Open Finance trends for 2022

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At the end of a year that has seen open finance assert itself as a central model for the evolution and development of financial services, Fabrick - pioneer and reference player in the sector at an international level - outlines the trends that will characterize 2022 in the three core areas in which it operates: open banking, open payment and fintech. The entire industry will be characterized by consolidation and growth.

Once the disruption phase is be over, the world of open finance will be ready to start a period of consolidation and growth.

And it is a trend written in the numbers, since estimates predict it will become one of the leading segments of the financial world, thanks to an estimated market size of 43 billion dollars in 2026 at a CAGR of 24%.

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The entry into force of PSD2, in the fall of 2019, led to a strong acceleration on the innovation front in financial and banking services, with an increasingly rapid evolution at the design and execution level of the relationship between fintech and traditional players under the banner of co-creation of new solutions.

The revolution triggered by European regulations has evolved into open finance, involving,not only the world of banks, but also players from other industries. New business models and new dynamics are thus emerging, which,in 2022, will lead an increasing number of companies that do not have financial services as their core business to implement projects in this area.

In this context, Fabrick has traced the trends that will characterize 2022 in the three core areas in which it operates: open banking, open payment and fintech.

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Digital identity leads to new integrated services

In the **open banking** area, a strong growth in usage models based on **digital identity** is on the horizon. It has become widespread in Italy with the introduction of the new government ID schemes. Digital Identity **is an enabling technology ready to be used to meet the expectations of customers who demand increasingly integrated products.**

In this field, the creation of information circuits based on APIs is forseen for a trend that will concern above all banking, telecommunications and insurance subjects: giving proof of one's identity will therefore become more and more a commodity and different players will be involved and not only in the perimeter of public administration.

Users, through consent, will therefore be able to provide information not only on their own account, but also with regard to their personal details or their telephone numbers. **Giving proof of one's digital identity, therefore, will launch a new line of development by leveraging the possibilities offered by open banking and open finance.**

Larger banks will have to invest in shaping the bank of the future which cannot ignore the business opportunities offered by SME banking - i.e. high-value services for small and medium-sized enterprises.

The synergy of a number of services, creating a convergence of management and financial operations, may be the winning strategy in this area.

Another important development thread will be **the extension of open data at a systemic level, even beyond the current perimeter of PSD2.** Large corporations, including banks and insurance companies, will find themselves in the position of acquiring an increasing amount of data to exploit to their advantage for the implementation of new proposals and, at the same time, will have the opportunity to increasingly establish themselves as data providers.

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More usable and more secure payments

In the open payment scenario, services linked to the evolution of the Payment Initiation Service Provider (PISP) are being strengthened and will become increasingly commonplace. In this field there will be the diffusion of new ways of interaction to meet the needs of an increasingly fragmented market. **Convergence and collaboration between the main players in the banking and payments world will also increase.** From this point of view, a strong consolidation and concretization of the models already existing is expected. For example, in the field of e-commerce, **payments from bank accounts** will become increasingly frequent. There will be an increase in the percentage of **the market** that will **switch to cardless and account-to-account schemes**, as in the case of **Pay by link** payments. This particular model will find wider application throughout the insurance and utilities world, thanks to an increasing diffusion in Italy and Europe over a period of two or three years.

The new year will see the start of a process of consolidation of the offer for operators who have begun their activities as providers of payment services. These will evolve and add to their model, not only **e-commerce solutions** suitable for retention, but also cash management **systems that monitor cashflow** trends and financial requirements in real time. This market could see the participation, not only of payments operators, but also of very strong global players in web and hosting services.

The convergence of these services will take space away from vertical service providers (such as payment processing or receipt issuance). In addition, such integrated and efficient management will provide **better access to credit for small businesses.**

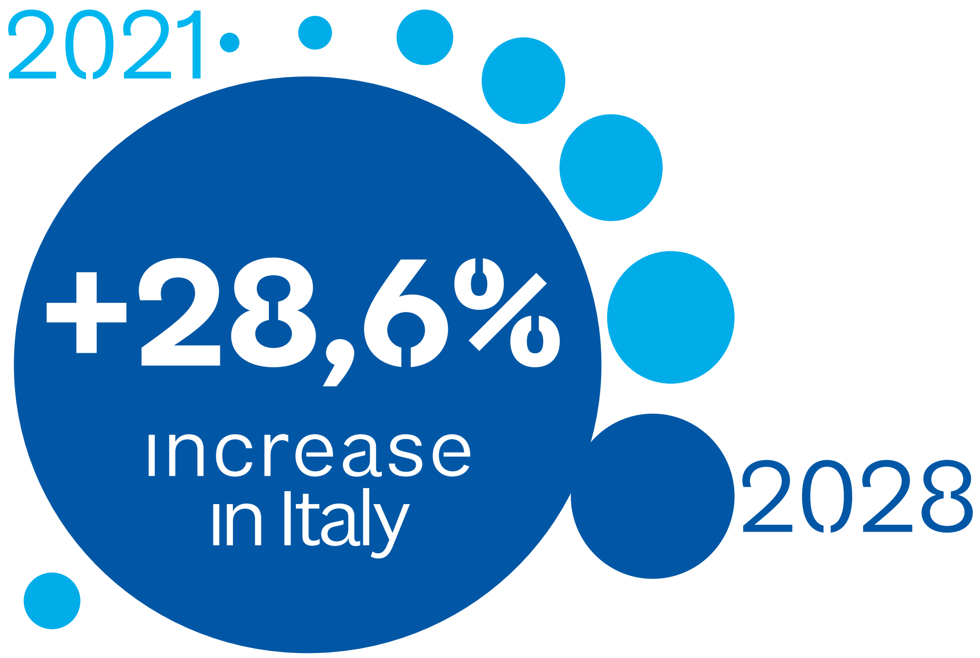
Online payment security will become the main topic. Strong Customer Authentication - which is already possible with ApplePay and GooglePay - will become easier and available to smaller retailers. This trend will be accelerated thanks to companies - such as **Visa and Mastercard - that will launch click-to-pay payment products with the aim of drastically improving the experience** by eliminating current frictions.

