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Market Intelligence

451 Research 2024 Preview

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2024 Trends in Fintech

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In many ways, we envision 2024 as a "getting back to business" year for fintech. We believe this will be the case especially for B2B fintechs targeting the various financial services modernization initiatives occurring widely throughout banks and enterprises.

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Table of contents

Executive summary

Introduction

Fintechs globally raised $46 billion in venture funding between Q3 2022 and Q3 2023, according to S&P Global Market Intelligence 451 Research. That figure stands in stark contrast to the $119 billion raised in the heady days between Q2 2021 and Q2 2022. With the "fast growth fueled by cheap capital" era of fintech now firmly in the rearview mirror, 2023 has been marked by rightsizing and a recommitment to business fundamentals across the sector. With capital in shorter supply, the line between fintechs that have found product-market fit and those that have not is clearer than ever before.

It's not all dark clouds, however. The past 18 months have taught fintechs valuable lessons in focus and discipline, putting them on better footing to succeed in the years ahead. Furthermore, tailwinds for the sector — running the gamut from cash displacement and financial inclusion to bank modernization and commerce digitization — remain vibrant, and the opportunities for disruption are as plentiful as ever. With secular trends proving resilient, battle-hardened fintechs will have a fresh perspective on what's needed to power long-term sustainable growth in 2024.

About this report

Reports such as this showcase insights derived from a variety of market-level research inputs, including financial data, M&A information and other market data sources both proprietary to S&P Global and publicly available. This input is combined with ongoing observation of markets and regular interaction with vendors and other key market players.

This report specifically includes data from the following sources:

- **Voice of the Enterprise: Customer Experience & Commerce, Merchant Study 2023** — This web-based survey was fielded March 29-April 21, 2023 among approximately 250 IT and line-of-business decision-makers primarily in the US.
- **Voice of the Customer: Macroeconomic Outlook, SME Tech Trends, Fintech 2022** — This web-based survey was fielded Nov. 10-Dec. 12, 2022, among approximately 400 IT end-user decision-makers in North America. Sampling is representative of small, midsize and large enterprises in private and public sectors.
- **S&P Global Market Intelligence, 2023 US Bank Outlook Survey** — This web-based survey was fielded March 1-30, 2023, among 207 US financial institution clients on various topics including expected loan and deposit growth, projected interest rates and financial technology use. Of the 207 participants, 147 worked for commercial banks or thrifts, 44 for credit unions, 14 for other US institutions and two were unspecified.

The Take

A challenging 2023 ushered in a reality check for fintechs, bringing some much-needed rationalization to the sector; fintech "tourists" have largely departed, valuations have returned to earth and business basics have suddenly become fashionable. Not all players were capable of adapting to the new market conditions, but those that did now appear more focused, disciplined and deliberate in terms of where and how they allocate resources. On the whole, we view the headwinds presented by the past 18 months as a net positive for the fintech sector.

In many ways, we envision 2024 as a return-to-business year for fintech. We believe this will be the case particularly for business-to-business (B2B) fintechs targeting the various financial services modernization initiatives that are widely occurring within banks and enterprises. In particular, infrastructure-oriented fintechs — especially those operating in areas such as payments and regulation technology (regtech) — that can abstract complexity and drive operational efficiencies for customers will be positioned advantageously. While the initial chapters of fintech had much to do with solving for user experience and distribution problems pertaining to financial services, we believe the next chapter is about addressing the infrastructure shortcomings that are holding back further progress throughout the industry.

