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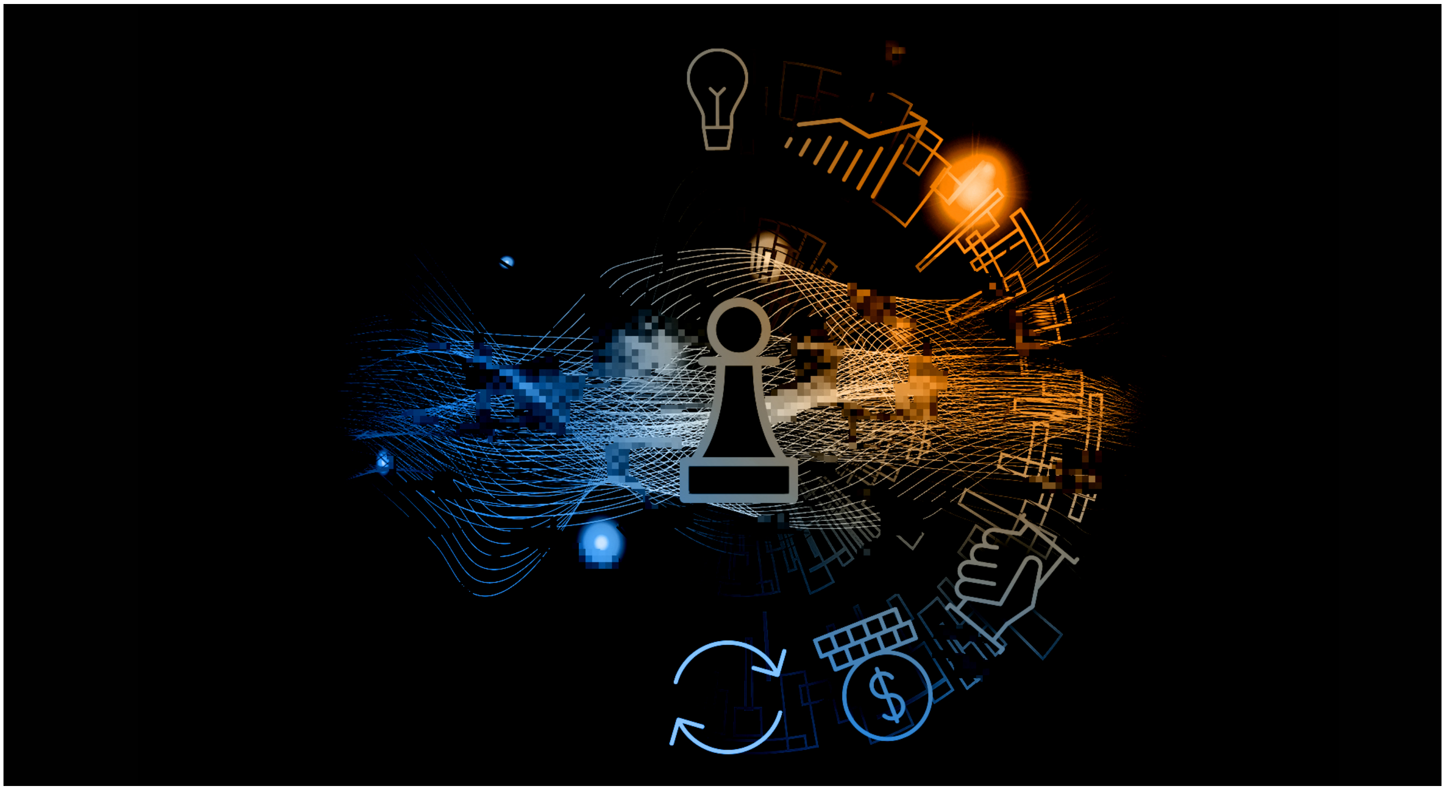

Beyond COVID-19:
New opportunities for fintech companies

> Many fintechs, like the rest of the financial system, have gone into overdrive to respond to the crisis.

