Velmie

Fintech Market Forecast 2022

INTRODUCTION

With the ever-growing interest in the Fintech and Digital Banking industry, it is worth being on track with its trends and opportunities. At Velmie, a digital banking software provider, we handle yearly market surveys to understand how the market is going to evolve.

For 2022 issue we surveyed the market participants that represent the following cohorts:

- 57.9% are startup founders.
- 31.5% are SME businesses that operate FinTech products.
- 10.6% are enterprise companies that are 100% digital or have Fintech subsidiaries.

Respondents to our questionnaire represent the following regions where their business and customers are located:

- 29.7% - Europe
- 28.5% - the Americas
- 25.5% - MENA
- 10.8% - Asia
- 5.5% - Australia

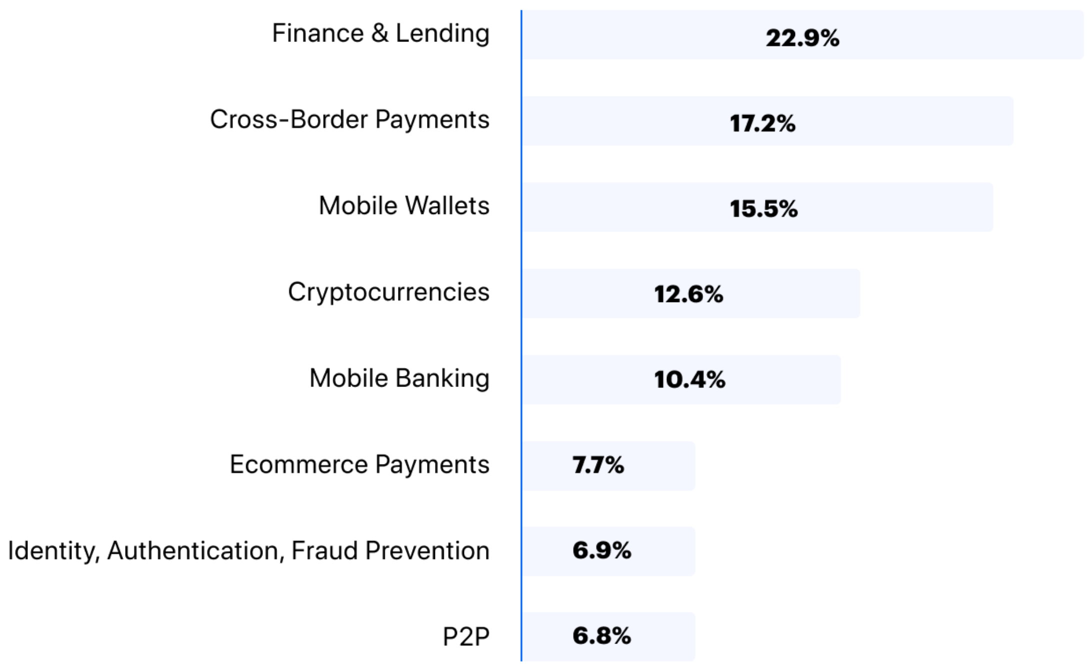
Comments and some additional insights from our experts will give you a more detailed picture of the current landscape and help with the next year's predictions.

CONTENTS

1 | FINTECH SECTORS TO WATCH

According to the respondents, finance & lending and cross-border payments are expected to grow the most in 2022. Mobile wallets and cryptocurrencies come right behind.

