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Published in:

External Events and Crises That Impact Firms and Other Entities

DOI:

[10.4018/978-1-7998-8346-3.ch001](https://doi.org/10.4018/978-1-7998-8346-3.ch001)

Publication date:

2022

Document Version

Publisher's PDF, also known as Version of record

[Link to publication in ResearchOnline](#)

Citation for published version (Harvard):

Tsanis, K & Stouraitis, V 2022, Global Fintech market: recent performance and the effect of COVID-19 – investigating the impact of the pandemic in the financial technology sector. in HC Webb & HA Al Numairy (eds), *External Events and Crises That Impact Firms and Other Entities*. IGI Global. <https://doi.org/10.4018/978-1-7998-8346-3.ch001>

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Chapter 1

Global Fintech Market: Recent Performance and the Effect of COVID-19 – Investigating the Impact of the Pandemic in the Financial Technology Sector

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ABSTRACT

The FinTech industry has been growing rapidly and significantly, becoming the go-to service provider for some of the most important financial services, such as lending and payments. Since 2020, the onset of COVID-19 has substantially impacted the industry, both positively and negatively. This chapter discusses the recent performance of the FinTech industry based on a large-scale survey across the globe. The chapter then focuses on analysing the ‘new normal’ in banking, after the pandemic era, based on the findings of the global survey, with explicit focus on the FinTech sector, followed by further implications on the impact that the pandemic had in the traditional banking sector. The chapter concludes by providing an overview of the emerging opportunities that appear in the FinTech sector.

DOI: 10.4018/978-1-7998-8346-3.ch001

1. INTRODUCTION

The FinTech industry has been growing rapidly and significantly, becoming the go-to service provider for some of the most important financial services, such as lending and payments. Since 2020, the onset of COVID-19 has substantially impacted the industry, both positively and negatively. This paper aims to discuss the recent performance of the FinTech industry – across different verticals and regions – to speak to the different ways in which COVID-19 is shaping the current FinTech market and impacting its future. The unexpected disruption caused by COVID-19 has prompted many to reflect on the extent of company preparedness and risk-evaluation processes (Jaques, 2010), as well as crisis management more broadly (see Deloitte, 2020; Dobrowolski, 2020; Fasth, *et al.*, 2021). Thus, the paper will also explore the actions taken by FinTechs in light of the COVID-19 pandemic.

The paper is structured as follows. First, it will provide a detailed overview of the survey data, focusing on the distribution of survey respondents (Section 2.1), the recent market performance of FinTechs (Section 2.2), the initiatives of the FinTech market in light of COVID-19 (Section 2.3), and offering a summary of the findings (2.4). The paper then focuses on analysing the ‘new normal’ in banking, after the pandemic era, based on the findings of the global survey. It focuses explicitly on the impact on the FinTech sector, followed by further implications on the impact that the pandemic had in the traditional banking sector. The paper concludes by providing an overview of the emerging opportunities that appear in the FinTech sector.

2. SURVEY DATA: THE GLOBAL COVID-19 FINTECH MARKET RAPID ASSESSMENT REPORT

In order to better understand and assess the impact that Covid had in the global FinTech markets, the World Bank Group, along with the World Economic Forum and Cambridge Center for Alternative Finance conducted a large scale survey⁵. The findings of the survey are presented in the following section.

2.1 Distribution of Survey Respondents⁶⁷

In this research project, titled ‘‘Global Covid 19 FinTech market rapid assessment study’’ we had the participation of 1035 FinTechs. Graph 1 represents the distribution among primary FinTech verticals. As expected, Digital Lending is a primary activity, with 21% of surveyed FinTechs focusing on it. Digital Payments is the second most popular vertical with 18% of FinTechs involved. Capital management was another

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field with large representation, with 14% and 8% of FinTechs engaged in a Digital Capital Raising and Wealthtech verticals, respectively.

Surprisingly, only 1% of surveyed FinTechs work on Digital Savings, a percentage which is much lower than that of areas, such as ETP (9%), Insurtech (7%), RegTech (6%), Digital Banking (6%), Alternative Credit & Data Analytics (3%), Digital Identity (3%), and Digital Asset Exchange (3%).

Figure 1. Survey Sample Distribution Among Primary FinTech Verticals

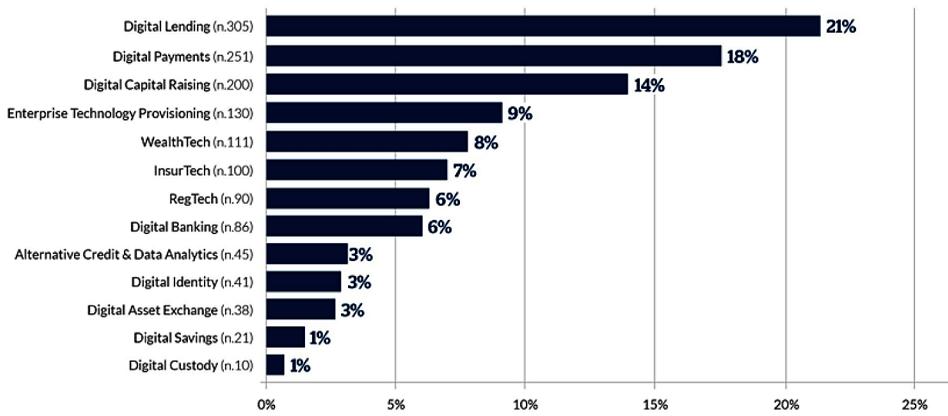
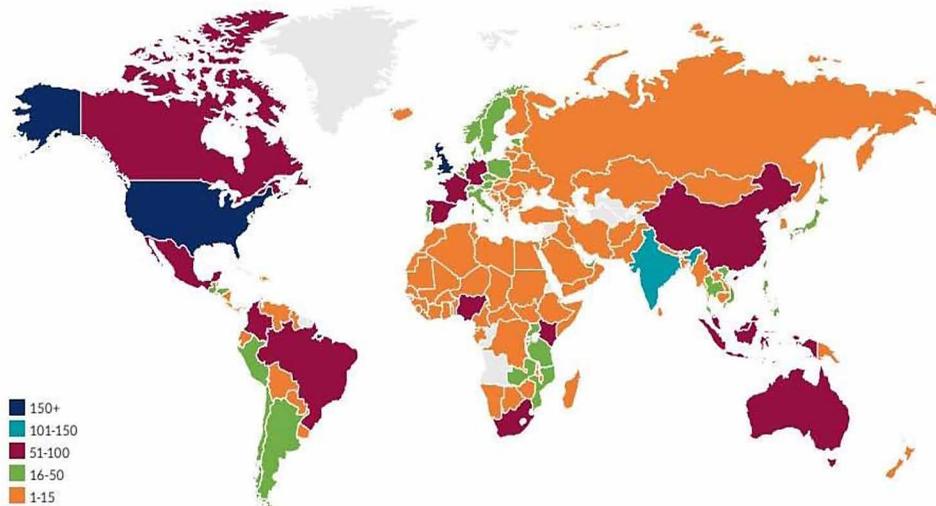


