WORLD ALLIANCE
of International Financial Centers

Innovation and FinTechs in a Post-Pandemic World

> Expanding the spectrum of funding opportunities for FinTechs

> Building a solid digital infrastructure to facilitate financial digital inclusion

> Developing global FinTech partnerships and linkages for knowledge transfer

Imprint

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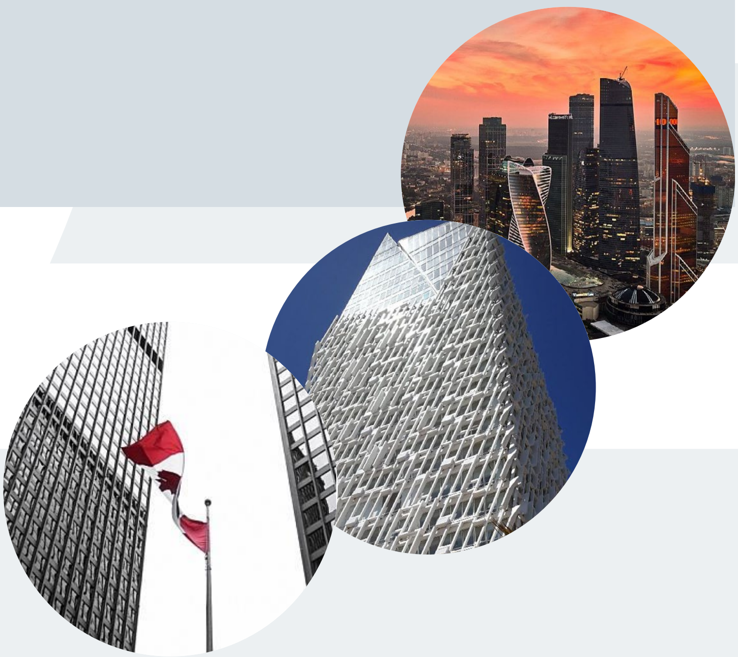

1.0 Introduction

In the early stages of the Coronavirus outbreak, what seemed to be an isolated epidemic swiftly ushered in the start of a new historical era that has triggered a global economic meltdown. At the time of writing, countries and entire populations have been in pandemic mode for over a year, demonstrating how the world we live in is a tiny place.

The COVID-19 pandemic continues to spread at a slow burn, with occasional lock-downs and curfews becoming business as usual. Although the pandemic is not playing out in the same way from place to place, there is no doubt that the global crisis that comes with it will have left a more profound impact on our societies and the broader economy than we currently can be aware of.

The pandemic teleported us to a realm of unprecedented experiments - experiments that nobody could have anticipated as we entered 2020. Millions of people are using communications technology software to do their job and communicate with their colleagues. The increasing momentum of agile working, whose consequences on transport infrastructure and urbanization are yet to be determined, looks like the beginning of a new era.

In contrast to the 2008 global financial crisis, the financial industry is not the cause of this crisis but rather one of the potential solutions, and within that solution, digitalization and financial technology companies (FinTech) will play a pivotal role. The global financial services industry has shown remarkable resilience and solid business continuity capabilities switching almost overnight to home-office solutions, online collaboration, and cloud use to ensure minimum disruption to consumers. Such a paradigm shift would have been unthinkable before within most financial companies, yet it now represents the "new normal."

FinTechs are under stress at many levels. The majority of the early-stage FinTech start-ups has so far been based to a large extent on proof of concepts (POC) with prospective investors, which have suddenly become practically challenging to arrange due to the adoption of social distancing measures and travel restrictions across the world to contain the spread of COVID-19. If one adds to this the increasing difficulties in accessing funding and decreased deal flow, one may fairly say that FinTechs are in the middle of an existential crisis.

Despite the economic hurdles brought on by COVID-19, new opportunities take shape on the horizon for financial innovation. The pandemic crisis has given FinTechs a unique opportunity to rapidly grow their user profile, geographical foothold, and reputation. The widespread adoption of digital financial solutions, which was previously expected to take years, was shortened to just a few months due to the global pandemic. Digitalization will have leap-frogged several years with technologies having been implemented and tested in a fraction of the time they would have taken in normal times.

Adaptation and agility are core traits of the FinTech industry and vital to overcoming the current vibe of economic uncertainty. As such, FinTechs are well poised to deliver the changing digital needs of consumers even after a vaccine is finally found.

The future of finance is digital. FinTechs are at the heart of the financial development that is needed for the future. They are ultimately set to become an integral part of the supply chain of the global financial industry. The quest for sustainable financial innovation development is at the heart of this joint report. The World Alliance of International Financial Centers (WAIFC), today more than ever, serves as a conduit for exchanging best practices between international financial centers around the world and identifying the digital challenges ahead for the global financial industry and how to tackle them effectively. The various recommendations in this report will, by their nature, be quite broad given the international nature of this exercise and that some of the analysis will therefore apply more strongly in some IFCs than others.

2.0 Executive Summary

As COVID-19 sweeps the world and disrupts the way we interact and conduct business, FinTech can help provide solutions to maintain social distancing, ensure business continuity, and promote economic recovery.

Many FinTechs are having a hard time on a number of fronts. Access to funding was already becoming difficult, especially for some early-stage ventures, as many investors focused on established FinTechs with well-proven business models. After growing at a rate of more than 25% a year since 2014, the sector's investment dropped by 11% globally and 30% in Europe in the first half of 2020.[1] In addition, the pandemic crisis has exacerbated the stagnating low-interest environment, with central banks in Europe and the US cutting rates further to stabilize markets.

Despite the global financial turmoil, COVID-19 acted as a driver for economic growth across specific subsectors such as payments and regtech, providing new and unexpected opportunities for FinTechs. By reducing the dependence on physical financial interactions and the need for cash, FinTech can facilitate coordinated responses and enable secure ways for governments and providers to reach vulnerable populations quickly and efficiently. The pandemic will indeed have a lasting impact, and as life normalizes, consumers and businesses may not fully revert to past habits and practices.

FinTech and new technologies will play a major role both in reigniting the world economy and making it more resilient to future crises. The members of the WAIFC have witnessed a move towards greater digitalization of financial services in their respective jurisdictions, particularly in areas like digital banking solutions, payments & remittance, and e-commerce. While it is still too early to predict what form any post-crisis opportunities will take, the WAIFC strongly believes that FinTech - a deeply grounded sector on innovation - will play a pivotal role in promoting economic recovery.

1 McKinsey & Company, Detour: An altered path to profit for European fintechs, 9 September 2020.

3.0 Innovation in the Global Financial Industry

FinTech is pivotal for the provision of better and seamless financial services and is undoubtedly one of the fastest-growing areas in global finance. The financial crisis of 2008 has been credited as the catalyst for the rise of FinTechs as we know them today. Despite the financial turmoil, the global financial crisis was deeply rooted in financial activities, which led to increased regulatory scrutiny, fragmentation of the market, and a recalibration of the traditional banking system, which opened the door for financial innovation. In a relatively short time, the expansion of FinTech has dramatically impacted how we do business, transact as customers, and think about finance.

The advancements in technology and the greater access to information through analytics have changed how we manage our finances in our day-to-day lives. Technologies such as the Internet of Things (IoT), Artificial Intelligence (AI), blockchain, and cloud computing are just a few of the major drivers of FinTech companies that are truly native to the digital era.

