CHAMS FINTECH KNOWLEDGE SERIES

Evolving Global Trends in FinTech

The emerging field of Financial Technology, known as FinTech, is in a constant state of progress and advancement, and this trend will continue in 2023.

In recent times, the banking industry has witnessed a remarkable surge in the adoption of fintech solutions, driven by the growing technological literacy of users. Various technological trends, such as Embedded Finance, Open Banking, Banking-as-a-Service (BaaS) Offerings, Sustainability and Green Finance, Neobanks, Artificial Intelligence (AI), Robotics and Machine Learning (ML) technologies will continue to shape the fintech landscape during 2023 and beyond.

In this piece, we explore six key trends that are currently defining the future of the fintech industry in 2023 and beyond. These trends are expected to enhance accessibility and simplify the lives of both businesses and consumers. Experts predict that the fintech sector will

2 expand significantly, reaching a value of $174 billion during this year.

1. 0 Embedded Finance

Embedded finance involves the seamless integration of financial services, tools or products that are traditionally obtained via a bank, directly within the products, services, platforms, websites, or applications of a non-financial organization.

In recent years, embedded finance has been gaining traction in the fintech industry and has become a dominant trend in 2023.

Leveraging on consumer needs and a desire for convenience, embedded finance enables seamless transactions and scalable personalized financial experiences.

1.1 Flavours of Embedded Finance

***Embedded Lending**:* This is where credit or financing products are integrated into a non -financial services company, such as an eCommerce store, retailer, or marketplace, essentially allowing buyers to access deferred payment facilities at the point of sale without having to go to a bank or other lender.

An example of embedded lending is an eCommerce store that offers short-term loans at checkout in the form of buy now, pay later (BNPL) options, allowing customers to split their payments or obtain loans seamlessly.

Instead of needing to visit a bank to get a loan and spend hours on paperwork, consumers can access credit without leaving the platform they're on.

Embedded Payments: This service makes life easier for consumers and business buyers by enabling instant payments at the touch of a button.

An example of embedded payments is the digital wallet on a mobile phone that enables instant contactless payments or rideshare apps like Bolt utilizing embedded payments, so customers don't need to enter their credit card information every time they wish to make a payment, instead they pay automatically via the app upon completion of their journey.

Embedded Insurance: This is where insurance products can be found and added on to a purchase at the point of need with just one click, thus making a broker or insurance agent unnecessary and practically negating the need to trawl through options from different insurers.

An example of embedded insurance can be found in Tesla offering car insurance for each Tesla car purchased or in the case of travel where purchasing a flight ticket comes with travel insurance offer without the need to contact an insurance agent separately.

By embedding financial services into these platforms, businesses can provide a more streamlined, yet holistic and convenient experience for their customers, thus eliminating the need for separate financial interactions.

The global embedded finance market currently valued at over US$54 billion and is predicted to grow to more than US$248 billion by year 2032. As a result, experts predict that the market for embedded financial services will expand by about 40% annually over the next several years.

According to Future Market Insights, the embedded finance market was valued at just US$43 billion in 2021, and it has all chances to reach over $248 billion in the next 10 years.

2.0 Open Banking

Open banking is a regulatory and financial technology framework that involves the practice of financial institutions sharing customer financial data securely and with user consent with authorized and trusted third-party providers (TPPs) by using standardized Application Programming Interface (API), which allows for the exchange of information between different systems in a secure and controlled manner.

This enables the development of new innovative applications and services that leverage the financial data of users and existing banking infrastructure to offer personalized financial management tools, streamlined payment solutions, and improved access to credit.

Open banking opportunities are used by many fintech businesses and startups that offer budgeting, expense tracking, financial planning, lending, and other services.

For example, with Open Banking, a user can connect their bank account to a budgeting app, which can then provide personalised insights into their spending habits, savings goals, and financial health.

Worthy of mention is the fact that open banking presents an opportunity for traditional banks to join forces with fintech instead of competing against them.

According to a study by Open Bank Project, by May 2022, there were more than 6 million open banking users globally. In 2024, 63.8 million people will use open banking, predicts Statista.

3.0 Banking as a Service

Banking as a Service (BaaS) is a model where banks or financial institutions open access to their payment ecosystem, provide their banking services and infrastructure to third-party companies, typically non-banking entities, to offer financial products and services to their own customers.

BaaS allows these non-banking entities, such as fintech startups, e-commerce platforms, or other companies, to leverage the existing traditional banking infrastructure and capabilities without needing to obtain a banking license or build their own banking infrastructure from scratch.

BaaS also takes advantage of APIs but unlike open banking, it provides a third party not with ready-made data, but with the functionality of a bank based on which new product can be developed.

Companies pay for access to the BaaS platform, after which the financial institution opens its APIs to that company, providing the systems and information needed to create new financial products.