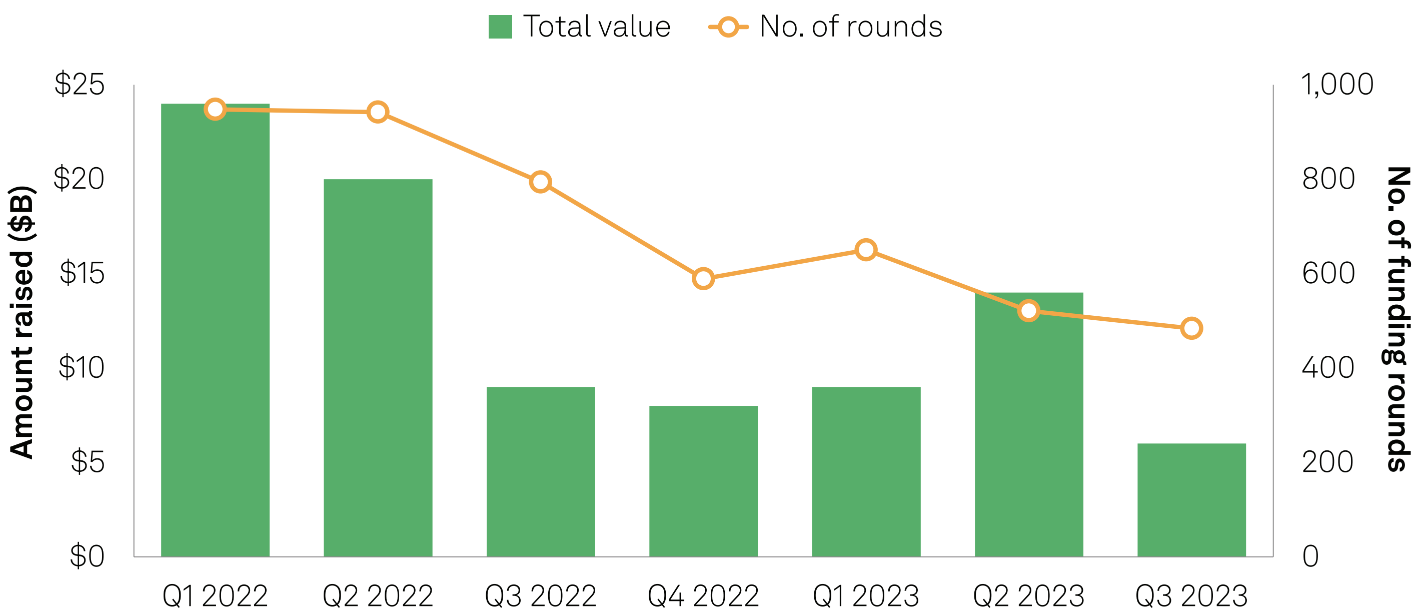
Trends we anticipate in 2024

Trend #1: Fintech funding will be a mixed bag in 2024

Venture capitalists have been scaling down their investments in fintech due to a combination of factors, including rising interest rates, receding growth rates in technology spending and increased regulatory pressures. For instance, the first nine months of 2023 saw fintechs raising $29 billion, compared to $54 billion the year before, according to our analysis of S&P Global Market Intelligence data. However, there are some signs that the current funding cycle is close to hitting the bottom, with deal count stabilizing in the third quarter. Still, we anticipate that fintech funding in 2024 will remain relatively flat or experience modest decline, with some potential for a rebound in the second half, barring any further negative macroeconomic changes.

Growing regulatory scrutiny of banking-as-a-service models in Europe and the US and buy now, pay later (BNPL) models in Asia-Pacific could mean funding might dry up in these segments in the short term. An upshot of the regulatory crackdown is that there could be some consolidation in these segments, and business model innovations will likely focus on enhancing the safety of the financial system. While holding financial institution licenses was once considered too burdensome, regulated fintechs learning to manage risk prudently can leverage their compliance infrastructure and fill in the void. Many consumer fintechs will likely stage a return to the venture capital (VC) market in 2024, after having improved their balance sheets and further expanded their distribution. The industry will see more "inside rounds," led by existing investors to keep their portfolio leaders afloat, with round sizes being small and valuations largely preserved from the prior rounds. However, for the next virtuous cycle of fintech funding to begin, public markets will need to be less volatile, and investors will require more exit opportunities through IPOs and M&A deals.

Figure 1: Fintech funding hits new low in Q3 2023



Source: S&P Global Market Intelligence, 2023.

Trend #2: Banking as a service will experience growing pains

While we are believers in the long-term potential of banking as a service (BaaS), current market conditions could impede the growth prospects of numerous startups in this highly saturated segment. Customer churn and slowing customer growth (particularly for BaaS providers reliant on serving early-stage fintechs) are challenges that have been building over the past 12-18 months due to the macro environment. Simultaneously, regulatory scrutiny is increasing. Regulators such as the FDIC and OCC in the US, FCA in the UK, and BaFin in Germany have become increasingly active in the sector, especially targeting governance, risk and compliance shortcomings. Some BaaS platforms such as Modulr have been prohibited by regulators to onboard new customers, while others, such as Cross River Bank, must seek out regulatory approval before onboarding new customers or offering new credit products. These types of interventions appear to be more commonplace globally.