Buy Now Pay Later (BNPL)

Buy Now Pay Later (BNPL) will remain a strong trend for 2022, especially given the estimates and penetration it has on retail. The phenomenon exceeded 90 billion dollars in 2020 and is expected to reach 3 trillion dollars by 2030. In Italy, an increase of 28.6% is expected between 2021 and 2028.

If this is a trend that emerged strongly in 2021, next year will see the development of **“complementary” services** such as, **the development of financing forms that support the expenses.** In the future, however, the risks associated with over-indebtedness and the sustainability of the business model must be considered.

In the end, the spread of the digital payment acceptance network to physical retail as well, the increased coverage by banks and the provision of faster connections - together with the growing adoption of Buy Now Pay Later in-store that will enable larger purchases - will ensure that payments will become faster, more usable and secure by 2022.



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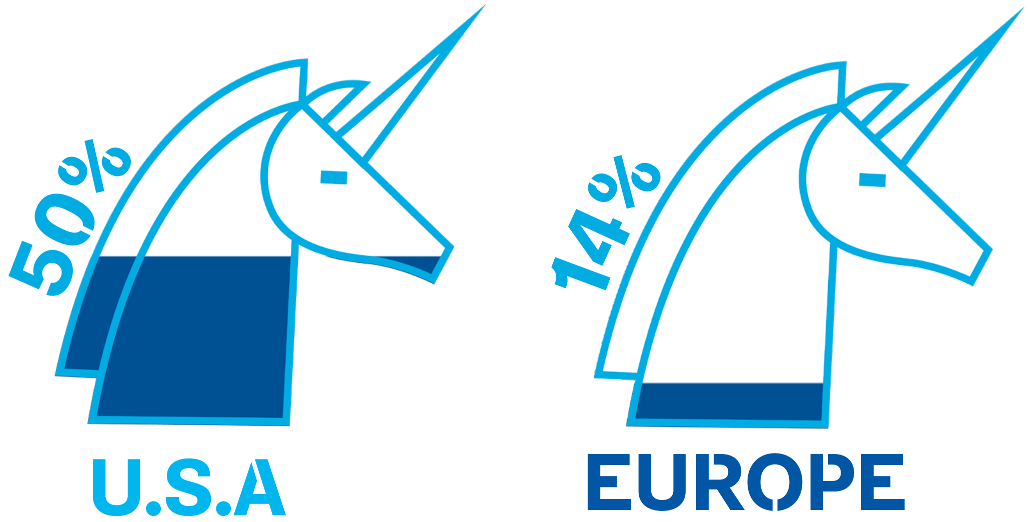
Fintech, collaboration between leaders and startups will drive innovation

The trends and use cases mentioned so far will lead to huge opportunities for those driving the innovation in Italy and Europe. **In the fintech area, there will be a further consolidation of the collaboration model between incumbents and startups,** a trend that spread with the birth of the sector but which will see a concrete grounding of more and more projects in 2022.

According to a research by McKinsey, there is still quite a clear gap between American and European startups that manage to become a Unicorn (i.e. to reach the billion valuation mark in a short period): 50% vs. 14%. In this context, the collaboration model is functional for the purpose of catalyzing investments to support startups and help them overcome initial difficulties.

The fintech threads that will have a greater development in 2022 will be **Revenue Based Financing (RBF) and Asset Tokenization.**

The RBF model involves sharing a percentage of the revenue made by the funding company with investors. Both the request for financing and the capital employed by investors is made available through the platform. Arriving in Italy with the fintech Viceversa - which in recent months has closed a funding round of 23 million euros - it has confirmed the validity of a model that is win-win for all parties involved.



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In the light of the investments that will be incentivized by the PNRR - National Recovery and Resilience Plan - and the growth prospects of Italian and European GDP, **Revenue Based Financing will allow companies to grow without having to give up control shares; and investors to have clear returns, correlated to the performance of the financed company.**

The latest trend is the tokenization of assets, which uses technologies to make products and objects - that are only physical today- digitally available. The world of finance is moving towards this direction and new opportunities are emerging. **Tokenization will be used as an alternative to financing through bank debt, for example, which is very widespread in Italy, especially among SMEs.**

Companies will access digital platforms that generate tokens as part of their capital and that can be purchased by investors, automatically and directly or with the support of intermediaries. The industry offers interesting numbers, just think that the Non Fungible Token (NFT) market alone achieved sales of $10.7 billion in Q3 2021 globally.

This is the end of a crucial year for open finance, which is now established globally as a reference and driver of innovation for the financial industry and beyond.

The model's ability to quickly implement services designed around the needs of the end customer makes it the only valid alternative to remain competitive in the market.

The trends that will emerge, together with the work that will lead to the launch of the European directive PSD3, will open up new scenarios and we will see new forms of data aggregation that in turn will give rise to applications capable of innovating key sectors such as credit, insurance and wealth management. The central role of platforms such as Fabrick in enabling open banking and open payment is crucial, making it possible to share data and make transactions operational.

What we have seen so far is the beginning of the infinite opportunities that open finance allows and that Fabrick wants to carry out.

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