By utilizing BaaS, non-banking entities can focus on their core business while offering banking related services seamlessly. They can provide functionalities such as account creation, payment processing, money

transfers, loans, and even issuing cards to their customers without having to develop and maintain the underlying banking infrastructure.

4.0 Sustainability and Green Finance

Sustainability and green finance describes the integration of the use of technology in finance with Environmental, Social and Governance (ESG) objectives, promoting sustainable investing, green bonds, and environmental impact tracking.

Fintech solutions can provide value in terms of social inclusion and practical implementation of environmental ambitions. With a growing focus on environmental sustainability, fintech is facilitating the integration of ESG factors into financial products and services. Fintech solutions support sustainable investing, enable the issuance of green bonds to fund environmentally friendly projects, and provide tools for ESG data analysis, tracking and measuring the environmental impact of investments.

With the increasing focus on ESG factors, there is a rising interest in fintech companies that offer ESG capabilities. These companies specifically target climate change, decarbonization, and the circular economy. However, the sustainability aspect of fintech products poses challenges, such as the carbon footprint of technologies used, and the ethical concerns related to personal data and AI development.

Addressing these challenges requires fintech companies to prioritize sustainability by adopting eco-friendly practices and addressing cultural and ethical issues tied to data usage and AI algorithms. Collaborative

efforts with industry stakeholders and regulators can facilitate positive change and promote a more sustainable and ethical fintech industry.

5.0 Neobanks

Neobanks also known as digital-only banks or challenger banks, are a type of fintech company or a digital fintech solution that has been gaining immense popularity in recent years as more consumers prefer to conduct financial transactions online or through mobile apps, thereby, eliminating tedious paperwork, the need to visit a bank physically and waiting in long queues.

FinTech has played a significant role in the growth of neobanks, which are a specific type of fintech company focused on reducing the cost of banking services.

Unlike traditional banks, neobanks typically offer a narrower range of services but concentrate on providing high-quality offerings in those areas. They operate entirely in the digital realm, without any physical branch locations. This Neo banking concept has gained popularity, with many new FinTech businesses adopting this model. The rise of neobanks benefits both companies and customers, as it leads to cost reductions and improved accessibility to banking services.

Neobanks offer a range of virtual banking services, such as peer-to-peer transfers, international remittance, instant transfers, simplified registration processes, IBAN and ACH accounts, contactless MasterCards with free transaction fees, and the ability to purchase various cryptocurrencies like Bitcoin and Ethereum.

Neobanks have emerged within the fintech landscape to make banking services more affordable. While they may have a narrower service scope compared to larger traditional banks, they prioritize specialization to enhance the quality of their offerings.

Neobanks also tend to be more transparent in their operations, emphasizing openness and clarity for their customers. Examples of neobanks include Kuda, Chime, Mondo, ALAT etc.

6.0 AI and ML for financial technologies

Artificial Intelligence (AI) and Machine Learning (ML) are revolutionizing the financial services industry and its related sectors. These technologies bring automation and advanced capabilities that lead to cost reduction and streamlined processes.

Banks and financial institutions are embracing AI and ML to enhance the customer experience, cut costs, boost productivity, retain customers, offer innovative services, and ensure secure payment transactions.

Through the collection and analysis of data on customers' cash accounts, credit accounts, and investments, AI enables financial institutions to monitor their clients' financial health and provide tailored and personalized services. Cognitive automation, data analysis, engagement, and insights empower companies to improve smart banking services.

For instance, AI and ML have empowered chatbots with natural language processing, resulting in smooth and efficient customer interactions.

Recognizing the benefits, banks and fintech companies with AI capabilities are forming partnerships to leverage these advancements.

Fintech solutions involve vast amounts of data, and AI, especially ML, is the ideal technology to process and leverage thick data. AI contributes to various areas in fintech, including risk management, fraud prevention, cost optimization, personalized banking experiences, and workflow automation for both team members and customers.

According to Insider Intelligence, chatbots powered by AI will become so deeply integrated into the banking process by 2030 that customers won't be able to differentiate whether they are interacting with a bot or a human, highlighting the transformative potential of AI in the financial industry.

The worldwide market for AI in fintech is expected to reach an astounding $27 billion by 2026 while maintaining a compound annual growth rate (CAGR) of 23.17% from 2021 to 2026.

Chams PLC- an award-winning ICT company, through its subsidiaries (ChamsSwitch, ChamsAccess, CardCentre, ChamsMobile) has been operating at the leading edge of the FinTech space over the past thirty years even as the field continues to evolve. Chams has equally evolved in its operational breath and industry leadership by deploying innovative solutions as a key indigenous strategic player in the African FinTech space. We are poised to continue to champion the dissemination of FinTech solutions for Nigeria and Africa.