As the COVID-19 pandemic continues to create uncertainty, many fintech companies (fintechs) are under stress on a number of fronts. Access to funding was already becoming difficult, especially for some early-stage ventures, as many investors focused on established fintechs with clear business models. In addition, recent interest rate cuts and the economic slowdown have radically changed many industry assumptions.

Yet as the broaderrod economy shifts from respond to recover,[1] COVID-19 may create new opportunities for some fintechs. For example, as social distancing has taken hold worldwide, there has been tremendous growth in the use of digital financial services[2] and e-commerce.[3] While we can't predict what form post-crisis opportunities will take, we do believe that fintech—a sector that is steeped in innovation—is likely to generate new and transformative solutions.

How fintechs are meeting the COVID-19 challenge

The most immediate concern, of course, is managing through the current uncertainty. Many fintechs, like the rest of the financial system, have gone into overdrive to respond to the crisis. Many, including insurtech and proptech companies, are shoring up their capital and funding from investors and lenders.[4] Others have implemented cost-saving measures, including workforce reduction.[5] Because revenues for many of them are transaction and volume based, a priority strategy right now is making sure that as many expenses as possible are variable and fixed expenses are minimized.

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Maintaining operational resilience is clearly top of mind as well. Lending fintechs are being inundated with customer requests for forbearance and relief, as well as for help in securing the small business loans established by the Payroll Protection Program (PPP) of the Coronavirus Aid, Relief, and Economics Security Act (CARES Act). Similarly, payment- and wealth-focused fintechs are bolstering their infrastructure by expanding capacity or investing in new resources to withstand the stress to their systems from higher transaction volumes. These actions could be especially challenging for fintechs that depend on transaction volumes for revenue and are thus cash-starved at the moment.

For insurtechs, winning the attention of investors is expected to get even more difficult, given the number of startups already in the market. And attracting end-users likely won't be any easier as insurers shift their focus to immediate needs and expense management in the wake of the COVID-19 outbreak.

Current market conditions and social distancing practices have also affected proptechs' business growth, and many of those investing in real estate are being forced to pause their activities until it is clear that they will be able to sell the properties. Other proptechs, to retain their customers, are offering discounts and attractive retention offers.

Beyond these more general finance and operating considerations, each category of fintechs is responding to some unique challenges. Many online lenders, for instance, are tightening their underwriting standards to retain the quality of their balance sheets and mitigate any potential rise in defaults.[6] They may also soon find that the historical data they use to make underwriting decisions could be less reliable in today's environment, and they will have to adjust their models accordingly.

How are fintechs innovating to provide relief and enable recovery?

Fintechs tend to have some unique advantages that are allowing many to both create new ways of providing value in the current environment and position themselves to thrive in the longer term. Fintechs have a number of attributes that give them the agility needed to rapidly create and deliver new solutions. Generally speaking, they are:

- Adept at harnessing and analyzing various types of data—for example, credit and life insurance underwriting data;
- Unburdened by complex, disparate, legacy systems, which allows them to build platforms using a cloud-native approach that takes advantage of the application program interface (API) ecosystem;
- Laser-focused on a seamless and delightful digital customer experience;
- Familiar and comfortable with partnering within the broader financial services industry and beyond; and
- Accustomed to collaboration: Many use collaboration tools and have designed their work flow and operations accordingly.[7]

So how are most fintechs harnessing their strengths to meet the current challenge? First, they are doing their part to provide relief to individuals and businesses coping with the effects of COVID-19. For example:

