

# FinTech Predictions 2022



- 1 **Fight for share and margin for PSPs** - Processing margins in decline, value added services will define winners
- 2 **Crypto/DeFi goes mainstream** - Corporates start adopt Crypto & Defi, paving the way for global adoption
- 3 **Sustainable investment apps for consumers find scale** – Consumer cash surplus and interest at all time high
- 4 **Buy Now Pay Later replaces credit cards** in 3 to 5 years and fight for share gets real
- 5 **Embedded Insurance on a roll** - One of the super apps in Europe will crack an embedded insurance product
- 6 **Back to basic Artificial Intelligence** - AI took a big hit last year, it's time to re-focus on basic AI and keep it simple
- 7 **The 'home-journey' redefined** - Proptech will start covering the transaction chain front to end
- 8 **AI enabled debt collection software** - fastest growing use case in Financial services
- 9 **End 2 End KYC and Identity management is the name of the game** – simple ID checks will get left behind
- 10 **Payroll rails the next big thing** - The open banking war is over with payroll rails becoming the next infrastructure play
- 11 **BaaS M&A** - A big bank, payments or software vendor will buy BaaS company focused on payments to enter the vertical

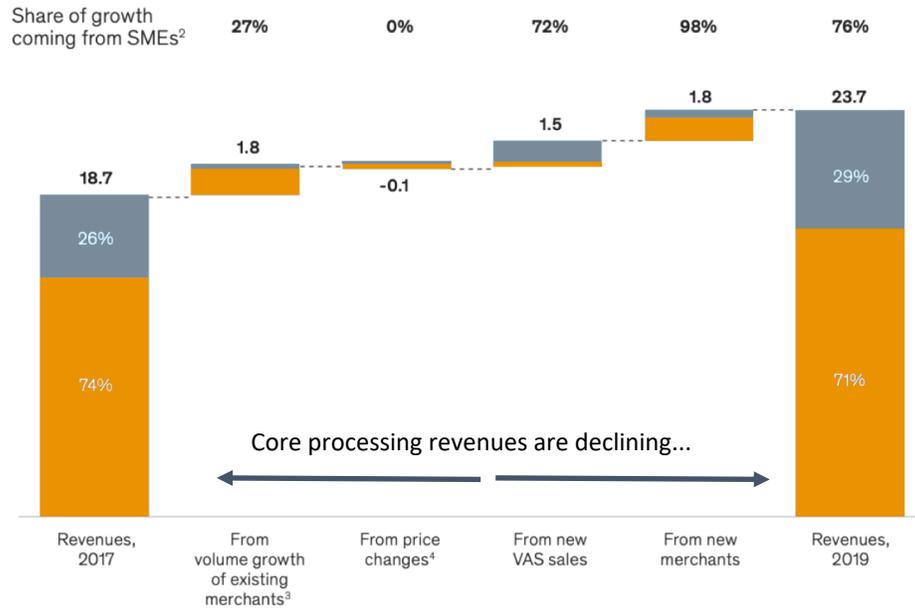


# Fight for share and margin for PSPs – Processing margins in decline, value added services will define winners.

Margins contract driven by competition and commoditization of acquiring services on the PSPs side and the need for efficiency of e-commerce businesses.

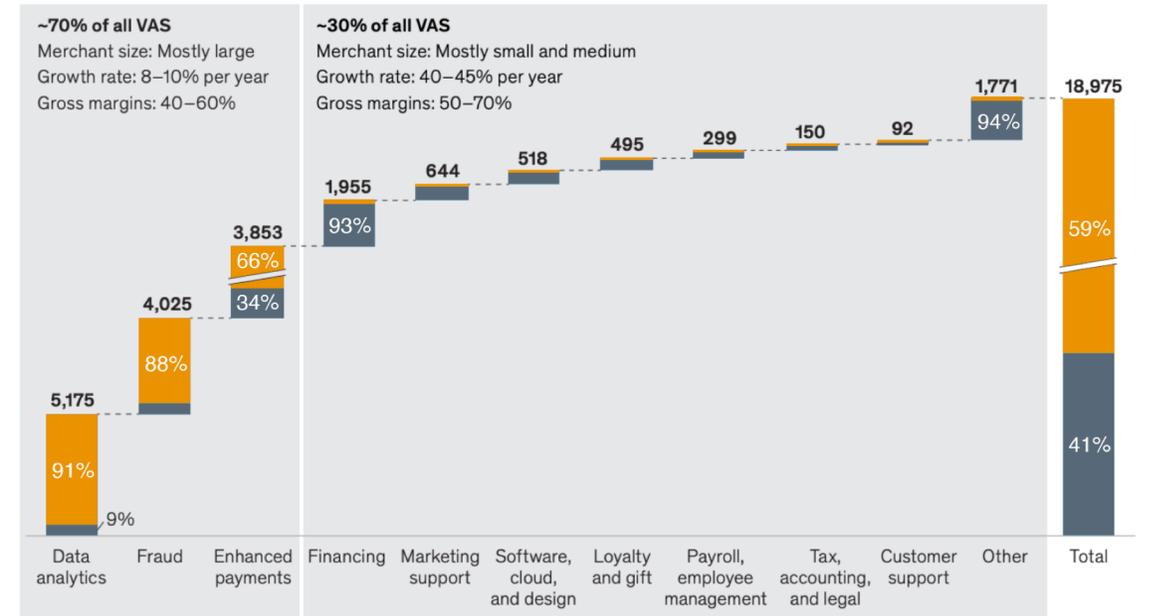
Source: EY & McKinsey

Deconstruction of revenue growth, merchant services, US market example<sup>1</sup>  
\$ billion



Source: [McKinsey](#)

Value-added services (VAS) revenues captured by merchant services providers, by type of service and business size, 2019  
\$ million



Source: [McKinsey](#)

Key growth areas as core processing margins get squeezed...

