BDO's 2025 Fintech Predictions

Fintechs are poised for significant growth in 2025. Declining federal interest rates, a new presidential administration, and renewed appetite for blockchain applications will present fresh opportunities across the industry.

But organizations also need to prepare for potential regulatory changes and their associated challenges. By deepening their understanding of these developments, companies can mitigate compliance risk, better adapt to emerging technologies, and stay competitive in a rapidly evolving market.

1. Fintech Mergers and Acquisitions will Rebound in 2025

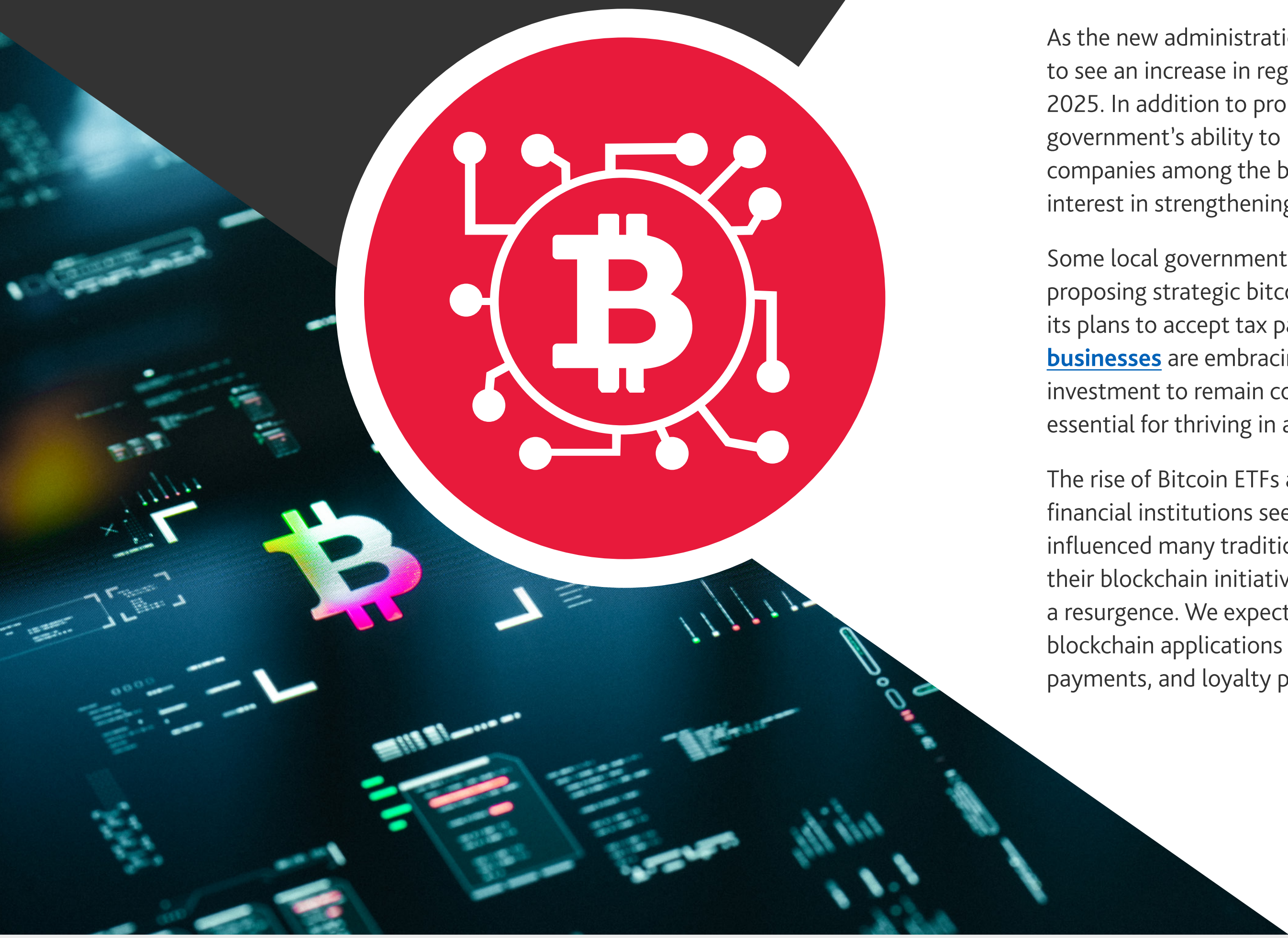
Following a modest increase in deal activity in 2024, mergers and acquisitions (M&A) activity in the fintech sector is expected to accelerate in 2025. This growth will be driven by several macroeconomic factors, including improving economic conditions and reduced regulatory uncertainty.

As **inflation declined below 3%** in the second half of 2024, the Federal Reserve is expected to continue reducing interest rates through 2025, although the exact number of rate cuts remains uncertain. Lower borrowing costs, combined with expectations of **M&A-friendly regulations** under the new U.S. administration, will likely create a positive economic environment for M&A activity.

From an investor perspective, private equity remains a key player in fintech M&A. The abundance of committed capital, along with pressure from limited partners (LPs) to realize investments and return proceeds, is expected to generate **significant activity in 2025**. For portfolio companies that have not yet reached valuations seen three to four years ago, private equity managers will likely pursue bolt-on acquisitions to achieve scale quickly and position these assets for sale. Additionally, we expect sellers' price expectations to continue normalizing away from the peak valuations observed in the low-interest environment. This alignment in pricing expectations between buyers and sellers will likely increase the volume of closed deals in 2025.

