

# What We Learned During Fintech Spring Conference Season, 2023

We summarize some of the key themes discussed during the conferences attended by Flagship Advisory Partners' leadership team from January to June 2023 in the UK/Europe and the U.S.

 **Attended Conferences 2023, June YTD**

**MONEY 20/20**  
 **BARCELONA 23**  
 **MERCHANT PAYMENTS ECOSYSTEM**

**360**  
 **pay**  
**CPI Europe Summit**  
 March 28th-29th 2023 | London

**ePAY SUMMIT**  
 E-payments & online banking **EUROPE**

 **Attended Conferences 2023, June YTD**

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 **GLOBAL ASSOCIATION of WOMEN in payments**

**SaaS Connect 2023**

**FINTECHMeetup**  
 Aria, Las Vegas, March 19-22, 2023

## 1 GENERAL OBSERVATIONS

### Fintechs under Pressure

- **High-growth fintechs as a class are under major pressure to adapt their business models to achieve break-even. Some (e.g. Railsr) will fall into distressed outcomes**
- Fintechs that cater to other fintechs or tech clients are under the most intense pressure do to cascading impact
- **Funding for earlier stage companies remains constrained**
- **Fintechs must adapt to the new normal in capital markets**

### Expected M&A Rebound

- **Deal activity** in the payments and fintech **slowed down last year, peaking with unusually limited activity in Q1 2023**
- However, the market expects an **acceleration of M&A heading into H2**, and we see this already in our own business

### Emphasis on Expenses, Achieving Break-even

- **High growth capital is shifting to a conservative mind-set, directing CEOs to focus on accelerating path to break-even**, sacrificing some focus on growth and innovation in exchange
- **Layoffs announcements among fintechs will continue throughout 2023**

### Large Incumbents Clawing Back Momentum from Earlier Stage Fintechs

- With strong cashflow and balance sheets, incumbents are benefitting from pressure on fintech funding and fintech boards anxiety to pivot to cashflow from innovation/disruption (i.e., **disruption risk is now declining**)
- **2H 2023 into 2024 will be a good time for such incumbents to bargain shot for capability acquisitions**

### Need to Consider Operating Risks

- SVB, Credit Suisse, and Railsr's distressed situations put a microscope on the **need to diversify key business vendors and partners**
- Diversity and redundancy also means that **fintechs and banks can no longer take customer stickiness for granted**
- It is **more important now for companies to prove value-for-money**, as interoperability comes more into focus

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## 2 SAAS & PAYMENTS/FINTECH (C2B & B2B)

### The Massive Opportunity of SaaS + Payments And Fintech

- Huge ongoing focus on SaaS + payments as a growth engine, both **C2B and B2B software and use cases**
- **SaaS companies** with embedded payment acceptance are now **asking "what's next?" beyond payments**
- SaaS fintechs, such as Stripe also **seeking broader penetration of embedded finance such as card issuing, virtual banking, and lending**
- **Heightened U.S. embedded payments focus on A2A, starting with optimization of embedded ACH** (where ACH+ can yield lucrative margins)
- **Economic downturn highly visible in the tech industry; SaaS turnout at conferences down vs. prior years**

### B2B Embedded Lending and Banking Largely Untapped

- **Clear excitement around broader embedded finance plays within B2B commerce and software**
- Fintech breakout in B2B payments still the primary focus in Europe, where the workflow automation potential is huge, but where payments monetization is immature
- But more generally, acknowledgement that **in B2B, lending and to a lesser extend banking, are potentially even more powerful embedded fintech opportunities**

### Embedded Payments Still Early Days in Europe

- **SaaS embedded payments accelerating in Europe, but still way behind U.S. penetration** (U.K. more mature than rest of Europe)
- Many in Europe still **underappreciate the long-term distribution potential of embedded payments**
- **European B2B fintechs are still establishing their right to win vs low-costs payment via banks.** Clear upside for innovation in verticals such as CFO software, logistics, construction, etc.

## 3 PAYMENT ORCHESTRATION

### Payment Orchestration on the Rise, but Still Small

- Payment orchestration remains smaller than its potential, as evidenced by strong merchant demand. **Many start-ups in this domain struggling to break-out, could come under funding pressure**
- **Still some customer confusion around orchestration proposition and being able to trust small providers; but make no mistake, the merchant demand for orchestration services is huge**
- **Leading payment orchestrators are scaling by adopting greater vertical focus, and improving both connectivity and robustness of data aggregation and related services**
- **POS orchestration still highly under-supplied, but also highly demanded**

## 4 MARKETPLACES

### Emerging Marketplace Providers

- A **new breed of marketplace operating system providers** (e.g., Payrails, LoopingOne) **is emerging** to enable enterprise marketplaces to work across **multiple payment service providers, in-house key services**, including ledgers, and **manage complex payment flows**