Investments in the FinTech sector have been enormous in the last decade and increased over 13 times in the past ten years from $8 billion in 2010 to over $110 billion in 2019, driven by venture capital funds and crowdfunding, significantly contributing to the growth and success of FinTech globally.

While the incumbent financial industry recognized from the very beginning that FinTech is a substantial disruptor, no single path has emerged to define how financial institutions should approach this industry revolution. Leading financial institutions started pursuing many different routes - including partnerships, buying, sourcing, and investment strategies.

"When FinTech arrived in Japan about five years ago as a buzzword, banks felt pressured to look for new solutions and collaborate/invest in FinTechs. Ever since then, as observed in Japan's way of introducing Open API, which was not compulsory but left to each bank's decision to negotiate with FinTechs on terms for connecting, Japan's approach to adopting FinTech can be described as collaborative as opposed to disruptive" – FinCity Tokyo

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Our existing financial sector has welcomed FinTech innovations where they complement or enhance their existing suite of services. Often, FinTechs and incumbent players work hand-in-hand to service the existing client base. Qatar has a large segment of workers, and banks use FinTech to serve that segment with cards and remittances – QFC

"

From asset managers and banks to insurers and wealth managers, financial companies geared up with innovation and FinTech departments. Such departments are dedicated to promoting and implementing financial technology solutions and establishing partnerships with the local FinTech ecosystem – LFF

One key best practice across leading financial centers worldwide was strategy: having a clear FinTech strategy that aligns with financial institutions' organizational objectives, considers their current assets and capabilities, and includes an execution plan for addressing gaps and managing the ongoing digital transformation.

"Banks foster Fintech by digitizing their services massively and investing in those companies. Others take less initiative because they consider FinTech as competitors"
– Paris Europlace

Financial institutions are addressing FinTech in different ways. Some are adopting a defensive approach, viewing it as a tool to protect what they already have. Others are in attack mode, looking at FinTech as the ultimate growth strategy. This means financial services companies choose to build FinTech solutions in-house and sourcing third-party FinTech solutions, and partner with FinTech start-ups to develop and tailor specific solutions for their clients. Certain financial institutions also acquire FinTech start-ups outright to accelerate their move into the industry.

There is no clear-cut way to approach FinTech. Instead, incumbent financial institutions are exploring all models simultaneously along the continuum with an eye to innovation and future business objectives. While the incumbent financial industry's approach to FinTech is not based on a standard model, increasing collaboration between the two will be of utmost importance going forward.

"In recent years, there has been a noticeable increase in incumbents' interest and attention towards FinTech. There are objective reasons for this: economic benefits, securing a competitive advantage, and survival in a dynamic market. Nowadays, a number of Kazakhstani innovation hubs have their own corporate innovations division to connect financial incumbents with fresh challengers" – AIFC

In many cases, incumbent financial firms still have longer established customer relationships with more funding, and developed regulatory and legal knowledge. On the other hand, young firms have more specialized technical expertise and a vast amount of experience testing and trialing new developments. Many incumbent firms now have departments dedicated to digital transformation and establishing partnerships with FinTechs and technology firms. Strengthening the collaboration between the two clusters going forward is thus crucial for economic growth.

FinTech has changed the way people think about money and value exchange in a real-time, digital world. "Cashless" solutions are popping up around the globe at an unprecedented pace, nudging consumers towards adopting the habit of digital transactions and governments to facilitate the move towards a cashless society.

"The buoyancy of our financial services sector, coupled with our unique expertise, stands the Mauritius IFC in good stead, as the key enabler to spearhead the convergence between technology and financial services. Furthermore, Fintech is well accepted among operators in the financial services sphere and the move towards a cashless society figures high on the Government agenda"
– EDB Mauritius

Individuals' opportunity to pay electronically for goods and services as an alternative to cash is just the beginning. Instant payment transfer solutions through smartphones are another example of FinTech advancements many consumers have adopted today. While PayPal has been in the game since the early 90s, relative newcomers are revolutionizing how we share money for everyday interactions like splitting a bill at a restaurant or selling items to our friends.

"The financial services industry and the citizens in Hong Kong are excited about the development and adoption of FinTech in recent years. Enabled by incentives, guidance, and regulations set forth by the Government, as well as banking, securities, and insurance regulators, Hong Kong has seen a steady increase in the adoption of FinTech" – FSDC

Although some traditional financial services players may still consider FinTech a disruptor of their industry, most financial institutions believe FinTech development and the adoption of such technologies present opportunities, rather than threats, to their business operations, now and in the future. Among others, risk management services are widely considered by banking institutions as the area with the highest potential. According to a survey conducted by the Hong Kong banking regulator, 86% of banks have either adopted or plan to adopt FinTech solutions across all types of financial services. At the same time, in principle, improved cost efficiency and profitability are key reasons driving more extensive adoption.

4.0 The Impact of the Pandemic Crisis and the Opportunities for FinTechs

The COVID-19 crisis's impact was not sector-specific but rather global on the financial services industry as a whole. FinTech companies are still subject to the same economics as the broader financial sector. The COVID-19 pandemic is expected to have a significant negative impact on industry profitability. As household incomes decline and consumer expenditure drops, transaction volumes and value decrease both for domestic and cross-border financial transactions.

Nonetheless, COVID-19 has spurred the general adoption of digital financial services across several jurisdictions worldwide, allowing FinTechs to gain traction with consumers who have been hesitant to move their finances online. With social distancing measures, lock-downs, and travel bans becoming a daily occurrence, the world is getting a crash course on why accelerated FinTech adoption is part of the solution to this crisis. Home-office solutions, online collaboration, and the use of cloud tools quickly became the "new normal" in most international financial centers worldwide.

FinTechs, by harnessing their technological expertise and organizational agility, adapted very quickly in switching to remote working, online sales, and digital marketing showing remarkable resilience and solid business continuity capabilities. New working methodologies were adopted, increasing agility, rethinking work processes, and broader acceptance of digital tools that are slowly changing the culture and way of doing business. However, the new distance working environment has also brought challenges as FinTechs' remote workforce log on from various locations, devices, and working environments. FinTech firms had to rapidly enable and scale effective, resilient, and secure ways of remote working, including developing digital identity solutions to secure the remote workforce's personal authentication. In this new normal, digital financial services will be a lifeline for many individuals and enterprises.

"The issues posed by COVID-19 have necessitated the need for accelerated adoption of digital financial services. This in itself has provided significant opportunities for FinTech firms" – ADGM

The global pandemic indeed delayed collaboration with start-ups on innovation projects in the short term due to social distancing measures. But an increased collaboration with FinTechs on digital transformation in the long-term occurred.

For instance, in France, financial companies addressed FinTechs to respond to the health crisis's issues. Risk prevention, cash management, or even payment security were among the services most requested by contractors to FinTechs. The increasing risks caused by the COVID-19 crisis and the lack of responsiveness of traditional service providers have also led financial companies to get closer to FinTech. Such examples are particularly relevant in the field of fraud prevention.

In Belgium, some FinTech start-ups gained new business due to the increase in the financial industry's digitalization, while others saw their business shrinking during the lock-down phase. FinTech start-ups directly impacted their business scaled down temporarily to cut the costs. On the other hand, start-ups facing business uncertainty reduced their investments while those benefiting from the COVID-19 increased their resources, which was not obvious during the lock-down restrictions.

In Kazakhstan, the quarantine has evidenced insufficient levels of digital banking development. People who did not have a bank account were forced to visit bank branches to open it and receive their cost-of-living benefits granted by the Government. COVID-19 became one of the primary triggers to boost digital banking development in the region, allowing the majority of retail banking activities online.