In 2024, we expect to see BaaS platforms and fintech partner banks deepen their risk and compliance investments out of necessity. It's likely that their partnership criteria will become more rigorous, with some offloading existing fintech partners that are deemed to be high risk. This could slow the rollout of new fintech product launches — particularly financial accounts and cards offered by non-banks — in the near to midterm. We also expect to see BaaS consolidation ramp up. Notable deals in 2023 include Fidelity National Information Services Inc.'s (FIS') acquisition of Bond Financial Technologies and Fifth Third Bancorp's acquisition of Rize Money Inc. Looking ahead, financial intuitions, banking software vendors and large infrastructure-oriented fintechs could all be possible consolidators in this sector.

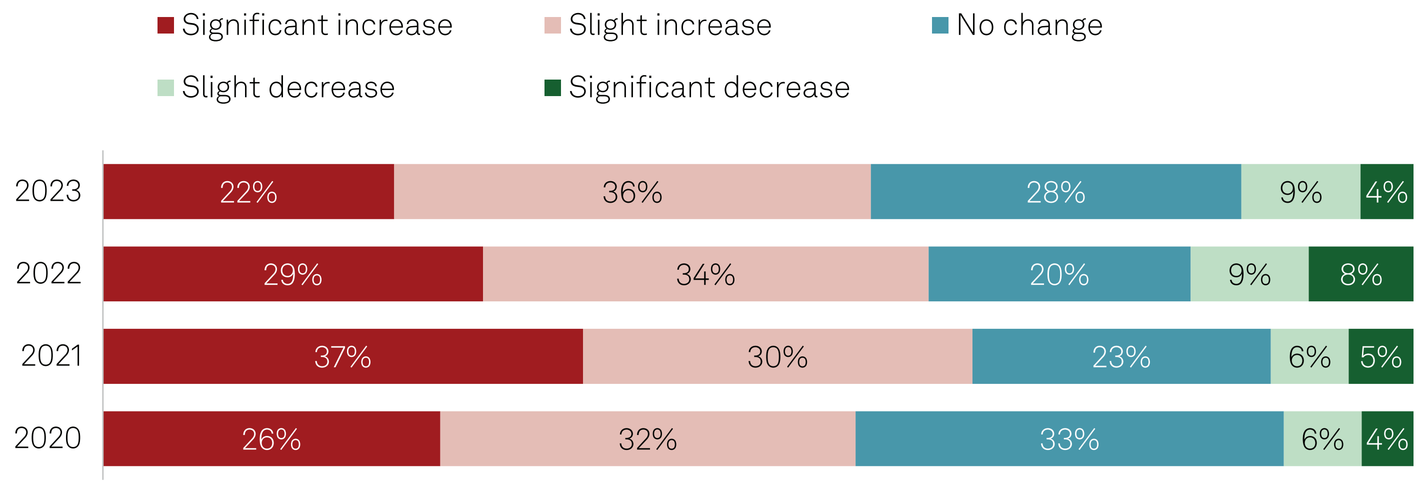
Trend #3: Generative AI's dark side will target financial services

Generative AI's potential to transform financial services is massive, but the dark side of this technology is emerging as fraudsters weaponize it against the industry. Starting in 2023, services such as FraudGPT and WormGPT appeared for sale on the dark web, enabling fraudsters to unleash large language models (LLMs) for use cases including creating malicious code and producing highly targeted phishing emails. In June, warnings came from the Consumer Financial Protection Bureau and Federal Bureau of Investigation about the growing risks of cybercriminals harnessing AI tools for impersonation chatbots and voice and video deepfakes. Imposter scams resulted in $2.6 billion in losses in the US in 2022 alone, according to the Federal Trade Commission.

We believe LLMs in the hands of hackers and organized crime rings could accelerate the efficiency and effectiveness of numerous types of fraudulent attacks throughout 2024 — especially account takeovers and new account fraud. The emergence of synthetic identities — identities that blend real and falsified data elements — could also be furthered by GenAI, enhancing criminals' ability to pass undetected through financial institutions' identity verification screening processes. Beyond takeovers of financial accounts, we see the impact extending to retailers' rewards programs, especially in verticals such as travel and restaurants. Among merchants that saw a spike in fraud over the past year, nearly a third (31%) indicated they have seen a noteworthy increase in new account fraud, and a quarter say the same of account takeovers, according to 451 Research's Voice of the Enterprise: Customer Experience & Commerce, Merchant Study 2023.

Encouragingly, we have seen recent evidence of fraud-prevention vendors including Deduce and Featurespace making advancements with GenAI, both in terms of harnessing it and targeting fraudsters that have weaponized the technology. At a minimum, we expect most fraud-prevention vendors to have a GenAI narrative next year.

