

REPORT BREAKDOWN

Fintech's Road Ahead: Drivers of Change and Key Barriers

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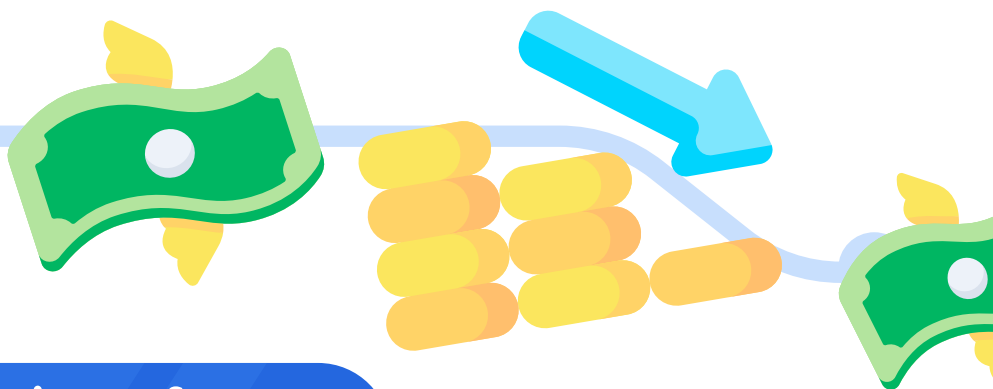
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Introduction

It's been two decades since the financial technology (fintech) industry began to develop and gradually displace traditional financial institutions globally. As technology becomes more pervasive in today's society, fintech is contributing to the provision of accessible financial services. In the years ahead, fintech will continue to be an important pillar of the global financial system. While customer growth has generally declined compared to previous years, revenue and profit have shown positive growth. This indicates that the market of fintech is maturing.

Based on this urgency, the **World Economic Forum (WEF)** collaborated with the **Cambridge Centre for Alternative Finance (CCAF)** to publish a report titled "**The Future of Global Fintech: From Rapid Expansion to Sustainable Growth, Second Edition.**" This second edition of the report provides information on the current fintech landscape. Topics covered include **drivers and barriers to fintech market growth, innovations undertaken by fintech companies, and aspects considered critical to fintech's future development.**

The data used in this report was obtained from **The Future of Global Fintech Insight Survey, Second Edition** conducted by the WEF and CCAF. Respondents in this survey were **240 companies** operating in various fintech sectors and spread across various regions. In terms of the fintech sectors, this report classifies fintech into six verticals: **digital lending, digital capital raising, digital payments, digital banking and savings, insurtech, and wealthtech**. The regions where fintech companies originate are also divided into six categories: **Asia Pacific (APAC), Europe, Latin America and the Caribbean (LAC), the Middle East and North Africa (MENA), the US and Canada, and Sub-Saharan Africa (SSA)**.



Catalyst and Barriers of Fintech Industry Growth

Fintech companies tend to have a more positive perception of the factors driving the industry's growth compared to the previous year. Based on the data presented in this report, the factors that have succeeded in driving fintech growth include consumer demand, access to skilled talent, digital and financial literacy of users, and the regulatory environment, as outlined in Table 1. Meanwhile, macroeconomics is the main inhibiting factor in fintech growth. This is as stated by 18% of fintech companies who considered this factor unsupportive, a significant decrease from the previous report, where 56% of companies considered macroeconomics as an inhibiting factor.

Factor	By Vertical	By Region
Consumer Demand	Fintech companies in the digital banking and savings sector consider consumer demand to be very supportive (64%).	Across all regions, consumer demand is considered one of the three main factors driving fintech growth, with percentages ranging from 32% to 45%..

