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Halloween special: What fintechs fear lurking ahead

Article

What we've been thinking: With fintech adoption at an all-time high, startups have a lot to be optimistic about. Yet this wider reach also brings greater responsibilities and challenges. With Halloween just around the corner, it's a good time to reflect on market trends that fintechs may find, for lack of a better word, "spooky."

The SEC stalks robos and digital brokers.

- Just in time for some light Halloween reading, the SEC recently teased where it will focus regulatory efforts next year.
- Wealthtechs could have their compliance work cut out: **Chair Gary Gensler has raised concerns over conflict of interest and data bias risks** that may arise when robo advisors use predictive data analytics and other digital engagement practices.
- The regulator also published its **meme stock report**, which identified four areas of market structure that warrant consideration for changes, including the payment-for-order-flow model.

Tether's big crash risk haunts the crypto market.

- The largest stablecoin globally was **fined $42.5 million this month for lack of transparency over its reserves**. Rather than being fully backed by US dollars, Tether is partially backed by other assets, such as debt securities and bonds, which are less liquid than cash.
- What's troubling is that **a large share of crypto trading is done using Tether** rather than fiat money—meaning stablecoin holders could crash its value with a mass redemption and bring down the entire crypto market.
- This could significantly impact digital brokers' revenue, which is increasingly reliant on crypto trading. **Robinhood Q3 earnings already have taken a big hit from a crypto trading slowdown.**

Small insurtechs look on as established players devour much of the funding.

- **Just 15 insurtechs raised $3.3 billion**, or two-thirds of total global funding in Q2. This week, **Willis Towers Watson (WTS)** released Q3 funding volumes in which **11 insurtechs still accounted for 51% of the total**.
- With continuous access to deep capital pools, established insurtechs can keep funding their rapid growth, grabbing ever-larger market share and calling into question younger startups' longevity.
- In 2020, WTS estimated that **184 insurtechs globally were close to or had shut down since 2010. It now puts this number at 456**.

Neobanks fear that the worm has turned.

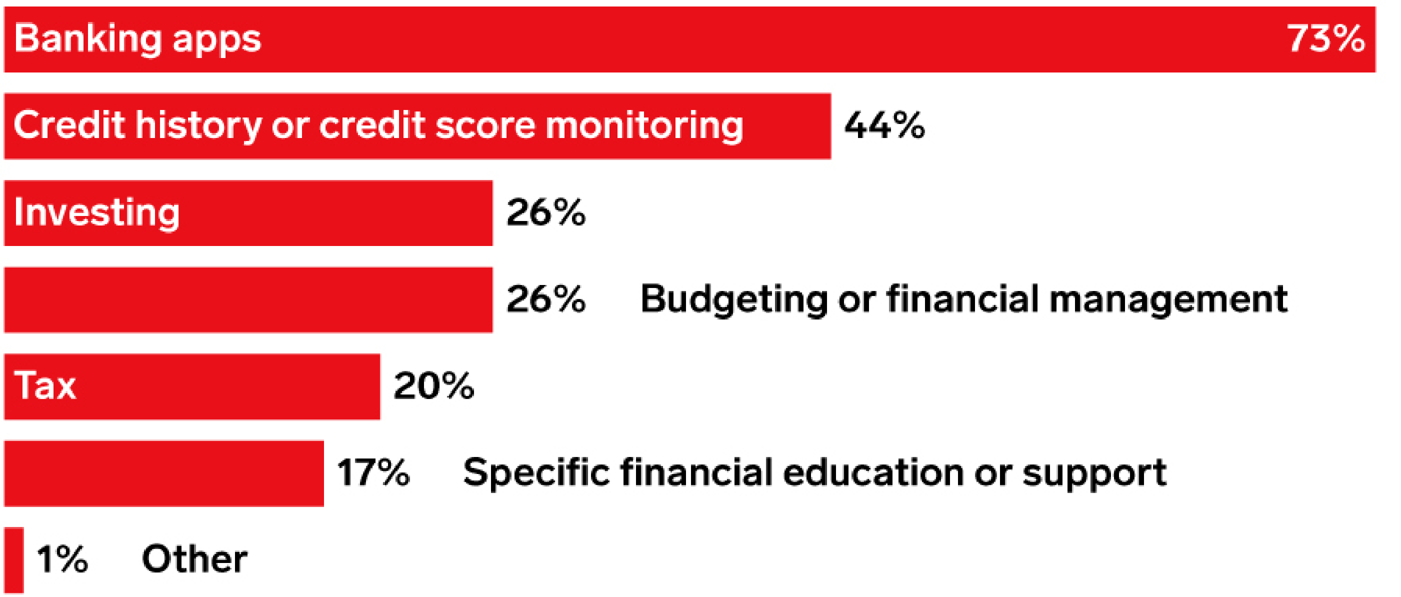
- Mainstream banks are hitting back at the potent threat of neobanks by adopting the digital best practices that the challengers first championed, per **The US Digital-Only Banking Revolution report**.
- Neobanks got a boost in digital account holders during the pandemic, but banks are now taking steps to capture their own slice, such as by partnering with third-party vendors and making strategic acquisitions.
- This calls into question **"whether digital-first banks can go mainstream before mainstream banks go digital-first,"** per Vice President of Content and Head of Financial Services at Insider Intelligence Daniel Van Dyke.

BNPL defaults lurk in the shadows.

- Consumers increasingly use buy now, pay later (BNPL) services in addition to credit cards. In fact, **44% of those who recently used BNPL prefer it when making purchases**. The services are particularly popular among consumers in lower-income brackets. Or use both.
- However, there are warning signs BNPL could be the next source of unsustainable consumer debt **as more than half in the US and 40% in the UK have missed a payment**. "A lot of BNPL don't have to report to credit rating agencies... so they may not know how many loans have been offered and **this opens the door to consumers cross shipping loans to a degree that overextends them**," per Insider Intelligence Principal Analyst David Morris.
- As a result, BNPL providers will likely face increasing regulatory oversight in the near term: The UK's **Financial Conduct Authority** announced in February that it would regulate these products.

Types of Fintech Apps Used by US Adults, Aug 2021

% of respondents



Note: among those who use fintech apps
Source: Jungle Scout, "Consumer Trends Report: Q3 2021," Sep 14, 2021

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