Figure 2: Fraud growth has backed off from pandemic highs, but remains a persistent challenge



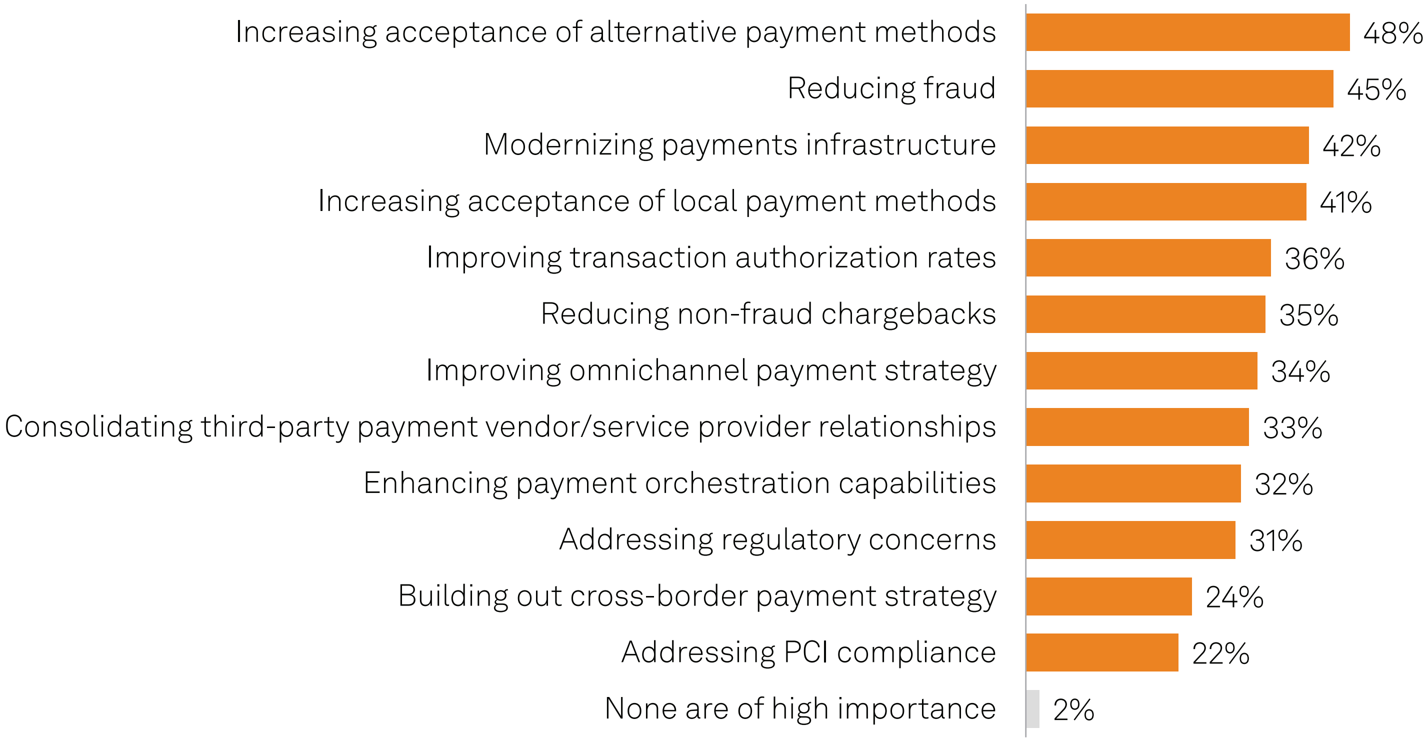
Q. Thinking about the current volume of fraudulent online transactions experienced by your business, how does it compare to this time last year?
Base: All respondents (n=250).
Source: 451 Research's Voice of the Enterprise: Customer Experience & Commerce, Merchant Study 2023.

Trend #4: A growing opportunity at the point of sale will emerge

The US Europay, Mastercard and Visa (EMV) liability shift that went into effect in October 2015 required merchants to upgrade their point-of-sale (POS) terminals to devices compatible with EMV chips, or else bear responsibility for any fraud losses. This sparked an unprecedented wave of POS hardware refreshes across the country. The most recent data from Visa shows that 3.7 million US merchants were accepting EMV cards as of September 2019, up from 392,000 in September 2015. With the typical lifespan of a POS terminal 5-10 years, the US market is once again entering a large refresh cycle.

In 2024, we expect a growing number of US merchants will be considering the purchase of new POS terminals as their current-generation devices near end of life. This should especially be the case for early movers — including The Home Depot Inc. and Walmart Inc. — that completed their EMV rollouts in 2014. We believe the focus on POS will be further enhanced by PCI DSS 4.0, which mandates adherence to various new payment data security requirements by 2025.