"The need to digitize all financial services became even more obvious amid the pandemic. Thus, in Kazakhstan, due to the temporary closure of branches of banks and other credit organizations, financial institutions began to develop their digital services. For the first time, incumbents released the service of remote bank accounts opening. More than one million people had opened bank accounts online, and the major part of them received cards with home delivery" – AIFC

In the UK, the more established FinTechs take measures to reduce costs, including by furloughing staff, making redundancies, and forgoing executive pay. For those that derive income from payments transactions, confinement measures are likely to have reduced revenue streams due to a reduction in consumer spending. Those that rely on international payments were particularly affected, given the decrease in transaction volume. That said, 20% of FinTechs are reporting a surge in demand in an increasingly reliant environment on digital services. Data from Beauhurst suggests that FinTech will fare better than other high growth sectors as many have already raised equity finance.

"COVID-19 has helped in creating new opportunities for digital financial services to accelerate and enhance financial inclusion. This, in turn, has led to a macro scenario of digitizing the Mauritian economy"
– EDB Mauritius

Companies that provide FinTech solutions are better placed to take advantage of this challenging environment distressed by social distancing measures. FinTech must, however, be prepared not just to accommodate this increased demand for digital financial solutions but also to scale up their enterprise IT infrastructure while adapting to the new normal.

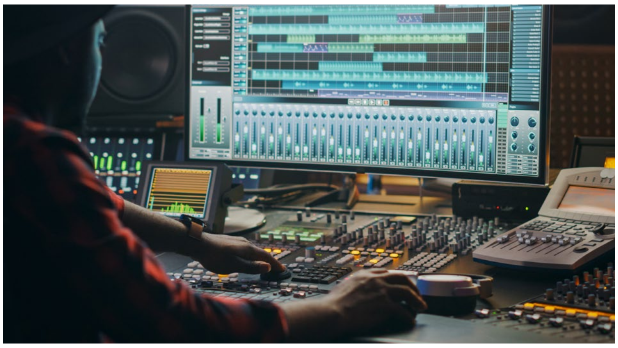
FinTech start-ups are smaller in size, which makes them more susceptible to short-term business disruption. But their size combined with their digital know-how also works in their favor. New opportunities are emerging for FinTech start-ups, able to adapt their business models quickly. In this respect, FinTech start-ups have a fresh canvas, allowing them to develop a modern, performant FinTech solution without the hassles of migrating from old technologies. FinTechs are also better poised to cater to younger consumers who know what they want and insist on quick, easy, low-cost financial transactions.[2]

"The COVID crisis obviously has brought about more opportunities to the FinTech sector. Given that, most of the businesses were locked down for a significant period; there was no other way but to use technology, to carry out all necessary activities" – CMA

Apart from their age, scalability, and financial condition, many FinTech organizations' outlook will also be driven by the product category they are in. In fact, the impact differs greatly depending on the services focus of the specific FinTech subsector. This is especially true in the near term when the pandemic's impact on consumer behavior is the greatest. According to Boston Consulting Group (BCG)[3], the negative impact of COVID-19 will be more severe for those FinTechs in international payments, unsecured and secured consumer lending, small business lending, and for those where risks may be highest.

On the contrary, FinTech players that primarily focus on business-to-business (B2B) models will be less exposed to an immediate downturn. RegTechs that help financial institutions rapidly digitize, automate, and reduce their compliance costs are the most likely to continue to get attention and win sales. Those providing end-customer capabilities, such as dashboards and visualization components, may now be viewed as a "nice to have" purchase for financial institutions. However, B2B FinTechs still face increasingly challenging selling environments as their business partners conduct a more detailed ROI analysis before making purchase decisions.

Finally, the pandemic crisis stimulated financial companies and investors to diversify their asset allocation strategy even further, experimenting with higher-yielding investments, including alternative asset classes. Luxembourg-based FinTech ANote Music looked at COVID-19 as an opportunity to exploit the untapped hidden value that music has to offer, bringing investors the first European true marketplace for buying and selling future royalty payments attached to music rights. The blockchain-powered platform aims at creating a bridge between investors and music right owners. Not only does it provide investors with a new investment opportunity, but also music rights holders with a funding model to finance their music ventures, encouraging growth in the European music industry hardly hit particularly in terms of money-spinning live performance.



[2] McKinsey & Company, Detour: An altered path to profit for European fintechs, 9 September 2020
[3] Adapt, Interact, Collaborate: What the COVID-19 Crisis Means for Fintech, May 2020, Boston Consulting Group

4.1 Short-term FinTech Trends

"COVID-19 has had a serious near-term impact on the development of FinTech in the ADGM by reducing the availability of financing and growth prospects. Nonetheless, the pandemic is likely to improve the conditions for FinTech in the long-term by making digital financial services even more important" – ADGM

- The pandemic indeed delayed collaboration with FinTech start-ups on innovation projects in the short term due to social distancing measures.
- Access to funding was already becoming difficult before the pandemic crisis, especially for some early-stage ventures, as many investors focused on well-established FinTech firms with tested business models.

"Fundraising has suffered as a result of the outbreak as banks have been curbing loans and VC/CVC activity slowed down. Finance and insurance sectors are out of scope of the special COVID-19 loans by public financial institutions, i.e., FinTech firms are not eligible to apply. As PoCs were being put on hold, this also impacted the cash flow as FinTech firms lost income" – FinCityTokyo

- FinTechs focusing on financing (P2P lending, crowdfunding, invoice financing, etc.) are suffering from competition from the state, which has given loans at almost zero cost, making the default risk more unpredictable.
- FinTech companies are facing a liquidity crisis as sources of funding dry up during the ongoing pandemic.

"SMEs and companies face the liquidity crisis. To solve the liquidity issues, still offline loan lending by banks (not including internet banks) takes a critical role to support them" – BEPA

- FinTechs directly impacted in their business being scaled down temporarily to cut the costs and reduced investments amid the financial markets uncertainty.
- Payments companies targeting verticals hit hardest by COVID-19, such as travel, restaurants, and events, and entertainment, among others, will have to find new sources of transaction volume to survive during the lock-downs.
- An increased collaboration between the incumbent financial industry and FinTechs on digital transformation in the short and mid-term occurred.
- FinTechs might rethink some innovative projects that are not mature enough or have not demonstrated strong revenue generation signs and rather focus on their core business.

4.2 Long-term FinTech Trends

"On the whole, the need to switch to digital as a result of COVID-19 is seen to be a tailwind for the industry. Fintechs have been supporting financial services firms to go digital, but this will probably accelerate now. In terms of subsectors, the cashless/ payment sector has definitely grown on the back of COVID-19 as people try to avoid contact with cash" – FinCityTokyo

- The emerging long-trend is definitely widespread digitalization. AI and deep learning are likely to take advantage of the COVID-19 crisis.

"With the increased usage of technology, more data points will become available, and the ability to analyze such data will be key to financial services providers. Industry participants will look to gain access to different data sources to improve their understanding of clients and risk exposures, thereby enhancing their ability to optimize resources" – FSDC

- As social distancing has taken hold worldwide, there has been tremendous growth in the use of digital banking services.
- FinTechs are experiencing increased demand for their services. Many have used their agility to offer free, discounted, or accelerated services to support their customers through the pandemic.
- B2B FinTech services are gathering momentum during the COVID crisis.
- Given the difficult access to funding, many digital banks cannot sustain a cash consumptive business model in the long term.

