EBOOK

FinTech: The New Core of Financial Services

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Introduction

The FinTech sector is booming, with a record-setting $91.5 billion in investments[1] in the sector by Q3 2021 – nearly double 2020's total. Financial technologies are evolving rapidly, and the FinTech industry has moved beyond just an idea for financial institutions (FIs): It's the new standard for companies in a digital present.

FinTech is changing the way consumers interact with FIs by increasing the efficiency of services and shaping bold new service offerings. Collaboration is supporting growth for incumbent FIs, established FinTech companies, and FinTech startups. Pairing the regulatory strengths and market reach of the incumbents with the flexibility and innovation of FinTech companies, we've reached a new phase of the FinTech revolution.

[1] *https://www.forbes.com/sites/isabelcontreras/2021/10/18/fintech-investments-have-hit-915-billion-in-2021-nearly-doubling-last-years-total/?sh=6d2c2ee84a2e*

Transforming Payments

Open Banking

The future of banking and finance is open – and not only in the UK, where Open Banking and open finance originated and are well underway. Consumers around the world desire more control over their financial services, and are coming to expect the ability to access and share their financial data with the applications and resources of their choice.

As ecommerce increasingly becomes mobile, consumers will find uses for on-demand financial data beyond checking account balances and making payments for purchases. Both banks and FinTechs will be in a position to provide new applications and services using data from multiple sources.

> "**Every consumer is looking for a better way, a cheaper way, a more convenient way to manage their money.** Open banking and finance are about providing the affordable and useful services and products they need."[2]
>
> **Aurélie L'Hostis,** Principal Analyst, Forrester Research

[2] *https://thefinancialbrand.com/125016/open-banking-finance-forrester-trend-forecast/?edigest2*

Buy Now, Pay Later

It's a simple and evocative name for a growing financial service that offers exactly what the name suggests - the ability to buy something without having to pay for it until a later date. The main benefit? Unlike revolving credit, if you make your payments on time, you do so with zero interest and zero additional processing fees.

For people who can make those payments, this can be an excellent deal – particularly when compared to the frequently high APR offered on credit cards that people with lower credit scores can obtain. That can really level the playing field for people without access to traditional loans. And if you're confident in your ability to keep up with those payments, it has one big advantage over the old layaway services it most readily calls to mind – purchases get shipped when consumers make the order, not when the final payment is made.

Making sure customers do have that ability to make the payments is something that responsible institutions will need to take charge on, however, or risk BNPL taking its place among other predatory lending services that have more than earned their bad reputations. Envestnet | Yodlee has alternative data tools that can help fuel this workflow and empower both consumers and FIs alike.

> "It is hard to boil the impact of BNPL down to a single vector, but overall, **this does generate competition and is likely to drive down the price of borrowing,**"[3]
>
> **Lex Sokolin, Head Economist, ConsenSys**

[3] *https://www.cnbc.com/2021/12/04/buy-now-pay-later-boom-shows-no-signs-of-slowing-this-holiday-season.html*

Real-Time Payments

The payments industry is currently undergoing a once-in-a-generation change in infrastructure, as use cases increasingly shift toward faster, or even instant, payments settlement. Progress has been ongoing for years, but the reality of the global pandemic has pushed the need for innovation to the forefront of the minds of many in business today.

Moving money quickly is already an expectation for many end-users, with peer-to-peer services like Venmo and PayPal having long since laid a foundation for strong consumer demand. But the commercially driven adoption necessary for true ubiquity may still take some time, as offerings like the Federal Reserve's FedNow real-time payments system remain years away from full implementation.

> "The industry has clearly signaled that, while our nation's faster payments system capabilities are rapidly innovating, **there's much to be done to promote ubiquity and faster payments adoption**,"[4]
>
> **Douglas Berg,** Senior Vice President, Wells Fargo

[4] *https://fedpaymentsimprovement.org/news/press-releases/payments-industry-leaders-launch-u-s-faster-payments-council/*

New Ways to Invest

ESG Investing and Data

Many investors may never have heard the term ESG – short for Environmental, Social, and Governance Investing - but in terms of what it stands for, it's exactly what an overwhelming number of institutional and individual investors are looking for from their portfolios.

It's more than just a FinTech trend – in fact, it's been around for decades, under a variety of names from Socially Responsible Investing in the 90s to a host of others – but behind the jargon and the acronyms is a simple hunger on the part of investors for their money to be used to make an impact that means more than a good yield. Impact investors and their advisors need to think multidimensionally: risk, return, and the potential for positive impact. That added complexity demands the power of modern data analytics working hand-in-hand with the traditional financial planning work that investors have long relied on.

