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Plaid's 2023 Fintech Predictions

Discover the latest fintech trends and predictions from Zach Perret, Co-founder & CEO of Plaid

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ZACH PERRET,
Co-founder & CEO,
Plaid

In 2022, people continued to turn to digital finance for many more aspects of their financial lives. But volatile market conditions from rising interest rates to a crypto fallout are forcing many companies to rethink their business model. So what's next for digital financial services in 2023? Here, Perret joins Ginger Baker, Head of Financial Access, Alain Meier, Head of Identity, and John Pitts, Head of Policy, to discuss the biggest trends and opportunities for fintech this year.

FINTECH PREDICTION 1:

Open banking will become a reality in the US

We expect the structure of open banking and the broader open finance ecosystem to solidify in 2023, due to CFPB proposed rulemaking on Dodd Frank 1033. Anticipated rulemaking will encourage open finance development and adoption, allowing consumers to gain secure, reliable access and control of their financial data, wherever it's stored.

> *"When the structure finally gets put in place, we're going to see an enforcement of open banking standards within the United States," says Perret. "This is the year of open banking in the US."*

US regulators have waited for widespread consumer adoption before proposing rulemaking. Already, 78% of US consumers cite the ability to connect their accounts to apps and services as their top priority when choosing a bank.

> *The shift to open finance will help to dramatically improve the customer experience. According to Plaid's Head of Policy John Pitts, "Your best open finance experience today will be your median experience in 2024 and your best open finance experience next year is going to be your median experience in 2025. The shift to open finance is going to be like going from dirt roads to superhighways."*

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FINTECH PREDICTION 2:

FedNow launch will lead to a cards vs. bank payments debate

FedNow is a real-time payments platform developed by the Federal Reserve that's scheduled to launch later this year. The launch of FedNow will compete directly with RTP, a real-time payments platform operated by The Clearing House (TCH). Introduced in 2017, RTP rolled out slowly and has not yet achieved widespread usage.

Until now, credit payment rails have set the standard for digital payments. We expect the FedNow launch will help push meaningful progress and adoption for bank-linked payments which ultimately improves consumer payments experiences.

Competing payment rails aren't a zero-sum game. Total digital payments will grow exponentially as consumers shift spending from checks and cash to digital payments. According to the Federal Reserve, US consumers used cash for 19 percent of total transactions (6 percent by value) in 2020. Consumers will ultimately benefit from having more choices for real-time payments.

> *"We predict that FedNow launching will lead to a kind of cards versus bank payments debate in a larger way. As we start to see competition from FedNow, the entire market is going to accelerate," says Perret.*

There are still several challenges to wide scale adoption of the FedNow platform. Some consumers still need to get comfortable making instant payments from their bank accounts. Perret noted that FedNow could benefit from optimizing the user experience and adding a dispute mechanism similar to that of credit cards.

FINTECH PREDICTION 3:

Anti-fraud services will consolidate

As fintech and digital payments have grown, so too has the risk of fraud, leading to a Cambrian (huge) explosion of anti-fraud providers over the last few years. There are a finite number of publicly available data points and checks that anti-fraud providers can leverage. Most providers can't distinguish themselves in the market. We expect to see market consolidation as a result.

The industry will start to take a more holistic approach to preventing fraud. Larger anti-fraud providers can build differentiated risk models based on the data they have within their networks. Over time, these larger entities will benefit from network effects as more and more customers use their products.

“There will be a consolidation of anti-fraud service providers.”

ALAIN MEIER,
Head of Identity,
Plaid

> *“At the end of the day there are a finite number of publicly available data points that you can actually decision on. There will be a consolidation of anti-fraud service providers,” says Alain Meier, Head of Identity.*

Know Your Customer (KYC) standards and compliance will likely be top of mind for many companies in 2023. While KYC rules are simple, they’re being applied to increasingly complex products and business partnerships. Some fintechs, like crypto exchanges, use KYC standards for trust and safety even if they’re not yet required to do so. There’s still lots of room for innovation as KYC regulations become a standard for newer technologies.