FinTech Sectors Expected to Grow Most in 2022



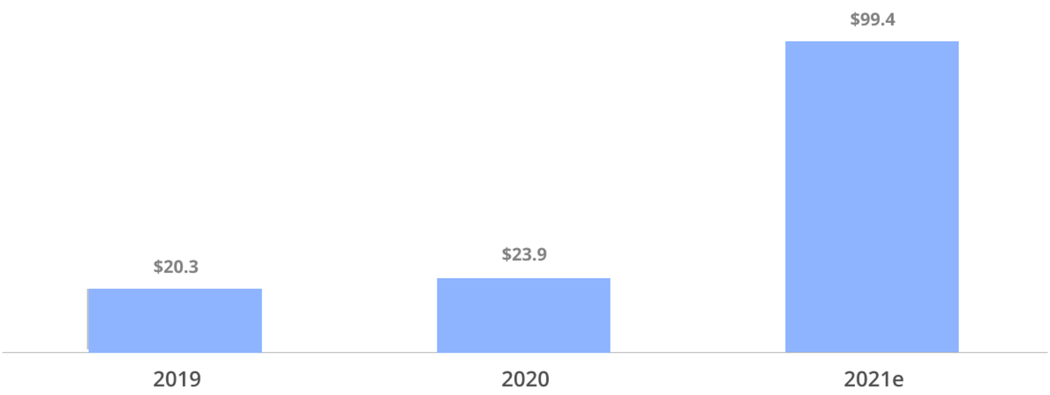
Source: Velmie

1.1. Lending and BNPL

Despite some criticism of BNPL (they say BNPL apps and programs may encourage consumers to take on debt they are not able to afford) its popularity has significantly grown within 2021.

Consumers are expected to make almost $100 billion in retail purchases using BNPL in 2021 — up from $24 and $20.3 billion in 2020 and 2019 respectively.

Buy Now, Pay Later Retail Purchases in the USA ($ in billions)



Source: Cornerstone Advisors

The service of BNPL has been around much longer than it seems - also known as installment payments and point-of-sale financing (POSF). The difference between that service and today's buy now, pay later is the place in the customer journey (traditionally, at checkout - the end of the customer journey and today, much earlier and influencing consumers' decisions). Also, the modern BNPL is all about being invisible and smooth by being fully embedded into the customer journey.

1.2. Cross border payments

With the compound annual growth rate (CAGR) of 5% per year the global cross-border payment flow is expected to top $156t by 2022. So, the market size and its growth is appealing to the newcomers.

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New Fintechs and MTOs (money transfer operators) attract most of the customers that move smaller amounts of money, as well as SMEs. By implementing cutting-edge technologies and making apps intuitive and user-friendly, they offer better rates, time and services. Thus, Fintechs are able to meet most of the consumers' demands. Wise (formerly Transferwise) claims it saves its users $1 billion a year in transaction fees compared to the use of legacy bank cross-border payment methods.

1.3. Mobile Wallets

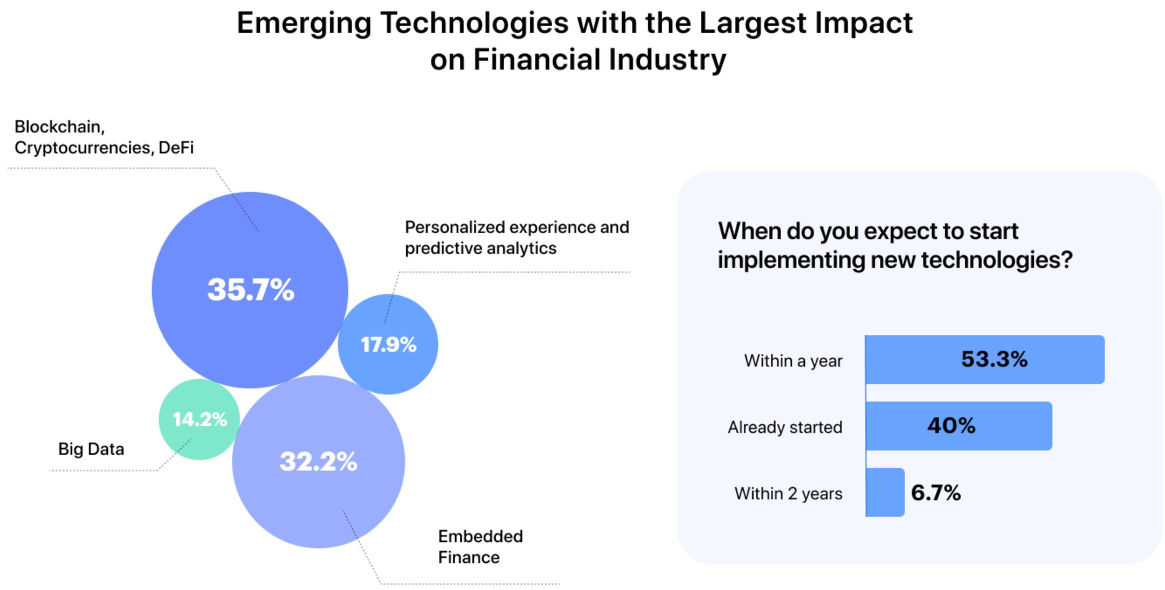
Thanks to the modern technology which has brought mobile payment methods to the forefront of many businesses and consumers, there was a drastic dip in cash use within the previous decade which was further influenced by the COVID-19 pandemic. For example, there was a 50% drop in cash use in the United States from 2010 to 2020.