"20% of UK FinTechs are reporting a surge in demand in an environment, which is increasingly reliant on digital services" – TheCityUK

- FinTechs will be less dependent on fixed offices, but their ability to quickly launch new products and decentralized working styles will be kept and even intensified in the long-term.
- Contactless payments have become the "new normal." Most notably, COVID-19 contributed to an explosion in e-commerce across several jurisdictions globally at the expense of physical retail, which is set to stay in the long run with many governments' policy and public health goals of creating a more cashless society.

"The pandemic boosted e-commerce, mobile payments solutions, digital banking, G2P payments and remittances, and e-KYC. FinTechs were agile and lean and adapted swiftly to the, new normal" – CFC

- E-commerce and contactless payments increased the total amount of online payment and triggered innovation in personal authentication services, such as metric authentication.

"The pandemic has allowed FinTech payment propositions to flourish in the Qatari market, as the government officially promotes cashless transactions under the circumstances. FinTech companies in the payments and remittance space were able to capitalize on the opportunity brought about by the pandemic and gain market share from existing competition in the exchange house space" – QFC

- Companies' actions to maintain business continuity and protect remote workers will have implications for cybersecurity providers over the long term. Plans for permanent remote work phased reopening and limited physical interactions will boost interest in cybersecurity products and services.

- The COVID-19 pandemic will bring opportunities for lending tech start-ups, as lenders look to improve their digital capabilities to keep servicing customers and streamline their processes. At the same time, physical branches and offices remain closed or less frequently used.

- Another long-term effect of COVID-19 will be the mainstreaming of hybrid robo-advisory services.

5.0 FinTech Subsectors Gaining Momentum Across the World

The triggers for the rise and resilience of FinTechs in the context of the 2008 financial crisis are inherently different from those generated by COVID-19. However, similar to the aftermath of the global financial crisis, FinTechs are poised once again to succeed in the recovery from the recession.

The pandemic has accelerated the digitization of the world economy, and post-COVID-19, many of the FinTech tools generating efficiency during the crisis are set to stick. In particular, businesses and consumers are more likely to use products and services with a minimal bricks-and-mortar or face-to-face component, a fundamental shift in behavior which the FinTech sector is best positioned to benefit from.

Over the last decade, the continuous growth of the sector, coupled with Government-led initiatives and support to FinTechs during the pandemic, give the WAIFC reasons to be optimistic for the industry as the global economy enters the recovery phase. In the following sections, the members of the WAIFC highlight some of the key FinTech subsectors experiencing growth in their respective jurisdictions amid the global pandemic.

5.1 Payments & Remittance and E-commerce

One of the most obvious ways the payments industry has been affected by COVID-19 is in its economic implications. Reduced consumer spending, declining international trade, and a global economy on the verge of recession have inevitably lowered the volume of payment transactions taking place both domestically and cross-border in verticals such as travel, restaurants, and events and entertainment, among others.

"For those that derive income from payments transactions, confinement measures are likely to have reduced revenue streams due to a reduction in consumer spending. Those that rely on international payments will also be suffering" – TheCityUK

The COVID-19 outbreak has boosted the cashless payment industry globally, fuelling the shift from card payments at POS to contactless digital wallets. While this shift was already underway before the pandemic, the absence of a requirement to key in PINs or codes has made contactless payments more popular, particularly via digital wallets.

That shift, in turn, will have implications for how we structure and implement digital ID systems in both the physical and online environments, which ultimately means more investment in new payment technologies.[5]

"The payment pattern is, among others, one of the key changes we have observed during the pandemic outbreak. As people and businesses in Hong Kong attempt to reduce cash transactions, electronic payment channels have become increasingly popular. Developed in Hong Kong, the Faster Payment System (FPS) has become a key means of transaction in our lives, with more merchants accepting it as a means of payment" – FSDC

[5] Emerging Payments Association (EPA EU), 2020 Report - The European Payments Landscape in Perspective.

Insurance companies and the Hong Kong Jockey Club, for instance, now accept FPS as the payment method for transactions involving insurance premiums and online betting, respectively. The Hong Kong SAR government, too, accepts FPS for bill payments, such as those involving the Inland Revenue Department, the Rating and Valuation Department, and the Water Supplies Department.

With the increasing preference of electronic payment over cash payment during these trying times, the use of FPS has increased significantly, with about 1.7 million new account registrations in the first eight months of this year. In the meantime, in the month of July 2020, FPS recorded 400,000 real-time transactions per day, a significant increase of nearly 1.4 times over the end of last year, showing the vibrance in the field.

The growth of e-commerce and contactless payments has ultimately also triggered innovation in personal authentication services such as metric authentication, outlining the importance of digital identity solutions to complement and foster electronic payment services.

"As the online market grows exponentially, payment business will become the emerging trend in FinTech in the aftermath of COVID-19. While increasing the total amount of online payment, it also triggers innovation in personal authentication services such as metric authentication" – BEPA

In Italy, one of the first countries in Europe to impose quarantine in a bid to prevent the virus from spreading, e-commerce transactions for consumer products skyrocketed 81% in a single week in late February, according to Mckinsey data.[6] Satispay, a major Italian e-money institution based in Luxembourg, used its platform to allow its customers to execute secure cashless transactions in Italy while guaranteeing the ability to pay from a safe social distance.

Paypal, licensed as a bank in Luxembourg since 2007, significantly increased earnings expectations amid the COVID-19 crisis driving enormous e-commerce growth. The American payments leader quickly adapted to the current pandemic environment waiving fees on chargebacks and instant funds transfers from PayPal business accounts to bank accounts. It has also provided customers with a whole new array of tools such as QR code payments, social media sale solutions, and the Storeden COVID-19 platform to help small and medium-sized enterprises (SME) embrace digitalization.

In Germany, one of Europe's leading e-commerce platforms, Momox, reaped the benefits of people cleaning out their closets during the lock-down and ordering more second-hand fashion. The German-based pioneer is now ready to invest in its fashion unit and to expand to France.

"FinTech companies in the payments and remittance space were able to capitalize on the opportunity brought about by the pandemic and gain market share from existing competition in the exchange house space. Meanwhile, the FinTech ecosystem has benefited from a range of initiatives that have all been offered virtually to cater to their current needs. Qatar is very focused on establishing a cashless society" – QFC

The pandemic has allowed FinTech payment propositions to flourish in the Qatari market, as the government officially promotes cashless transactions under the circumstances. Further progress has been made thanks to the launch of the Qatar Fintech Hub accelerator and incubator program. FinTech companies in the payments and remittance space were able to capitalize on the opportunity brought about by the pandemic and gain market share from existing competition in the exchange house space. Meanwhile, the FinTech ecosystem has benefited from a range of initiatives that have all been offered virtually to cater to their current needs. Qatar is very focused on establishing a cashless society.

[6] McKinsey & Company, Adapting customer experience in the time of coronavirus, 2 April 2020.

CWallet Services: Innovating in Response to the COVID-19 Pandemic

CWallet Services' CWallet' is Qatar's first and only mobile application to facilitate banking via blockchain technology. It enables access to financial services such as payroll, payments, and remittances, targeting the low-income, high-volume market comprising of Qatar's expat community, including migrant and domestic workers, and micro-entrepreneurs, and small and medium-sized businesses (SMEs).