Figure 2. Geographical Distribution of Survey Respondents



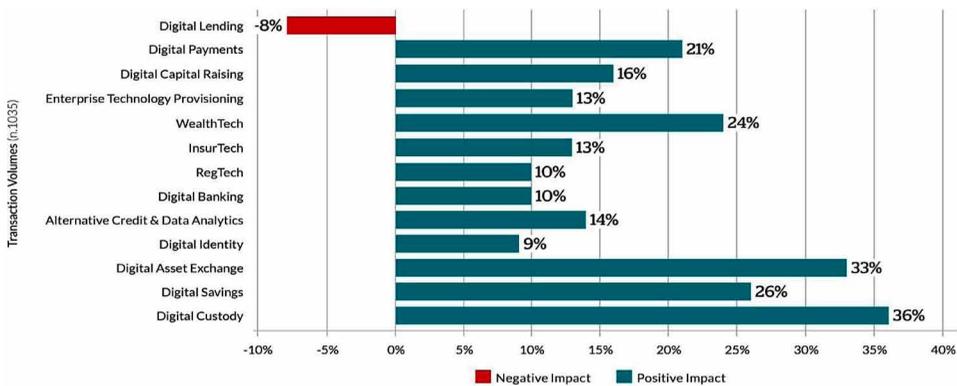
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Figure 2 displays the geographical distribution of survey respondents. Most surveyed FinTechs are based in the US followed by India. Representation is high across western Europe, LATAM, Asia, Canada, and Australia as well. Fewer FinTechs are based in Eastern Europe, CIS, and Africa.

2.2 FinTech Market’s Recent Performance

The next element of this research focused on assessing the impact that Covid 19 could have in the different fintech verticals. Figure 3 showcases the uneven distribution of the growth performance across different verticals.

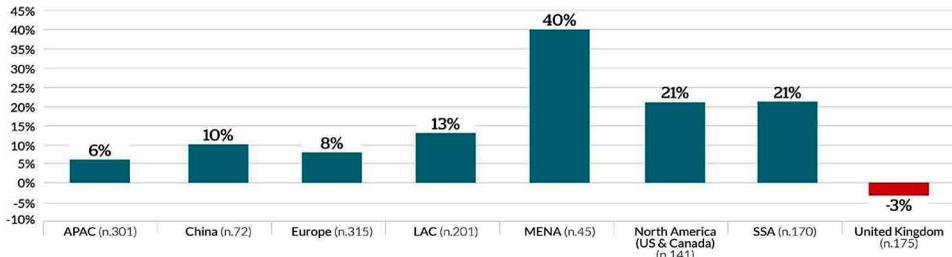
Figure 3. The Global FinTech Market Growth Across Verticals



Despite being the dominant competence for FinTechs, Fintech focusing on Digital Lending saw a decline in its transaction volume. This decline is partially attributable to the tendency of lenders to become risk-averse in light of the COVID-19 pandemic. Contrary, wealthTech and Digital Payments recorded the highest transaction volume growth among popular categories, mainly due to customers handling their money online during the pandemic. Although Digital Custody and Digital Asset Exchange verticals display an impressive positive impact, this might be overestimated due to the low representation of these verticals in the survey.

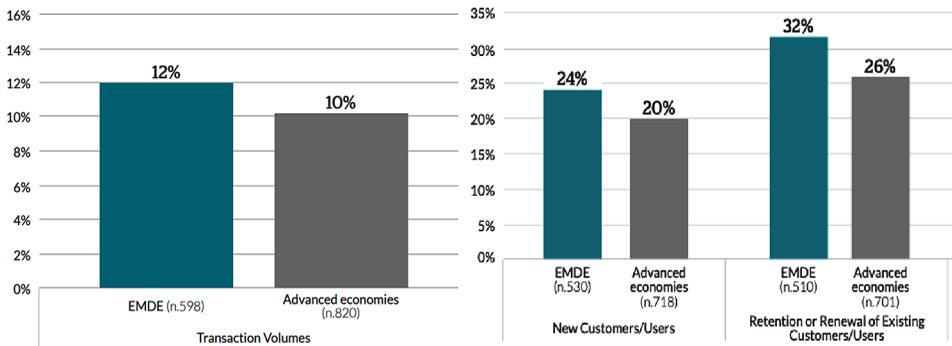
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Figure 4. The Global FinTech Market Growth Across Markets



Another way to capture the impact of Covid-19 in the FinTech sector is by analyzing the transaction volumes of the products being offered. Figure 4 presents transaction growth volumes across different regions. As evident, the growth is uneven both geographically and vertically. FinTechs based in MENA reported highest transaction growth volume, amounting to 40%. North America and SSA also had an impressive performance throughout H1 2020. Results displayed by FinTechs based in APAC, China, Europe, and LAC are moderate, whereas United Kingdom had a negative impact – which might be due to the combination of the COVID-19 pandemic and Brexit.

Figure 5. The Global FinTech Market Performance between Emerging Markets and Developing Economies and Advanced Economies



Another interesting level of comparison is the different impact between emerging and developed economies. Figure 5 provides a glimpse in the performance difference between Emerging Markets and Developing Economies (EMDEs) and Advanced Economies (AEs). According to the data collected, FinTechs in EMDEs outperformed their peers in all surveyed indicators, recording higher transaction volume growth, as

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well as better customer acquisition and retention rates. These results are connected to the fact FinTech players are now beginning to capture the previously-untapped market in EMDEs.

