



TOP 5

**TOP 5 GROWTH OPPORTUNITIES IN THE FINTECH
INDUSTRY FOR 2021**
– WHAT YOU NEED TO KNOW NOW

FROST & SULLIVAN



State of the Industry – What You Need to Know Now

The Fintech industry is extensive. It is comprised of multiple subsectors; each of which will have trends specific to them, and specific to a region. Frost & Sullivan includes the following sectors under Fintech (not exhaustive):

- Verticals: Digital Banking, Insurtech, Wealthtech
- Enablers: Cloud, Data and Analytics, Blockchain, Artificial Intelligence (AI), Machine Learning (ML), and Internet of Things (IoT)
- Services: Lending Platforms, Regtech, Paytech

The list of trends included herein is not comprehensive. The COVID-19 pandemic has certainly upended the financial services industry, but the overall impact it has had around the globe – on people, businesses, and the economy – is massive. While all repercussions still cannot be predicted long-term, there are some likely possibilities and opportunities for the Fintech industry in the nearer term.

The financial services industry has remained strong through 2020, but has readied itself for what is next. Digital transformations that were already in process have been sped up, and resiliency has been a key factor in companies that are surviving and thriving.



CYBERSECURITY



Cybersecurity is fundamental across industries. In financial services and insurance, the data is highly sensitive in nature and compliance is crucial.

Cybersecurity will be a disruptive force on financial services over the next decade; it is expected to contribute \$125 billion to cybersecurity revenues by 2025.

Before the COVID-19 pandemic, Frost & Sullivan's annual digital transformation survey was conducted. At that time, more than 70% of banking and insurance companies planned to increase their investment in cybersecurity in 2021, and 38% thought it was the top information technology (IT) challenge they face.

What's Driving Growth?

- Keeping up with new and continuously evolving security threats is a key reason for digital transformation to remain an ongoing process. Enabling technologies are the foundation of this, e.g., AI for threat detection and blockchain for end-to-end privacy. Future technologies like quantum cryptology will also be used to combat advanced attacks.
- As the number one critical factor for IT decisions, (by respondents of the digital transformation survey), ensuring a high level of network security must be a big part of developing products or partnering with providers over the next two years.
- The hyper-connected world, with over 20 devices per person predicted by 2030, will expose governments, organizations, and individuals to critical vulnerabilities arising from complex and rapidly-evolving threats and breaches of privacy.



BIG DATA AND ADVANCED ANALYTICS

Data and analytics have become more advanced and, therefore, more important to enterprises over the last few years.

The use of analytics, ML, and AI technologies have the potential to decrease costs, increase revenue, and accelerate innovation.

Additionally, the COVID-19 pandemic has shown how data-driven decisions can greatly help in risk mitigation. Big data and analytics are also being used extensively to build more personalized and targeted user experiences, tying them to at least two other significant trends.



What's Driving Growth?

- Financial services companies are using data and analytics, ultimately, to stay competitive since they enable improved operations, predict customer needs, personalize product offerings, and forecast demand. During the current (and future) times of uncertainty, these factors are even more business-critical.
- Frost & Sullivan's research shows that expanding ML and AI applications will be a core driver for the adoption of big data analytics, particularly in the banking sector, as well as government, retail, and healthcare.

The conservative global forecast post-COVID-19 for big data analytics is \$43 billion by 2025, with a 6-year CAGR of 18.8%.



PARTNERSHIPS

Financial institutions will continue to look to Fintech startups with which they can collaborate.

Fintech, which is now well-established, has heretofore been seen as a disruptor. Startups have been able to offer innovative approaches and products to address pain points that legacy systems either could not or were slow to address. Financial institutions have taken notice and either acquired them or established partnerships to leverage their technologies, and expand their customer base.

As the Fintech industry remains strong and startups continue to develop, these partnerships will flourish. In industries like insurance, where regulations change frequently, companies need the flexibility to adapt their systems quickly, and startups can enable this.



What's Driving Growth?

- In addition to the “traditional” partnerships, open banking API technology will promote partnerships between banks and fintechs. These regulations allow data networking across many institutions, e.g., the European Second Payment Services Directive (PSD2) encourages a more integrated payments market. These open banking partnerships will allow consumers to own their own data and have an integrated view of their financial accounts. To get there, banks will need to manage their information in a secure and more standardized format in order for it to be shared.

The capital invested and deal count in open banking has grown over the last five years and has reached over \$700 million to date in 2020, a 42% increase from 2019.*

*Source: Pitchbook

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DIGITAL BANKS



Digital banking has been a significant sector of the Fintech industry, and digital-only banks are poised to grow in 2021.

Digital banking is nothing new – using mobile apps to the bank is a regular practice for consumers. The digital-only approach is seen in some of the biggest Fintech companies of the last few years, like Revolut, Monzo, and Monese. Chime, which provides banking through mobile, is currently the most valuable American fintech at \$14.5 billion.

In the US, the Office of the Comptroller of the Currency (OCC) has been slow in providing national bank charters to fintechs, and it is an expensive process for fintechs. There have been approvals for SoFi and Varo recently, illustrating OCC's willingness to continue in 2021.