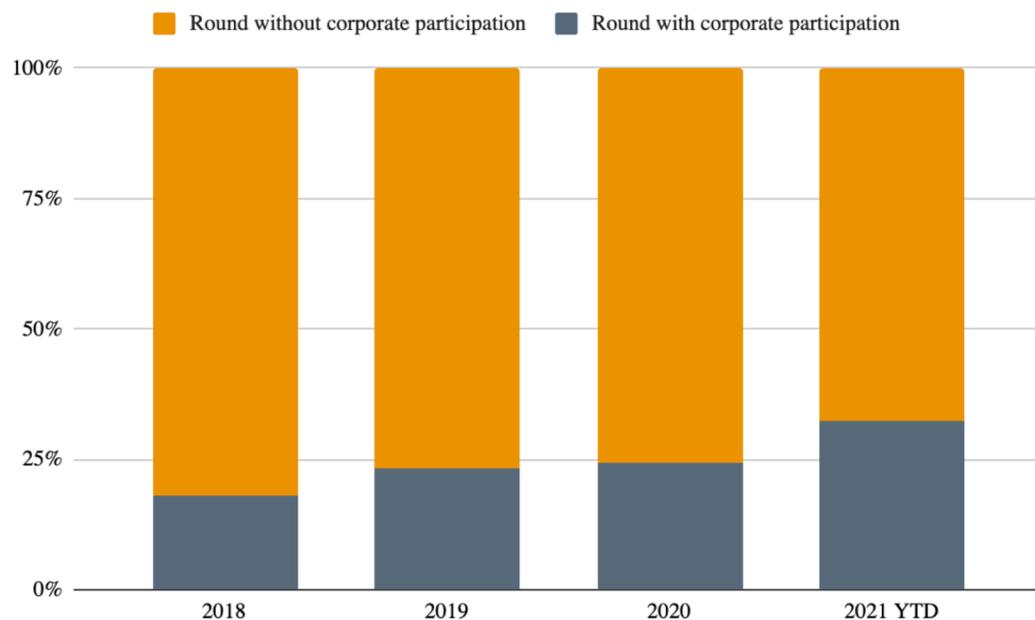


Particularly important for SME focused PSPs where its a low-volume game



# Crypto/DeFi goes mainstream – paving the way for global adoption

CVCs and corporates increasingly participate in FinTech deals in Europe



Over 20% of all CVC/corporate rounds was in FinTech in 2020, 3% more when compared to broader venture landscape in Europe

Corporate approval for crypto & deFi and losing interest in mortgage and lending

# of rounds where corporates participated	2018	2019	2020	2021 YTD	2021 Est.	Expected % YoY change '20 vs '21 Est.
Payments	26	42	36	45	68	88%
Financial management solutions	30	50	45	39	59	30%
Wealth management	33	44	32	38	57	78%
Insurance	31	31	33	40	60	82%
Mortgage & Lending	20	35	25	14	21	-16%
Banking	35	40	34	44	66	94%
Crypto & Defi	13	14	20	36	54	170%
Regtech	2	1	0	2	3	N/A
<i>total</i>	<i>190</i>	<i>257</i>	<i>225</i>	<i>258</i>	<i>387</i>	<i>72%</i>