Another very interesting level of comparison is the impact of the lockdown itself in the markets in which FinTechs operate. Specifically, the ‘stringency’ of lockdowns seems to have been a factor quoted widely as a factor affecting markets during covid-19 (Lara, 2020).

Figure 6. Impact of Lockdown Stringency on the Performance of FinTechs

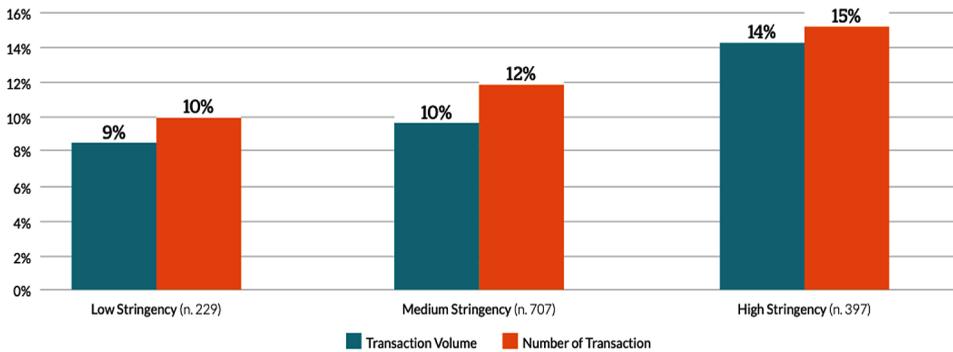
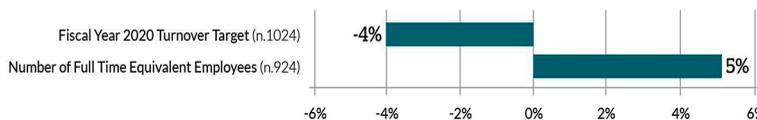


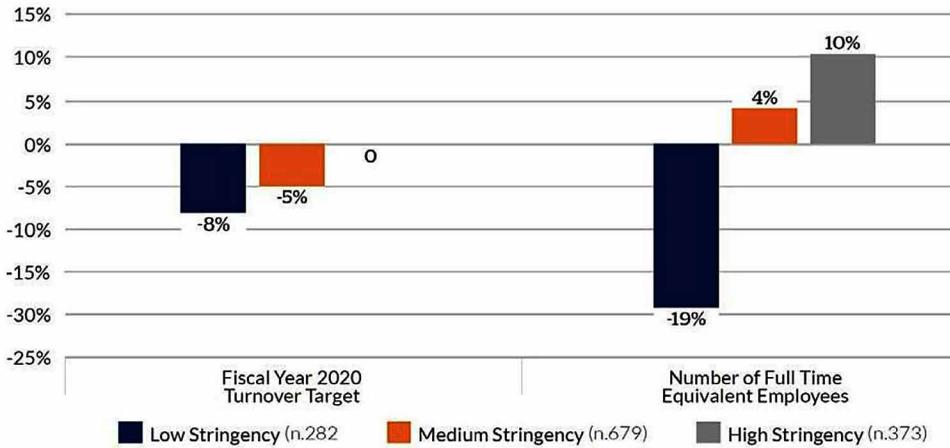
Figure 6 provides an overview the impact of different COVID-19 lockdown strategies on the performance of FinTechs. FinTechs based in countries with higher stringencies report higher transaction growth rates. This is mainly related to the increased use of online or digital as the best option for transactions in highly restricted areas. In addition, this correlation might also suggest that countries with highest stringencies were able to go back to normality faster than ones with less restrictions.

Figure 7. COVID-19’s Impact on Financial Position of FinTechs



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Figure 8. COVID-19’s Impact on Financial Position of FinTechs

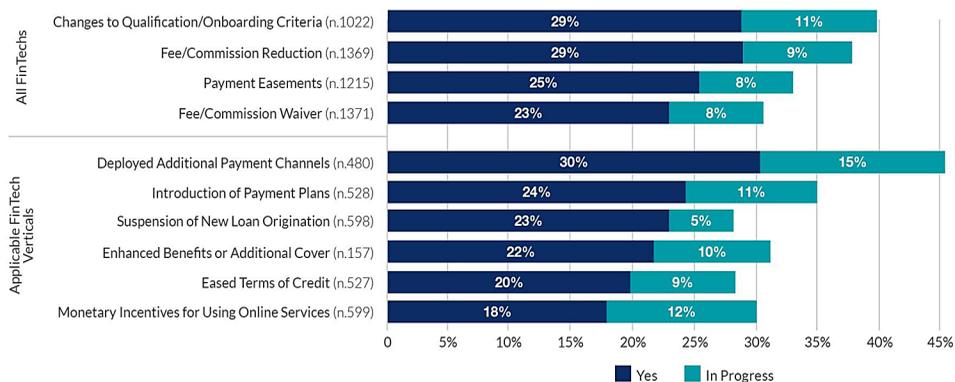


Figures 7 and 8 display a negative impact of COVID-19 on turnover targets. FinTechs operating in low/medium stringency markets didnt meet their targets by 8% and 5% on average. Despite financial hardship, most companies grew in terms of new employees, with FinTechs in high stringency markets reporting a 10% average staff growth.

2.3 Initiatives of the FinTech Market Due to COVID-19

The previous sections highlighted clearly the impact that Covid-19 had in the performance of FinTechs, and the importance of Covid measures implementation on the performance of FinTechs. As a resust, Fintechs in different markets responded to Covid-19 in different ways, which is topic of discussion of the following section.

Figure 9. Adjustments made by FinTechs in light of COVID-19



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Graph 9 outlines the actions taken by FinTechs to adjust to the COVID-19 reality. Figure 9 presents the actions taken by all FinTechs:

- **Changes to qualification / onboarding criteria** – In light of ongoing lockdown regulations, digital onboarding became pressing issues, with as far as 40% of surveyed FinTechs having to implement adjustments. Out of this 40%, 29% have already finished the process, whereas 11% are still in progress
- **Fee/Commission reduction** – FinTechs had to adapt to worsening economic conditions of their customers, with 29% reporting a fee/commission reduction, while 9% are still working on this provision.
- **Fee/Commission Waiver** – Considering the worsening economic conditions, 31% of surveyed FinTechs abolished commissions and fees altogether.
- **Payment Easements** – With the changes in lifestyle, payment systems had to go through major adjustments. As much as 25% of surveyed FinTechs have already eased their solutions, while for 8% of the companies, this is still a work-in-progress.

