

# THE FINTECH ECOSYSTEM

Vision from an  
**ALTFINATOR** analysis

## Context and Background

**FinTech has become a major buzz word in banking and finance in recent years. The FinTech Revolution** (the Economist, 2015) **is seen by many as the next evolutionary step of a whole sector whereby technologies are progressively integrated in the work flow of banks and financial firms. Pundits are edging their positions in order to benefit from the sweeping technological advancements and financial customers are presented with increasingly growing sets of options to carry out their business.**

Within this hype, new financial actors are populating the market providing novel and enticing business propositions. Amongst these, Crowdfunding and Peer-to-Peer digital platforms are the main players in the alternative finance space. Other Alternative Finance providers are also moving their operations on digital platforms so that factoring/invoice trading, balance sheets lending, leasing and trade finance are increasingly part of the FinTech ecosystem.

However, this revolution is not playing out evenly. In a large financial market such as the European Union's, we can see many regions where the FinTech revolution is in full swing, while in other regions it is just unfolding or lagging behind.

In this scenario, **ALTFINATOR** project is engaging with stakeholders in these countries to foster awareness, disseminate good practices and initiate the dialogues amongst stakeholders to enable Alternative Finance to flourish.

**Under this frame, ALTFINATOR has conducted an analysis to provide a consistent and informative picture of the FinTech Ecosystem aiming at delivering an overview of the sector to prospective investors and entrepreneurs through valuable insights into emerging investment options.**

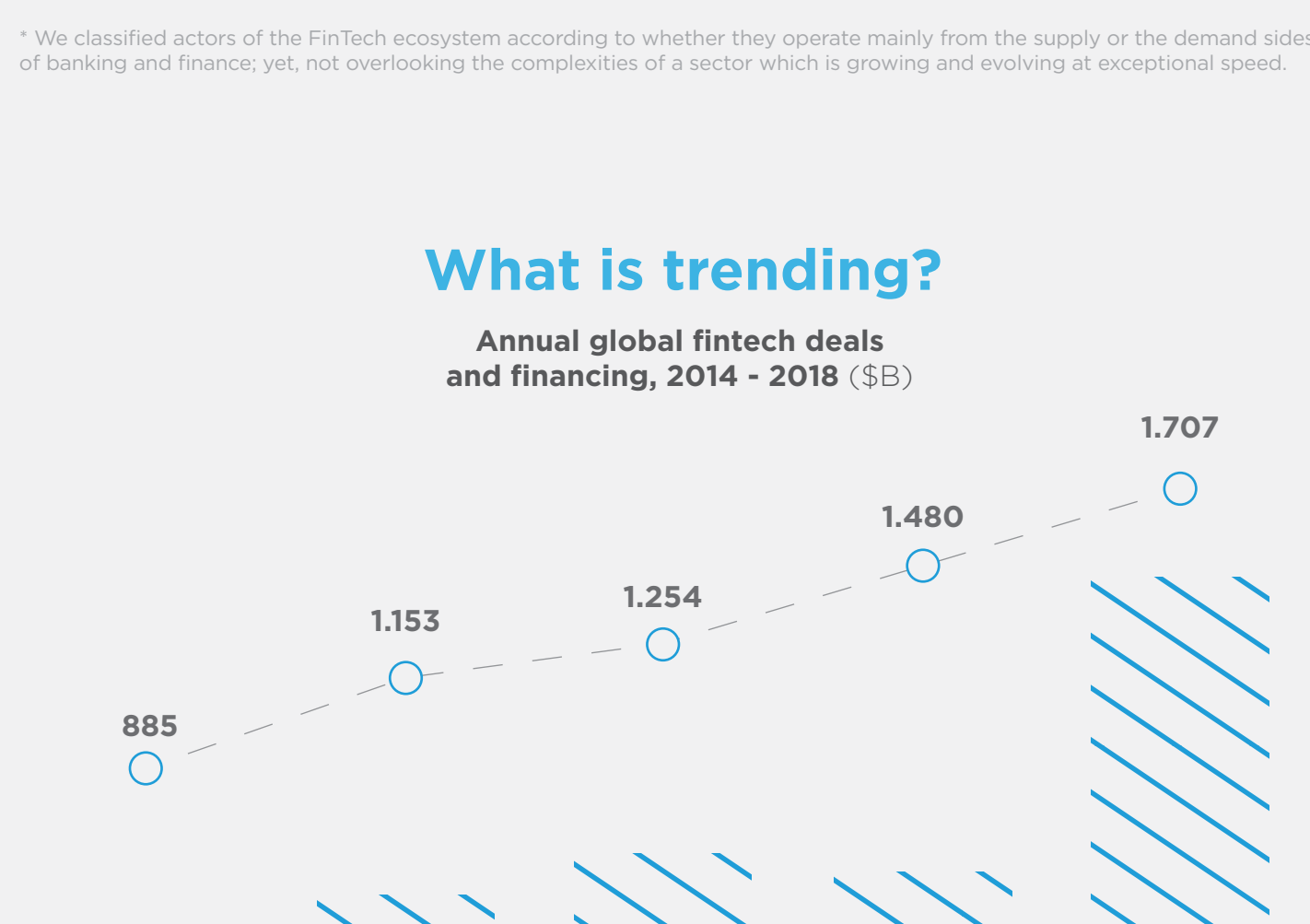
In particular, adopting a technology-service perspective, we present an overview of FinTech and a framework to interpret its recent evolution. We highlight **HOW, WHY and WITH WHAT EFFECTS** technological advancements are impacting on the structure of the sector.