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## 5 B2B PAYMENTS

### B2B SaaS and Fintech Still Pushing Virtual cards with Real-Time A2A on the Horizon

- **U.S. card economics power the revenue opportunity in B2B payments**
- **Virtual card value propositions continue to convert analog payments such as checks and some legacy ACH payments to digital channels**
- **It will be fascinating to see how B2B fintech embrace instant A2A potential given the highly lucrative economics of commercial cards**
- B2B SaaS and fintechs do **acknowledge the importance of A2A enablement in the near future** but **downplayed the importance of payment form-factor choice by businesses**

### Cross-Border Payout Fintechs Continue to Perform

- **Cross-border payout fintechs continue to expand into new markets/corridors** (e.g., Thunes, Terrapay, Payoneer), **much more brand share than last year**
- Strong underlying market performance within this fintech domain

### Straight-Through-Processing (STP) Emerged as a Hot Topic

- STP offered a **solution for business buyers to trigger a buyer-initiated virtual card transaction directly to a supplier's acquirer with no manual involvement**, benefiting from **straight through reconciliation**
- **European commercial card issuers remained optimistic of higher STP adoption** with European businesses, fintechs such as Adflex talked about the benefits of STP for both buyers and suppliers

## 6 A2A, OPEN BANKING

### Shift to Mobile-based, Embedded, and Decentralized Payments

- With **mobile payments becoming the new norm**, mobile devices are now the foundation of payment enablement
- While **businesses and payees want faster payments, consumers prioritize convenience**, transparency, predictability, and loyalty rewards over speed
- As the **growing availability of payment options empowers users with choice**, PSPs **need to manage the resulting fragmentation by building interoperability** between systems
- **The adoption of APMs at the POS still slow**, but coming; technology all in place, but value-proposition and frictionless use cases not established

### EPI's Pursuit of Creating a Pan-EU A2A Wallet Strategy

- The European Payments Initiative (EPI) launched in 2020 by 16 EU banks initially focused on creating a V/MC rival card network
- **EPI adapting, now aiming to create a pan-EU digital wallet infrastructure, evidenced by recent acquisitions of A2A schemes Currence iDEAL (NL) and Payconiq (BE, LX)**

### Open-Banking A2A Fintechs & Traditional PSPs Partnerships

- **More partnerships between open banking A2A fintechs and merchant acceptance payment service providers** (e.g., Worldpay - Volt, Flutterwave - Token; Paysafe - Token). PSPs are more aggressive, see open-banking as a natural value-add in specific high risk vertical coverage

### Open-Banking Payments Accelerating, But Still Small

- **Open banking providers are not growing at a sufficient pace to justify the heady valuations assigned in recent years. Renewed focus on driving growth from new use cases** (e.g., VRP, recurring, B2B), but each has significant barriers, both structural and customer

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## 7 FRAUD & RISK MANAGEMENT

### Fraud, Risk Specialists Replaced Crypto Attendees

- **Risk management, fraud, and security specialists** (e.g., digital ID, KYC/KYB, etc.) **were noticeably visible at fintech conferences this year**, replacing crypto as past years' key concentration

### Sector Will Consolidate

- **We anticipate consolidation within fraud / ID / compliance automation given current fragmentation**

### Advanced AI as a Key Lever

- There is an **increasing interest in the use of advanced AI among fintechs**, especially risk management and security specialists

## 8 REGULATION



### Increased Regulatory Scrutiny in Europe

- **In Europe, there continues to be a visible escalation in regulatory scrutiny and expectations.** In part, this reflects regulators realization that licensing was simply too easy for a stretch following PSD2
- **Concern among fintechs and payfacs who rely on complex, layered operating models (BIN sponsors, etc.) regarding increased regulatory requirements, and knock-on impacts**
- **Does Europe really need a PSD3?**



### Anticipated Launch of FedNow in July 2023 Could be a Tipping Point in U.S. Adoption of A2A Payments

- **With the highest cost of card acceptance in the world, U.S. merchants stand to benefit hugely if instant A2A rails can be productized for widespread acceptance and usage**
- Small merchants will depend on their PSPs to understand value creation potential of instant A2A payments
- The **implications of instant payments will be huge for the gig economy and wage access**
- The **limits on the transaction amounts and risk controls will be very deterministic as to which industries adopt** instant payments

### Regulators Struggling to Balance Guard Rails while not Hampering Innovation and Inclusion

- Regulators in U.S., U.K., and EU under pressure, tightening scrutiny on KYC/AML which creates a **challenging balance between financial inclusion (driven by easy-to-use-digital-banking) and compliance rigor**
- Huge regulatory pressure on crypto, especially in the **US, where regulators are seeking to regulating the digital asset itself rather than the means fraudster use to exploit it.**
- Regardless, **optimists believe that if the underlying technology solves a significant pain point, the market will see it prevail**
- For product development, it is important to **involve compliance and legal teams early in the process** to ensure that the minimal viable product meets regulatory standards

## 9 CRYPTO, CBDC

### Crypto Shakeout, but Growth in CBDCs

- **Ongoing deceleration of crypto hype**, although Central Bank Digital Currencies ('**CBDC**') such as the **digital euro continue to gain momentum**
- However, also a skeptical view among participants questioning the value creation of CBDC in mature digital payments markets