Figure 3: Payments infrastructure modernization ranks in top three initiatives for merchants



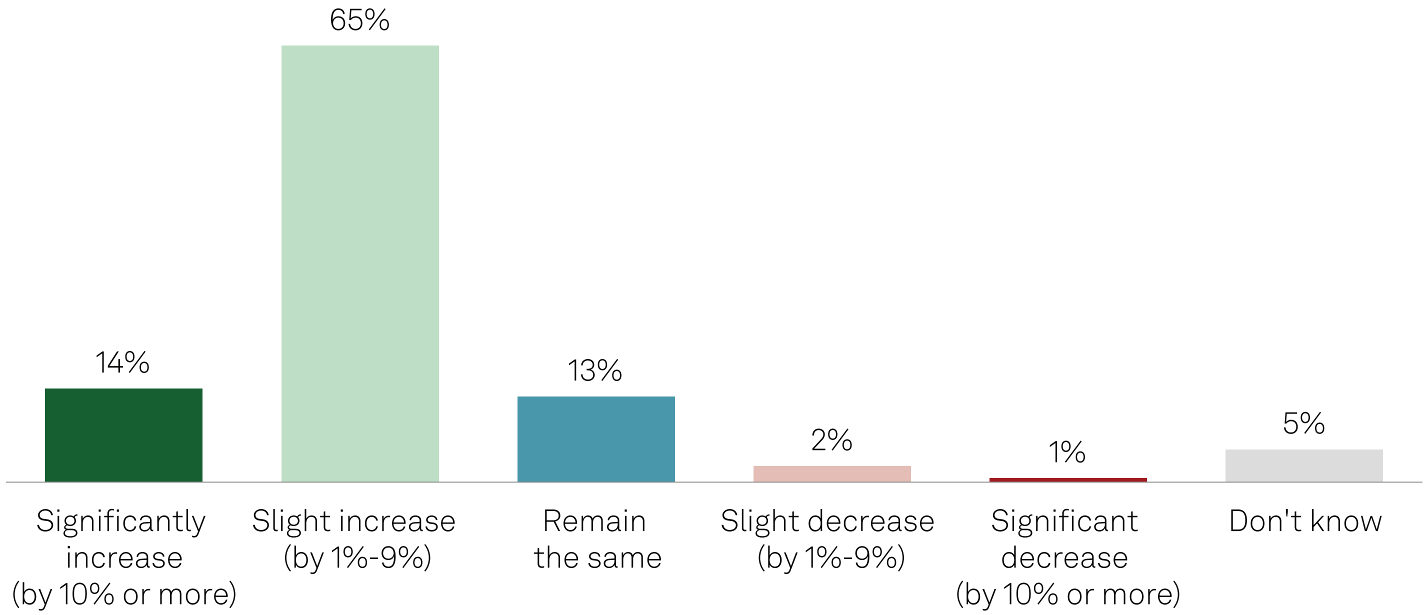
Q. Which of the following payment initiatives are most important at your organization? Please select all that apply.
Base: All respondents (n=250).
Source: 451 Research's Voice of the Enterprise: Customer Experience & Commerce, Merchant Study 2023.

We expect next year will mark the opening of a unique in-store entry point for payment processors such as Adyen, Stripe Inc. and Cybersource that have made significant enhancements to their POS capabilities in recent years. This should create an opportunity for these traditionally e-commerce-centric payment processors to drive uptake of their omnichannel capabilities. The forthcoming POS upgrade cycle may also be opportune for recently launched tap-to-pay acceptance capabilities on iOS and Android smartphones. Considering that more than 40% of in-person Visa transactions in the US are now contactless, the ability to quickly scale up or down acceptance via tap to pay may soon have merchants thinking differently about their POS hardware needs.

Trend #5: Payments modernization will remain a bright spot for banking technology vendors

A survey conducted by S&P Global Market Intelligence in March revealed that banks in the US have no plans to pull back technology spending despite a slowing economy. While a further deterioration in economic conditions could cause banks globally to tighten their purse strings, a group of vendors offering technology aimed at modernizing the payments systems of incumbent financial institutions might still experience a favorable outlook. Banks are continuing to adopt a progressive approach to decoupling their payments systems from legacy core banking systems instead of ripping and replacing the incumbent applications. Vendors offering componentized, cloud-native offerings that work alongside cores are well-positioned to help banks navigate this complex landscape. Significant factors causing banks to steer the wheel in the direction of digital transformation include the growing use of real-time payments and the industry's migration toward the ISO 20022 messaging standard.