We identify major players giving particular attention to their roles, their strategic positioning and their contribution to the innovative drive. We hover over the digital technological infrastructure upon which FinTech is extending its operations.

Moreover, we extend our research into the various technological domains contributing to or driving FinTech innovation (Security and Privacy; Digital Platform Technologies; Payment Technologies; Asset and wealth management technologies; Distributed Ledger Technologies & ICOs; Regulatory Technologies). We also present an overview of the regulatory framework and its increasing reach.

## MAIN RESULTS

### Who belongs to the Ecosystem?\*



\* We classified actors of the FinTech ecosystem according to whether they operate mainly from the supply or the demand sides of banking and finance; yet, not overlooking the complexities of a sector which is growing and evolving at exceptional speed.

### What is trending?

**Annual global fintech deals and financing, 2014 - 2018 (\$B)**



Source: CB Insights 2019

- Continuous and sustained growth in all segments.
- Successful FinTech companies moving into banking by seeking licences with regulators.
- Payment Tech Segment continues to be the largest segment.
- RegTech is the segment with the sharpest increase in 2018.
- Open APIs and PSD2 are setting off in Europe, and will be defining the course of the sector in the next few years.
- FinTech operators are consolidating their market position and expanding in complementary segments and growing their customer base.
- FinTech and tech-based alternative finance providers are enacting a strategy of 'wait and see' until 2020 when new European-wide regulations begin to be implemented.
- Established/larger Alternative Finance are extending in new markets by replicating their activities and adapting to local regulatory frameworks.

### What does the future of Alternative Finance look like?

**1st Scenario**

#### "Continuation of the recent organic growth trends"

The current dynamics of the FinTech sector will continue to exert their pressure on Alternative Finance and its players and, whilst the regulatory framework extends its oversight also over FinTech and Alternative Finance providers, these businesses will continue to grow. Very soon, however, the market may saturate and a process of selection may impact the ecosystem.

**2nd Scenario**

#### "Shift towards the verticalisation of the financial sector"

Traditional banking and finance providers may somehow cannibalise FinTech and Alternative Finance providers. Whilst retaining those newly emerged financial products and services that may contribute to their bottom lines, banks and financial corporations might prefer to dismiss those Alternative Finance segments characterised by low profit margins.

**3rd Scenario**

#### "Sector moves towards a specialisation of competences and operations"

A direct consequence of the full implementation of Open Banking, PSD2 and new emerging regulations, will promote the idea of financial markets where reigning integration of products and services upon digital platform is carried out by specialised operators. This will benefit in terms of efficiency and protection of financial customers.

**4th Scenario**

#### "The wild card"

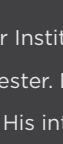
Low-probability scenario with high impact on the system, positing 'trust' as a system-critical element. What would happen if trust were to be irreparably broken? We may assist at a revolutionary overturning of the current financial system whereby only the operators able to maintain or gain customers' trust will be able to operate.

### What to conclude?

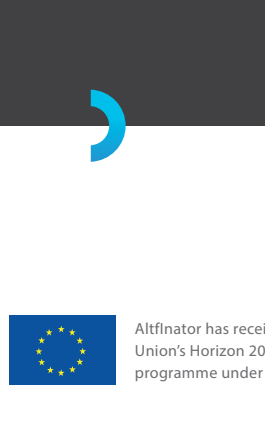
- The FinTech revolution is now consolidating and the emerging FinTech ecosystem extends from the traditional banking and financial service sector to new integrated applications which permeate modern economies.
- In Europe, alternative forms of finance are becoming mainstream in the more modern financial systems (UK, Germany, the Netherlands and in the Baltics), they are growing at impressive rates in some economies (Italy and Spain) and are only beginning to emerge in more fragile economies (Central and Eastern European countries).
- The elaboration of possible future vision outlooks of the FinTech ecosystem may well provide a strategic landscape for stakeholders to determine and hone their policies and strategies towards sectoral growth and prosperity.
- The FinTech diffusion process is by no means automatic and the digitisation of banking and finance operations is not a guaranteed outcome. To foster this vision, it is essential that the three critical elements of the FinTech ecosystem - Demand, Systemic Approach and Regulations - are taken into consideration. From the demand side, awareness and basic digital financial literacy campaigns may go a long way towards promoting a smart and knowledgeable cohort of financing customers and growth and innovation-oriented entrepreneurs and SMEs.



Access to the full report HERE



A recorded webinar of this report available HERE



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