With the shift to alternative payment methods, mobile wallets have gained significant users' attention with most interest coming from younger generations. In 2020 21.5% of transactions were made via mobile wallet payment. What is more, it is anticipated that 80% of all transactions globally will be done via internet-backed devices by the year 2025.

To sum up, despite all the buzz around cryptocurrencies, NFTs and DAO there are other sectors that remain silent but can bring even higher ROI. There are plenty of opportunities across many verticals and locations and financial services is still a largely untapped market.

2 | USE OF EMERGING TECHNOLOGY

Let's look into some cutting-edge technologies that are directly impacting the relationship between consumers and FinTechs. As shown below, the greatest impact is expected from blockchain and cryptocurrencies as well as embedded finance (52.9%). Most of the respondents either plan to start implementing new technologies within a year (53.3%) or have already started this process (40%).



Source: Velmie

2.1. Blockchain. Cryptocurrencies. DeFi.

Crypto adoption is visible across many verticals. Top banks are investing into digital assets and providing new tools to their clients, fintechs allow opening crypto wallets within their apps. International remittances as well become more and more reliant on cryptocurrencies and blockchain. There are numerous examples, and the opportunities are infinite.

2 | USE OF EMERGING TECHNOLOGY

Decentralized Finance (DeFi), as its name suggests, has a common goal to decentralize financial services. It does so by removing bank, payment and investment intermediaries, and replacing these with the services that operate within the blockchain network. Because of its transparency and security, Blockchain is a robust alternative base for this disruptive emerging financial ecosystem. It is predicted that the sectors most likely to be affected by the DeFi revolution are lending, decentralized exchanges, asset management, financial data, and insurance.

Carl-Johan Larsson
Microservice Specialist at Velmie

"Tomorrow's industry success stories are being built today around modular core systems based in the cloud and utilizing ML algorithms to support the back office operations. This is exactly how a neobank or payment services company should be built nowadays. Many of the contacts we surveyed agree with us and we can see it in the results."

2.2. Embedded Finance

Today, most people are not even aware who is providing financial services along their customer journey. What's more, they aren't really interested in what's happening 'behind-the-scenes'. What they do care about is convenience and customized experiences. That is exactly what embedded finance is about.

2 | USE OF EMERGING TECHNOLOGY

Besides making the whole customer experience smoother, embedded finance also helps businesses generate more profit and provides valuable data on consumers spending habits and needs. According to Lightyear Capital, revenue generated by embedded finance (payments, insurance and lending) is expected to reach almost $230 bln in 2025 compared to $19.5 bln in 2020.

In the coming years, consumers will expect brands to make their purchase journey even simpler and less stressful. So, companies should start to build an embedded finance strategy that fits their services to bring profit to the organization and satisfaction to their customers.

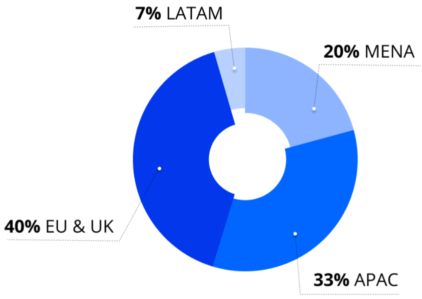
For companies seeking to onboard this new technology but don’t know quite how, our advice is to partner with a reputable provider who will help to analyze the digital needs and design tools that are relevant to be embedded.