CWallet, as the newest FinTech solutions provider in Qatar, was brought to life under the guidance of the Digital Incubation Center (DIC), an initiative by Qatar's Ministry of Transport and Communications, to boost ICT innovation in Qatar, particularly among young people in technology-related businesses. CWallet officially went live in June 2020 as the COVID-19 pandemic continued to disrupt the payments and remittance services catering to the population in Qatar. Throughout this period, the firm received support from Qatar Business Incubation Center in partnership with Ooredoo Digital and Beyond, Qatar Science Technology Park, and Qatar Development Bank to ensure it was launched in a timely fashion.

As one of the few local platforms available in 9 different languages and considering Qatar's cultural mix and diversity, CWallet has effectively overcome the communication challenges often faced by customers in the targeted markets across the Asian continent.

I. Financial inclusion: One-stop-shop for payment solutions in Qatar

When the COVID-19 restrictions were put in place in Qatar, demand for cashless and contactless payment drastically increased, largely fuelled by the need to stay physically distant as a precaution for mitigating the spread of the virus. CWallet rolled out its first service at this point to respond to the needs of the businesses and individual customers across Qatar to go cashless by using a package of comprehensive online payment tools available free of cost to all users through its application that is easily and freely downloadable on smartphones.

The service is designed in a way that provides quick, cost-effective solutions for everyone in the community to use. Businesses have already started using the service as petty cash to pay off their low-cost internal and external transactions. It has been used to pay freelancers as businesses dropped the idea of using physical cheques. Schools started to use CWallet credit to have kids purchase groceries from the school canteens instead of using cash, and with hospitals making payments by cards mandatory, another set of opportunities presents itself for the firm to explore in the coming future.

II. Financial literacy: public awareness for creating a cashless society

Going cashless in a society that is heavily dependent on cash-based payments is a challenging task for a FinTech, which requires regular awareness and education campaigns to alter. One of the key areas that CWallet currently focuses on, along with its partners, is to create ways to encourage increased use of online and cashless payments, which is a prerequisite for its payment services to achieve the desired success it aspires to.

III. Financial growth: innovating for the future

With the COVID-19 pandemic creating the necessary groundwork for CWallet to innovate beyond 2020 disruptively, the start-up is looking even further ahead, as it plans for growth and expansion well beyond Qatar's borders. The establishment of CWallet International at the Qatar Financial Centre aims to pursue opportunities in microfinancing and lending, white labeling its CWallet blockchain technology, and seeking out affiliate partnerships, ensuring that this Qatar-grown technology takes financial freedom and digital empowerment to underserved markets around the world. CWallet 2.0 is expected to be launched in the third quarter of 2020 to directly enable users to buy and pay online using their CWallet accounts. ‚Payroll' and ‚Remittance' services will be added after that.

A successful recipient of the support provided by Qatar's business ecosystem to innovative FinTech start-ups, CWallet is now valued at more than $2 million and has softly secured $200 thousand of Pre-Seed Round from an angel investor, as well as the original founders of CWallet. In addition, CWallet has also secured $110 thousand of comprehensive funding from Qatar Fintech Hub both in cash and in-kind and aiming to close its next round in 6 months, targeting a $1 to $2 million Pre-Series round.

On the medium-term, the firm is currently working towards striking a deal with an international e-payment provider in a bid to provide more comfortable and efficient digital financial solutions to the FIFA World Cup 2022 partners and fans expected to pour into the country when the tournament starts, which will provide a considerable boost for the rising FinTech in providing safe transactions. Cross-border payments and establishing wallet to wallet transactions are other areas with enormous potential that CWallet will explore as it expands to key international markets.

« CWallet is now valued at more than $2 million and has soft-ly secured $200 thousand of Pre-Seed Round «

5.2 Digital Banking

Before the COVID-19 outbreak, few customers had entirely moved away from traditional deposit accounts, despite the rising disruptive challenge from up and running online and mobile digital banks. The confinement measures imposed globally to curb the pandemic spread have brought to light the importance of increasing the range of digital banking solutions in several regions.

Credit institutions that did not have an end-to-end digital engagement capability and mostly relied on physical branches were caught off-guard, forced to take initiatives that may have been further down in their priority list, and moved them to the top. The almost overnight shift to digital and remote engagement had financial institutions dealing with unforeseen challenges as digital use, and the volume of credit requests soared.

The rise of a more digital banking model and the platformization of financial services, shifting the power dynamic from the institution to the clients have been in the spotlight prior to the pandemic's advent[7]. COVID-19 has made the need for reduced operational costs and improved user digital experience an absolute top priority. Financial institutions of all sizes started reassessing their existing business models, core systems structure, distribution networks, commitment to innovation, and product offering for a market characterized by ever-changing customer expectations.

Kazakhstan has seen an intensive development of its digital banking over the past few years. However, it was the strict quarantine measures that made this development rapid. The incumbents began to transfer the majority of their client interactions online at an unprecedented pace. To achieve this, the Kazakhstani banks had to significantly improve the efficiency of collecting and using the customer data, adapting the necessary disruptive technologies: AI, Big Data, and biometrics. As a result, incumbents' increasing popularity of digital banking services is now the region's primary FinTech trend.

"The Kazakhstani authorities actively stimulate the digitalization of financial services. Thus, in June, the National Bank of the Republic of Kazakhstan published its concept to develop financial technologies, highlighting supportive digital banking buildout measures. The AIFC is developing a legal framework on the AIFC Mobile/Digital Banking in order to empower challengers, aiming to disrupt the market" – AIFC

The extremely successful IPO of Kaspi.kz on the London Stock Exchange is a clear illustration of the active development of digital banking in Kazakhstan. Being the flagship in digitalization of the banking sector and the largest super app, Kaspi.kz received a valuation of $6.5 billion in October, becoming the country's first fintech unicorn. Transformation from traditional banking to a digital one allowed Kaspi.kz to achieve incredible metrics - it has 8 million monthly active users in the country with just 18.6 million people.

The new banking benchmark is quickly moving from branch-heavy, product-centric organizations with legacy technologies to consumer-centric with more personalized digital solutions that can be delivered seamlessly. Banking firms that can deliver fully digital, platform-based banking services will achieve significantly lower acquisition costs, improved efficiency ratio, and lower costs of distribution.[8]

"Confinement measures have improved the adoption of digital financial services. For example, the UAE Central Bank has encouraged the use of digital and online banking services as a measure to protect the health and safety of UAE residents" – ADGM

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[7] LFF and PwC, Amazonisation is the Future of European Financial Services.
[8] Capgemini, World Retail Banking Report 2020.

On the other hand, full-fledged digital and mobile banks were already facing challenges even before the Coronavirus crisis in order to get more profitable. Digital mobile banks rely on transaction fees and commissions for most of their revenues, and only a few have successfully had customers sign up for a subscription/account fee. On the other hand, incumbent credit institutions generate income from multiple sources beyond transaction fees - including packaged accounts, commercial and consumer credit lines, mortgages, and investment activities. As a result, many digital banks have a cash-consumptive business model under strain that requires continual investor funding.

In the open banking domain, a group of UK FinTechs used open banking technology to build a new tool to support self-employed people claiming financial relief from the government by providing evidence of their past earnings.

Digital banking also plays a critical role in channeling funds to revive economies hardly hit by the pandemic. National and state governments worldwide offer financial assistance schemes in the form of relief loan packages, designed to help SME and small business owners navigate the crisis. FinTech start-ups, especially those "confined" in the early stages of their life cycle, are applying for loans through their banks to keep their workforce on the payroll during the pandemic. In the context of the government financial support initiatives, banks have found themselves inundated with a massive volume of loan application requests, all of which must be reviewed and approved in a short time frame to maintain businesses in good health. In order to automate the repetitive tasks involved in loan processing, banks started to implement AI-based solutions. As applied to digital lending schemes, AI can significantly accelerate digital onboarding, conduct eligibility checks, and process loan applications.