- PayPal has waived fees on chargebacks and instant funds transfers from PayPal business accounts to bank accounts.[8]
- Lending Club has added new hardship plans, including waiving late fees and allowing eligible borrowers to make interest-only payments or skip up to two monthly payments.[9]
- Square is waiving software subscription fees for Square Payroll customers.[10]
- Stripe is fast-tracking support for telemedicine platforms.[11]
- Flock, a drone insurance provider, is allowing its commercial customers to pause their policies when no work is being conducted.[12]
- Kabbage worked with other fintechs like Lendio, Finix, and Fundera to launch a platform that allows consumers to buy gift certificates to support local small businesses during the coronavirus crisis. The gift certificates can be redeemed at any time, but small businesses receive the revenue within one business day of purchase.[13]
- Nomo, a platform that assists freelancers in managing their accounting, taxes, and invoices, is providing free temporary access to its new customers.[14]
- 7 Chord, the company behind the BondDroid AI engine that generates prices for corporate bonds, is temporarily offering its services free of charge.[15]
- Revolut, which launched recently in the United States, and a number of other fintechs have introduced a charitable-giving feature within their apps so that their customers can donate funds to those affected by COVID-19.[16]

Next, many fintechs are innovating to create new products that address the rapidly evolving economic environment:

- In the UK, Trade Ledger, Wiserfunding, 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 virtually and digitally deploy funds to businesses during the COVID-19 outbreak.[17]
- 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 a pandemic such as COVID-19.[18]
- 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.[19]

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 a developed a new solution to optimize the PPP loan process.[20]
- ODX, a subsidiary of OnDeck, also has a solution that is specially configured to the CARES Act.[21]
- Lendio is enabling small businesses to apply for loans.[22]
- Unqork developed a small business digital lending platform.[23]
- Numerated, another digital lending platform, is seeing an increase in banks' interest in using its technology to handle the rise in loan demand.[24]

Even prior to the CARES Act, companies like Biz2Credit set up dedicated websites offering information about the Small Business Administration (SBA) Economic Injury Disaster Loans (EIDL) and other types of funding for businesses in need of working capital during the coronavirus pandemic.[25] A number of other fintechs have announced plans to offer PPP-related services. We expect that numerous companies are working around the clock to tailor and deploy these CARES Act-specific solutions.

Keeping an eye on future opportunities

Fintech companies may be forced to reexamine their mission and business models after COVID-19. A key question is how to leverage both existing and newly developed assets to seize new opportunities in the future. It could be an opportune time to think big and act boldly.

First and foremost, it is apparent that social distancing is accelerating customers' use of online—especially mobile—channels to view and manage their finances. Because many fintechs are purpose-built for the mobile channel, they often excel in offering presentation, onboarding, underwriting, data visualization, and providing the right context for transactions. These capabilities will likely become even more relevant and important as a greater number of financial transactions are conducted through digital channels.

Expanding partnership strategies

An important outcome of COVID-19 for fintechs may well be the continued acceleration of partnerships with financial institutions, which can offer the benefits of capital, distribution access, and compliance infrastructure, but often lack highly sought-after digital solutions. For example, Blend, an established digital mortgage software provider, is seeing a strong increase in the number of interested banks that do not yet have digital mortgage-lending solutions.[26]

Fintechs may also continue to look for partnership opportunities with other fintechs, bigtechs, and nonfinancial services firms. This partnership trend, including white-labeled fintech solutions, is expected to accelerate. Growth in open banking and banking-as-a-service regulations and initiatives could play an important role here.

For example, there is huge potential in holistic financial services that integrate consumers' financial needs and behaviors, such as healthcare. Integrating payments and other financial products into health services is often considered needed in the United States and elsewhere. Partnering with nonfinancial services firms, such as retailers in the "tailfin" space, could have potential. Examples of these innovative partnerships already exist, like the ones Walmart has with PayPal and Green Dot.[27] There are myriad opportunities for fintechs to collaborate with partners in other areas—for example with the big technology firms—especially on a global scale.