> "You have to work harder. **Advisors have to be willing to use a multidimensional approach to building targeted portfolios**. But if successful, they're going to find the skillsets in high demand."[5]
>
> **Kristina Van Liew,** Managing Director at Graysone Consulting

[5] *https://www.fintechrising.co/esgs-investing-with-impact/*

Embedded Finance/Investing

The need for financial services is everywhere in the digital world – shouldn't access to those services be easily available everywhere, too? That's the heart of embedded finance, which calls on integration of saving, investing, lending, and insuring tools, among others, into places that are not native financial services apps. It's a trend that's already taking hold in the U.S. since the new realities of the pandemic supercharged the shift to digital, and it's continuing to expand.

> "**Embedded financial services takes the cross-sell concept to new heights.** It's predicated on a deep software-based ongoing data relationship with the consumer and business."[6]
>
> **Matt Harris,** Partner, Bain Capital Ventures

[6] *https://www.reuters.com/article/us-nr3cpacf-nr3cpac-us-fintech-embedded-idTRNIKBN2GG15H*

Cryptofinance and Institutional Adoption

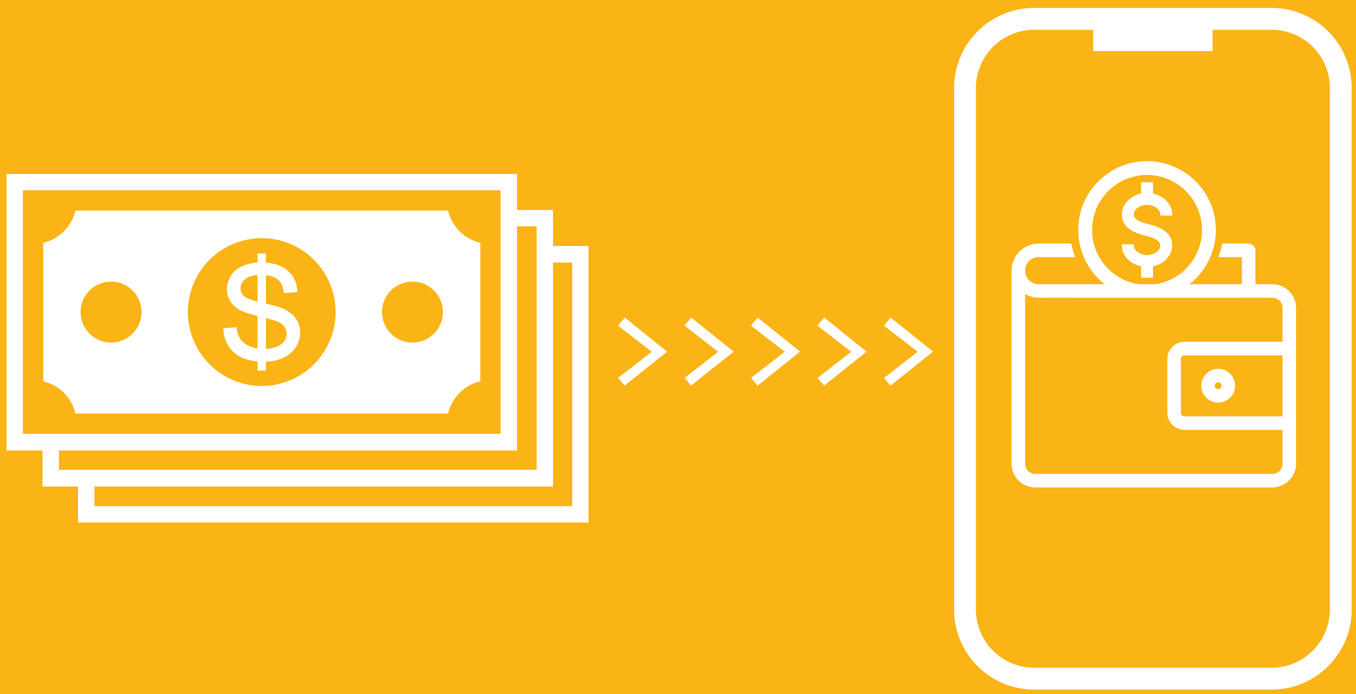
Cryptocurrencies like Bitcoin and Ethereum have been joined in 2021 by even newer blockchain-powered financial technologies and systems. NFTs (Non-fungible tokens are a digital asset that exists on a blockchain, a record of transactions kept on networked computers) and Decentralized Finance (DeFi) have made headlines all over the world, and many FIs have come to one inescapable conclusion: cryptofinance is here to stay. Even for those entities that don't currently plan to deal directly with cryptocurrencies, the need for crypto literacy has become an increasing imperative.