3 | THE MOST APPEALING REGIONS

The World Bank identifies certain conditions that create a favorable environment for the fintech industry:

- Innovations and the pace of technology adoption (AI, security technology, mobile technologies);
- Investment climate in the region;
- Social and economic state including pandemic, and other social changes, that have a negative impact on traditional financial services and, as a result, lead to the emergence of fintech products.

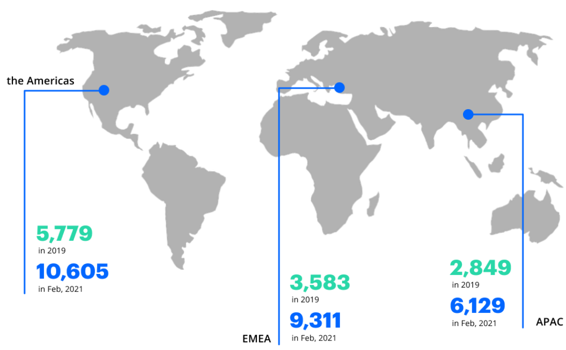
The Most Favorable Regions to Launch a FinTech Product



Source: Velmie

According to our research, the most favorable regions to create a Fintech startup are Europe and the UK (40%), followed by the Asia-Pacific (33%), the Middle East and North Africa (20%).

Number of FinTech Startups by Region



Source: Statista

It is worth mentioning that the Americas is home to most FinTechs. According to Statista, there were 10,605 FinTech startups there in February 2021 followed by 9,311 startups in EMEA. However, the number of EMEA startups has increased 2.56 times compared to 2019, while in the Americas it is only 1.84 times.

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3 | THE MOST APPEALING REGIONS

3.1. EU & UK

According to various ratings of European countries leading in fintech innovation, the most often mentioned countries are the UK, Switzerland, the Netherlands, Sweden, Lithuania, and Estonia.

London is one of the greatest European fintech hubs with a majority of accelerators for fintech startups (over 20). The Netherlands and Sweden are mentioned for a vast population with a high level of tech adoption. Lithuania is a relatively new member of such ratings. Despite a relatively small population, Vilnius is a major European FinTech hub and over 170 fintech companies are based there. Estonia as well has high potential to become a large fintech hub with lots of accelerators and a favorable investment climate.

3.2. APAC

India and China are often named as the world's fastest-growing fintech markets thanks to the population of almost 1.4 billion in China and high technology adoption. Singapore in its turn is known for 20+ fintech accelerators. Significant government investment and favorable tax policy make the country one of the regional fintech leaders.

3.3. MENA

The strongest fintech market growth is noticed in the Middle East and North Africa – it almost reached 40% there. The high percentage of underbanked population and availability of the key elements necessary for FinTech market growth provided a huge opportunity for rapid growth. Governments and financial institutions, especially in the Gulf Cooperation Council (GCC) countries, are nurturing these ecosystems while finding it important and beneficial for the region. There are already some success stories in the GCC, particularly in the UAE where incubators, enterprise development funds and programs, and innovation hubs are supporting the creation and growth of local entrepreneurs.

Ahmed Musawi
Sales & Business Development at Velmie

"MENA's financial services industry is well-positioned to see significant growth and FinTech disruption in the foreseeable future, which makes it a great market for FinTech startups and investors. It's also worth mentioning a significant move towards crypto made by UAE in 2021, they expect more than 1,000 to be operational by the end of the year."

3.4. North America

The fintech market of the USA is a rating leader with a population of 329 million along with a $9.4 billion fintech investment. However, the reason for not being an attractive market for a fintech startup is the toughest competition and an already crowded market which makes things complicated for a newcomer. Also, the regulatory environment is rather complex. Thus, many entrepreneurs prefer to start the business elsewhere and in case of success move to the USA.

4 | BUILDING A SUCCESSFUL FINTECH PRODUCT

4.1. Approach to Building a Fintech Product

According to the survey, the vast majority of respondents (almost 80%) would prioritize time-to-market for their MVP products rather than holding full IP rights and retaining the technology in-house.

What approach is right when building a new FinTech product?