Factor	By Vertical	By Region
Access to Skilled Talent	Fintech sectors that consider access to skilled talent crucial include digital banking & savings (37%), wealthtech (20%), digital capital raising (20%), and digital payments (20%).	Access to skilled talent is the top three driving factors for fintech growth in almost all regions (except APEC and MENA).
Digital and Financial Literacy of Users	Digital wealthtech (21%), digital lending (20%), and digital banking and savings (21%) consider digital and financial literacy of users important in driving fintech growth.	The US and Canada (20%) and Europe (17%) cited user digital and financial literacy as drivers of fintech growth.
Regulatory Environment	Wealthtech companies consider the regulatory environment very crucial (36%) for their business growth.	The regulatory environment is a very important factor in fintech growth for companies in the APAC (25%) and MENA (9%) regions.

Table 1. Top Driving Factors of Fintech Growth

Fintech Firms Strategies to Continue Growth

Fintech companies are making efforts to expand their businesses while securing their position among other competitors. These strategies include AI adoption, partnerships and funding, cross-border expansion, and targeting underserved communities. By implementing these strategies in their businesses, fintech companies are demonstrating positive growth and expanding their reach to become a vital part of the global financial system.



AI Adoption Across Fintech Firms Application Areas

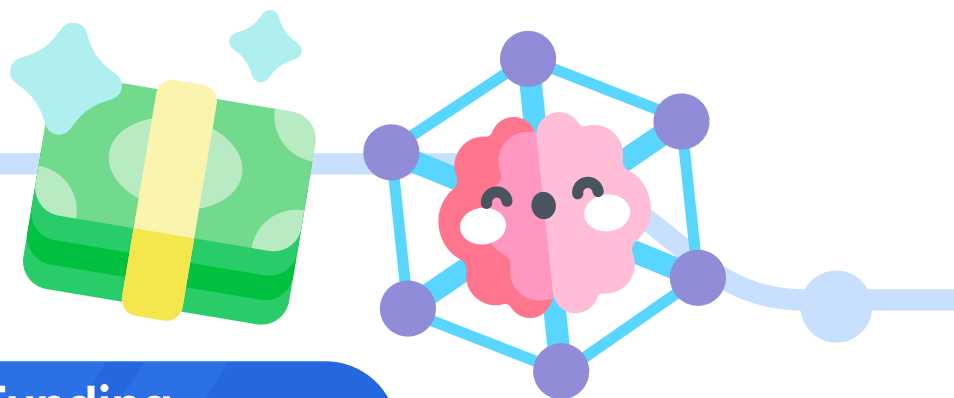
Artificial Intelligence (AI) has been applied by fintech companies to support service efficiency in their business lines. As many as 80% of fintech companies responding to this report stated that AI is used in at least one of five business areas. These business areas include customer service, process reengineering and automation, risk management, generation of new revenue streams through products and processes, and customer acquisition. The region currently utilizing AI the most is APAC, while the region using this technology the least is SSA. Further, digital payments and wealthtech are the sectors that have adopted AI the most. The implementation of AI, classified into five application areas, is outlined in Table 2.



Application Area of AI	Specific Function of AI
Customer Service	AI-enabled customer communication channels, AI-enabled real-time service adjustments to clients' needs, Personalized risk exposure analysis
Process Reengineering and Automation	Automation of administrative tasks and processes, Automated reporting, Chatbot and virtual assistant to streamline work, Automated compliance
AI-enabled risk management	Fraud detection, AI-enabled conduct risk management, Preventive pattern analysis to find potential exploits
Generation of New Revenue	AI-enabled data analytics, AI-enabled informed decision-making
Customer Acquisition	AI-enabled access to add-on services/products, AI-enabled marketing, Digital account opening solutions

