INSIGHTS FROM THE BDO FINTECH PRACTICE

How Fintechs Can Maintain Growth During 2022

In recent years, fintech has attracted more customers and increased interest from financial services companies looking to engage in M&A activity. At the same time, as digital transformation trends accelerated during the pandemic, total investment in fintech topped $100 billion during 2021, a year-over-year increase of 183%.

However, as deal activity has slowed down in 2022, fintech leaders are now looking for strategic pivots or partnerships to buoy their companies through the rest of this year and into 2023. To do so, it is important for fintechs to meet the moment.

Fintech offers a technology-focused approach to financial services, which spans multiple sectors that include insurance, asset management and banking. Fintech can help companies in these sectors improve their internal capabilities and digital offerings at a pivotal time for financial services. Additionally, with consumer behaviors shifting and digital adoption increasing, fintechs will continue to be a key partner for companies seeking to provide customers with greater convenience and access. As all financial services companies look ahead, fintechs can use multiple strategies to navigate a volatile market.

STRATEGIC PARTNERSHIPS WITH FINANCIAL SERVICES COMPANIES

Deal activity set new records in 2021 as many organizations pursued M&A and strategic partnerships to help drive growth. Tech industry M&A in 2021 surpassed $1.1 trillion globally — one-fifth of total M&A value — marking a new record and a **71% year-over-year increase**. While fundraising activity is likely to slow down further in the year ahead, fintechs can still position themselves for select M&A opportunities through partnerships with larger financial services companies.

Relatedly, deals involving U.S. banks eclipsed **$77 billion in value**, the highest level in 15 years, and traditional banks aligning with fintech companies may remain a key driver amidst shifting M&A activity. M&A dealmakers are expected to be on the hunt for startup acquisitions, specifically targeting those companies strapped for cash and looking to sell. Aside from an outright acquisition, banks can also partner with fintechs as a vendor, referral partner or a direct partner through co-creation and technical integration. For banks, association with a fintech company can bring them into the future and ahead of competitors. Rising consumer expectations and the need to reduce friction in the customer experience have driven banks to seek fintech deals and partnerships at unprecedented rates.

Similarly, the insurance industry has seen ample deal activity amid increasing consolidation and digitalization. In the asset management space, wealthtech has grown in popularity as more companies seek digital capabilities such as robo-advisors and algorithmic trading software.

Alignment with an established financial services company can help boost a fintech company's brand recognition while providing access to a broad base of loyal customers. The fintech company can also benefit from a partner's experience and internal capabilities in multiple areas, such as human capital management, compliance and more. Additionally, partnerships can provide capital to fintechs, which can fund further growth activities or other strategic initiatives.

EMBRACE INNOVATION THAT EXPANDS CAPABILITIES AND SERVICE OFFERINGS

Partnerships between financial services companies and fintechs work well because they marry the insight of experience with the foresight of progress. It is this foresight that helps the fintech industry recognize opportunities for innovation.

For example, fintech transformed peer-to-peer (P2P) lending, making it possible for many small businesses considered higher risk by banks to procure growth funding. The use of buy now, pay later (BNPL) retail offers and other forms of payment technology have also expanded significantly. For the insurance industry, the growth of insurtech has powered a variety of operational efficiencies ranging from faster claims resolution to automation for underwriting and more.

More broadly, fintechs have enabled many improvements in customer experience, which has become increasingly important as the pandemic expanded use of digital platforms — whether for management of banking products, insurance policies or investment portfolios. Innovations such as these can continue to drive growth for fintechs and other companies in the financial services ecosystem.

THREE AREAS FOR FINTECH GROWTH

Fintech companies can continue to harness the power of innovation to navigate a turbulent market environment in 2022 and beyond. There are three areas in particular where fintech companies can focus to drive growth as financial services companies look to technology: **predictive analytics, virtual wealth management and the super app.**

AI for Predictive Analytics

Artificial intelligence (AI) is rapidly transforming algorithmic trading, market monitoring and fraud detection. Though many traditional financial services companies use AI technology for these purposes, regulations, legacy systems and a lack of qualified personnel often prevent them from adopting more sophisticated AI models.

Fintech companies are able to adopt newer AI technology more nimbly. To reap the full benefits of a complex AI system, fintechs need access to accurate, high-quality data. The ideal source is a highly structured internal repository. Fintechs that practice robust data governance are well-positioned to leverage advanced AI technology to provide customers with a more personalized experience, whether that means anticipating their questions or assessing their profile information and financial history to connect them with services appropriate for cross-selling and upselling.

Wealthtech

Fintech solutions and capabilities are drastically changing the wealth management industry and the services wealth managers provide to their clients. Wealthtech tools are allowing investors to self-invest through robo-advisors and better manage their portfolios and retirement needs through intuitive digital tools. In 2021, global assets under management (AUM) by robo-advisors **approached $1.4 trillion**, and that total is anticipated to exceed $2.8 trillion by 2025.

