investments.



Translating customer data insights into the right products and services.



Other (please specify).



teams, governance takes the shape of numerous committees and review boards that equal wasted transformation budget. It’s not for a lack of ambition to change as the will and appetite are there, but they struggle to deliver Fintech products to the banks’ clients. Look at innovations labs – a lot of money and people but how many products and services have they actually put in front of their customers compared to the time and money spent?”

Michael at Yoyo also sees the challenges. “In partnerships with early stage Fintechs, there’s an imbalance – what the incumbent thinks they can bring versus the reality,” he says. “To partner too early is a waste of time. It works better when the Fintech is already at scale and it’s just another way to market. Partnerships can also enable an idea that would have failed without the support to stagger on, but not really succeed.”

But Stefano of Yapily sees a growing maturity in incumbents’ relationships with Fintechs. “Both sides are now accepting that they both have something to offer,” he says. “Banks see that

Fintechs can help them innovate faster. It’s the only way to stay relevant and gain market share.”

Incumbents increasingly see their selection of the right partners as vital to their success. According to survey respondents, choosing the right Fintechs to partner with will be the second biggest challenge for incumbents in 2020. Translating customer data insights into the right products and services – something Fintechs have been quick exploit since PSD2 – will be incumbents’ top challenge.

The other incumbents

Big banks aren’t the only incumbents Fintechs must compete with - big tech firms have been progressively advancing into financial services. From Amazon Pay to Facebook’s Libra (and Pay), to the Apple credit card, to Uber Money, these companies have the potential to upset traditional providers and crowd out Fintechs. Next up in 2020 – Google checking accounts.

China rises – and diverges

Fintech ecosystems have developed differently in East and West. The West has a larger pool of Fintechs, and so far it has mainly been incumbent banks and Fintechs partnering to bring a platform of products and services to consumers.

In the East, instead of Fintechs, incumbent banks partner with big tech companies, which create financial ecosystems on the back of their consumer platforms. Each of China's biggest banks has partnered with at least one platform rather than choosing to work with a range of smaller Fintechs. For example, China Construction Bank has an agreement with Alibaba and Ant Financial, which offers consumers Fintech products like Alipay on the back of Alibaba's e-commerce platform. Bank of China works with Tencent and its messaging platform WeChat.⁶ The dominance of WeChat and Alipay has resulted in cash almost completely disappearing.⁷

"The West has lost the battle in Paytech as their systems can't support the payment volumes that can be handled by Alipay and WeChat," says Drago Indijc, Managing Director of Oxquant (a data science and technology consulting company focusing on finance). "At the same time, China has leapfrogged the West by going cardless with QR. The scalability is phenomenal."

About three-fourths of survey respondents believe Fintech ecosystems in China will continue to scale and innovate faster than their counterparts in the West.

Start-up adviser Samiran believes the innovation there shows a way forward for different players in the West. "In 2020, I believe banks and Fintechs will try and create ecosystems that will offer more services on their own platforms, as seen with China's WeChat," he says.