Table 2. Specific Function of AI in 5 Application Area

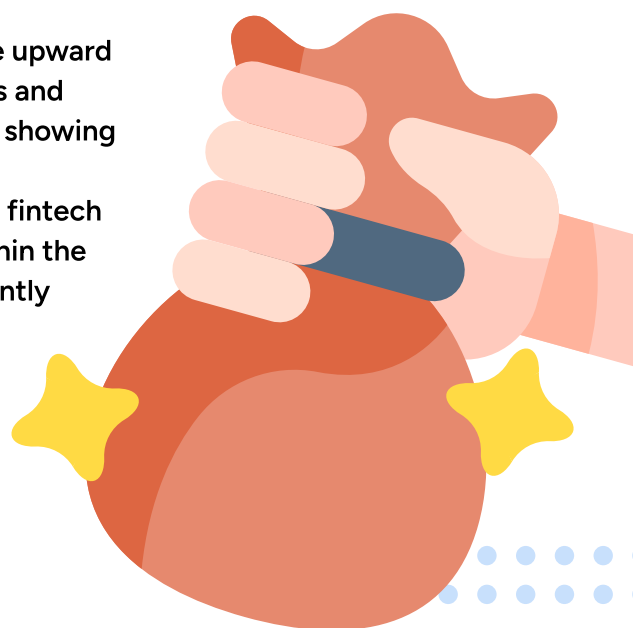
The strategy of adopting AI in business activities has proven effective in improving the business performance of fintech companies. This performance includes profitability, customer experience, and cost reduction. Workforce, which often appears as the main concern in discussion about AI adoption in the workplace, is said to have not changed in numbers after fintech companies implemented AI. However, the majority of fintech companies (between 71% and 84%) recognize the risks arising from AI as moderate to very high. Aspects of primary concern for fintech companies include data breaches and privacy, AI-generated deepfakes, and cyberattacks.



Partnership And Funding Strategy of Fintech Firms

Fintech companies collaborate with other parties to boost operational efficiency and business sustainability. Technological solutions and infrastructure are the primary motivation for 48% of fintech companies when deciding to form partnerships. In line with this, the most common forms of partnerships undertaken by fintech companies relate to application programming interface (API) integrations and technology providers. Beyond these two areas, funding agreements also appear to be one of the most common forms of collaboration among fintech companies.

The funding environment is generally experiencing a positive upward trend, but in some regions—particularly in Emerging Markets and Developing Economies (EMDEs)—and verticals, it is actually showing signs of decline. In Southeast Asia, for example, the funding environment is described as somewhat worsening by 35% of fintech companies, while 18% say it has significantly worsened. Within the vertical, 23% of wealthtech companies report it has significantly worsened. The main factors impacting funding availability include the quality and strength of the business model and revenue generation plan, the availability of venture capital/private equity, and the competitive landscape and market position.



Fintech Cross-Border Expansion

Expanding internationally is one of the goals that the majority of fintech companies (55%) want to achieve within the next 12 months. Fintech companies in the Advanced Economies (AEs) region demonstrate greater ambition than those in the EMDEs. This is reflected in the survey results, which found that fintech companies in MENA (47%), Europe (64%), LAC (57%), and the US & Canada (60%) expressed strong ambition to expand globally. Meanwhile, across verticals, strong ambition to achieve this target was demonstrated by digital banking and savings (73%) and wealthtech (65%).

In achieving these goals, fintech companies face several key obstacles. These include complex regulatory and licensing requirements, adapting new products and services to local markets, and establishing local partnerships. Some regions and verticals may experience key challenges that differ from the general trend. The main obstacle faced by SSA, for example, is access to capital.

Targeting The Underserved Communities

Fintech is increasingly becoming a primary financial service option for traditionally underserved communities. This trend aligns with fintech's efforts to provide more accessible and affordable financial services through technology. Table 3 shows that all customer segments experienced a year-on-year (YoY) increase from 2022 to 2023. The segment with the largest proportion is MSMEs. The region serving the largest number of MSMEs is SSA, while digital lending and insurtech have the largest share of MSME customers across verticals.

