FinTech services in Europe

The European FinTech (financial technologies) market is booming, as the financial sector has to cater to a modern, digital consumer. You can provide your FinTech services to traditional financial institutions, or to the (European) FinTech firms they may hire. New technologies such as blockchain and Artificial Intelligence / machine learning are increasingly used in FinTech. In addition, new European legislation offers you opportunities in RegTech (regulatory technology) and payment services.

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1. Product description

What is FinTech?

FinTech is a common term for Financial Technologies. It is used to describe the relatively new technologies that are competing with and/or disrupting traditional financial services. Traditionally, FinTech mainly referred to technologies used in the back-end systems of financial institutions. Nowadays however, focus has shifted to the delivery of financial services to consumers through modern technologies. This is especially popular among consumers between 18-44 years of age.

Consumers (and businesses) can use FinTech solutions for various purposes, including:

- (mobile) payments and money transfers
- savings and investments
- lending and borrowing
- insurance
- fundraising (crowdfunding)
- asset/wealth management

To provide consumers with the personalised and convenient services they expect, traditional financial institutions are increasingly partnering with FinTech providers. In turn, FinTech providers may also further outsource some of their work.

Capgemini defines three types of FinTech firms:

- enabler firms - help traditional institutions offer their customers innovative technology-based products/services
- customer-servicing firms - provide financial services directly to consumers, or help them manage products/services they bought from traditional institutions
- value-added service firms - provide value-added services to consumers, such as the comparison of financial services from traditional institutions

Why do European companies outsource FinTech services?

Cost reduction

Cost reduction continues to be a key driver for European companies to outsource information technology (IT), as well as business processes. This includes the outsourcing of FinTech services. For traditional financial institutions, FinTech itself offers relatively low-cost alternatives for traditional financial services.

Tips:

Focus on competitive pricing while maintaining high quality services.

Be transparent in your pricing: avoid hidden costs.

Access to technical skills and flexibility

Traditional financial institutions usually do not have in-house FinTech development skills, as this requires specific knowledge, expertise and tools. This often leads them to outsource the development of their FinTech solutions.

For FinTech providers, outsourcing software development, for example, gives them greater flexibility and scalability. It allows them to add specific skills and knowledge to their projects as and when needed.

Tip:

European companies often require proof of your technical skills. Provide references, testimonials and examples of recent work, preferably on your website.

What are the challenges when it comes to outsourcing FinTech services?

Data security

Data security is of the utmost importance to European companies. Especially when it comes to FinTech services, as these generally concern highly sensitive data. This makes the sensitive handling of information a main criterion when European companies select a FinTech service provider. The new European General Data Protection Regulation (GDPR) further stimulates this. Companies expect their service providers to be discrete and comply with full confidentiality.

However, European companies generally perceive offshore data security to be of inferior quality. The European Union currently considers data appropriately protected in a select number of countries:

- the 28 countries of the European Union
- the three countries inside the European Economic Area - Iceland, Liechtenstein and Norway
- countries with “adequate” data protection laws - Andorra, Argentina, the British Islands, Canada, Faroe Islands, Israel, New Zealand, Switzerland and Uruguay, as well as the United States of America (limited to the Privacy Shield framework)

This makes it even more important for you to show potential European buyers that your FinTech services are secure.

Tips:

Provide clear information about your company’s data security and privacy measures. This reflects awareness and experience and enhances trust in your company.

Invest in a secure, reliable infrastructure (for example a fully cloud-based infrastructure with solid Identity and Access management in place).

Apply for security standards like the ISO 27000-series on information security to support your commitment to data security.

Offer a Non-Disclosure Agreement.

Partner with onshore (cloud) service providers. Especially if you work with companies in countries that require you to store data onshore.

Make sure you comply with European data protection rules. Look at the requirements section for more information.

Clear communication

Good communication between customer and service provider is essential to providing FinTech services. It requires solid and in depth industry expertise, particularly as FinTech is about innovating the financial services industry.

In addition, good communication also requires good language skills, at least in English. Depending on the country or company, language skills in the main language of your European target country may be preferable. If the level of English in your company is not sufficient, your chances on the European market are limited. Unclear communication may cause misunderstandings and disagreements, which can lead to disputes with your buyer.