The actions taken by all FinTech verticals survey are as follows:

- **Deployed Additional Payment Channels** – As already mentioned, offering more accessibility became of paramount importance. Hence, 45% of surveyed FinTechs report working on adding alternate payment channels.
- **Introduction of Payment Plans** – Payment plans became important measure for offering more transparency, and while 24% of the companies have already done that, 11% are still in the implementation phase.
- **Suspension of New Loan Origination:** With worsening economy, FinTechs had to tighten their fiscal policies, with 28% suspending new loan origination during COVID-19.
- **Enhanced Benefits or Additional Cover:** In order to reinforce customer-employee loyalty, 32% of surveyed FinTechs have enhanced benefits and offered additional cover.
- **Eased Terms of Credit:** To offset the negative economic impact caused by COVID-19, 29% of the FinTechs had to provide greater accessibility to the capital for their clients.
- **Monetary Incentives for Using Online Services:** Adjusting to the conditions during the COVID-19 pandemic required 30% of the FinTechs to incentivize their clients to use online services.

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Figure 10. New Products, Services, and Features launched by FinTechs

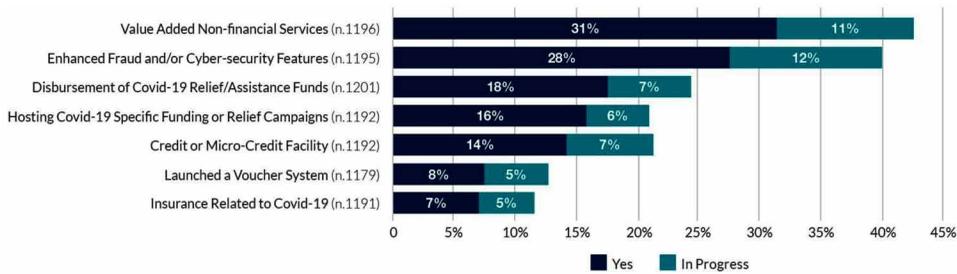
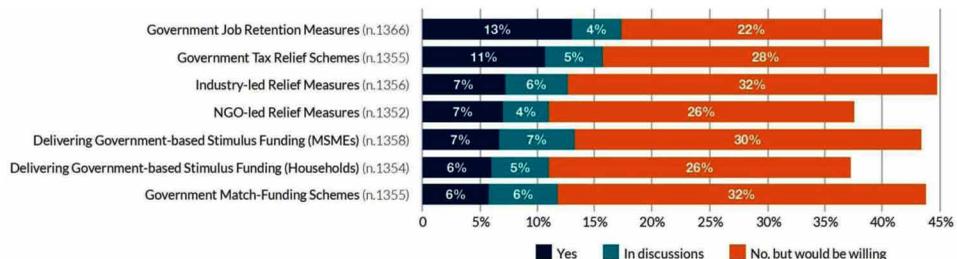


Figure 10 showcases new products, services, and features launched by surveyed FinTechs. Since financial institutions are increasingly involved with non-financial services, 42% of surveyed FinTechs have launched – or are in the process of launching – at least one non-financial service. With business moving in the digital realm, improving cyber-security is now one of the major challenges facing FinTechs, with 40% of respondents working on features to do address this issue.

Dealing with the negative impacts of Covid has been a major challenge for most FinTechs, with the majority launching products with the objective of offsetting negative impacts. Amongst the most popular products are:

- Direct solutions:
 - Disbursement of COVID-19 Relief / Assistance Funds (25%)
 - Hosting COVID-19 Specific Funding or Relief Campaigns (22%)
 - Insurance Related to COVID-19 (11%)
- Indirect solutions:
 - Credit or Micro-Credit Facility (21%)
 - Launched a Voucher System (13%)

Figure 11. FinTechs Willingness to Work with Governments on COVID-19 Relief Measures



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Figure 11 shows FinTechs willingness to work with Governments on COVID-19 relief measures. As evident from the graph, FinTechs are keen on getting involved across different directions. Overall, more than 40% of surveyed FinTechs declared readiness to participate in relevant relief measures, with particular interest in Industry-led relief measures. Around 45% of surveyed companies reported to be either willing to participate or already participating in relief activities. Nevertheless, it is worth noting that FinTechs remain underutilized. In the majority of verticals, although FinTechs have demonstrated ready to participate, they are yet to be involved are not actively involved. The highest participation falls within job retention measures, where 13% of surveyed FinTechs are already actively involved.

Figure 12. Regulatory Support Needed by FinTechs

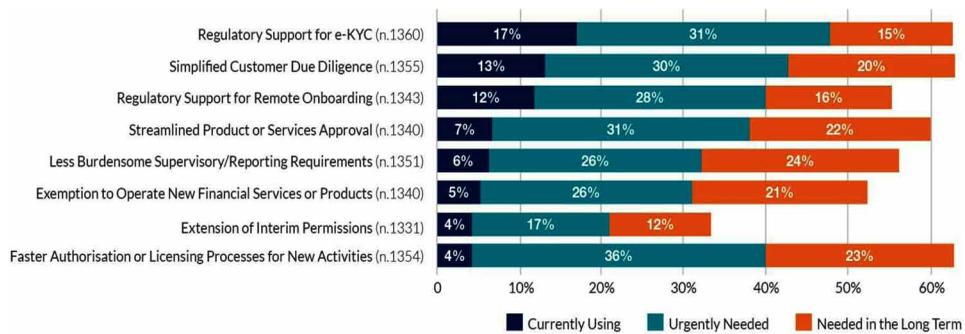


Figure 12 indicates that regulatory support for FinTechs is lagging in most cases. There is fierce competition within the FinTech industry, and companies are resorting to rapid development in order to edge out competitors. However, in some cases, regulatory support is lagging. Indeed, over 55% of the surveyed FinTechs identify the need for some form of support in all the areas shown in the graph above, apart from the extension of interim permission. Importantly, most of the FinTechs reported e-KYC, CDD and Onboarding as the areas representing the most pressing need for regulatory support.