Advancing financial inclusion programs

The economic disruption of the pandemic is highlighting the importance of serving people who are currently outside the financial system, both in developing and developed economies. For instance, at present there are 1.7 billion unbanked individuals worldwide, according to the World Bank.[28] The Federal Deposit Insurance Corporation estimates that in 2018, 6.5 percent of US households were unbanked and 16 percent were underbanked. Even for those who are in the banking system, 40 percent would have difficulty covering an unexpected expense of even $400,[29] and almost three-quarters of employees in the United States "would experience financial difficulty if their paychecks were delayed for a week,"[30] according to results from the 2019 Getting Paid In America survey conducted by the American Payroll Association.

It is possible that COVID-19 may lead to greater financial inclusion as a result of recent government programs around the world to help low-income households. Fintechs can play an important role, perhaps through strategic partnerships across a broad ecosystem of players—including financial institutions, retailers, and the government sector—in distributing benefits to more vulnerable populations. Indeed, many fintechs made it their mission to democratize financial services by providing basic financial services in a fair and transparent way.

Accelerating economic relief efforts

Numerous payments companies may be well positioned to aid in the more rapid disbursement of government relief funds, especially to those without bank accounts. Square, Venmo, PayPal, Finix, Plaid, Marqeta, and others—in addition to payroll-processing companies like Gusto—may play a big role in the coming weeks and months.[31, 32]

Empowering gig workers

Gig economy workers, numbering more than 50 million in the United States alone, are another attractive segment for fintechs.[33] Given their inconsistent or unpredictable income patterns, gig workers typically have unique financial, insurance, and tax requirements.[34] For this reason, they are generally underserved by banks, making them a growing opportunity for fintech firms.

While it is unclear how COVID-19 might impact the growth of the gig economy, fintechs may end up targeting these individuals more directly. There are already a number of fintechs and challenger banks that serve the gig economy, including Green Dot, Salaryo, Joust, Qwil, Steady, and Cogni.[35] Some provide features such as advances against unpaid invoices[36] and the ability to find gig jobs on the app itself.[37]

Likewise, a few fintechs in the United Kingdom—Credit Kudos, Fronted, 11:FS, Coconut, Capital on Tap, Mazuma, SeedLegals, and TrueLayer—have formed a consortium and created a new concept called Covid Credit to cater to freelancers affected by the COVID-19 crisis.[38]

Harnessing the Internet of Things

Another area is Internet of Things (IoT)–enabled contactless payments, such as connected cars that allow consumers to pay for gas or food without handling cash or other potentially infected surfaces.[39] In fact, it is possible that COVID-19 will accelerate the adoption of IoT-enabled payments.

The light at the end of the tunnel

The current uncertainty has placed businesses everywhere under economic duress, and fintechs are no exception. But many in the sector are already rising to the challenge, adjusting their products and services to meet the needs of customers who are struggling through the pandemic themselves. What's more, given their differentiated capabilities—namely adaptability and innovation—many fintechs are well positioned not only to survive the crisis, but also to contribute to the industry and society in meaningful ways once the crisis is behind us. If history provides any lessons for this unprecedented crisis, it may be that adversity inspires creativity.

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Contact us:

Alaina Sparks
US Fintech leader | Clients and Market Growth
Deloitte Services LP

Zach Aron
US Payments & Fintech co-leader | Deloitte Consulting
Deloitte Consulting LLP

Gina Primeaux
US Fintech leader | Deloitte Risk & Financial Advisory
Deloitte & Touche LLP

Kirby Rattenbury
US Fintech co-leader | Audit and Assurance
Deloitte & Touche LLP

Ken Schulhof
US Fintech leader | Tax
Deloitte Tax LLP

Deloitte Center for Financial Services:
Jim Eckenrode
Managing director | Deloitte Center for Financial Services
Deloitte Services LP

Deloitte Luxembourg:
Patrick Laurent
Partner – Technology & Innovation Leader
Deloitte Tax & Consulting

Dr. Marc Sniukas
Director – Innovation
Deloitte Tax & Consulting

Francesca Messini
Director – Fintech Leader
Deloitte Tax & Consulting

Giulia Pescatore
Senior Consultant – Innovation
Deloitte Tax & Consulting

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