"Accelerated digital adoption is a huge opportunity for UK FinTech. Increased demand for FinTech services, both from consumers and institutional partners looking to improve their use of technology, will benefit the sector" – TheCityUK

The UK mobile and desktop-based bank, Starling Bank, has made government-backed loans and overdrafts available under the Coronavirus Business Interruption Loan Scheme supporting economic recovery amid the crisis. The British bank has swiftly reacted by introducing Connected cards for personal accounts. Designed to help self-isolating customers rely on others to get their shopping for them, Starling used its existing spending "spaces" tool to create the new service.

5.3 RegTech

Since the global financial crisis in 2008, the rise in prudential regulation has helped restore stability and confidence to global financial markets. However, a wide range of rules were implemented relatively quickly, bringing high compliance costs in their wake. Today, many financial institutions are mitigating their regulatory and compliance costs by deploying RegTech solutions to make regulatory reporting and compliance more cost-efficient and effective.

The financial sector's digital transformation was already taking place as part of a long-term goal, although at a much slower pace across major financial centers, and has recently been turned into an absolutely vital necessity in the short-term amid the COVID-19 crisis. Financial institutions have once again been compelled to accelerate their overall digital transformation in order to ensure business continuity and minimum disruption of their products and services for their customers. Agility and adaptability have been pivotal to navigate the pandemic crisis, and digitalization and remote working solutions quickly become the new normal.

Financial institutions face numerous challenges on their way to digitalization, depending on their size, services, and level of maturity in their digital transformation efforts. Almost overnight, the office-based benchmark was replaced by the new remote access standard. Financial organizations have learned that these virtual methods are necessary to overcome the crisis and define tomorrow's success.

The 2008 global financial crisis shows that major economic downturns usually lead to a proliferation of new government interventions, accompanied often by additional rules and regulations. Likewise, the economic and regulatory consequences of this pandemic will likely follow a similar path.

"Financial technologies are revolutionizing the financial services industry and as new sub-sectors such as RegTech emerge, KIFC is committed to develop a conducive and compliant environment for Fintechs to thrive. Rwanda is developing a growing concentration of ecosystem enablers with incubators, accelerators in a country offering nationwide fiber optic cable, friendly visa policies and attractive investment framework to strengthen and support the ecosystem." – KIFC

This is why the digitalization of financial services and processes is the best business continuity decision institutions can make. It is not too late for financial companies who haven't already adopted such solutions to take control. Financial companies should partner with mature Transformation-Tech firms to enhance their operations, simplify regulatory oversight, and improve productivity. The firms that implement such technological solutions will be the ones to survive and thrive through this time of uncertainty.

RegTech represents the core focus of the Luxembourg FinTech hub, the LHoFT, and one of the principal subsectors of the Luxembourg FinTech landscape. Closely linked to FundTech, RegTech accounts for about thirty to forty percent of Luxembourg's FinTech companies.

In most financial centers, RegTech remains one of the most challenging sectors in which to succeed. From the first meeting with a financial institution to expressing interest, the process can take up to two years to get the contract signed. It can cause cash flow issues and create barriers to scale. Luxembourg's advantage is that RegTech companies can easily reach out to decision-makers in the financial sector, making it easier to scale their company internationally.

Governance.com: Ensuring Business Continuity in Financial Services During the COVID-19 Crisis

Governance.com, a major European RegTech based in Luxembourg, specializing in digital transformation and digital governance solutions, has identified three main digital transformation challenges for financial services institutions triggered by COVID-19.

Governance.com supports financial institutions in solving these challenges and helping them to implement digital transformation with quick results.

COVID-19 has become the accelerator of digital transformation and the recovery, as we move into the next normal, is digital. This is especially true in a global environment that will continue to be defined by social distancing measures and remote working as the new standard in financial services.

I. Compliance digitalization

Due to the reluctance to embrace digital change in the past, much of the compliance function was still an extraordinarily manual and paper-based process when the COVID-19 outbreak began in the first quarter of 2020. Take client due diligence as an example, which was perceived as a primarily office-based function that lacked investment in up-to-date digital infrastructure. As a result, organizations found themselves running into compliance and data access issues when switching to home office schemes.

Governance.com has advocated the values of digitalized and automated alternatives to manual processes as a means of operational efficiency and effectiveness. It has now become necessary to have a real-time view of a company's organization and processes, automation of workflows, customizable dashboards, and tools to mitigate risks quickly while ensuring compliance.

To enjoy the full benefits of transforming the Compliance challenges, Governance.com follows a four-step vertical integrated process to drive the outcome once identified the client's needs.

Bert Boerman
CEO Governance.com

"Covid-19 has reshaped the way businesses operate worldwide, and the impact on financial institutions has been especially profound. But the silver lining of the crisis is that COVID-19 has become a catalyst for much needed digital transformation across the industry. To support this positive momentum and sense of urgency, we work with our clients in a strong partnership to define their immediate objectives and implement solutions to the most pressing pain points fast"

1. Connect data and documents. What data is needed to address the business challenge?

2. Automate workflows. Which processes can be automated to improve efficiency and robustness?

3. Monitor dashboards. What data needs to be monitored to achieve the intended outcome?

4. Decision recording. How can decisions be transparently captured and recorded?

II. Remote meetings

Almost overnight, an industry that traditionally relied on physical encounters has moved to digital platforms. Conducting remote meetings has become a significant challenge for companies around the world. Corporate governance requirements demand more substance to board meetings, executive meetings, and shareholder meetings, but at the same time, COVID-19 has made it difficult to conduct and record these meetings efficiently.

In Luxembourg, according to the Grand Ducal Regulation dated 20 March 2020, Luxembourg-based companies may now host their shareholders, board, and committee meetings in digital form and must reassess their ability to do so while keeping safeguards in place.

Governance.com provides companies with an all-in-one meeting management solution called Meeting Portal. It allows companies to plan, run, and follow up on digital board, executive, and committee meetings in a secure, efficient, and effective way, keeping standards and safeguards in place. Hosted in a private cloud, it ensures only authorized parties have access and can exercise their votes securely. It can be implemented in 24 hours, and companies can run their digital meetings anywhere, anytime, and on any device, in full compliance with applicable laws.

Throughout the COVID-19 crisis, Governance.com has supported financial institutions, companies, and major associations in the organization of their virtual AGMs and board meetings, increasing their participation by 25%. The solution has recently received the Cloud Innovation Project of the Year Award by the Cloud Community Europe- Luxembourg (CCEL).

III. Digital business continuity and remote working

COVID-19 showed that many enterprises were unprepared for a pandemic scenario as business continuity plans did not provide the right tools to continue their operations remotely. Governance.com identified a gap in the market for a solution to allow companies to ensure business continuity remotely with a pre-populated, cloud-based solution that enables them to organize and oversee their operations.

In order to ensure their clients keep on track of their business targets for 2020, Governance.com launched their solution to allow companies to make decisions quickly, manage resources and documentation, handle incidents, oversee activities, run virtual governance meetings and keep their risks under control thanks to state-of-the-art customized dashboards, on a remote basis.