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Figure 13. Participation in Regulatory Innovation Initiatives

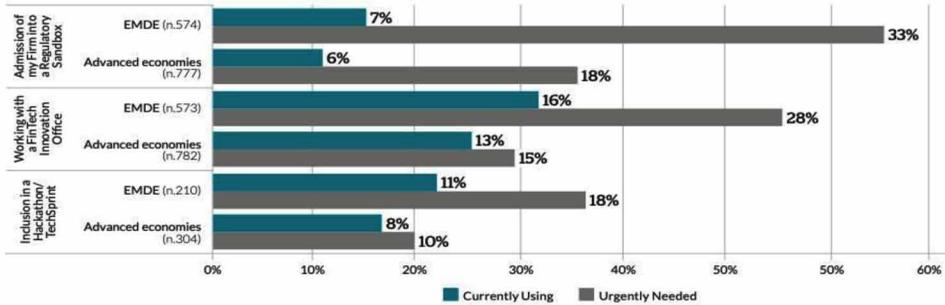


Figure 13 shows that FinTechs based in EMDEs require more support than their peers operating in AEs. Apparently, regulators in EMDEs are less agile and their frameworks are outdated in comparison with regulators in AEs. Once again, it is worth mentioning that less initiatives are currently used than what is needed. Currently, only 7% of the surveyed FinTechs located in EMDEs are admitted into the regulatory sandbox, with 33% in the need of urgent admission. The difference is less striking for AEs with 6% and 18%, respectively. FinTech innovation offices are more inclusive in AEs, with 13% of FinTechs currently using them and only 15% having an urgent need compared with 16% and 28%, respectively in EMDEs. Lastly, inclusion in Hackathons is the least pressing issue, with 18% of the FinTechs in EMDEs and 10% of those in AEs having the need of urgent inclusion.

Figure 14. Operational Challenges faced by FinTechs

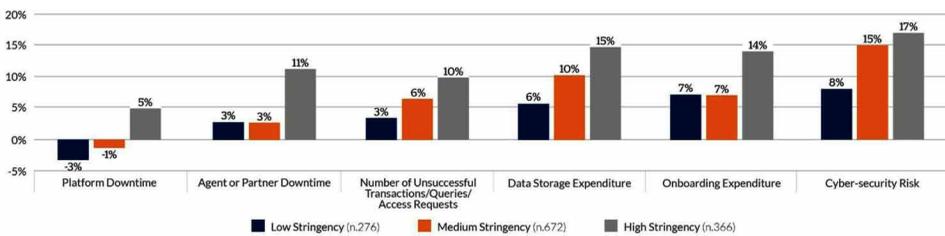


Figure 14 represents the impact of a lockdown stringency on the operational processes of FinTechs. All surveyed FinTechs reported a growth in operational problems, compared to H1 2019. FinTechs working in a markets with more restrictions during the COVID-19 pandemic had to change their processes drastically and at a rapid pace. Consequently, this posed more operational challenges. Overall, FinTechs with higher lockdown stringency reported a substantially higher number

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of operational issues than companies in other markets. The most impacted area was growing cyber-security risk, followed by expenditures on developing onboarding services and data storage. Lastly, with more customers using digital services to perform transactions, the number of unsuccessful transactions queries also grew. Surprisingly, platform downtime is the only category where FinTechs operating in low/medium stringency reported improvement.

2.4 Summary of Findings

The survey suggests that COVID-19 had a varied impact on the FinTech industry. Across some verticals, COVID-19 had a positive impact, yet, there have been negative implications as well. Indeed, lockdowns and customers' inability to use physical services spurred rapid digitization and improvements in digital services and features. A closer look at a survey's results provides insights into the key features that FinTechs have been developing throughout the pandemic. For instance, over 45% of surveyed FinTechs have already deployed or are in the process of delivering additional payment channels. Moreover, there are visible improvements in cybersecurity, and the fact that 42% of the surveyed respondents are working on developing non-financial value-added services suggests that the focus of financial institution is expanding towards creating eco-systems rather than delivering standalone platforms.

The competitive environment in which FinTechs operate, coupled with a shrinking economy is forcing most of the surveyed companies to review their fee/commission strategies – in most cases, organizations report reductions and waivers. For instance, 35% of surveyed organizations are working on the introduction of payment plans, which suggests that customers will get better products at a more affordable price.

Nevertheless, the COVID-19 pandemic has had negative impacts on the FinTech industry as well. Indeed, the growing demand of the digital services has created several operational challenges. Amongst them, growth in platform downtime has been one of the most visible problems during the pandemic. Most of the surveyed Fintechs have indicated that expenditures for client onboarding and data storage are growing exponentially, which, in light of a decline in revenue from services might become a serious financial challenge. As mentioned earlier, with businesses moving to the digital realm, cybersecurity risks have increased exponentially. For example, the survey shows that, across FinTechs operating in markets with strong lockdown stringency, cybersecurity risks grew by 17%, and the situation is similar for markets with medium to low lockdown stringencies.

COVID-19 undoubtedly had a negative impact on FinTechs financial position. Surveyed FinTechs reported that they were unable to meet their fiscal year turnover goals by 4% on average. Interestingly, there is a correlation between lockdown stringency and the reaching of turnover goals. In fact, FinTechs operating in low

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stringency markets were unable to meet their goals by 8% on average, whereas in high stringency markets, most FinTechs managed to meet their goals.

The most part of surveyed FinTechs demonstrated willing to participate in COVID-19 relief measures. In order to ensure their inclusion, collaboration with regulatory entities is of paramount importance. However, survey results suggest that, in some cases, regulators are unable to adapt to market changes, suggesting that FinTechs are not getting enough support. For example – 32% of FinTechs have an urgent need for support with e-KYC, 30% need simplifications in customer due diligence, and 28% require assistance with digital onboarding.