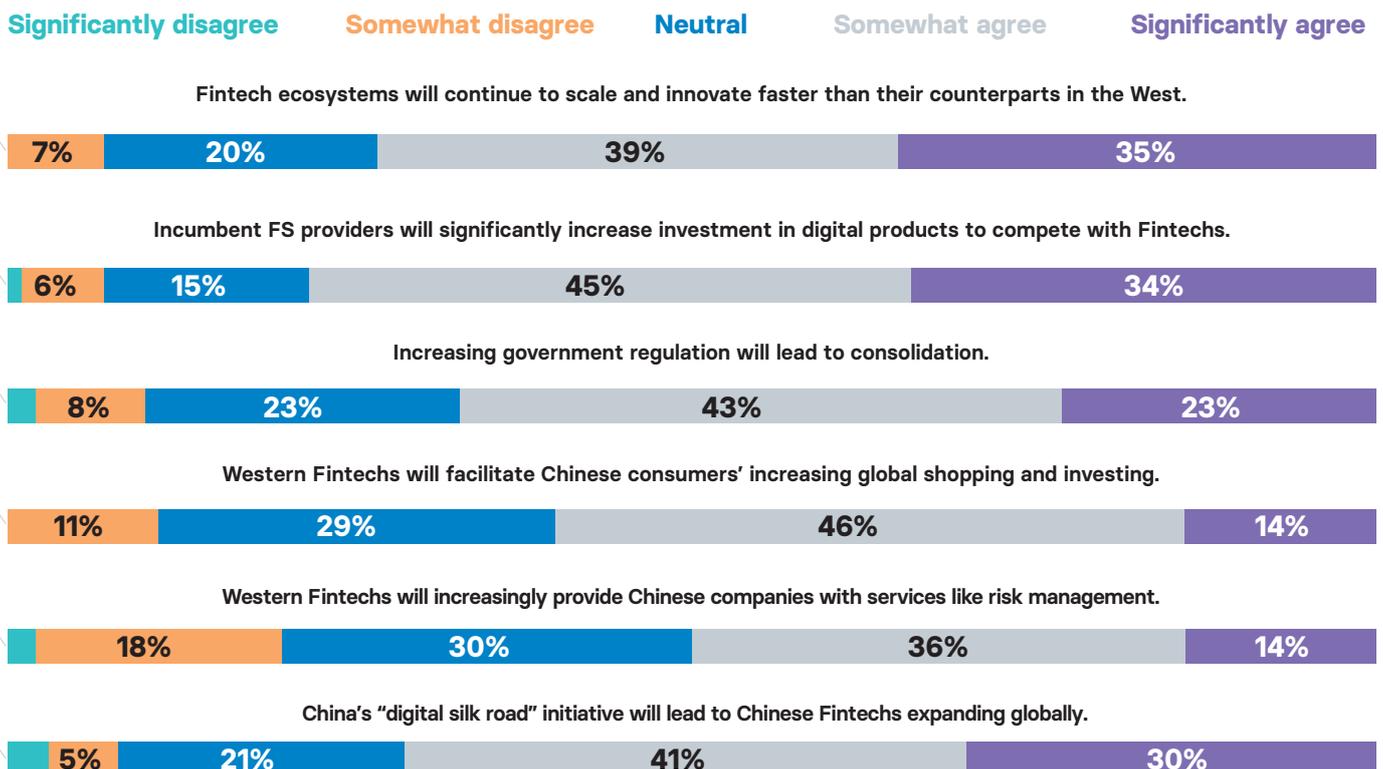
However, 2020 could be a tough year for Chinese Fintechs in some ways. About four-fifths of survey respondents predict traditional banks and insurance companies will significantly increase their investments in digital products to compete with the tech companies. And two-thirds believe that increasing regulation will steadily shutdown non-compliant and non-competitive Fintechs, resulting in consolidation.

But those Fintechs that survive will be ready to grow beyond China's borders. Three-fifths of survey respondents expect Chinese Fintechs to expand globally, supported by China's "digital silk road" initiative.

"The West has lost the battle in Paytech as their systems can't support the payment volumes that can be handled by Alipay and WeChat."