If financial companies have learned anything from the COVID-19 crisis, it is the importance of a robust business continuity plan that guarantees a crisp continuation of processes and controls. That includes ensuring data availability, enabling simple collaboration, and concentrating resources on critical matters. So even if there is a disruption to human resources, decision making can be transparently recorded, and responsibilities can be managed and delegated.

As the crisis evolves, business challenges are changing quickly, and Governance.com is continuously adapting its solution to solve their clients' needs. The main objective is to push the digital transformation of financial services to ensure business continuity and business success.

5.4 Blockchain Technology and Cryptocurrencies

Blockchain technology and cryptocurrency are not just past fashion trends. COVID-19 has shaken the global economy, including the financial industry, and people are reassessing their personal finances and how they can protect themselves from financial hardship in times of turmoil. The pandemic has increased the appetite for cryptocurrency, particularly Bitcoin, which dominates approximately 60% of the crypto markets and has reached highs not seen since the cryptocurrency boom between 2017 and early 2018. Bitcoin and Ethereum are currently the largest cryptocurrencies by market capitalization, but others are emerging rapidly.

It is predicted that the persistent low-interest environment and volatile market conditions caused by the pandemic are likely to fuel confidence and adoption in cryptocurrencies. In a recent survey released in June 2020, the Tokenist found that over 45% of respondents preferred Bitcoin over traditional safe havens such as stocks, real estate, and gold.[9] Although conducted before the COVID-19 crisis, the Financial Conduct Authority (FCA) recently published research on cryptoassets according to which 3.86% of the general population own cryptocurrencies. The study also found that awareness of cryptocurrencies has increased, with 27% of consumers never having heard of cryptocurrencies, compared with 58% in the 2019 survey, and Bitcoin was the most recognized cryptocurrency.[10] This trend has not gone unnoticed by investors looking to invest in upcoming and established trading platforms operating in this market.

Blockchain technology and cryptoassets, on the other hand, are receiving increasing attention from governments and regulators across various jurisdictions worldwide. In Japan, the Financial Services Agency (FSA) has adopted a progressive approach in laying down the legal foundation for cryptocurrencies and Distributed Ledger Technologies (DLT) in financial services. The FSA adopts a licensing regime for cryptocurrency exchanges, and 24 have been so far listed.

Yuzo Kano
Representative director of Japan Blockchain Association and CEO of bitFlyer Blockchain Inc.

"The importance of DX was further recognized in Japan due to COVID-19, and the Japanese Government put together the team for establishing the Digital Agency at the end of September. The Japan Blockchain Association paid a visit to Digital Transformation Minister Takuya Hirai and recommended that Blockchain be a part of national strategy like some other countries. Specific initiatives to utilize blockchain technology in addition to crypto are becoming prominent"

[9] The Tokenist, Comparing Public Bitcoin Adoption Rates in 2020 vs 2017, 16 July 2020.
[10] FCA, Research Note - Cryptoasset consumer research 2020, 30 June 2020.

In March 2019, the German FinTechRat, a committee of experts and market participants, decided on a FinTech roadmap and discussed a position paper published by the German Ministry of Finance and the Ministry of Justice regarding the development of electronic securities. There has also been a recent initiative to create a legal basis for market participants concerning stablecoins. The so-called Markets in Crypto-Asset Regulation (MiCAR) has been proposed by European regulators to ensure a common regulatory basis for stablecoins, such as Tether or Libra. As a next step, the draft proposal will be discussed within national parliaments. The EU commission stressed that the Libra project is not allowed to launch until MiCAR has been introduced.

The tokenization of assets and cash flows can exponentially increase efficiency in the market and deliver a massive impetus for innovation to digitize the industry.

"We are delighted that not only private companies like the Stuttgart Stock Exchange or scientific institutions like the Frankfurt School of Finance and Management have realized the potential of the distributed ledger technology, but that it's also on the list of national and European regulators and policymakers. The first steps towards sound legal frameworks for financial services with crypto-assets have been made. Nevertheless, there are still issues within the current frameworks, such as the tradability of cryptoassets via highly regulated public stock exchanges." – FMF and Stuttgart Financial

In September 2019, the German federal cabinet adopted a comprehensive blockchain strategy developed by the Federal Ministry for Economic Affairs and Energy and the Federal Ministry of Finance in consultation with other ministries.

Peter Altmaier
Germany's Federal
Minister of Economics
and Energy

"Blockchain is a new technology with great potential. Germany is one of the world's leading locations for this technology. Our blockchain strategy aims to help maintain and expand this leading position. One focus is on the energy sector. This allows us to achieve progress in two areas at once: on the one hand by leveraging the opportunities offered by blockchain technology in pilot projects, while at the same time enhancing the role that digital technology plays in the transition to clean energy."

6.0 The Main Challenges Ahead for FinTechs

The current COVID-19 crisis has ushered in a new era for operating models, remote working, collaboration of technology, and the financial services industry realized how dependent and critical digitalization is to their competitiveness and sustainability as a business. Tech solutions are essential for business continuity, and the FinTech sector offers solutions to business continuity issues, including homeworking, cashless payments, and new deployment of technology.

Nevertheless, FinTechs are having to grapple with a challenging situation. The current environment of uncertainty has pushed FinTechs into overdrive responding to the crisis by bolstering their capital and implementing stricter cost-saving measures, including workforce reduction. As many FinTechs' business models for revenue are transaction- and volume-based, the strategy ensures that as many expenses as possible are variable and fixed costs are minimized.

The lack of funding and investment opportunities arising due to the current crisis is a reality that early-stage FinTech start-ups face. However, in contrast to the 2008 crisis, the halt in investment activity is expected to be temporary as investor fundamentals remain relatively healthy. Further, and arguably unlike the 2008 global financial crisis, the COVID-19 crisis has not resulted in significant revenue contractions to at least some parts of the financial services sector. Governments worldwide took action promptly by implementing sizable stimulus packages and have maintained existing initiatives to help support innovative companies and small and medium-sized enterprises (SME).

The post-pandemic economy will be more digital than ever, and accordingly, the regulatory response will be critical. The regulatory environment could act as a catalyst for FinTechs further penetration into financial services. For instance, this is the case with open banking frameworks, which allow new competitors to have access to banking's customer data and initiate payments in their name. A large part of FinTech services is covered by existing financial regulations that can address the ongoing FinTech trends, such as standards covering payments and e-money. In other areas, however, such as with cryptoassets and crowdfunding, there are often regulatory loopholes. Luckily, several regulatory bodies and governments, both globally and in Europe, have put this at the top of the list, as demonstrated by the European Commission's attention to the topic with the recent release of the EU Digital Finance package.

Beyond COVID-19, FinTechs will be part of the solution. They are at the heart of what the future needs, and observing the present system's deficiencies will help conceive innovative strategies for the future.

"It is also expected that having experienced the ease of online modes and having overcome various inhibitions, this crisis will constitute the biggest opportunity in terms of wider adoption, general user feedback, new service areas, and preferred channels for promotion. The biggest challenge may be in maintaining this interest even when the crisis will be gone and offer a sustainable, safe, and better alternative" – CMA

6.1 Navigating the Challenging Investment Environment

The main challenge is keeping FinTech afloat during unpredictable investment environment. International financial Centers across the world rely on a dynamic ecosystem of events and networking opportunities, both domestically and overseas. Thought needs to be given as to how to maintain such an international network when many financial companies are working remotely, and travel ban restrictions are in place.

This is even more complicated for FinTech start-ups, which are not yet profitable and with a continuous need for capital as they complete their innovation cycle.