U.S. and international financial regulators are still debating how best to regulate cryptocurrencies, but FIs are already making those business moves. Large financial, ole-line financial institutions and wealth managers launched or expanded digital asset divisions. Now even the Federal Reserve is evaluating the merits of launching its own digital currency.

> "Where in the past, crypto investments were a risk for managers – it could go wrong – now **it increasingly becomes a risk not to allocate at least some portion of the portfolio into crypto**, as stakeholders will have examples from other institutions that did allocate and benefited greatly."[7]
>
> **Freddy Zwanger,** Chief Data Officer, Anyblock Analytics GmbH

[7] *https://cointelegraph.com/news/are-institutional-investors-the-key-silent-partners-of-crypto*

Digital Transformation



Digital transformation is happening in banking services. The pandemic crystallized just how far the technology has come, and for many users, there's no going back. The decline of cash is just one example – use of cash for retail payments has been declining for years. But cash payments showed one of their sharpest drops in 2020. That trend seems unlikely to reverse going forward as digital payments continue to grow faster than overall consumption year over year.[8]

Digital wallets are showing consumers the ways in which that transition can actually be easier than the legacy methods, too. Storing payment information and passwords for numerous payment methods and websites has reduced a lot of online shopping to a one-click solution, and that's convenience that the older methods can simply never match.

"The unequivocal **rise of the connected ecosystem has forced consumers to engage across digital channels**, and banking and financial services evolved almost overnight."[9]

Parijat Banerjee, Global Business Head for Banking, Financial Services, and Insurance, LatentView Analytics

[9] *https://www.forbes.com/sites/forbesfinancecouncil/2021/11/29/three-critical-facets-for-financial-services-to-succeed-in-the-digital-future/?sh=1ed9ceeb3979*

Leveling the Playing Field

Financial Inclusion

The problem of inequity for minority communities in America has many faces, with access to financial services still lagging concerningly behind. Black and Latinx households make up more than 60% of the nation's unbanked, and nearly half of underbanked households, according to FDIC surveys.

FinTech partnerships with smaller, minority-focused banks can help level that playing field, by bringing faster payment services and easier onboarding to lower-income households more at risk for dealing with income volatility. Access to the full banking system – and, ultimately, to more affordable credit – can not only help families through crises but also can lead to increased prosperity in these underserved communities over the long term.

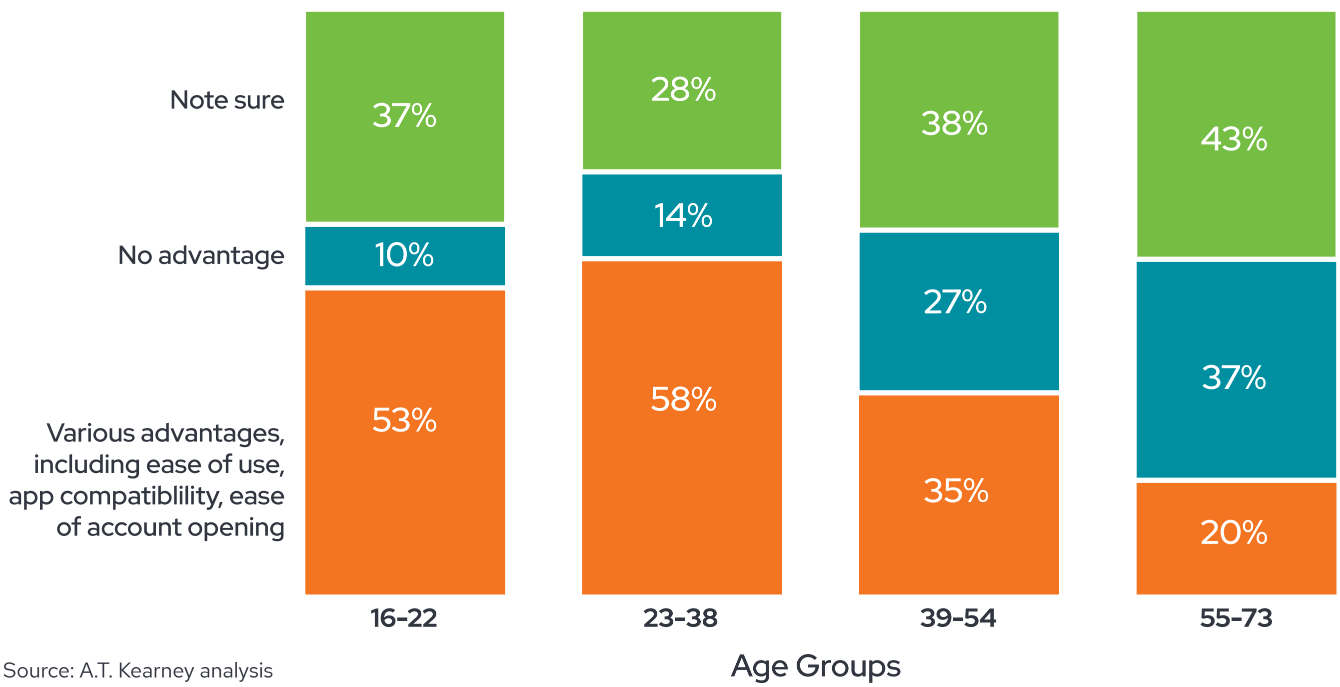
> "Everyone benefits from being incorporated into the mainstream economy. As **customers gain access to more reliable financial services and advice, they are better positioned to grow financially**, and empower themselves and their communities."[10]
>
> **Andrew Beatty,** Head of Global Next Generation Banking, FIS

