

Global Market Survey: Digital Technology and the Future of Finance Survey (Fintech Market Participants Survey) by Erik Feyen, Harish Natarajan, Guillermo Rabadan, Robert Paul Heffernan, Matthew Saal, and Arpita Sarkar

Digital technologies have made an indelible impact on the provision of financial services by new entrants and incumbents alike. The World Bank Group conducted a global survey on fintech and digital transformation of a range of financial market participants. The survey sought to capture market perceptions of the impact of fintech and digital technology on:

- Market developments, including the impact, risks, and benefits of fintech and digital transformation.
- Evolution of consumer behavior, including consumer relationships with traditional and new financial service providers, and use of physical locations.
- Competition and market structure, including the perceived risk of losing customers, risks to profitability, potential to reduce costs, market concentration, competition, and outsourcing.
- Corporate strategy, including priorities at the board level, strategic fintech activities, challenges to digital transformation, and impact of COVID-19 on strategic priorities.
- Regulatory environment, including enabling environment for innovation for incumbents and new entrants, and whether regulatory framework and guidance are fit for purpose in key product areas.

During the period of May 2020 to February 2021, 330 market participants from 109 countries responded from May 2020 to January 2021. These included traditional banks, payments/remittance service providers, fintech firms, insurance companies,⁵³ non-banking companies, tech companies, telecom companies, industry associations, and other financial market players from countries in all six World Bank Group regions. The survey was updated to include questions on the impacts of the COVID-19 pandemic.

Consistent with other surveys conducted by the World Bank Group, IMF, and the Cambridge Center for Alternative Finance (CCAF), fintech and digital transformation, accelerated by the pandemic, was expected to increase in importance. This trend was largely welcomed by respondents⁵⁴ and seen as positive for financial services businesses. Key strategic priorities for firms included digitization of customer acquisition and account opening, creating new digital products, and transforming internal processes. More than 80 percent of respondents felt that the COVID-19 pandemic increased the need for fintech and digital transformation and made digitization in customer channels, product adaptation, and internal processes a strategic priority. There were differing expectations, often by type of respondent, on channels and customer preferences. Reduced entry barriers were expected to increase competition, yet except for NBFIs, most respondents expected markets to become more concentrated. Respondents were concerned about operational and cyber risks increasing as a result of fintech and digital transformation. The regulatory framework and guidance for fintech and digital transformation innovation could be improved, particularly with respect to remote onboarding and account opening, use of agents or third-party channels, and automation of new products.

This paper is organized as follows: Section 1 provides background on the survey's objective. Section 2 summarizes the demographics of survey respondents. Section 3 presents survey findings, organized according to the key topics covered by the questionnaire, from digitization trends to evolving customer needs to provider views on risk and regulation. Section 4 synthesizes this analysis and highlights six key themes that emerge:

53. This has been used as a generic term for insurers of all types

54. Unless specified otherwise, the term 'respondent' refers to the institutions that chose to respond to the specific question or questions being discussed.

1. **Digital transformation of financial services was pervasive, strategically imperative, and was accelerated by the COVID-19 pandemic.** 82 percent of all respondents across all types of institutions expected an increase in the digital proportion of key activities. Fintech and digital transformation were a strategic priority at the boardroom level for 82 percent of respondents. More than 70 percent of respondents indicated that the pandemic increased the need for digital transformation across customer channels, internal processes, and product adaptation. Respondents expected digitization to deliver significant benefits to customers and the firms themselves.
2. **The future combines physical and digital aspects—“phygital.”** Digitization does not spell the end of physical infrastructure for financial services. Half of banks and remittance operators, and 60 percent of MFIs and NBFIs, as well as payments operators, expected business to be conducted largely through physical locations in the next five years. Banks expected to continue serving customers through branches and proprietary digital channels, while other providers looked to more diverse channels and partners.
3. **Customer relationships are changing, and incumbents and new entrants perceived customer relationship preferences very differently.** Who will “own” the consumer relationship is in flux, as is how the customer will be served. There were strong expectations that new types of providers—neo-banks, fintech firms, big techs, platforms, and aggregators—will dominate customer relationships. Even as banks continued to expect customers to have a single core relationship for their financial services, only 34 percent expected that to be with traditional banks.
4. **Banks and fintech firms did not see each other as competitors.** Respondents tended to see the greatest competitive threat coming from institutions that are similar to them. Banks mostly saw other banks and neo-banks as a bigger competitive threat than other fintech players. Fintech firms expected to compete with other new types of players such as big techs, platforms, or aggregators. While there may be distinct customer segments, given the broader ambitions of neo-banks, fintech firms, and incumbents, they cannot all be correct about what the majority of customers prefer.
5. **Most financial services will be more competitive, but also more concentrated.** 48 percent of respondents believed that competition will increase and barriers to entry will lower to a great degree while another 40 percent believed that this will happen to a moderate degree. Except for NBFIs, most respondents expected markets to also become more concentrated. This is consistent with a bifurcated market in which lower barriers to entry increases competition for smaller players or in specific segments such as those where NBFIs mainly operate, while economies of scale and network effects drive consolidation among large multi-product institutions such as big banks, larger fintech firms, and big techs.
6. **Regulatory and supervisory barriers to innovation need attention.** While the regulatory stance with respect to enabling innovation was seen as “about right” by a majority of respondents, in 9 out of 12 specific areas the regulatory framework and guidance was seen as lacking (that is, less than 60 percent of respondents agreed that it is fit for purpose).