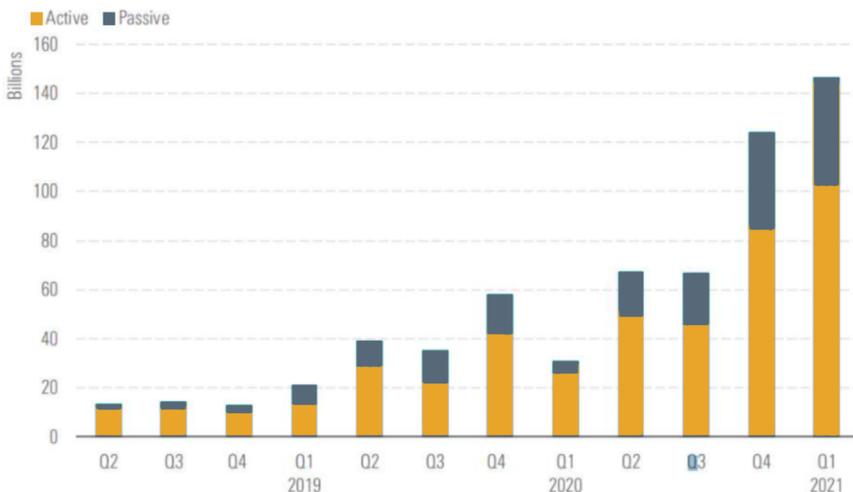


# Sustainable investment apps for consumers find scale – Consumer cash surplus and interest at all time high

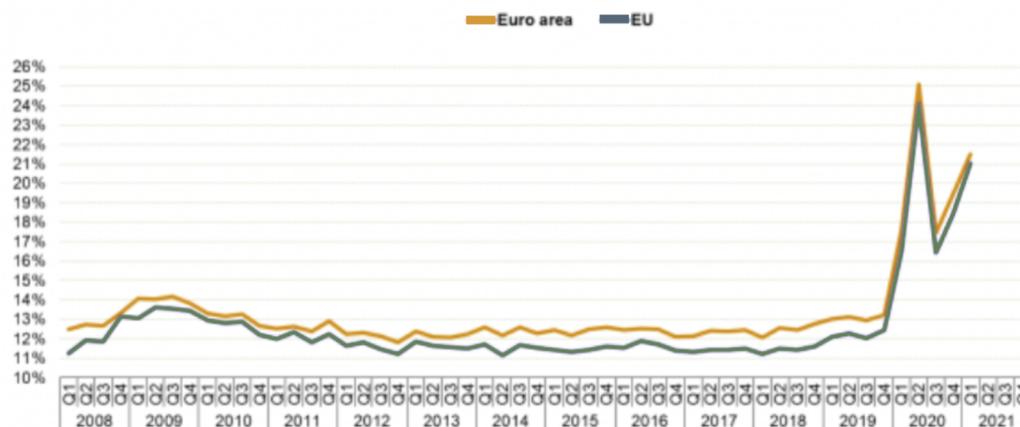
Record European sustainable fund flows

Household gross savings rate at all time high

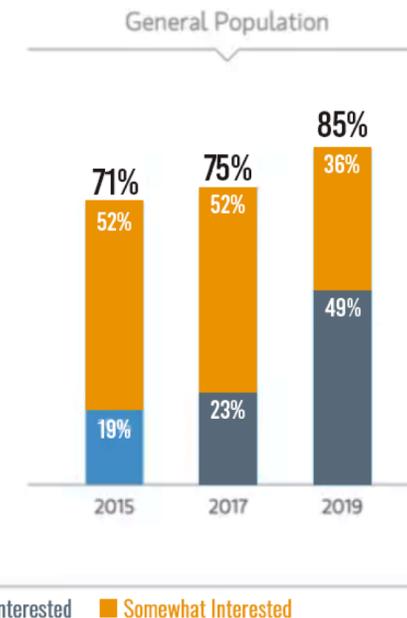
Peak in consumer interest



Source: Morningstar

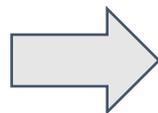


Source: Eurostat

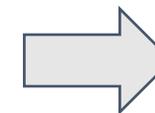


Source: World economic forum

Sustainable fund flows grew significantly over the past 2 years and are expected to triple in the next decade. Adoption by funds/corporates will drive consumer behaviour



Household savings have peaked, opening doors for sustainable investment apps to get a share of the consumer's disposable income



Although hard to quantify, the urge of the current generation to invest in sustainable investment targets has increased

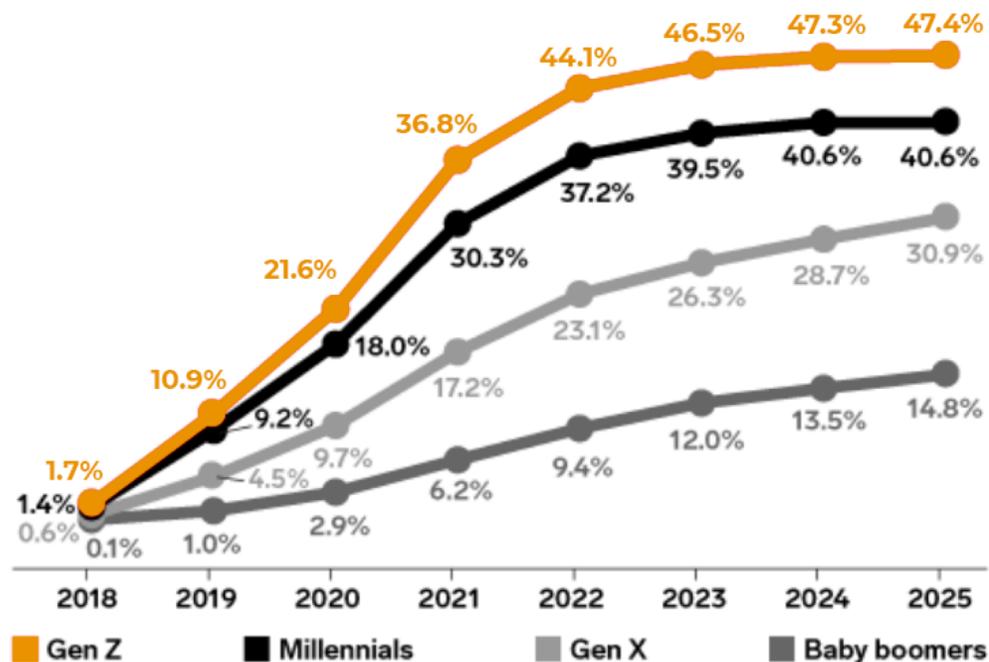


# Buy now pay later replaces credit cards – in 3 to 5 years the fight for market share will get real

Younger generation is fueling BNPL

## US Buy Now, Pay Later (BNPL) User Penetration, by generation, 2018 - 2025

% of digital buyers in each group



Source: eMarketer

Concern on exposure to debt is right, but it is the best alternative

	Klarna	Zip	Afterpay	Credit card
<b>Interest rate</b>	0%	0%	0%	25-40%
<b>Late fees</b>	\$0	\$6/month	\$10/payment	\$50+
<b>Repayment schedule</b>	3 months	Min. \$40	6 weeks	Up to 2 years
<b>Good to know</b>	Passed on to debt collection agency	Credit limit of \$1500 and can have some flexibility in terms of schedule	Max fee of 25% or \$68	Unflexible payment terms

- The No.1 reason BYPL is used is to **avoid expensive credit card fees**
- There are some real concerns about debt exposure for young people, but **most BNPL firms limit exposure and don't harm credit**