What's Driving Growth?

- As a result of the COVID-19 pandemic – people having to stay home, social distancing, bank branches being closed – digital bank growth was accelerated. For example, in the second quarter of 2020, Bank of America witnessed 47% of its sales from digital channels compared to 29% in Q2 2019.
- Digital banks make customer onboarding simpler for both the users and the employees. The process is all digital vs. paperwork.
- Per the FDIC, between June 2019 and June 2020 in the US there was a net decline of 1,463 bank branches.
- Better offerings and fewer fees are a big driver for consumers to move to digital-only banks. Without branches, these banks are able to offer these low or no cost options.

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PERSONALIZATION

A continued pain point in the financial services industry is serving customers with personalized and intelligent service, sales, and marketing.

When we speak with people in the financial services industry, the customer experience is what comes up as a big driver for them to innovate. The COVID-19 impact on financial services has accelerated timelines for many companies, and made them focus on what is necessary, as opposed to the nice-to-haves. The accelerations will still benefit them long term; they have seen what they can get done in a short amount of time.



What's Driving Growth?

- Customer satisfaction and improving sales are the major drivers behind the adoption of digital transformation. Personalization is part of improving the customer experience, and technology can be used to do that.
- The big data and analytics discussed earlier can be used to predict future consumer behavior, giving the banks the power to be precise in their marketing. Improving customer retention is important for banks in today's environment.
- The usage of voice assistants for banking, and new developments in natural language processing, will be key in both the gathering of data and new channels to assist customers.

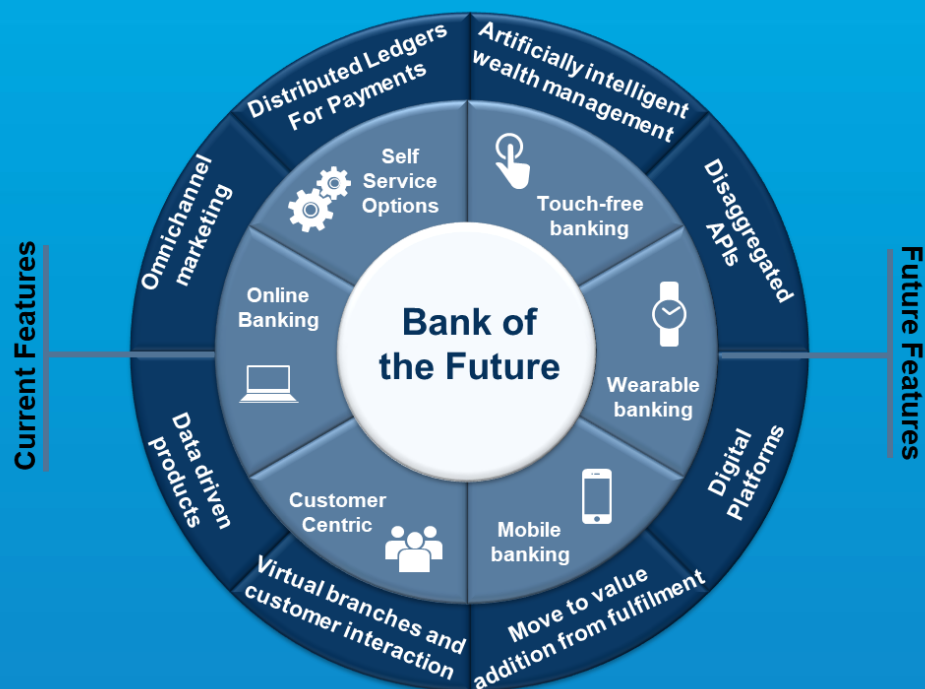
Per Frost & Sullivan's annual digital transformation survey, enabling real-time customer data analytics was the top reason to invest in IoT technology.



What Lies Ahead – The Outlook

The experience with COVID-19 has given banks a unique opportunity to refocus and build up trust – ultimately leading to loyalty from their customers. They are embedded in the lifestyle of their customers, and as part of their continued transformation, they will serve through different channels and technologies.

The use of technology like AI, advanced analytics, and systems that can react quickly to the market is part of improving the customer experience to make it seamless.



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<https://hub.frost.com/gsd/>

Recommended Readings:

- ✓ [How Blockchain is Transforming the Financial Services Industry](#)
- ✓ [Growth Opportunities Driven by Emerging Technologies in Financial Services—An IT Decision Maker Perspective](#)
- ✓ [Asia-Pacific Mobile Payments Services Market, Forecast to 2025](#)



Is your organization prepared for the next profound wave of industry convergence, disruptive technologies, increasing competitive intensity, Mega Trends, breakthrough best practices, changing customer dynamics, and emerging economies?

Leverage visionary innovation that addresses the global challenges and related growth opportunities that will make or break today's market participants.

For more than 50 years, Frost & Sullivan has developed growth strategies for the Global 1000, emerging businesses, the public sector, and the investment community. Let us put our expertise to work for you!

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