Year	MSMEs	Low-Income	Women	Youth	Rural/ remotely located	Senior
2022	49%	40%	39%	34%	27%	14%
2023	57%	47%	41%	37%	36%	25%

Table 3. Customer Segment Proportion from 2022 to 2023

The increase in the proportion of customers from underserved communities is also in line with the YoY revenue earned by fintech companies. As shown in Table 4, the customer segments that contribute significantly to revenue are low-income customers and seniors. However, this increase in contribution has not been able to compete with the proportion of revenue contributed by the MSME segment. Digital lending, insurtech, and digital payments are the verticals that generate the most revenue from MSMEs. Overall, SSA and MENA are the regions that receive the most revenue contribution from the underserved customer segment. The positive benefits obtained by fintech companies encourage their determination to continue targeting services and products to the underserved community segment. EMDEs, which generally serve underserved groups and generate revenue from this segment more than AEs, continue to strive to target underserved groups in the future, especially MSMEs.

Year	MSMEs	Low-Income	Women	Youth	Rural/ remotely located	Senior
2022	51%	26%	39%	30%	31%	20%
2023	55%	43%	37%	33%	36%	28%

Table 4. Customer Revenue Proportion from 2022 to 2023

To achieve this target, fintech companies are constantly developing various promotional mechanisms to target underserved communities. As shown in Table 5, fintech companies' general efforts focus on utilizing digital platforms such as social media, websites, and referrals. These efforts are primarily undertaken by fintech companies in LAC, APAC, and MENA, as well as digital capital-raising firms. Meanwhile, fintech companies' efforts to target rural and remote customer segments tend to use a more individualized approach. The most common approaches include agent networks, multilingual service offerings, and financial literacy programs.

General Method Mostly Used For Acquiring Customers	Particular Method Mostly Used For Acquiring Customers In Rural Area
Social media, website, referrals	Network of agents/local Representatives, Services and customer support in local languages, Financial literacy programmes and workshops

Table 5. Mechanism for Acquiring Customers in the Underserved Communities

Critical Drivers of Fintech Development in the Future

Over the next five years, fintech companies predict that AI, regional interoperability, and embedded finance will be key to the industry's growth. As much as 74% of fintech companies—consistent across all regions and verticals—considered AI's role to be the most important, relevant to the current massive adoption of AI in the fintech industry. In the previous year's report, AI was also cited as the most important factor determining the growth of the fintech industry.

Regional interoperability is the second most relevant factor determining the industry's growth, as assessed by 53% of fintech companies, while 37% considered it relevant. Across verticals, regional interoperability is a crucial factor, especially for digital capital raising, digital payments, and wealthtech companies.

The final factor considered most important by fintech companies is open banking and open finance. This was almost consistently mentioned across all verticals except insurtech. Across regions, MENA and LAC most frequently highlighted the relevance of this factor to the sustainability of the fintech industry. Fintech considers the development of DPI, particularly integrated electronic Know Your Customer (eKYC) and Anti-Money Laundering (AML) platforms, streamlined digital payment systems, and comprehensive open data initiatives, crucial for supporting the industry's future growth.

Strength and Weakness of This Report

Strength:

1

Demographics: The demographics of respondents in this report are highly diverse, both regionally and vertically, thus adequately representing global phenomena.

2

Data: The complexities of the fintech industry are explained by the comprehensive data presented in this report.

3

Data Visualization: The data is well-structured and presented in a variety of figures and tables for easier reading.



Weakness:

1

Methodology: With the network and resources of an organization as large as the WEF, a mixed-methods methodology is possible to obtain more comprehensive data.

2

Analysis: The quantitative-descriptive methodology used in this report limits the data analysis to explain more complex causal relationships.

3

Glossary: The absence of a glossary and the limited explanation of unfamiliar terminology may make this report difficult for general readers.

Conclusion

The fintech industry—which has become a pivotal factor in the global financial system in recent years—is supported by factors such as consumer demand, skilled talent, digital and financial literacy, and the regulatory environment. Amidst a competitive and evolving industry climate, fintech companies are implementing strategies such as adopting AI technology, establishing partnerships with other parties, cross-border expansion, and targeting underserved communities. Looking ahead, fintech companies believe that AI, regional interoperability, and open banking and open finance will be key to the industry's sustainability.