- **78.9%** ▷ Get an MVP to the market as fast as possible to validate the product idea. Focus on time-to-market and CAPEX, trying to keep both as low as possible by using prebuilt solutions and APIs.
- **21.1%** ▷ Building your own software and holding full IP rights is critical from the very beginning. You can't avoid getting your own software once the product gets traction but it may be too costly then.

Source: Velmie

Customer expectations are constantly growing as the technology evolves and the Minimum Viable Product (MVP) nowadays is much more complex than it was 5 years back. With financial services things are getting even more complicated due to the specific requirements around security and data compliance. As a result, Fintechs have to spend time mostly on the architecture of the solutions rather than staying focused on delightful user experiences. This makes “in-house” MVP approach to be not the best option for most of the businesses that now prefer acquiring back end API solutions and building their integration layer. Top banks and big tech use a similar approach to acquiring proven teams and technology rather than trying to replicate something with their teams.

Paul Shumsky
CMO at Velmie

“I honestly don't think that the buy vs build dilemma still exists in financial services. Looking at the most successful products the right approach should be “Buy & Build”. To thrive, companies should be able to establish strategic partnerships across many sectors from the early days.”

4.2. Approach to Building a Fintech Product

Among various options almost a half of the interviewees chose delivering exceptional customer experience as the most important requirement to build a successful Fintech solution.

4 | BUILDING A SUCCESSFUL FINTECH PRODUCT

Critical criteria for a Fintech product to thrive

53.4%

Deliver exceptional customer experience across many channels

18.2%

Build a sustainable revenue model to become profitable from day 1

18.8%

Stay flexible and constantly evolve as the market landscape changes over time

9.6%

Invest into security and compliance

Source: Velmie

There is no doubt that creating apps that users love is a key element of a successful business. It is much more than just an impressive design. It is also about staying engaged with your clients across many channels; being able to react fast and form a community of loyal customers. In the Fintech industry it is even more significant as people are willing to get more financial freedom than ever before and crave for tools that would make financial services a daily thing rather than rocket science.

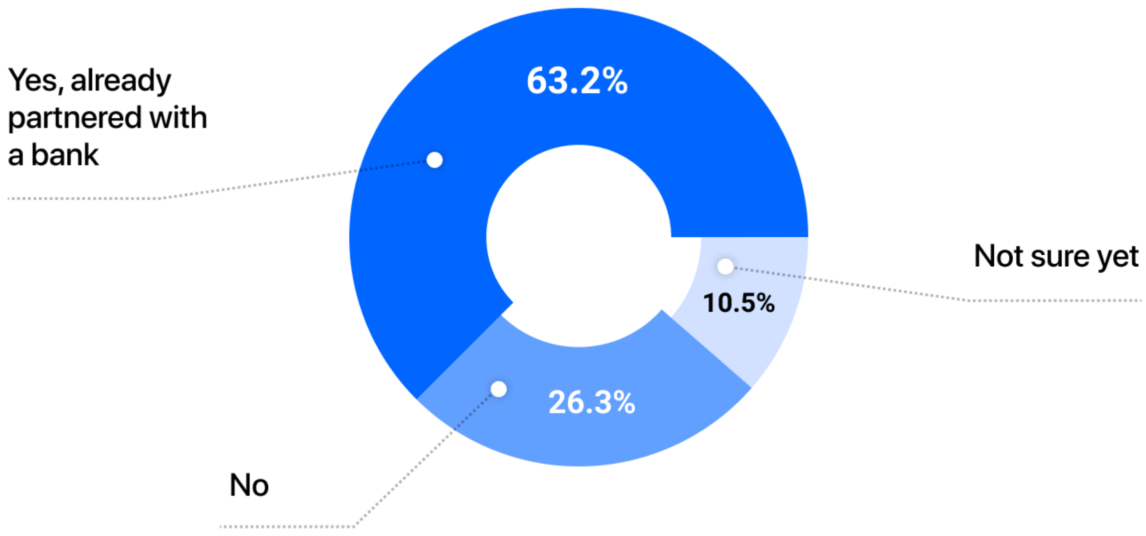
However, based on our experience of building financial and banking products, we can state that security and trust are as important as great customer experience.