When it comes to fostering innovation, challenges to companies' inclusion become evident. This problem is especially pressing for FinTechs operating in EMDEs, where 33% of surveyed companies report that they need urgent admission into regulatory sandboxes and only 7% already have an access. 28% declare an urgent need to work with innovation offices. Here only 16% already have an opportunity to do so. FinTechs operating in AEs have on average higher inclusion rates. However, the number of FinTechs that are not yet fully integrated remains high. For example, when it comes to admission into regulatory sandboxes, 18% do not have access to them, 15% have the ability to work with innovation offices, while 10% are included in hackathons and techsprints.

3. THE 'NEW NORMAL' IN FINTECH AND BANKING

3.1 The Impact of COVID-19 on the FinTech Industry

The FinTech sector is witnessing tremendous amount of volatility in both its structure and work, which have been significantly amplified by the COVID-19 pandemic. Most FinTech companies have displayed flexibility, managing to shift entirely to online technology. Due to the pandemic, a lot of companies focusing on product and process innovation have become more customer centric and have built the capacity to handle large disruptions.

It is estimated that the spread of COVID-19 and the consequent lockdown measures have led to between a 24% and 32% increase in the relative rate of daily downloads of finance mobile applications. In absolute terms, this equates to an average daily increase of roughly 5.2 to 6.3 million application downloads and an aggregate increase of about 316 million application downloads since the outbreak of the pandemic. Most regions across the world exhibit notable increases in terms of absolute, relative, and per capita increase. Preliminary analysis of country-level characteristics suggests that market size and demographics – rather than level

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of economic development and ex-ante adoption rates – drive differential trends (Remolina, 2020).

In addition, emerging market economies have been increasingly committing resources to support FinTech innovation, mainly through infrastructure development and relaxed market regulations – many also have been creating start-up hubs, accelerators, incubators, and public-private partnership (PPP) programs to foster the development of the FinTech industry (Varma et al., 2021).

During the COVID-19 pandemic, moving payments to digital channels has been one of the hottest topics of debate. Since cash is seen as one of the potential carriers of the coronavirus, cash-based transactions have been declining throughout the pandemic and further reduction is expected. In this context, digital payments have witnessed a massive increase in the rate of adoption.

The lending vertical has been impacted as well. Most FinTech lenders developed their companies on the premise that consumers income levels are rising and the economy is shrinking, which, combined with the tightening of lending policies, had a negative impact on a market size. COVID-19 has also caused a potentially long-lasting effect on the micro, small, and medium sized enterprise (MSME) lending sector due to the sudden interruption in supply chain and subdued demand, which have left MSME's in urgent need to generate cash flow.

Even though FinTechs focused on lending have been struggling throughout the pandemic, the economy is expected to recover rapidly once the lockdowns are lifted. More specifically, Peer-to-Peer (P2P) lending gained traction during the pandemic, during which the FinTech P2P lending has become the most viable alternative credit option available to borrowers. These findings are significant and likely to be of interest to borrowers, investors, practitioners, academics, and policymakers because they highlight the usefulness of P2P lending platforms and their potential to increase or replace lending provided by traditional or conventional banking institutions (IFC, 2021).

The Wealthtech segment – which comprises various sub segments such as digital discount brokers, robo-advisors, mutual fund advisors, personal finance management apps, micro investing platforms, and foreign investing apps – have reported an upsurge in number of new accounts opened and volume of transactions, resulting in entry of new investors in capital markets.

The Insurtech sector, however, reports controversial results. On the one hand, the outbreak of the pandemic meant an increase in insurance premium among the non-life insurance segment. Yet, the increase in demand for insurance products remains volatile. On the other hand, since the travel industry was severely hit by the pandemic, the demand for travel and vehicle insurance decreased significantly, offsetting the increase in demand for health insurance policies. Digitization drastically

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helped insurers – especially life and health – to create and distribute simplified, digital-native solutions in a cost-effective manner.

The impact of COVID-19 on Neobanks has been varied. Although these companies are facing challenges to attract deposits, their flexible model allows to keep discretionary costs reduced and keeping ongoing programs on hold, effectively maintaining a capital-light model. The biggest opportunity for Neobanks lies in providing value added services, Credit and Saving Accounts (CASA) accounting, and expense management. Due to their innovative business models and digital payments channels, Neobanks have seen a surge in adoption globally due to swift transition to work from home model resulting in the growth of digital financial services.

The Emerging Tech segment, which comprises software like SaaS, B2C, and FinTechs offering digital onboarding, chatbots, customer relation management, API platforms and productivity tools has stayed active even during the pandemic. The vertical growth is expected to continue in the post-pandemic era. With a greater number of online options, FinTech enablers could offer cloud-based solutions which are guaranteed to experience higher demand. AI is also expected to be one of the most in-demand technologies for products and services like conversation solutions for call center chatbots, fraud detection, as well as workflow automation. Digital identity provides (DaaS) are also expected to be in-demand as increasing regulatory support is likely to translate in more KYC process being digitalized.

Technologies such as machine learning algorithms can put FinTechs – from P2P lending platforms, such as Funding Circle to digital banks that provide lending to small and medium enterprises (SMEs), such as OakNorth and Iwoca – at an advantage as they are called to assess the credit worthiness of businesses and distribute loans rapidly by automating due diligence processes (Deloitte, 2020).

In addition, FinTechs may be able to serve customers that are usually excluded by the traditional banks, for instance, due to lack of collaterals. Bigger and older financial institutions operating with legacy technologies and models can potentially struggle to work at this pace and be more reluctant to offer lending to businesses using alternative data for their credit assessment. Considering that most SMEs have limited liquidity, time here is of the essence. Being digitally native, FinTechs will also be better equipped for remote working, and will potentially be more prepared to respond to such calls and to service businesses remotely (Khakan et al., 2021).

FinTechs have adopted a mix-and-match of broad coping strategies to survive and sustain their businesses amid the ‘new normal’. First, FinTechs have increased digital interaction with customers across all customer touchpoints from onboarding to providing customer support. In the absence of physical interaction, FinTechs have been using online and social media channels like WhatsApp and Facebook. Second, customers have increasingly adopted digital platforms, including financial services platforms. This has been consistent across different customer segments from low-

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to high-income customers. Such platforms have opened up new opportunities for FinTechs to expand their customer reach digitally with low customer acquisition costs. At the same time, digital platforms have widened the offerings of FinTechs to encompass compatible services, such as bookkeeping with lending on their platforms. These value-adding activities have helped increase the ‘customer stickiness’ on their platforms. Third, the pandemic helped some FinTechs gain perspective on eliminating operational redundancies through several steps. These include reducing staff, cross-skilling teams, automating processes, and re-strategizing their businesses to ensure survival over growth. In addition, credit FinTechs have begun partnering with payment gateways and developing APIs for loan repayment collections. These measures would reassure investors, gain investment, and increase runways.