**Consolidation is happening** which is best for the consumer

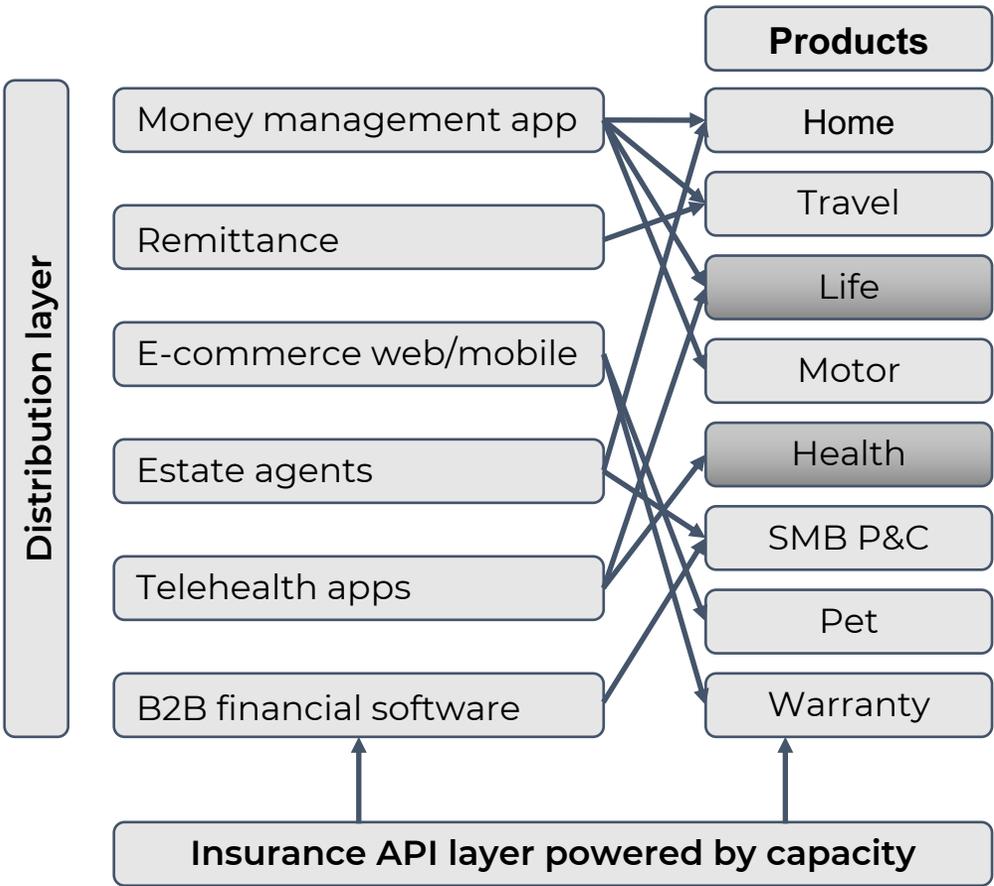




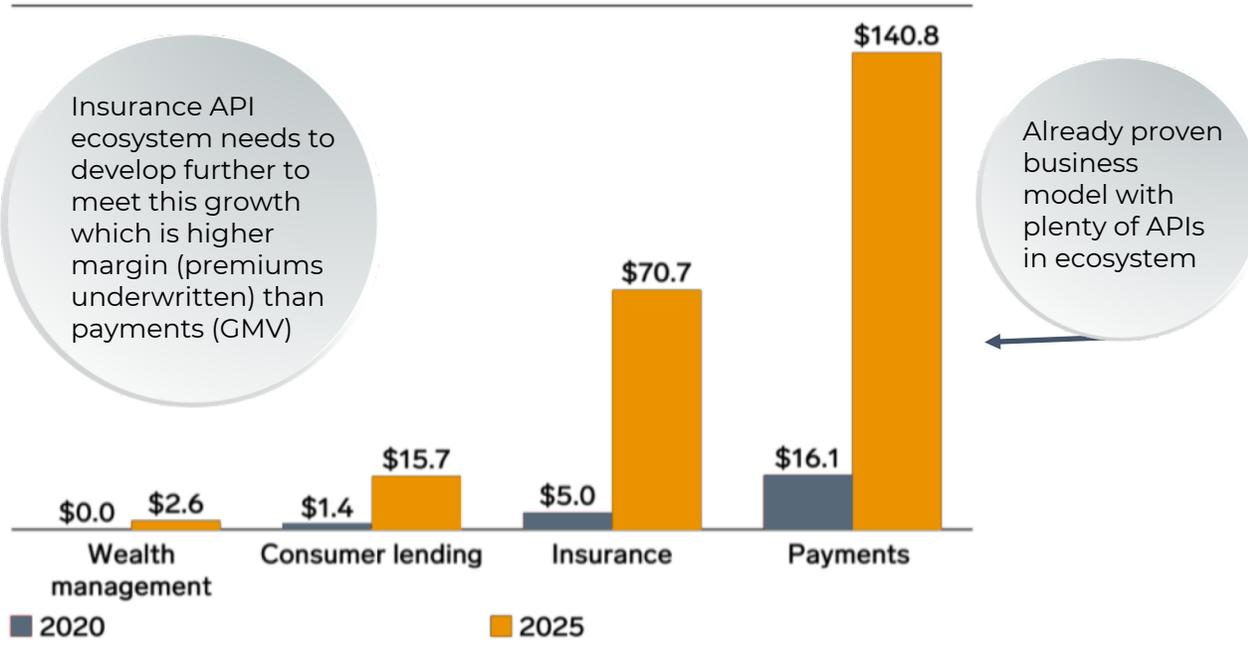
# Embedded insurance on a roll - One of the super apps in Europe will crack an embedded insurance product

Embedded insurance on the back of an engaging Money Management app has big potential

Insurance will see the fastest growth in the embedded finance market



Generated revenues, billions



Source: Lightyear Capital, 2020

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InsiderIntelligence.com



# Back to Basic Artificial Intelligence - AI took a big hit last year, it's time to re-focus on basic AI and keep it simple