> *“There is huge space for continued innovation to figure out how to navigate companies through the complexity of what they are doing into the simplicity of their government [KYC] mandate,” said Pitts. “More and more companies that have started outside the regulatory perimeter [will] move into it. This is a trend we’re going to see over the next couple of years.”*

FINTECH PREDICTION 4:

Crypto winter will persist; crypto roadmaps for enterprises will continue

The crypto winter will continue. Expect more cryptocurrency companies to wind down throughout the first half of 2023, possibly including some well-known names, due to low consumer usage, heightened regulatory scrutiny, and ongoing financial contagion from firm failures in 2022.

At the same time, we expect big company crypto products to finally come to fruition due to a very long innovation cycle. It’s unclear if these products will be successful, given the current slowdown in cryptocurrency adoption and usage. New products will seek to meet longer-term market needs, focusing on solving real world problems, such as crypto fundraising by Ukraine.

“We’re going to see an increasing focus on selling to the banks and that will lead to a pretty rapid acceleration of digital product launches through the end of 2023 and into 2024.”

ZACH PERRET,
Co-founder & CEO,
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FINTECH PREDICTION 5:

B2B fintechs will continue to ramp up efforts to sell to banks

B2B fintechs will close more deals with banks in 2023. Over the last year, banks have been quite receptive to B2B fintechs as they look for products to accelerate their digital roadmaps. Banks are also more comfortable consuming fintech offerings, such as anti-fraud technologies to reduce risk and improve onboarding.

> *“My prediction is that we’re going to see an increasing focus on selling to the banks and that will lead to a pretty rapid acceleration of digital product launches through the end of 2023 and into 2024.” says Perret.*

Banks understand that data sharing is two-sided and they’re accessing consumer permissioned data to better assist their customers. They’re using fintech tools to learn more about their customers’ needs and deliver tailored financial solutions.

> *“We’re increasingly seeing the convergence of the two sides of the network where banks are now also the consumers of permissioned data,” says Ginger Baker, Head of Financial Access. “About half of the consumer financial data coming into Plaid is actually coming from our existing (fintech) customers.”*

“We’re increasingly seeing the convergence of the 2 sides of the network where banks are now also the consumers of permissioned data.”

GINGER BAKER,
Head of Financial Access,
Plaid

FINTECH PREDICTION 6:

Every company will become a fintech company

In 2023, we’ll see an explosion of fintech products launched by big company retailers, banks, and ecommerce providers. We’ll see a range of non-fintechs becoming fintechs by offering things like lending products and digital wallets.

> *“Most companies will become fintech companies in some way, shape, or form,” says Perret.*

Companies can use fintech to create a tighter bond with their customers, offering them both products and payment services. Buy now, pay later (BNPL) is one example of how fintech is being adopted by large enterprise companies. The launch of FedNow also supports embedded payments.

> *“In the last two years, we’ve seen the massive growth of BNPL and the value to enterprise companies of embedding financial services at the interaction layer with their customers,” said Pitts.*

“Most companies will become fintech companies in some way, shape, or form.”

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At the same time, fintech startup creation and the overall pace of fintech formation will slow until late 2023. This is due in part to increased regulatory scrutiny. The volume of products launched by established companies may eclipse the number of products launched by fintech startups.

Conclusion

2023 will bring new fintech products and services, 1033 rulemaking, market consolidation, and changes to the competitive landscape. Amidst those changes, financial services providers will develop new ways to connect to their customers and generate revenue. Meanwhile, consumers will discover innovative ways to improve their financial lives. At Plaid, our focus remains the same: to support the next generation of digital financial services and unlock financial freedom for everyone.

To learn more about Plaid's predictions for the new year, click here **to watch 2023 fintech predictions with Zach Perret.**