Drago Indijc, Oxquant

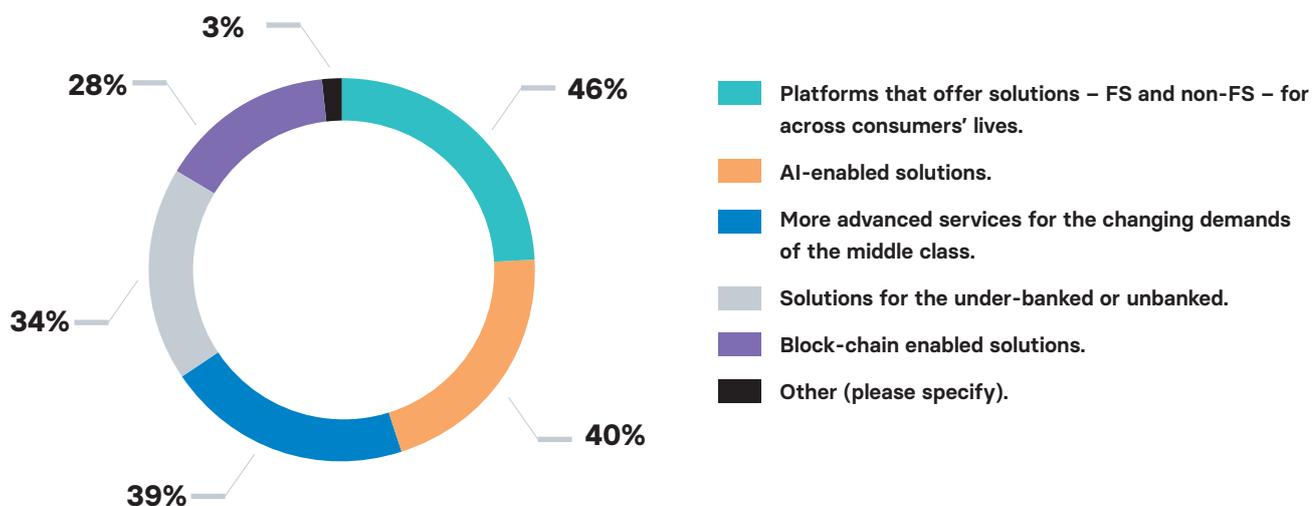
How strongly do you agree with the statements below about Fintech in China?



6. <https://www.mckinsey.com/industries/financial-services/our-insights/synergy-and-disruption-ten-trends-shaping-fintech>

7. <https://fintech-alliance.com/news-insights/article/3167/financial-services-in-the-2020s-from-open-banking-to-open-finance/open-banking>

Which areas of Fintech in China will see the most growth in 2020? Choose up to 2.



The big tech companies are already looking abroad. Ant Financial has already invested in India's biggest Fintech Paytm and has announced a \$1 billion fund for investment in Southeast Asia.⁸

They can do so because of their strong domestic market, robust capital investment and government support for innovation. Start-up adviser Samiran believes that support will prove key. "The speed of regulation changes that are possible

in China will be an advantage for projects such as a national digital currency," he says.

In 2020, survey respondents expect the financial ecosystems built onto consumer platforms to continue their dominance. They also believe that AI will be increasingly used to provide next-generation financial services, and that services targeting the middle class with wealth management, insurance and private banking will see significant growth.

AI – evolution not revolution

Artificial Intelligence potentially has many applications across financial services but its development in Fintech has been more of an evolution, with few standalone use cases that have been scaled and monetised. Few have been able to completely replace traditional ways of doing business. For example, attackers using AI to analyse huge amounts of alternative data to better predict creditworthiness have not displaced traditional credit underwriting methods. But it can supplement the traditional approach, as seen with consumer lending platforms that are increasingly integrating iterative machine-learning, or help in markets where credit histories are not well established.

Anne from the IBM Security Centre of Competence Europe hopes to see AI support greater financial inclusion in 2020. "We're still talking about AI in future terms – 'AI will do this' – but it's time for it to actually achieve something," she says. "So in 2020 I hope there will be incremental progress in using AI to bring a visible benefit. I want to see Fintechs rehabilitate banking as a fundamental social service that allows our society to function. For example, Fintechs that leverage alternative data for credit scoring to increase financial inclusion."

At least in the short term, winners may not be characterized by completely new modelling approaches or the most complex algorithms, but by the ability to combine advanced analytics and distinctive data sources with their existing business fundamentals.⁹

Laura van Wyngaarden, Co-founder and COO at Diligen: "I see two types of misconceptions about AI. Firstly that it can do more than it can – that it is more like the general intelligence AI that currently belongs to sci-fi, that it can solve any problem. The Legaltech tools on the market now are narrow and deep rather than general – specific tools that solve specific problems exceptionally well. The second type of misconception is thinking these tools can do less than they can – that this is a technology for the future, that this technology isn't being used right now in practice for real legal work. It's an exciting time to be building this technology. The pace of change with AI is accelerating as more technologies are built off of each other – new capabilities open the door to even more possibilities."