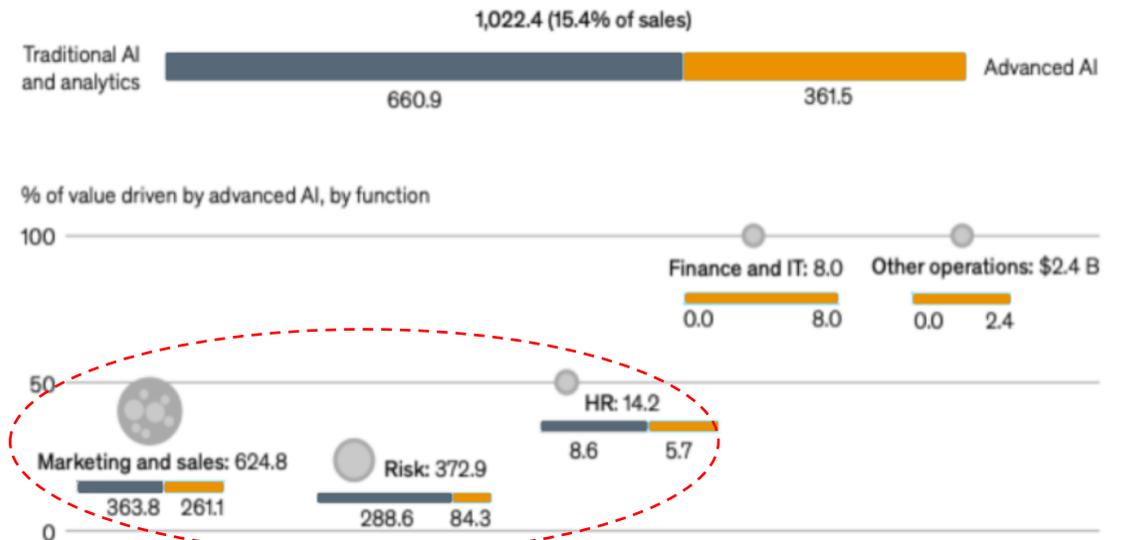
AI deals fell dramatically as companies found it harder to prove value and integrations slowed



Source: CB Insights

Potential annual value of AI and analytics in global banking (\$ billion). Startups need to keep it simple

## Total potential annual value, \$ billion

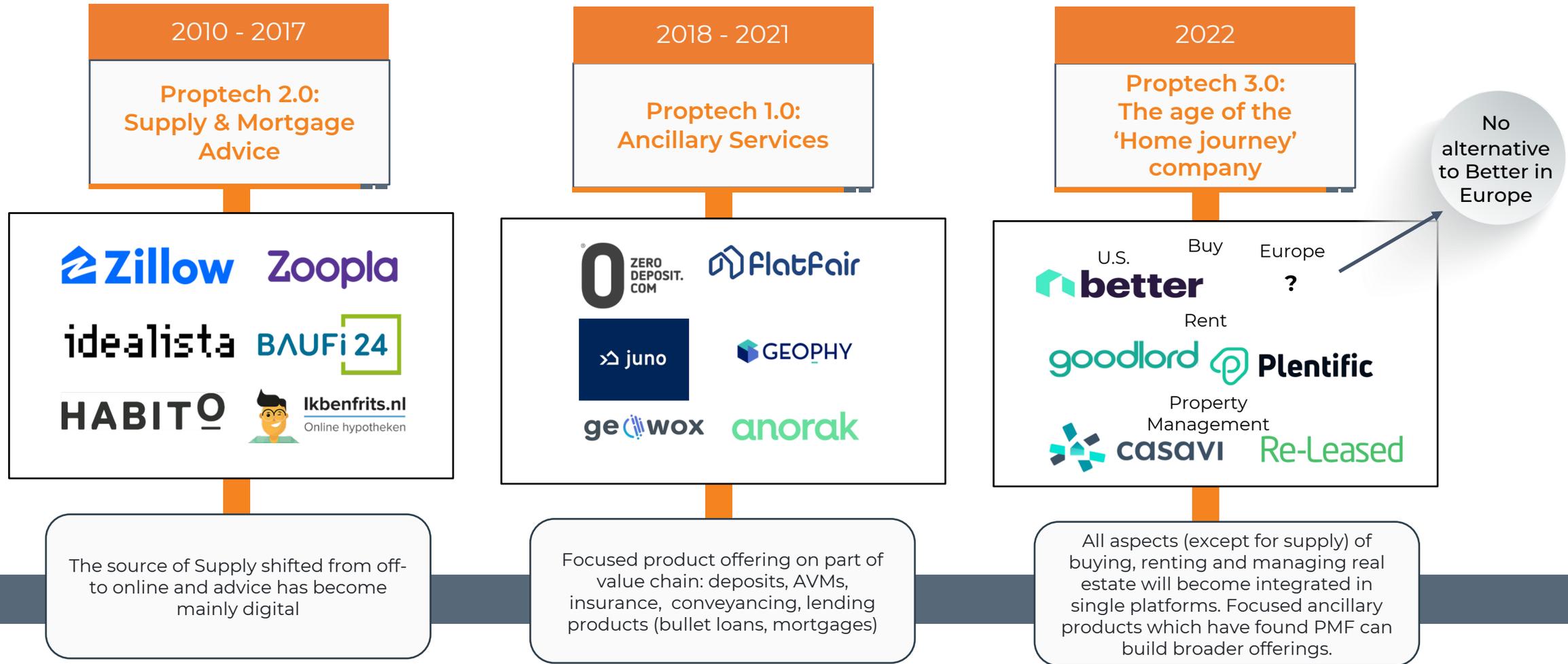


Source: McKinsey

- AI and big data startups have seen a 30% decline in revenue since the pandemic according to Statista
- Most AI deals require implementation/delivery which was delayed during the pandemic
- AI time to value is also in question

Most of the value is in traditional AI and analytics and does not focus on very niche finance functions