Lastly, FinTech appears to be closing gender gaps, but special attention needs to be paid to ensure that women are not left behind during the pandemic. Stakeholders noted that several barriers to digital financial inclusion – such as access to resources (mobile phone, internet), cultural or social norms, and digital and financial literacy – may be higher for women (Sridhar & Gamser, 2020).

3.2 Post-COVID-19’s Opportunities for FinTechs

As already discussed, the economic shifts caused by the pandemic have placed tremendous stress on FinTechs. However, most FinTechs leveraged their flexibility to not only adapt to the ‘new normal’, but also to create competitive advantages through innovative approaches, products, and services. It is widely believed that adjustments made during the pandemic will provide new opportunities in the post-pandemic era. FinTechs tend to have some unique advantages that are allowing many to both create new ways of providing value in the current environment and to position themselves to thrive in the long-term. Among them, FinTechs are unburdened by complex legacy systems, which allows them to build platforms using a cloud-native approach that, with the widespread adoption of cloud systems, will allow them to integrate with one-another, as well as to build links with other financial institutions. Multiple alternatives shift power to the customer, whereas most FinTechs are laser-focused on a seamless and delightful digital customer experience allowing them to create best-in-class products.

For most FinTechs access to funding was exceedingly difficult during pandemic, and this was especially heightened for early-stage companies. This forced most FinTechs to reexamine their mission and business models not only during the pandemic but also looking forward. FinTechs were the first to react to the fact that social distancing was accelerating customers’ use of online – especially mobile – channels to view and manage their finances. Consequently, many FinTechs switched to a mobile-first approach. Additionally, being customer-centric, FinTechs

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often excel in digital onboarding, data visualization, and in providing convenient customer journeys for transactions. These capabilities proved to be the right recipe for surviving and will likely become even more relevant as a greater number of customers and businesses switch to the digital realm. Deloitte's research identified key areas in which FinTechs' business model can be used to create new opportunities in a post-pandemic world:

- **Expanding partnership strategies** – Growth in open banking and banking-as-a-service regulations and initiatives will play an important role.
- **Advancing financial inclusion programs** – The economic disruption of the pandemic highlights the importance of serving people who are currently outside the financial system.
- **Accelerating economic relief efforts** – FinTechs in digital payment's verticals may be well positioned to provide rapid disbursement of government relief funds.
- **Empowering gig workers** – This is a growing segment whose unpredictable revenue patterns create unique financial, insurance, and tax requirements, which FinTechs are best positioned to serve.
- **Harnessing the Internet of Things** – More and more contactless payment-enabled devices create the need for flexible API integration services.

The pandemic has highlighted the important role of FinTechs in advancing the digitization of the whole financial services ecosystem, especially in providing services such as financial management, banking services, lending, accounting, e-payments, and insurance, to name a few. Beyond financial services, the SMEs can also gain through the provision of non-financial services as well. Providing SMEs with the digital tools they need means providing them with the opportunity to advance their business, and for many of them, the chance to survive during the pandemic (Jaques, 2010).

It should be noted that before COVID-19, less than 15% of SMEs in emerging economies had access to the resources they needed to grow and create wealth, with the unmet financing need of SMEs in developing countries estimated at \$5.2 trillion every year. During the pandemic, access to financing from traditional banks has dried up even more, contributing to slow economic growth. In response, SMEs have turned to FinTech as one way to meet their financing needs. The term originally referred to the back-end systems of established financial institutions, but it is clear that it now includes a myriad of sectors that seek to improve the delivery and use of online financial services.

It is important to note that the potential of FinTech potential has attracted investor attention. In 2019, investment in FinTech companies amounted to \$135.7 billion,

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with a total 2,693 deals around the globe. During the pandemic, many of these digital lending platforms moved quickly to respond to the surge of loan applications triggered by business shutdowns and layoffs. As mentioned earlier, because FinTechs use cutting edge technology to assess the creditworthiness of borrowers through alternative data and electronic platforms to process requests, their services have been more accessible and faster to small and medium-sized enterprises (Paolo et al., 2020).

Recently, an increasing number of FinTech lenders for SMEs are offering a new model of lending that is faster, easier, more cost-effective, as well as more transparent. For the first time, SMEs can share what data they have in exchange for access to credit to help them grow. By using advanced analytics platforms and artificial intelligence to assess transactional and alternative data (at times as simple as a bank statement that shows an SME's cash flow), FinTech lenders are gaining a much deeper understanding of SMEs. They can establish SMEs' creditworthiness, evaluate their risk more easily, and issue loans in as little as 24 hours. Today, these new, innovative, data-and artificial intelligence-led solutions are better positioned to serve SMEs' financing needs, lead them out of the imminent financial crisis, and unlock their potential (Paolo et al., 2020).

More specifically, many FinTechs are innovating to create new products that address the rapidly evolving economic environment:

- In the UK, Trade Ledger, Wisefunding, Nimbla, and NorthRow have formed a business-lending taskforce to provide a turnkey origination and underwriting platform that allows banks, alternative lenders, and private debt lenders to digitally deploy funds to businesses during the COVID-19 outbreak.
- Israeli FinTech company Innovesta launched its COVID-19 Resilience Innodex (CRI). Using a proprietary artificial intelligence technology, the CRI assigns risk scores based on a business' ability to withstand the effects of the pandemic.
- British company Iwoca – an online lender – announced OpenLending, a platform that allows FinTechs and banks to extend iwoca's lending capabilities to more than two million UK businesses.
- Finally, a number of US-based FinTech companies – those that provide financial services as well as those that enable financial services – are helping to facilitate the financial relief provided under the CARES Act:
 - nCino has developed a new solution to optimize the PPP loan process.
 - ODX, a subsidiary of OnDeck, has developed a solution that is specially configured to the CARES Act.
 - Lendio is enabling small businesses to apply for loans.
 - Unqork developed a small business digital lending platform (Johnathan and Mishra, 2020).