So far the main application of AI has been for automating straightforward processes with machine learning. Our survey respondents believe this will continue, but the way they believe AI will be most widely used in 2020 is for establishing identity and fraud-detection.

Customer relationship management and optimising onboarding processes are also seen as areas of development. As financial institutions have fewer and fewer opportunities to engage directly with their customers, they will need AI applications to help them better understand and serve. AI holds the promise of hyper-personalisation, allowing providers to engage with their customers in a highly meaningful way.

8. <https://www.ft.com/content/0788d906-1a7b-11ea-97df-cc63de1d73f4>

9. <https://www.mckinsey.com/industries/financial-services/our-insights/synergy-and-disruption-ten-trends-shaping-Fintech>

Drago of Oxquant sees how Fintechs could use AI to create engagement. "Effective emotional interface will soon allow your app to access your mobile's camera to, for example, see how you feel when you view losses or gains on your investments," he says. "The goal is to help engage with and understand clients."

Anna Maj, Fintech Leader at PwC, is excited about conversational AI. "We're seeing the rise of the voice-powered solutions not only in the consumer payments space, but also

commercial (B2B) and the applications go beyond just banking to financial services as a whole."

Looking to further applications, there are already alliances between incumbent financial providers and technology companies, using robotics and AI for capabilities such as social and emotional intelligence, natural language processing, logical reasoning, identification of patterns and self-supervised learning, physical sensors, mobility, navigation and even service robots.¹⁰

In 2020, AI will be most widely used in Fintech for Choose up to 2.

Automating straightforward processes like underwriting decisions.

41%

Establishing identity and fraud-detection.

60%

Customer relationship management.

26%

Optimising on-boarding processes.

26%

Voice recognition tools.

10%

Business management solutions.

20%

Other (please specify).

7%

Legaltech – from automation to supporting better decisions

Our survey respondents believe that AI-powered document review services are the space that will see the most growth within Legaltech in 2020. It's an area where law firms have seen the impact technology can make, according to Laura of Diligen. "Contract analysis is the most proven area of Legaltech as it's used robustly on real legal work," she says. "It was seen as a novelty at first but it's now essential. And that is what I expect to see in Legaltech in 2020 – something experimental which becomes entirely fundamental to doing business. This is the year that AI becomes a normal part of legal work."

Akber at D2 Legal Technology wants Legaltech to now look beyond efficiency gains. "Now that we've automated much of the administration that lawyers do, what next?" he says. "Just as apps make our lives easier in a variety of ways, there is the realisation they can do that for the law too. But the time saved is just part; it's also about making better decisions. So now it's about data – merging

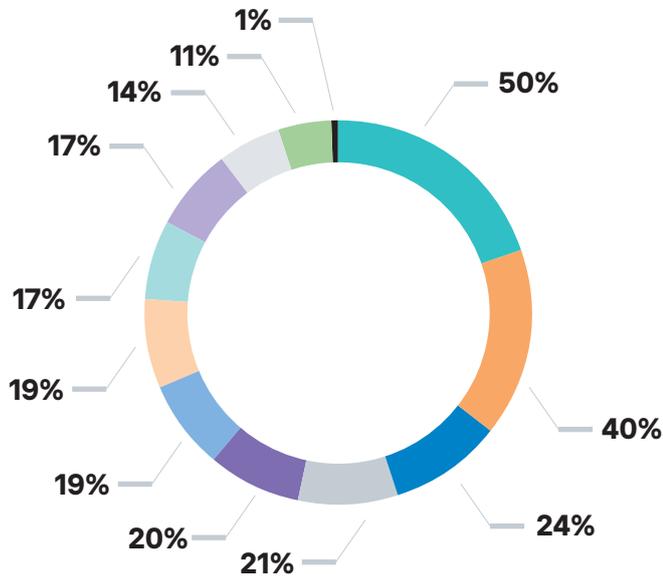
legal, opinion and regulatory data with market data and their client transaction and product data – in order to help clients not just with the law but in making better business decisions."