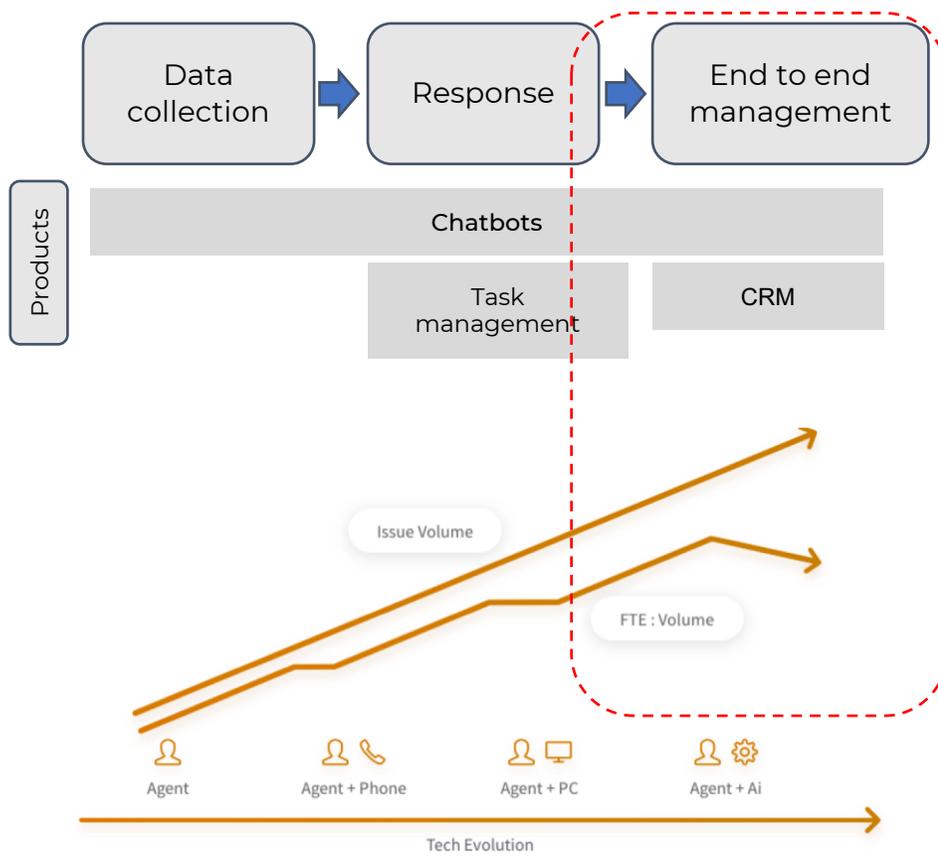
# The 'home-journey' redefined - Proptechs will start covering the transaction chain front to end





# AI enabled debt collection software - fastest growing use case in financial services

## Evolution of AI customer service software

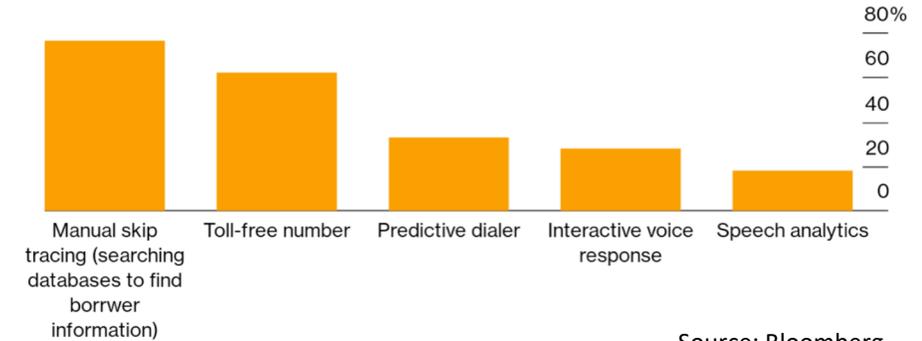


A combination of increase in delinquencies and few employees will force debt collection agencies to invest in software

Solutions that together with the agent enable shorter time to resolution

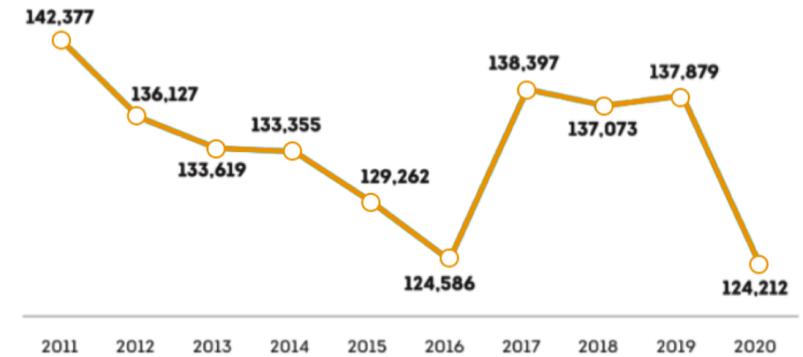
## Collection industry is still low tech

Technology used (% of respondents)