Providing good FinTech services starts with defining what the technology should do. Ask your buyer for example:

- What are the main user groups, both on the customer and the company side?
- What are the main user scenarios?
- What features should it include? Which are “must haves” versus “nice to have”?
- What are the non-functional requirements (performance, availability)?
- Which platform(s) should it run on?

And of course:

- What is your budget?
- What are the deadlines of the project?

The extent of communication with your buyer a project requires depends on the type of contract:

Fixed

With a fixed price contract you agree on specifications, budget and deadlines in advance. During the application development you keep your buyer up-to-date, but you don’t need to negotiate further. This type of contract is suitable for relatively simple and clearly defined projects.

However, fixed price contracts assume that the buyer can adequately specify the requirements for the solution. In new and emerging technologies, this is often not the case. Hence it may be more appropriate to divide the project in smaller chunks/phases and contract on a phase-by-phase basis.

Flexible

More flexible models are Time & Material or Dedicated Team contracts. These are especially suitable for relatively complicated projects. You and your buyer discuss and agree on the specifications of the mobile application during the development process. This also means the budget and deadlines are not set in advance. These types of contracts require intense communication with your buyer.

More and more organisations are transitioning to an Agile working model. This means that the overall requirements are determined in less detail and the development takes place in sprints of usually 2-4 weeks. At the end of each sprint, a working product is delivered and based on the progress and user feedback, the project planning can be adapted. Contracting Agile projects is often comparable with Time & Material, but with guarantees for the development speed and quality of the products.

Tips:

- Make sure that you have staff with good English skills in your company.
- Focus on countries whose language your staff is fluent in, or you could recruit staff for.
- Listen carefully to your buyer's ideas, problems and wishes and thoroughly document them. Ask questions to better understand what your buyer wants.
- Regularly update your buyer on the progress you are making.
- Be prepared to communicate with your buyer during their office hours, even if they are in a different time zone.
- If you use a fixed price contract, make clear agreements with your buyer on a structured plan and the expected timeline of the project.
- For more information on the different types of contracts, see Cleveroad's Types of Contracts in Outsourcing: How to Make a Wise Decision.

2. Which European markets offer opportunities for FinTech services?

European FinTech use is on the rise

Global FinTech adoption has more than doubled between 2015 and 2017, with 33% of digitally active consumers now regularly using FinTech services. Adoption is highest in the United Kingdom (42%), Spain (37%) and Germany (35%). The total FinTech transactional value in Europe is predicted to grow with 8.6% per year to reach around €770 billion in 2022.

Traditional financial institutions are increasing their FinTech outsourcing

European financial institutions are increasingly teaming up with FinTech firms to innovate their business. Across Northern and Western Europe, 70-100% of financial institutions are planning to increase this type of partnerships within the next three to five years. Currently, cooperation is especially high in Germany (70%), Belgium (69%) and the Netherlands (65%).

In Eastern European countries like Poland (44%) and Hungary (43%), cooperation is relatively limited. However, at 64% and 74% respectively, many financial institutions in these countries also expect to increase this in the coming years.