Drago from Oxquant sees ways in which Legaltech does not just save lawyers time and money, but the people who need legal services – and often cannot afford them. "With costs escalating, Legaltech is increasingly delivering access to justice (A2J) and alternative dispute resolution," he says. "And I can see smart contracts, supported and empowered by some legal systems, as a midway between law and robo contracts. For example, I think many people would be happy to have smart contracts under the UK legal system."

Around one in five survey respondents also are expecting growth in 2020 to online service delivery in areas such as dispute resolution and open-source legal documentation, direct-to-consumer services providing DIY legal tools and even "lawbots" providing basic legal advice.

10. <https://www.pwc.com/gx/en/industries/financial-services/publications/financial-services-technology-2020-and-beyond-embracing-disruption.html>

Where will be the most growth in Legaltech in 2020? Choose up to 3.



- AI-powered document review services.
- Compliance and risk management support.
- Enabling legal firms with more flexible resourcing models.
- Platforms providing analytic legal research tools.
- Online legal service delivery and open-source legal documentation.
- Smart contracts and other Distributed Ledger Technology solutions.
- "Lawbots" providing basic legal advice.
- Cyber security.
- Direct-to-consumer services providing DIY legal tools.
- Client collaboration tools.
- E-Discovery.
- Other (please specify).

While adoption of technology by law firms and legal departments has certainly increased, Akber from D2 Legal Technology still sees a good amount of resistance to change. "The clients of big law firms are seeing tech-enabled growth and want their law firms to become more efficient, but there is resistance," he says. "There is still a pyramid structure with decision-making by the senior partners, and more technology can be seen as turkeys voting for Christmas. It's a case of "you can innovate, but once I've left". We're in the education phase, showing Legaltech is an enabler, a help, not a threat." Lawyers can do the legal work they trained to do if much of the monotonous drudgery (which layers don't typically like doing) can be outsourced to technology.

That problem is compounded, he says, by the fact that "the professional bodies and trade associations do not know how to best react to technology solutions that are being developed. They are asking questions regarding the evolution or change in professional responsibilities when utilising technology – for example, what is expected in terms of due diligence and due care and skill? Does a solicitor need to review all automated output, or is it the underlying rules that need to be reviewed?". A lot of AI-driven solutions can work as a bit of a black box (and there is limited causality and audit trails behind the decision-making.) That can be problematic – so we're at a bit of an awkward stage."

Unsurprisingly, privacy/data protection concerns and ethical issues arising from the use of AI and algorithms decision-making are cited as top barriers to the further adoption of Legaltech. Law firms' legacy systems and the industry's lack of tech skills are also of concern to a significant minority.

What are the main risks and barriers in the adoption of Legaltech? Choose up to 2.

Privacy/data protection concerns.



Ethical issues arising from the use of AI and algorithms decision-making.



The fear of creating a generational or socioeconomic justice divide as more services move online.



Law firms' legacy systems.



The profession's traditional charging model based on billable hours.



The industry's lack of tech skills.



Other (please specify).



Open Banking – gradually opening to the possibilities

Since PSD2 “opened” banking in 2018, Fintechs have worked to make the most of the opportunities it creates. In 2020, survey respondents expect personal financial management platforms that aggregate data across financial institutions to be the area that will see the most growth due to Open Banking, as well as know-your-customer (KYC) solutions and credit scoring.

But, although incumbents are increasingly partnering with Fintechs, our interviewees still see barriers to truly Open Banking. “No bank engages in Open Banking willingly,” says Michael from Yoyo. “They were told the regulator will come after them if they don’t. So now they are asking, what’s the ‘best worst thing’? Banks will learn the benefits of openness but this is a 20-year, not two-year, journey.”

Stefano of Yapily adds: “Open Banking allows access to account information in order to provide new and innovative financial products. However not all types of data are mandatory to share and not all accounts are covered including mortgages or long-term savings. We need to extend the capabilities of APIs.”