Source: Bloomberg

Number of debt collection employees, 2011 to 2020



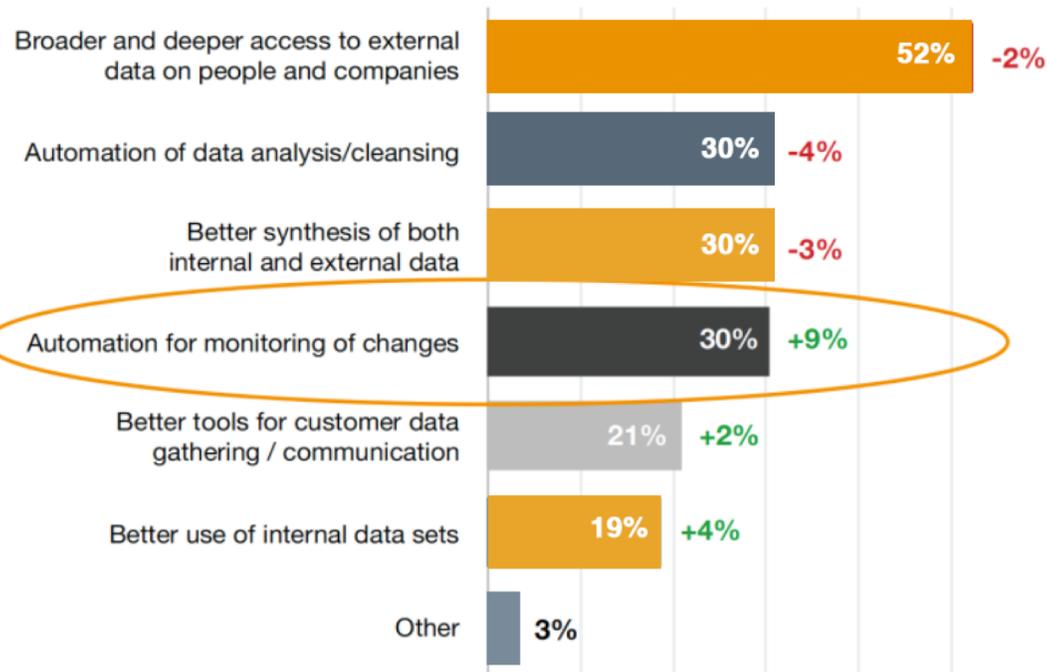
Source: IBISWorld



# End 2 End KYC and identity management is the name of the game – Simple ID checks will get left behind

The need to continuously monitoring changes as become the clear concern for industry leaders

Achieving continuous KYC cost effectively is the challenge but data harvesting is key in low risk accounts



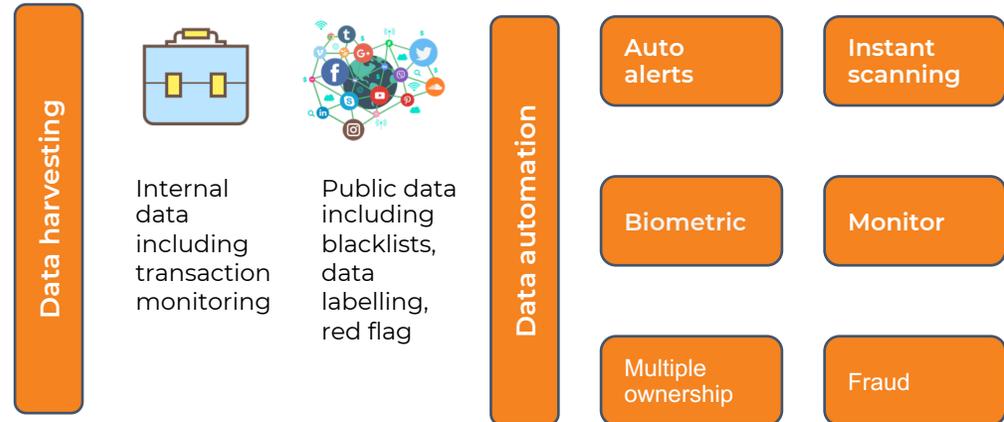
Q. Where do you think the biggest opportunities for improvement are in your field of expertise? (choose 2) +/- indicate changes on 2020 survey results

Onboarding costs for high risk clients:

\$1,400 - \$4,000

Average onboarding costs

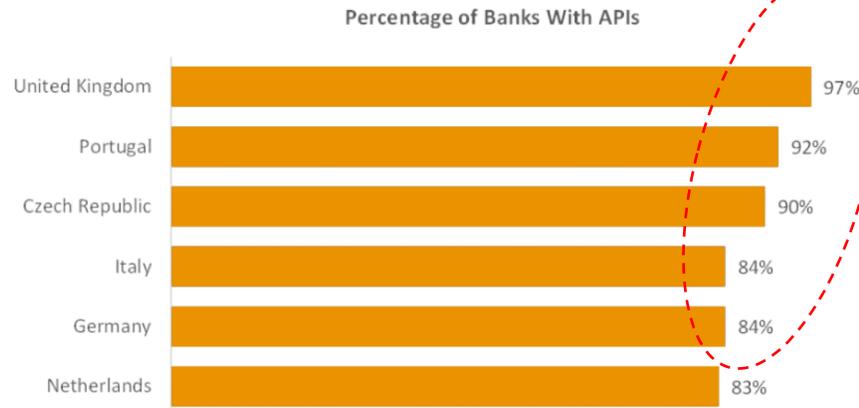
\$400 - \$1,400





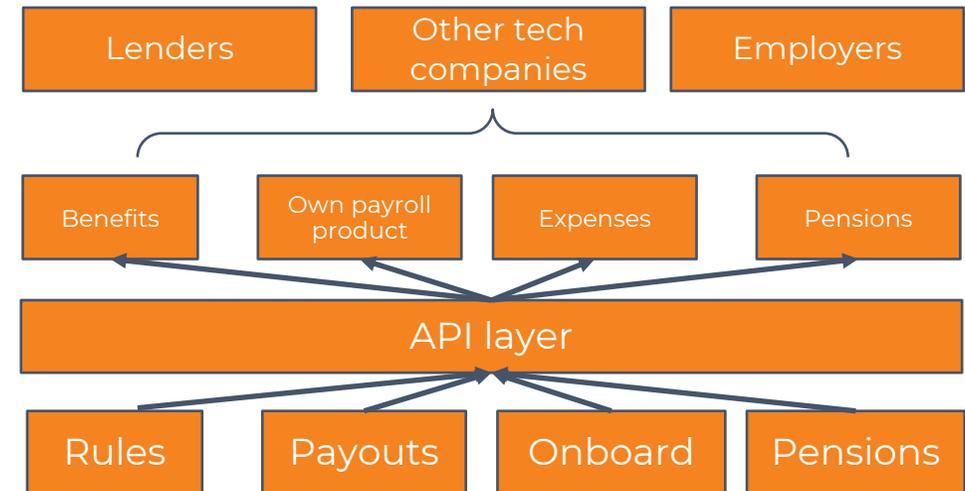
# Payroll rails the next big thing – The open banking war is over with payroll rails becoming the next infrastructure play