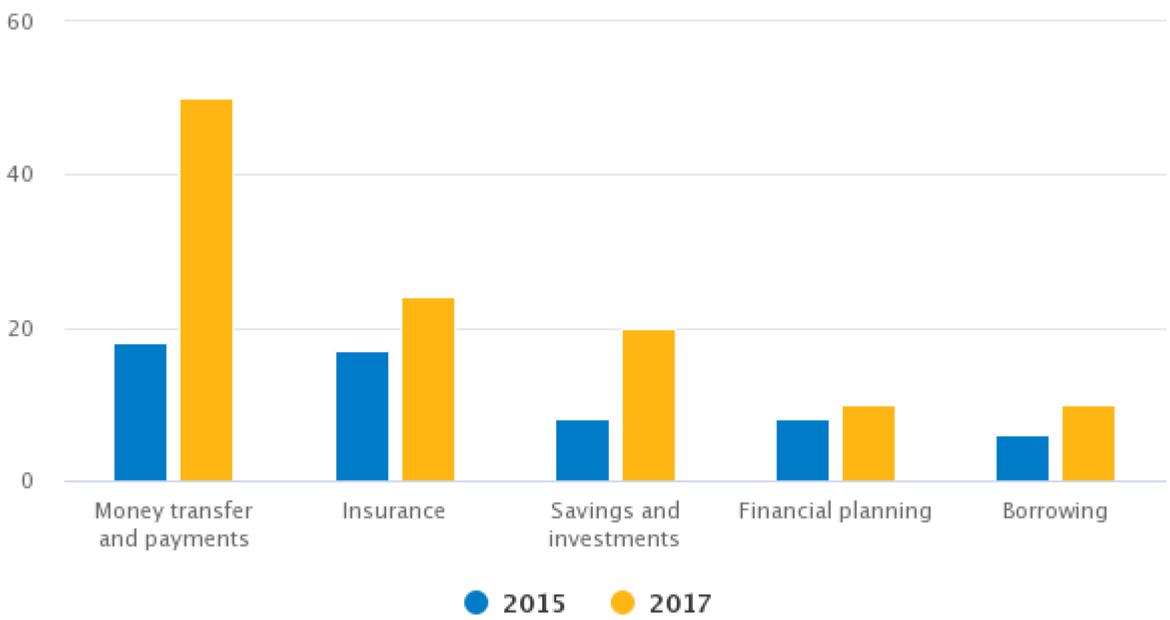
Tip:

Study your options for partnerships with traditional financial institutions, as interest in cooperation is high across Europe.

Money transfer and payments are the most used type of FinTech

The rising use of FinTech solutions is mainly due to the booming popularity of money transfer and payment solutions. Consumers also increasingly use FinTech solutions for insurance purposes, such as selecting policies through premium comparison platforms.

Figure 1: FinTech adoption rates



Source: EY FinTech Adoption Index 2017

Adoption rates of the various types of FinTech do vary per country. For example, the United Kingdom (43%) and Germany (31%) are among the world's leading markets for insurance FinTech. In the United Kingdom, FinTech use for money transfer and payment is also relatively high (57% of digitally active consumers).

Tip:

Study your options in growing categories such as money transfer and payments, insurance and savings and investments.

European IT outsourcing market continues to grow

According to Whitelane Research, 44% of European companies plan to increase their IT outsourcing. Another 33% intends to continue outsourcing at their current rate. 12% hadn't decided and a mere 11% planned to decrease their IT outsourcing activities. This indicates that the European IT outsourcing market continues to be a promising target market.

3. What trends offer opportunities on the European market for FinTech services?

Blockchain is becoming a reality

In the coming years, the use of blockchain is expected to become more common. This technology stores and distributes digital information by linking several records (blocks) into an encrypted ledger (chain). The blockchain is stored across many computers in a peer-to-peer network, making it relatively secure. The larger the network the blockchain involves, the more difficult to corrupt it becomes.

Blockchain has the characteristics of a hype, where many parties are looking to apply it without solid understanding of the (limitations of the) technology, and whether it really solves their particular problem. However, the technology does hold tremendous potential.

The financial sector is leading the adoption of blockchain technology, because of its perceived security that is key to financial services. 77% of financial services companies are planning to adopt blockchain as part of a production system or process by 2020, illustrating the potential of this technology. Almost a third of European financial services companies are very-to-extremely aware of blockchain technology, which is more than the global average.

Currently (October 2018), 26 European countries have joined the European Blockchain Partnership (EBP). They plan to establish a European Blockchain Services Infrastructure (EBSI) to support the delivery of cross-border digital public services, with the highest standards of security and privacy.

Tips:

Explore the opportunities and challenges for blockchain in financial services via IBM's Blockchain rewires financial markets.

See Deloitte's 5 blockchain technology use cases in financial services for detailed examples.

Artificial Intelligence and machine learning are on the rise

Another interesting and potentially far wider reaching development is the rise of Artificial Intelligence (AI) and machine learning. These techniques offer higher efficiency and productivity at lower costs. They can be used for tasks ranging from portfolio management to insurance. For example, so-called robo-advisors can advise customers or invest for them based on information they collect 24/7.