[10] *https://www.finextra.com/blogposting/21353/digital-financial-inclusion-why-it-matters-and-whats-driving-change*

Challenger Banks

The new fastest-growing issue on the block for traditional FIs comes from challenger banks. Non-interest income gets obliterated by these relative newcomers – no interest, no overdraft fees, services that legacy institutions have long relied on to help pad out the numbers. With more and more challenger banks launching every month, the future of the banking system is going to be driven by cooperation, partnership, or consolidation between legacy FIs and these FinTech challengers.

Do you think challenger banks have any advantages over your primary traditional banking provider?



Source: A.T. Kearney analysis

https://www.kearney.com/article/?/a/how-convenience-innovation-and-trust-will-shape-tomorrows-banking

Collaboration to Forge a New Path

The pandemic has driven an unprecedented shift in payments towards digital options. While that move has been driven in part by sheer necessity, as consumers discover the broad range of tools FinTechs offer their expectations for legacy institutions will only increase going forward; going back to the old way of doing business is simply not an option.

For FIs, collaboration is the only answer to meeting the demand – and pairing the variety of new services FinTechs can offer with the long-established trust of the legacy institutions is the best way forward into recovery.

> "In addition to supporting growth of a community bank's core business, bankers noted that **customer-oriented partnerships with FinTechs can improve their agility in serving customers.** Nearly all survey participants noted the importance of a customer-friendly digital banking environment in the context of the COVID-19 pandemic."[11]
>
> **Federal Reserve Board of Governors**

[11] *https://www.federalreserve.gov/publications/files/community-bank-access-to-innovation-through-partnerships-202109.pdf*

Envestnet | Yodlee Enables Collaboration

The technologies used to process and integrate financial services data into new applications, or to provide new views within existing apps, are driven by application programming interfaces (APIs). With a well-defined interface, an API makes it possible for software apps to connect in real time, and for FIs and FinTech startups to access financial data and collaborate in a way that benefits all.

For more than 20 years, Envestnet® | Yodlee® has been the leading Financial Data Platform that enables financial innovation for FinTechs and financial institutions. As a result, the Envestnet | Yodlee Platform is a reliable and trusted data network for millions of users and billions of transactions. Financial app developers can use Envestnet | Yodlee APIs to access financial account and transactional data they need to develop financially capable apps. FIs can use the APIs to foster a culture of innovation by providing developers – whether in-house or out – with the ability to access and utilize banking data through a secure access channel. Unified APIs can handle multiple tasks, from aggregation to account verification and more. This leads to increased efficiency and data speeds, simplified coding, and easy integration.

And that data has more uses than ever before in today’s landscape. In addition to application work, Envestnet is empowering more than 108,000 wealth management advisors with the tools and services they need to give smart investing advice for the digital future.

Data Aggregation

The Envestnet | Yodlee Account Aggregation API allows developers to integrate and access the Envestnet | Yodlee Financial Data Platform. FinTech firms can leverage the data aggregation API to enable consumers to seamlessly bring their account information into one place.

Account Verification

The Envestnet | Yodlee Account Verification API also enables developers to simplify and speed the account activation process so consumers can connect to their accounts and the developer's app immediately. The API offers a safe, secure, and fast way to onboard consumers, connect their financial accounts, mitigate payment and account funding risks, and verify an account and its status.

Conclusion

As FinTech firms become more established and FIs realize the benefits of collaboration, we are seeing a marked change in customer engagement, targeted marketing, and expanded service offerings. This alliance is allowing FIs to tap into underserved markets, better understand their customers, and build customer loyalty. With easily integrated technology, a wealth of data, and an abundance of opportunity, collaboration is taking FIs and FinTech firms to new places that are defining the digital era.

For more information, visit: **www.yodlee.com.**

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For more information, go to yodlee.com