Figure 4: Majority of US banks have plans to increase technology spending in 2023



Q. Over the next 12 months, how do you expect your organization's overall spending on technology to change, if at all?
Base: All respondents, abbreviated fielding (n=164).
Source: S&P Global Market Intelligence, 2023 US Bank Outlook Survey.

As payment market infrastructures globally migrate to the ISO 20022 messaging standard for cross-border payments, banks might increasingly turn to fintechs to better navigate the challenges of variable implementation timelines, legacy systems and data truncation without requiring changes to legacy systems. The other driver is growing demand from corporates for real-time payments, access to intraday liquidity management and greater efficiency in cross-border payments. While most smaller banks steered clear of incumbent real-time payment networks owned by large banks, central bank-owned FedNow appears to face less resistance among credit unions and community banks. Although most of the FedNow enablement will be driven by existing core banking providers, fintechs offering cloud-native offerings will likely see greater traction among banks with assets of $1 billion to $9.9 billion.

Trend #6: Fintechs will add fuel to regulatory push for real-time payments

Central-bank-sponsored instant payment systems are proliferating worldwide and refashioning the payments world by creating modern alternatives to traditional payment rails. India, Brazil and Southeast Asia have taken the lead, largely due to regulatory drives promoting bank participation and fintech innovations. The US and Europe may have been relative laggards, but the ongoing FedNow implementation, regulatory mandates and open banking could create some momentum in those markets in 2024. In Europe, the most significant driver could be the EU Commission's plan to mandate the use of Single Euro Payments Area (SEPA) instant payments, bring down the costs of instant payments, and level the playing field between banks and nonbanks.

Another catalyst for expanding account-to-account transfers comes from fintechs, which could push real-time payments beyond P2P transfers and into the complex realm of digital commerce and cross-border payments. Fintechs of various types seek direct or indirect access to instant payment systems to create alternative payment rails that may bring more favorable economics to merchants and small businesses. Open banking players will increasingly push for embedding instant payments on the checkout pages of merchant websites. However, our outlook for instant payments in the US is relatively sober because the absence of regulatory mandates and immediate commercial incentives inhibits the universal participation of banks in the near-to-medium term. Yet, FedNow could expand its use cases beyond funding and unloading digital wallets and earned wage access into areas where certainty and speed are critical, such as disbursements for auto loans and mortgages. Fintech products leveraging legacy rails, but creating synthetic instant payment experiences, could also gain momentum.

Trend #7: B2B will take center stage as the "final frontier" for payments innovation

While business-to-consumer (B2C) payments have seen considerable advancements over the past decade, B2B payments remain laden with friction and inefficient processes. Many businesses are entirely reliant on paper checks, have extensive manual accounts receivable (AR) and accounts payable (AP) workflows, and offer their B2B customers and suppliers little payment flexibility. Consider that 46% of SMBs agree that their business relies too much on manual, non-automated processes for managing financial tasks (e.g., payments, AP), according to [451 Research's Macroeconomic Outlook: SME Tech Trends, Fintech 2022 survey](). Furthermore, 41% of SMBs agree that managing cash flow is a challenge for their organization.

Figure 5: Many businesses face challenges in managing financial processes

46% of SMBs agree that their business relies too much on manual, non-automated processes for managing financial tasks.

41% of SMBs agree that managing cash flow is a challenge for their organization.

Q. To what extent do you agree with the following statements? - Our business relies too much on manual, non-automated processes for managing financial tasks (e.g., payments, accounts payable) - Managing cashflow is a challenge for our business.
Base: Respondents with fewer than 1,000 employees (n=202). Respondents that selected "strongly agree" or "somewhat agree" displayed.
Source: 451 Research's Voice of the Customer: Macroeconomic Outlook, SME Tech Trends, Fintech 2022.

With significant volumes of large, often regular transactions and ample room for technology to drive meaningful business outcomes, the B2B payments market is quickly emerging as a lucrative opportunity. We're seeing an array of vendors make inroads to the B2B payments market opportunity, from previously B2B2C-focused fintechs such as Stripe to card networks including American Express Company leveraging inorganic growth to broaden their B2B payments products and capabilities. Moving into 2024, we also expect more pure-play B2B payments fintechs will emerge, making this a popular category for early-stage investments.