Financial services companies consider AI the third most relevant technology for their business to invest in within the next year, after data analytics and mobile (these areas have substantial overlap). Although AI and machine learning may cause previously outsourced jobs to be "re-sourced", they create new outsourcing opportunities for software and hardware development and related services.

Tip:

See TechEmergence's Machine Learning in Finance – Present and Future Applications for examples from the financial sector.

New European legislation drives RegTech investments

RegTech, or Regulatory Technology is a category of FinTech that uses modern/innovative technologies to deal with regulatory challenges in the financial services sector. It focuses on regulatory monitoring, reporting, compliance and risk management, at relatively low costs.

In 2018, some major new European legislation was rolled out. The Payment Services Directive PSD2 (a revision of the original Payment Services Directive) regulates electronic and non-cash payments. It obligates banks to, upon the customer's explicit consent, give third party providers access to a customer's account data to manage the customer's finances. In (seeming) contrast, the new General Data Protection Regulation (GDPR) strictly regulates the sharing of personal data.

To efficiently navigate and comply with this complicated legislation, companies are increasingly investing in RegTech. This is illustrated by the fact that in the first six months of 2018, investments in RegTech companies has already exceeded that of 2017.

Tip:

For more information on the effects of PSD2 and the GDPR, see for example Covington's Overlap Between the GDPR and PSD2 and McKinsey's Data sharing and open banking.

Skills shortage

As the European market for FinTech solutions is growing, there is an increasing need for developers. However, there is a considerable lack of IT training, certification and experience in the European workforce. Due to the rapid technological innovations in IT, the skills of IT-graduates don't match the needs of the market. The European Commission expects the shortage of IT-skilled staff may reach 756,000 unfilled jobs by 2020.

Tips:

- Closely follow upcoming FinTech developments and build capacity in these technologies.
- Promote your company's professional expertise and experience in FinTech services. Use references to support your message.
- Ensure your access to skilled professionals. For example by working with universities, setting up training courses or centres, systematically collecting and analysing CVs and having a partner network of companies and individuals.

See our study about trends on the European outsourcing market for more information on general trends.

4. What requirements should FinTech services comply with to be allowed on the European market?

What legal and non-legal requirements must you comply with?

General Data Protection Regulation

Europe's new General Data Protection Regulation (GDPR) has come into effect on May 25th 2018. This regulation is designed to protect European citizens from privacy and data breaches. Under the GDPR, any company or individual that processes data is also responsible for its protection. It applies to all companies processing the personal data of European subjects, regardless of the company's location. This means it also applies to you directly.

The personal data this regulation protects can range from a name or email address, to bank details, social media content, a photo or an IP address. Some key consumer rights you must comply with include consent, right to access, data portability and the right to be forgotten. You also need to practice privacy by design, meaning data protection should be included from the onset of designing systems.

Tips:

If you (develop software/applications to) process data of European citizens, make sure you comply with the GDPR.

For more information on the GDPR (and other European legislation), see our study about buyer requirements on the European outsourcing market.

Payment Services Directive

Since January 13th 2018, the new Payment Services Directive (PSD2) applies. This update of the first PSD aims to improve the existing rules for electronic payments and take new digital payment services.

PSD2 sets out rules to:

- make it easier and safer to use online payment services
- better protect consumers against fraud, abuse and payment problems
- promote innovative mobile and online payment services
- strengthen consumer rights

A key aspect of PSD2 is its requirement that banks, upon the customer's explicit consent, give third party providers access to a customer's account data. This allows these third party providers such as FinTech firms to provide payment services to consumers and essentially compete with banks. In fact, more than a third of European banks expect FinTech firms to benefit most from the implementation of PSD2.

Tips:

Make sure the FinTech solutions you develop comply with PSD2.

For the specific versions of PSD2 per European country, see the National transpositions by Member State.

See the European Commission's Guidance on the implementation and interpretation of PSD2 for more information.

What additional requirements do buyers often have?