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It is also important that governments make actions to allow faster and more effective digital transformation in the banking industry. The following are several considerations specific to governments.

- **Promote better payment services through FinTech during and after the COVID-19 crisis** – FinTech can allow users to transfer money to any bank account, pay for bills and services to merchants and businesses in any part of the country and across borders. Financial technology can also provide a framework to incorporate and leverage technological opportunities to promote access and use of transaction accounts. When such framework is in place, individuals employed in urban areas can pay bills, and can easily send money to their loved ones in rural areas to help them cope with the economic consequence of the COVID-19 crisis.
- **Increase trust and cybersecurity in FinTech** – Governments should encourage FinTech businesses should emphasize greater transparency in their business operations, alongside security.
- **Regulators should be proactive and assume FinTech will breach user privacy and plan to mitigate damage by protecting users** – This can be assumed because of the fact that FinTech are essential teams of young people, trying to offer products, without having received compliance training. The fact that FinTech are unregulated creates even more risks on the potential, and the WireCard scandal is a prominent example in this category.
- **Prioritize digital financial services for remittances** – Many families and individuals around the world rely on payments sent from migrant workers abroad using international digital payment systems. As such, these international firms are targeting the needs of the unbanked across the world and using mobile devices to send remittances is becoming an efficient instrument in the push toward financial inclusion.
- **Do all it takes to get money to people as fast as possible** – Getting money to people quickly during the COVID-19 crisis is important. Governments should make cash transfers to their citizens if they have the capacity to do so. Priority should be given to unconditional cash transfers to poor individuals and households, and such transfers should be sent early and often.
- **Reassure individuals and households that their money and financial transactions are safe** – Governments should reassure members of the population that their money and financial transactions are safe. The government should also reassure the people that there will be uninterrupted access to financial services during the crisis, and even during lockdowns.¹⁰

3.3 The Early Impact of COVID-19 on Financial Institutions (FIs)

Seven months from the outbreak of the COVID-19 pandemic – as most countries had begun easing the lockdown restrictions – the vast majority of FIs were reporting lower loan collection and disbursement levels; government moratoria and voluntary deferrals affected over half of FI portfolios. Despite the widespread restructuring of portfolios, FIs started to register significant increases in non-performing assets. Furthermore, COVID-19 has affected the operations, strategic direction, funding, portfolios and asset quality.

Even though the COVID-19 has slowed down or stopped the operation of many industries, it did not have the same effect in the data-driven finance world. Indeed, traditional FIs and FinTechs are trying to leverage on data-driven solutions to respond to the challenges associated with the pandemic. For instance, as mentioned earlier, data-driven financial companies are participating to the lending programs for small businesses launched by several governments, whereas in previous crisis only traditional institutions with traditional credit risk models participated to these programmes (Deloitte, 2020).

In terms of operations, the impact of the pandemic on operations as of October-November 2020 was consistent across all regions. Roughly one in five respondents reported operating at pre-crisis levels, and the majority of these FIs were in upper middle-income countries. In addition, the impact of the pandemic on new loan disbursements was larger for the riskier MSMEs and retail segments. At the time of the survey, IFC clients reported that loan disbursements decelerated due to the crisis, on average at about 80% of pre-crisis levels. FIs in South Asia recorded the lowest disbursement levels as of October-November 2020. Microfinance Institutions (MFIs) and nonbank financial institutions (NBFIs) were disbursing just over three quarters of pre-crisis loan volumes.

Focusing on strategic direction, digital transformation gained priority for more than half of IFC clients. While digital transformation was already a corporate priority for nearly all IFC clients, 62% of respondents stated that investments in digital channels such as mobile and internet banking have become an increased or urgent priority as a result of the COVID-19 crisis. In addition, diversification of funding sources is now a strategic priority for the majority of IFC clients. In particular, the development of retail deposits increased in importance for one in three respondents. Lastly, mixed impacts on lending priorities are consistent with high levels of uncertainty and reduced lending activities. Retail and MSME lending decreased or ceased to be a priority for 27% and 18% of respondents, respectively. However, 21% of FIs stated a new importance for retail lending and 25% reported a higher priority for lending to MSMEs.

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Portfolio-wise, outstanding loan portfolios remained at pre-crisis levels with over 50% of portfolios interested by moratoria and deferrals. Government moratoria on loan repayments – in addition to voluntary deferral and restructuring efforts – affected over half of client portfolios on average. In terms of asset quality, portfolios had begun to show signs of deterioration at the time of the survey, despite the masking effect of government moratoria and deferrals. Indeed, approximately 96% of institutions reported that their portfolios were negatively affected by the crisis (Deloitte, 2020). Over 60% of lenders have tightened their credit criteria, with over half discontinuing new lending entirely; only 37% reported that they continue lending to both existing and new customers (Fasth et al., 2021).

The pandemic has challenged traditional banking models and products, changed the competitive landscape, and served as a catalyst for digitization. Now, banks will need to get to know their customers again. More specifically, they first need to gain a better understanding of the shifts occurring in customers' preferences. Second, banks should rethink how to conduct business and transition from physical to digital customer relationship management. Third, banks are being pushed to explore process innovation to facilitate business sustainability and reduce costs. This signifies designing new customer offerings supported by new tools/ partnerships, proper planning for post-crisis operating models, and managing people 'in the cloud' (Sridhar & Gamsler, 2020).

4. CONCLUSION

In conclusion, the impact of COVID-19 has significantly evolved the financial services industry – from the big banks accelerating their digital transformation to increasing number of and products from the FinTech players. Focusing on the FinTech industry, payments and wealth management have benefited the most while lending experienced a downturn. By geography, the FinTech industry has been growing much faster in emerging markets than in more developed markets. Indeed, lockdowns and customer's inability to use physical services spurred rapid digitization and improvements in digital services and features.

In addition to the recent performances, COVID-19 has also changed the initiatives and operations of many FinTech players. The most part of surveyed FinTechs declare willingness to participate in COVID-19 relief measures, signalling that collaboration with regulatory entities is of paramount importance.

Looking forward, FinTechs and banks – and the financial services industry as a whole – need to consider key necessary changes in their business model to operate in the 'new normal'.

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