While some fintechs specialize in certain B2B payments needs such as AP or AR automation or working capital, the market is fragmented, and few serve the full spectrum of B2B payments requirements. We anticipate increased M&A activity in this sector as large fintechs and incumbents lean on inorganic growth to build capabilities that can support a variety of B2B payment needs. Furthermore, given challenges in the consumer BNPL market, such as consumer default and margin pressure for providers, we anticipate a continued shift from consumer-focused BNPL offerings to B2B BNPL.

Trend #8: Regtech will have its moment

Often seen as one of the less glamorous fintech sectors, regtech's star is now rising. The increasing regulatory burden on fintechs means that many are now looking to outside vendors to support them in remaining compliant, especially if they operate in multiple jurisdictions. Incumbent financial institutions are also showing an appetite to partner with regtechs to reduce the operational burden of global compliance requirements.

The increasing prevalence of fraud (and the growing sophistication of fraudsters), in addition to the ever-present risks of money laundering and terrorism financing, means that more and more fintechs are enlisting specialist vendors to help them tighten up their onboarding and know-your-customer processes, and to support them in ongoing transaction monitoring to ensure identification and crack down on suspicious behavior. A good regtech can help its client cut down on the number of false positives when it comes to weeding out suspicious activity, thus saving time and improving customer journeys. Through a combination of AI, machine learning, big data and (in some cases) biometrics, regtechs can help other players in the financial services ecosystem automate processes that have until now been manual.

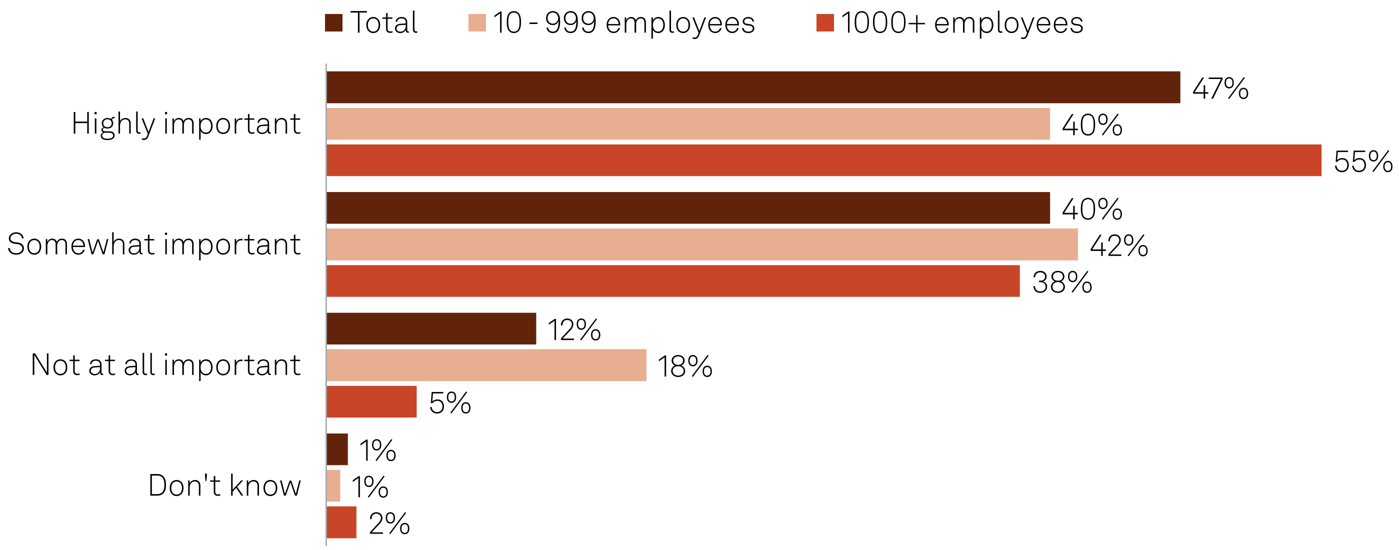
Investors are increasingly open to the opportunities provided by regtech, and there have been a number of significant funding rounds in the space this year, such as Dutch regtech Fourthline's $54.5 million raise in Q2 and London-based Global Screening Services' (GSS) $45 million raise in Q1. Fintech funding remains constrained globally, but we expect that many VCs will see regtech as a safe bet in 2024. M&A is also picking up in the space, such as Dublin-based Corlytics' acquisition of London-headquartered Clausematch, and we believe there is more dealmaking of this nature on the way as regtechs with complementary strengths join forces.