Voluntary data security ISO standards

Data security is one of the main challenges for service providers. This includes both data protection and recovery systems. Many European buyers expect you to have information security and management systems in place. Especially in industries where security is essential, such as finance and banking or mobile applications. The ISO 27000-series on information security contains common standards.

> **Tips:**
>
> Make sure you have effective security processes and systems in place. From business-continuity and disaster-recovery to virus protection.
>
> Ask your buyer to what extent they require you to implement a security management system like the ISO 27002 code of practice for information security.

See our study about buyer requirements on the European outsourcing market for more information.

5. What competition do you face on the European FinTech services market?

Competition on the European human resource services market does not differ significantly from the outsourcing market in general. Refer to our top 10 tips for doing business with European buyers.

Nearshoring more popular than offshoring

European companies prefer to outsource services to providers within the same country (onshoring). When outsourcing abroad, they prefer nearshore locations because of:

- proximity
- language
- cultural similarities
- little or no time difference.

These are usually Eastern European countries, due to their relatively low wages. For example:

- Poland
- Bulgaria
- Romania

However, prices in nearshore countries are rising. This makes service providers in these countries less competitive for offshore service providers. That means you can either form subcontracting partnerships with them, or compete with them.

Offshoring destinations with the strongest potential are:

- India
- China
- Malaysia
- Indonesia
- Brazil
- Vietnam

Tips:

Limit the possible disadvantages of being offshore. Provide excellent communication, availability in the required time zone and good security and privacy measures.

Differentiate yourself from onshore and nearshore providers to remain competitive. Emphasise how you are different in your marketing message. Do not only compete on price, but also analyse what other advantages you can offer. For example access to skills, specialised industry expertise or around-the-clock operations (24/7).

Research what your competitors are doing right and wrong. This can help you differentiate yourself from them.

Partner with nearshore service providers, as Eastern European companies are looking for cheaper destinations. Many service providers in developing countries have not yet recognised this opportunity.

6. Through what channels can you get your FinTech services on the European market?

Subcontracting by European service providers

Subcontracting by European FinTech service providers is a realistic market entry channel for you. It means that European service providers subcontract FinTech assignments to you, that end user companies have contracted to them.

Tips:

Focus on service providers that offer the same type of services or that serve the same industries as your company.

Attend relevant industry events in your target country to meet potential partners. This also allows you to learn more about their business culture. For example: eFintech Show in Spain, FinTech Connect in the United Kingdom, MoneyEurope in the Netherlands and Paris Fintech Forum in France.

Use industry associations to find potential customers in Europe. For example Bitkom in Germany, Nederland ICT in the Netherlands and UKITA in the United Kingdom.

National outsourcing associations can also be interesting sources to find potential buyers. For example: Global Sourcing Association in the United Kingdom, Outsourcing Verband in Germany and Platform Outsourcing in the Netherlands.

Direct partnerships with end users

You can also try to sell your FinTech services directly to end user companies. Especially Western European companies are generally quite open to international partnerships, which can enhance your opportunity of direct sales. However, you need profound end market knowledge.

Tips:

Develop good promotional tools, such as a professional company website and a company leaflet. Also invest in Search Engine Marketing, so potential buyers can easily find your company online.

Look for potential leads in the field of mobile application development on online outsourcing marketplaces. For example UpWork and Freelancer (freelancers), Ariba (corporate) or LinkedIn.

Intermediary

You can approach European service providers and end users of FinTech services directly, or through an intermediary. A local contact person is an advantage, especially if you are located in a lesser-known outsourcing destination. Intermediaries, such as a consultant/matchmaker or sales/marketing representative, can therefore be an important channel to establish contact with potential buyers.

Refer to our study on finding buyers in the European market.

7. What are the end market prices for FinTech services?

Price is an important reason for European companies to outsource FinTech services to developing countries. Staff salaries make up a large share of the costs of IT services. This means outsourcing to countries with lower wages can lead to considerable savings. For example, the average annual salary of a software developer in Western Europe is between €36,000 and €50,000. In offshore destinations, this is usually significantly lower.

Tips:

Research the average salaries for FinTech employees in your European target country. For example via Payscale, a global database for salary profiles.

Emphasise the potential salary savings in your marketing activities