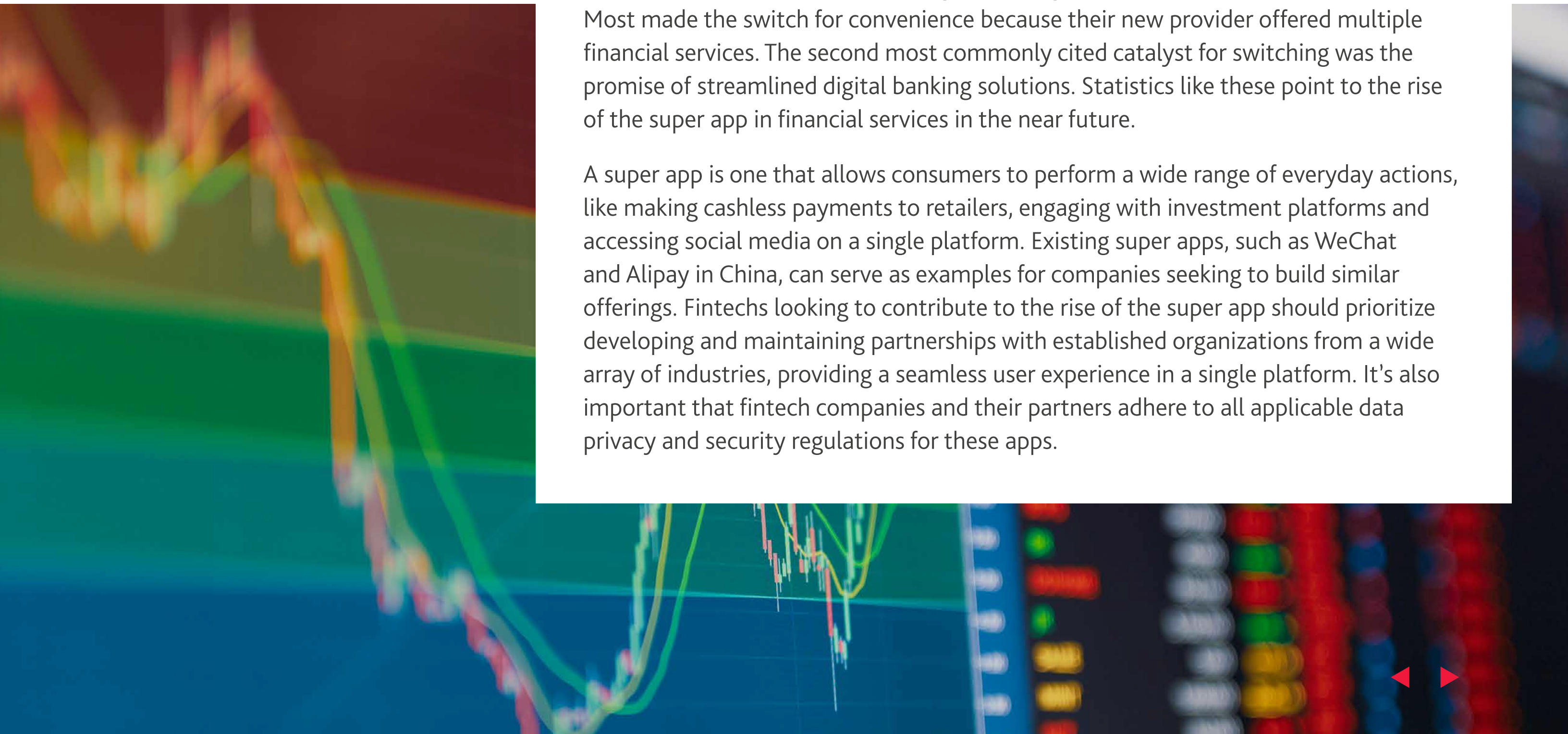
This transition has been driven, in part, by the growing affluence of millennials and under-40s who prefer to take control of their own investment decisions. Through lower minimum investments, lower fees and fractional share purchases, fintech solutions have opened investing access and capabilities to a larger segment of the population — who otherwise would not meet the minimum required assets for traditional financial advisory firms. Because of this, interest in wealthtech tools will likely spike again after the current slowdown, which signals further change on the horizon for the wealth management industry as traditional advisory firms engage with these and other digital innovations.

Finally, greater adoption of cloud computing at wealth management firms has also contributed to growth in this sector in recent years. More wealth management firms are migrating their data to the cloud to take advantage of data analytics apps. Widespread adoption of the cloud will likely inspire more wealth managers to shift to a virtual advisory model, enabling them to offer highly personalized services informed by data.

The "Super App"

American Express's **2021 Small Business Recovery Report** found that nearly one-third of small businesses have changed banking institutions within the last 12 months. Most made the switch for convenience because their new provider offered multiple financial services. The second most commonly cited catalyst for switching was the promise of streamlined digital banking solutions. Statistics like these point to the rise of the super app in financial services in the near future.

A super app is one that allows consumers to perform a wide range of everyday actions, like making cashless payments to retailers, engaging with investment platforms and accessing social media on a single platform. Existing super apps, such as WeChat and Alipay in China, can serve as examples for companies seeking to build similar offerings. Fintechs looking to contribute to the rise of the super app should prioritize developing and maintaining partnerships with established organizations from a wide array of industries, providing a seamless user experience in a single platform. It's also important that fintech companies and their partners adhere to all applicable data privacy and security regulations for these apps.



For Fintech, Multiple Roads Lead to Safety

Fintech has experienced tremendous growth in the recent years through 2021. In 2022 and beyond, some fintech companies may find success by engaging in a deal with a traditional financial services company and benefiting from the scale, recognition and capital that can bring. This will depend on the fintech company's growth stage, pain points and evolving external market factors. Others may opt to blaze their own trail and carry on independently by doubling down on the use of AI and other advanced features that meet customers' rising standards of convenience.

Given the developments in 2022, it would be difficult for fintech companies to maintain growth momentum in the current market. However, companies that channel their efforts in the three strategic areas mentioned previously may find a way to successfully navigate today's challenging market environment.

To learn more about innovations in the industry and how to scale for growth, contact BDO's Fintech practice today. ▶

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