When that happens, Open Banking can become open financing - encompassing investment, wealth, insurance and much more. “I see the purpose of Open Banking as taking down the barriers to financial services, and I see huge potential in changing how financial services are offered in the future,” he says. “But it can’t change immediately. The first wave was accounting, coming from those who used an alternative way to access a bank account and had to change. The second wave is where I think there will be huge benefits – the payments space. Payments can be expensive, around 2%, but Open Banking is

bringing down the cost. And the third wave will be lending. With a loan application, traditionally, you would need to provide months of bank statements to prove identity and affordability. With data sharing, lenders can access the customers’ bank account data in order to approve loans more efficiently. Then it starts to become open finance, not just banking, and customers can be offered bespoke products and services based on their financial profile.”

Open Banking is also spreading geographically – as well as the EU, Australia and Hong Kong also have opened up. Brazil, Canada, Japan, Malaysia, Mexico and the US may follow suit in 2020.¹¹

“Banks will learn the benefits of openness but this is a 20-year, not two-year, journey.”

Michael Rolph, Yoyo

Which areas will see the most growth in 2020 due to Open Banking? Choose up to 2.

Current account comparison tools.



Personal financial management platforms that aggregate data across financial institutions.



Robo financial advisers.



Micro/auto savings.



Know-your-customer (KYC) solutions.



Credit scoring.



Other (please specify).



11. <https://www.eu-startups.com/2019/10/open-banking-whats-in-it-for-traditional-banks-and-fintech-startups-part-2-of-2/>

Paytech – not just a B2C world

The Paytech space so far has been dominated by B2C solutions, and survey respondents expect that to continue into 2020. Two thirds believe that consumer-focussed apps, such as those that help split/pay bills (self-payment), will see significant growth in 2020, and almost half think that B2C budgeting solutions, such as those that give customers affordable advances on their paycheque, will do so.

"In 2020, we will see more customers adopt PISP [payment initiation service provider] payments, driven by incentives," according to Anna of Paybase. "But it is still too early to say what has worked as consumer behaviour is slow to change."

But Paytech – and the driving force behind much of it, PSD2 – is not just about the B2C market. Over half of survey respondents predict that B2B solutions for bank-to-bank settlement will develop substantially in 2020.

Anna of PwC says: "So many of the innovations have been in the consumer retail space and the commercial business space has been much less penetrated. But with their high volume of payments, as well as versatility of transactions (number of beneficiaries, currencies/FX, etc) it makes sense they will also apply account-to-account instant payments in order to streamline and facilitate that process. As businesses are more multi-banked by nature, they can benefit from the account aggregation or payment initiation function, using the Open Banking concept to the full extent, e.g. for cross-border payments."

She also believes the gradual shift seen in the B2C space from card-based transactions to account-based will take place in the B2B market as well in 2020.

For Anna of Paybase, the focus for Paytech in 2020 will be security: "The new SCA requirements of PSD2, which came into effect in September 2019, will drive a focus by fintechs and banks

"As businesses are more multi-banked by nature, they can benefit from the account aggregation or payment initiation function, using the Open Banking concept to the full extent, e.g. for cross-border payments."

Anna Maj, PwC

on finding ways to make transactions more secure, whether than it with biometric solutions or something else."

She also cites 5MLD (Fifth Money Laundering Directive), which is set to be transposed into national law by 10 January 2020, as a regulatory change that will affect the Paytech space. "I'm looking forward to 5MLD giving more guidance on crypto. Regulation is tightening but it's still quite vague," she says. "But it does feel like we've finally moved past the dichotomy of the crypto world versus financial services. Interoperability - trading from fiat to crypt and back - is now a hot topic. You see a lot of payment providers jumping on the bandwagon."

Which areas will see the most growth in Paytech in 2020? Choose up to 2.

Consumer-focussed apps, such as those that help split/pay bills (self-payment).

65%

Charitable giving solutions.

11%

B2B solutions for bank-to-bank settlement.