Looking at the current state of neobanks, many are having challenging times introducing deposit banking services in order to increase the low-cost liquidity. This is exactly the case when trust outweighs great UX.

4.3. Partnership with banks

Velmie research revealed that 63.2% of the respondents have already partnered with incumbent banks, while about a quarter are still hesitant and 10% are negative.

As a Fintech company, do you see opportunities in partnering with banks?



Source: Velmie

4 | BUILDING A SUCCESSFUL FINTECH PRODUCT

Established banks and other financial institutions are looking at the technological innovations that startups are bringing to the table. On the one hand, there is a dependability of established banking infrastructure, credibility with regulators and an immense customer base. On the other, there's a freedom to innovate and the agility to build tailored solutions for niche customer segments.

There are already many examples of successful Fintech-Banking partnerships like Cross River Bank and Affirm, Bank of America and Zelle, and others. Financial services is the most heavily regulated, carefully monitored and perhaps most depended-on industry there is. Success is achievable through joint efforts, with each partner doing what he does best.

5 | ADDRESSING MAJOR THREATS OF FINTECH COMPANIES

5.1. The most common challenges of Fintech companies

The biggest challenge of Fintech companies appears to be finding and retaining talents. It was claimed by almost a half of all respondents. Obviously, most of these companies are dealing with emerging technology like cryptocurrencies, making it hard to onboard the right talents. If you're heading to build a product in this space, be prepared to compete for talent with Citi, Goldman Sachs, Crypto.com and a lot of other major players and pay a premium.

What are the most frequent challenges of newly established Fintech companies?

47.4%	Finding and retaining talents
17,8%	Defining a clear strategy and revenue model
15,1%	Finding the right partners
14,5%	Finding the right investors
5,2%	Raising sufficient finance

Source: Velmie

This situation is one of the main drivers for Fintech infrastructure companies like Moonpay, that recently closed 0.5 billion financing round, Lono, Tatum or Velmie. By gaining comprehensive API infrastructure, their clients don't have to hire specialists and keep in-house expertise.

What are the threats of working with software development companies?

- **31.2%** ▷ Regulatory requirements and standards make it difficult to use SaaS and BaaS solutions.
- **22.5%** ▷ Long and complicated procurement process.
- **21.3%** ▷ Don't want to rely on a company that may not exist in three years.
- **12.5%** ▷ Have been let down by outside suppliers in the past.
- **6.4%** ▷ Clash of cultures and values between us and them.
- **6.1%** ▷ Quality issues.

Source: Velmie

Another option is looking at outsource providers for dedicated teams, resources to cover instant tasks or hire a company for full-service custom development. However, there are still many constraints which prevent Fintech companies from partnering with software vendors. Further, we'll address them.

5.2. Why are some companies reluctant to use SaaS and BaaS platforms?

5 | ADDRESSING MAJOR THREATS OF FINTECH COMPANIES

While the vast majority of companies of all size are open to use 3rd party software and APIs, some others still have concerns over it. More than half of them claimed regulations and regulatory standards as the biggest constraint to using SaaS and BaaS solutions. Also, the most frequent threats named are burdensome procurement processes and lack of long-term vision of partnership.

How to choose the best software vendor? Looking at the following factors when choosing a software vendor will get you closer to finding the right partner and avoid challenges most companies face.

- The company should have proven expertise in your market and vertical.
- The vendor company should have similar professional ethics and values, such as commitments to transparency, quality and communication to name but a few.
- Communication and service quality are often the most important contributors to building a successful partnership. You'll understand whether you can rely on these by the speed of answers and the effectiveness of communication from the outset.
- Another critical factor to consider is whether a software developer provides ongoing software support and maintenance as part of their service.
- The tech stack needs to be robust, innovative and easily adaptable.
- The company should be well versed in existing and upcoming compliance standards and in a position to build a technology infrastructure that is state-of-the-art secure for users.
- Long-term commitments and the software ownership rights is something to discuss and affirm from the very first step.

4 | CONTACTS

Velmie is a banking technology provider with more than 10 years of expertise in developing software and providing professional services. We supply enterprises and FinTech companies with modular and scalable software solutions, handling end-to-end delivery of the most sophisticated and innovative projects.

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