Trend #9: Globalization will create a payments and fintech tailwind

Globalization remains a perennial theme driving fintech expansion and innovation. We have seen increased focus among fintechs on bringing the concept of "borderless commerce" to life, in part fueled by the e-commerce acceleration during the pandemic. This includes an emphasis on streamlining cross-border payments (both B2B and B2C), simplifying foreign exchange conversions and offering infrastructure to support local payment acceptance. We expect this trend to be amplified in 2024 as more fintechs revert their focus back to international expansion to drive growth. Given the licensing, compliance and resource requirements that entering a local market independently necessitates, we anticipate increased partnership opportunities between fintechs and incumbents, such as banks, to streamline market entry.

Payment service providers (PSPs) will be among those most impacted by this trend. PSPs that can support global payment needs are increasingly top of mind for payment technology buyers, with global reach ranking high as a key decision-making factor, and even more so for larger enterprises. Consider that nearly half of merchants surveyed (47%) say that working with a payment processing partner that has global reach is highly important, rising to 55% of organizations that have 1,000 or more employees. Capabilities such as local acquiring, dynamic currency conversion and direct integrations into alternative payment methods are key attributes merchants are seeking to meet the needs of international shoppers.

Figure 6: Importance of having a payment processing partner with global reach



Q. How important are the following attributes to your organization when selecting a payment processing partner? - Global reach.
Base: All respondents (n=250).
Source: 451 Research's Voice of the Enterprise: Customer Experience & Commerce, Merchant Study 2023.

Trend #10: Momentum will build for CBDCs

In the span of a few short years, central bank digital currencies (CBDCs) have gone from a largely academic concept to a functioning part of the monetary system in several countries. CBDCs are now live in countries such as Nigeria, Jamaica and the Bahamas (with varying degrees of success), and at present, the central banks of more than 100 countries across the world are either researching CBDCs or piloting them.

CBDCs are purely digital versions of fiat money. Unlike digital payments, CBDCs automatically clear and settle instantly, essentially the digital equivalent of two parties exchanging physical cash or notes. CBDCs can be built to be "programmable," meaning that various features and functionalities can be built into them. For example, they can be programmed to be used by the recipient for specific purposes only, such as a government earmarking payouts of social security money for food, fuel or rent. However, this also makes CBDCs controversial, with opponents raising concerns that they could become a tool of government control and surveillance. We see an ongoing global debate about the actual value that CBDCs bring to the table, and pushback from civil society groups that are concerned about the implications for citizen privacy.

Despite differing viewpoints, we continue to see large payment processors and payment networks working to develop products and services specific to CBDCs. Interbank network Swift, for instance, began beta testing of a connector in September to interlink CBDCs between three central banks and 30 financial institutions. It seems that large players in the payments ecosystem are increasingly perceiving the arrival of CBDCs in most developed economies as inevitable, and regardless of whether they favor the concept, they are pursuing strategies to adapt to this new digital form of money. In 2024, we expect the payment industry's embrace of CBDCs to both deepen and broaden, making it a pivotal year for the expansion of this form of digital currency.

Methodology

S&P Global Market Intelligence 451 Research provides essential insight into key trends driving digital transformation across the entire technology landscape. By offering a combination of expert analyst insight and differentiated data, 451 Research enables the industry with the information and perspectives they require to make more effective decisions.

Reports such as this offer a holistic perspective on key trends and themes driving the technology space over the coming year. These markets evolve quickly, so 451 Research offers a wide range of research services that provide critical marketplace updates on an ongoing basis. These reports, datasets and perspectives are published frequently, in numerous short- and long-form factors. Forward looking M&A analysis and perspectives on strategic acquisitions and the liquidity environment for technology companies are also updated regularly, backed by industry leading databases such as the 451 Research M&A Knowledgebase.

Our research is organized into channels that align with the prevailing key issues driving digital transformation. These channels are: Applied Infrastructure & DevOps; Cloud & Managed Services Transformation; Cloud Native; Customer Experience & Commerce; Data, AI & Analytics; Datacenter Services & Infrastructure; Fintech; Information Security; Internet of Things; and Workforce Productivity & Collaboration.

For more information about 451 Research, please go to: spglobal.com/451research.

Further reading

Survey Data Hub – Voice of the Enterprise: Customer Experience & Commerce, Merchant Study 2023

Consumer Digital Payments Market Monitor-Data Visualization, November 2023

Fintech funding hits new low in Q3 2023, but late-stage investing resilient, October 2023

Global Real-Time Payments Landscape, September 2023

B2B financing market primer, April 2023

Embedded Finance and Fintech as a Service Market Map 2023, March 2023

Demystifying payments optimization, January 2023

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