The ongoing focus on embedding AI within organizations and the growing interest in digital assets and cryptocurrencies will also fuel new M&A opportunities in these sub-sectors. Companies will seek to acquire the necessary technology and talent to stay ahead of the competition.

2. New Administration to Create more Crypto-Friendly Environment



U.S. President Donald Trump expressed his commitment to establishing a pro-crypto administration, promising to make the U.S. “the **bitcoin superpower** of the world.” Since the 2024 U.S. election, bitcoin’s trade value continues to climb, **surpassing $100k** a token in 2024.

As the new administration seeks to encourage the use of cryptocurrency, we expect to see an increase in regulations for bitcoin, stablecoins and other digital assets in 2025. In addition to promoting adoption, increased regulation may also enhance the government’s ability to issue bonds and manage fiscal policies. With major stablecoin companies among the biggest holders of U.S. debt, the federal government has a vested interest in strengthening digital infrastructure to drive digital currency usage.

Some local governments are already welcoming this change, with **several states** proposing strategic bitcoin reserves. The City of **Detroit**, as another example, announced its plans to accept tax payments via cryptocurrency in 2025. At the same time, **legacy businesses** are embracing blockchain technologies and using Bitcoin as a treasury investment to remain competitive, signaling that digital assets are no longer optional but essential for thriving in an evolving fintech landscape.

The rise of Bitcoin ETFs also sparks new interest in blockchain technologies as traditional financial institutions seek to tokenize real-world assets. After regulatory uncertainty influenced many traditional Web 2.0 ccompanies - including fintechs - to pause or defer their blockchain initiatives, the expectation of clearer guidance in 2025 is now prompting a resurgence. We expect institutions and Fortune 500 companies to start revisiting blockchain applications in areas like marketing, supply chain management, gaming, payments, and loyalty programs, transforming what was once a headwind into a tailwind.

3. Fintechs will be Critical to Capture next Generation of Banking Customers

The U.S. banking landscape has seen **significant consolidation** over the past 30 years, dropping from approximately 10,000 banks in 1994 to 4,500 in 2023. While consolidation continues to expand banks' customer bases, institutions must also confront a new generation of customers. The **great wealth transfer** means that, over the next two decades, $84 trillion in assets will pass to a younger demographic with different priorities. To stay competitive and win over a customer base that values more modern, intuitive, and user-friendly financial tools, institutions will lean more on fintech to enhance customer experiences.

Looking ahead, we anticipate more banks will prioritize centralizing services like investments, savings accounts, and credit lines into unified platforms. Asset managers, on the other hand, will increasingly turn to AI to offer personalized portfolios, providing more tailored financial experiences to meet the needs of today's investors.

4. Prepare for International Fintech Investments to Increase

The 2024 U.S. election triggered significant macroeconomic shifts, including a **stronger U.S. dollar**. If these positive market signals continue, fintechs should anticipate a surge in global investment interest. The U.S. is still the **largest fintech market today**, and U.S.-based fintechs can expect to see an increase in international investments from global firms and private equity seeking to expand their market share.

At the same time, U.S.-based fintechs will increasingly seek out fintech investment opportunities abroad. One key market to watch is India, where fintech and online banking M&A activity has been on the rise, fueled by a rapidly growing economy of **1.4 billion people**. Western Europe, Africa, and Japan are also poised for an uptick in interest from U.S. fintech investors seeking growth opportunities.

5. Blockchain and AI Team up to Stare Down Energy Challenges

AI and bitcoin mining share a common challenge: high energy consumption. **Bitcoin mining operations** represented 0.6% to 2.3% of total U.S. electricity demand in 2023. As institutions seek to reduce energy usage and recognize the benefits of **shared infrastructure**, we expect to see an increase in co-location of AI computing centers and bitcoin mining facilities in 2025. Simultaneously, decentralization in crypto can counterbalance AI's centralization promoting privacy and equitable technological process.

Co-location can drive multiple efficiencies, streamlining usage of expensive infrastructure AI and bitcoin mining share, such as computing hardware, cooling systems, and power supplies. Shared infrastructure also capitalizes on the natural overlap between bitcoin mining and AI activities, including repurposing excess heat generated during mining to power AI systems. Additionally, AI can enhance crypto adoption by providing sophisticated analytics while blockchain can secure AI's data processes. While AI algorithms can analyze transaction patterns to detect fraud, blockchain can provide a secure and transparent ledger to record transactions, ensuring trust and data integrity.

Top-line growth is another key benefit of co-location. In 2025, we predict bitcoin miners will increasingly leverage their infrastructure and energy access for AI applications to create new revenue streams and add value beyond traditional mining operations. In practice, this can include optimizing machines to switch between AI and bitcoin mining tasks. They may also leverage AI to predict maintenance needs, perform complex calculations via high-performance computing (HPC), or implement proof of useful work protocols by using blockchain systems to train machine learning models.

Honorable Mention: Fate of FDIC Rules Hang in the Balance

As a new administration has entered office, the future of the Federal Deposit Insurance Corporation (FDIC) rules remains unclear. While the Trump administration will likely ease some regulations, **bipartisan support** for banking-related legislation suggests that know your customer (KYC) rules will tighten in the year ahead. Some senators are even pushing bank regulators to strengthen fintech oversight in an effort to protect customers.

One such proposal, the **Synapse Rule**, would require banks to maintain more detailed records for customers of fintech applications. However, whether this regulation will move forward under the Trump administration remains uncertain. As new FDIC leadership will likely have the most significant impact on the regulatory landscape, the banking-as-a-service (BaaS) industry should prepare for potential regulatory turbulence and closely monitor the fate of proposals like the Synapse Rule.

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