52%

B2C budgeting solutions such as those that give customers affordable advances on their paycheque.

44%

Other (please specify).

7%

What's the next big thing?

Fintechs as infrastructure providers

The Fintech world is always looking forward, so no round up of Fintech trends would be complete without predicting what will be the next big thing in 2020. Over half of survey respondents point to Fintechs as service providers or "infrastructure" Fintechs. Unlike Fintechs who seek to disrupt incumbents by offering digital financial products and services to consumers, directly or through bank platforms, these Fintechs support traditional financial services providers by upgrading their technology capabilities and even replacing their core IT systems.

"Fintechs that are true tech providers are attractive investments for incumbent financial institutions," says Barnaby from Herbert Smith Freehills. "The investments are often structured as an equity stake stapled to a commercial arrangement. Each element is important, but together they can really drive a relationship forward."

But banks are still risk averse about choosing a provider for something as important as core infrastructure. Some Fintechs may struggle to convince large banks, with their traditional procurement and on-boarding process for new vendors requiring a track record and compliance rigor. So growth in the immediate future is expected to focus on smaller banks or non-core areas – giving Fintechs the chance to prove they can execute before targeting larger customers.¹²

Regtech

Regtech was our survey respondents' second pick. A smart choice considering the importance of compliance with a vast and growing number of financial regulations, and the potential for automated solutions to manage regulation monitoring, compliance and reporting. Banks would rather invest in a technology solution than pay a fine.

"In 2020, I expect more focus on the regulatory use cases for Legaltech," says Akber of D2 Legal Technology, "as this is the main area in which banks have allocated budget and the complexity and scale of the task to comply very much lends itself to automation and technology enablers."

Karen from ELEMENTARYb agrees. "I'm expecting massive investment into Regtech as it has been an area of underinvestment and there is so much to be automated," she says. "But there are still the same issues as in the past – you need to make the business case for investment but it can be hard to put a monetary figure on the impact of Regtech."

It is not just the financial institutions that are seeing the benefit of Regtech. Regulators are utilising data gathering and analytical tools to learn more about institutions' activities and overall systemic activity, enabling them to predict and deal with potential problems instead of regulating after the fact. They are also assisting financial institutions – the Monetary Authority of Singapore (MAS) and the UK Financial Conduct Authority (FCA) are helping banks creating automated regulatory solutions and other regulators are expected to develop similar practices in 2020.

Honourable mentions

Just as Uber and Airbnb connect people to share transport and homes, **the sharing economy in financial services** will, for example, connect providers and users of capital without using a bank as an intermediary. Over a third of survey respondents believe this concept will gain ground in 2020.

Fintech Bridges are enabling closer and stronger collaboration between countries on Fintech. These bridges are agreements between two governments outlining collaboration between their regulatory bodies and connectivity between their two markets and ecosystems. The UK currently has five Fintech Bridges with countries including China and further bridges are expected to be built in 2020. A third of survey respondents predict expansion in 2020.

"The **Insuretech** space has been massively underinvested in," says Michael of Yoyo. "But it's now starting to see the impact of data on creating models that provide real value to customers, such as pay as you drive. A more economically viable model is needed because insurance can't explain why premiums are what they are. There is no transparency. It's so fundamentally broken, I can't believe it won't change."

What will be "the next big thing" in Fintech in 2020? Choose up to 2.

Fintechs as infrastructure providers selling services to financial institutions.

57%

Fintech Bridges (collaboration agreements between governments creating connectivity between two markets and ecosystems, such as the UK and China).

34%

Regtech.

36%

The sharing economy in financial services.

35%

Other (please specify).

14%

12. <https://www.mckinsey.com/industries/financial-services/our-insights/synergy-and-disruption-ten-trends-shaping-Fintech>



FINTECH Circle is a global platform of more than 130,000 fintech entrepreneurs, investors, finance professionals, academics, and solution providers. We established Europe's 1st Fintech Angel Network and provide bespoke corporate innovation programs, organise thought-provoking events, and run fintech masterclasses for leading financial institutions world-wide.

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