Open banking has become a commodity



Aggregators already cover the majority of banks in Europe

Payroll API infrastructure



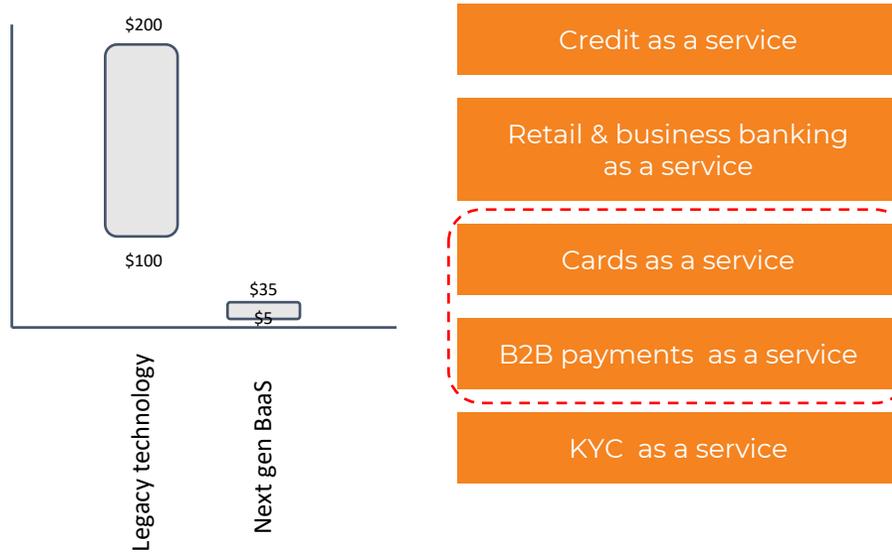
- **Benefiting the consumer:** Payroll APIs will allow financial product providers better insight into a consumer enabling actionable results rather than just monitoring (bank APIs). Imagine a lender reducing its interest rate on the basis of “writing” its deduction into the payroll and thereby almost eliminating non-payment
- **Software silos under threat:** SMEs will want software solutions to engage in payroll processing. But other platforms that are already imbedded into SMEs will be able to offer this service through payroll APIs thereby eliminating the need to have payroll processing only software



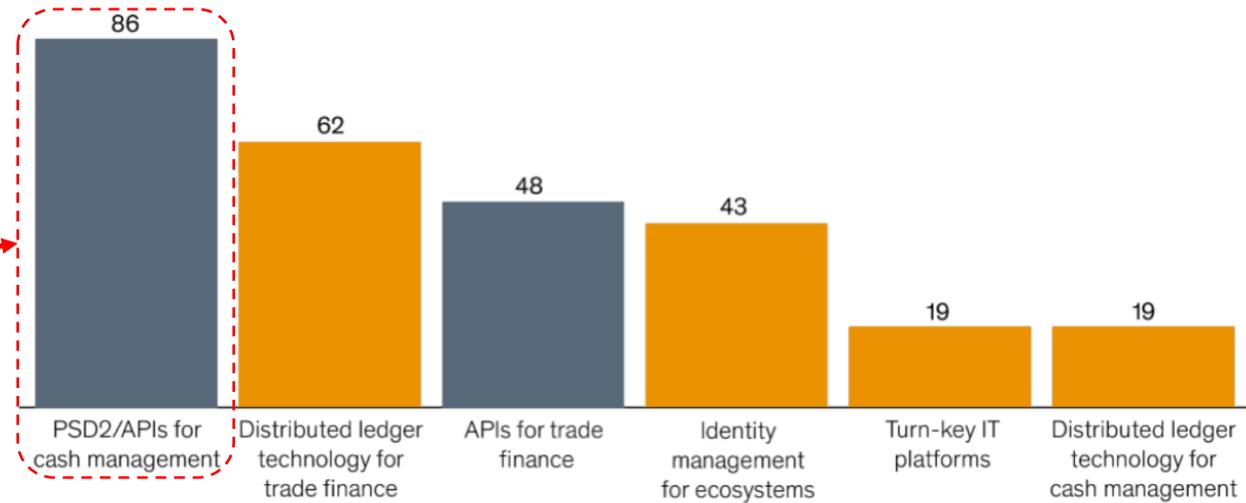
# BaaS M&A – A big bank, payments or software vendor will buy a BaaS company focused on payments to enter the vertical

Cost to acquire customers not sustainable for RoE

B2B APIs are priorities for most banks



% of survey respondents that reported areas for innovation for investment



Source: McKinsey

- Strong emergence of B2B payment modules via API for transaction banking eg: Rapyd, Libeo
- Banks are missing out on lucrative high volume market due to cost inefficiencies/user experience as a result of their legacy infrastructure

- Over **\$120 trillion** in global B2B payments volume with an estimated **\$2-10 trillion** in payment revenue



**Aman Ghei**  
Partner  
[Aman@finchcapital.com](mailto:Aman@finchcapital.com)



**Lourens Ruigrok**  
Investment Manager  
[Lourens@finchcapital.com](mailto:Lourens@finchcapital.com)



**Radboud Vlaar**  
Managing Partner  
[Radboud@finchcapital.com](mailto:Radboud@finchcapital.com)