"In the aftermath of the COVID-19 outbreak in Luxembourg, FinTechs and other financial companies showed resilience and solid business continuity capabilities. However, for start-ups going through a funding process, this crisis will delay their funding and will make it more complex to scale internationally and be successful" – LFF

After growing more than 25 percent a year since 2014, investment into the sector collapsed by 11 percent globally and 30 percent in Europe in the first half of 2020, compared to the same period in 2019. Major difficulties in accessing traditional funding, including venture capital and government financial support schemes, and the liquidity crisis, especially for early-stage FinTech start-ups, are significant concerns.

"FinTech companies will save cost and seek profitability because funding for them will become more difficult. They might have to rethink some innovative projects which are not mature enough and focus more on their core business. FinTech's less dependence on fixed offices, quickly launching new products and solutions, decentralized working style will be kept and even intensified in the aftermath of COVID-19" – FMF

The COVID-19 crisis has urged for a quick adoption of AI applied transformational solutions to support digital lending processes in the government-led funding programs framework, which are a fundamental pillar of support for FinTech start-ups. The effectiveness of these schemes depends on lenders' capacity to promptly qualify, process, and issue loans. Banks found themselves quickly overwhelmed by soaring loan application volumes, which have ultimately undermined execution speed. AI-based solutions and machine learning can support making recommendations of loan and credit offerings to suitable candidates based on the data collected in respect of the digital footprints, income, and social media activities of FinTechs that apply for loans. In doing so, machine learning algorithms can provide accurate credit scores.

In many countries, policy responses aimed at shielding the economy from the crisis are already targeting firms liquidity constraints, especially for SMEs. These include measures to sustain short-term liquidity needs, such as loan guarantees, direct lending, grants, or subsidies. However, policy responses should take into account the specificities of FinTechs with respect to other SMEs.

France has set up a €4 billion fund to support start-up liquidity, including bridging start-up funding rounds. Germany has announced a tailored start-up aid program, expanding and facilitating venture capital financing.

[11] Dealroom.co data as of August 5, 2020.

The UK government has launched a review of the FinTech sector to evaluate the needs of UK FinTechs to ensure that the sector's global reputation is maintained. The UK has also announced a co-financing fund for innovative companies facing financial difficulties.

The Luxembourg government put together a plan worth 8.8 Bio EUR, roughly 14% of Luxembourg's GDP. The one measure that is the costliest is short labor. Every company, including start-ups, can put - if necessary - its entire workforce in short labor. Besides, the Ministry of the Economic, together with Luxinnovation, the national agency for innovation and research, has published a call for start-ups to support them and boost technological solutions and products that will tackle the COVID-19 crisis.

Moving outside of continental Europe, the Canadian Federal Government is investing $250 million to assist innovative, early-stage start-ups.

In Busan, the government launched the "digital new deal" to establish more digital infrastructures that will help create new jobs. To this end, the government will increase investment in critical technologies, such as 5G, AI, and big data, and provide support for new growth engines. In the framework of this campaign, the Financial Services Commission created a dedicated FinTech innovation fund. It is a fund of funds that provides tailored investments to FinTechs, from start-up to scale-up stages.

The Bank of Mauritius has set up the Mauritius Investment Corporation Ltd (MIC) as a Special Purpose Vehicle under its aegis. A part of the investment strategy includes providing capital to FinTech companies and Mauritian businesses.

The Hong Kong SAR Government has introduced various measures with the aim of propelling the economy. Examples of the schemes relating to the FinTech community include the Distance Business Programme that provides funding support through fast-track processing for enterprises to adopt IT solutions for developing distance business and the Employment Support Scheme that provides time-limited financial support to employers to retain employees who may otherwise be made redundant. Rental reliefs have also been extended to cover all start-ups, incubatees, co-working space users, office tenants, partner companies, professional services companies, and merchant outlets at the Hong Kong Science Park, InnoCenter, industrial estates, and Cyberport.

The Abu Dhabi Government has committed to investing more than US$1bn in developing the technology ecosystem. This includes investing US$250M in tech start-ups through Mubadala Capital Ventures. Additionally, start-ups have benefited from a range of measures as part of the expanded post-COVID-19 Ghadan 21 initiatives, including subsidies for utilities and performance guarantees for projects of up to AED 50m.

6.2 Global Regulations Should Stay Ahead of the Curve

The regulatory response must be up to the global challenges posed by the COVID-19 crisis and facilitate financial digitalization momentum. FinTech companies are highly exposed to regulatory pressures, compliance requirements, and legal obligations because of the sensitive services they provide. Meeting such regulatory expectations during COVID-19 has become even more difficult for FinTechs. Despite being strong on the technology front, FinTech companies lack resources like established regulatory practices and experienced staff, which pushes them behind traditional financial services incumbents to have a streamlined regulatory process in place.

"The legal framework is important to allow digital contracts, signatures, and identification. The Belgian Government has accelerated the adaptation of the legal framework in order to facilitate the digitalization" – BFC

For countries where FinTechs are struggling to penetrate the financial marketplace, making progress to satisfy important regulatory preconditions is even more relevant to smooth the transition toward FinTech adoption. This includes having an adequate digital infrastructure (e.g., high-quality communication services that facilitate access to the internet and mobile connectivity) and putting in place legal and regulatory requirements that enable FinTechs (e.g., allow the use of third-party agents to facilitate access to FinTech and develop a strong network of local agents, establish a risk-based and proportionate anti-money laundering (AML) framework, foster interoperability and competition). Incentives for local adoption and the existence of a national ID system can also facilitate the development of FinTech. The legal framework to allow digital contracts, signatures, and identification will be of utmost importance because it reduces the need for face-to-face contact.

A useful regulatory framework will create opportunities to improve the industry's digitalization (documents, onboarding, etc.), thereby creating more data. Furthermore, regulation should be enhanced to promote innovation. Data related laws will help facilitate the utilization, convergence, and distribution of personal financial data, which will also pave the way for big data and analytics businesses.

"The abundant availability of public data to businesses will also help create more businesses and jobs" – BEPA

Governments across several jurisdictions are tackling regulations to ensure FinTechs are provided with the necessary regulatory support to overcome the crisis. At the European level, the EU Commission recently released the Digital Finance Package to ensure that European financial services regulations are fit for the digital age, for applications such as AI and Blockchain, data sharing, and open finance. In the payments sphere, the EU Commission seeks to achieve a fully integrated EU retail payments system, including instant cross-border payment solutions, which will be critical to relaunch the retail payments sector hardly hit by the pandemic crisis.

In Canada, the Federal Government is reforming the regulatory framework to allow greater flexibility and ensure broader utilization of FinTech solutions from incumbent financial institutions. The Federal Government is also pushing ahead with its open banking review, focusing on security issues surrounding financial data sharing with third parties.

"The Canadian federal government is formally reviewing Open Banking learning best practices from the UK, EU, and Australia" – TFI

The government and the regulators in Hong Kong have been encouraging financial institutions to use Fintech and supporting initiatives that drive Fintech adoption and innovations. The Hong Kong Monetary Authority, the Securities and Futures Commission, and the Insurance Authority keep their policies and processes up-to-date in the light of market trends. The respective sandboxes are one of the regulators' tools to allow financial institutions to gather real-life data and user feedback on their FinTech products/services in a controlled environment. Financial institutions can then make suitable refinements to their Fintech products/services to expedite the eventual full launch.

In Japan, the FSA has been running a FinTech regulatory sandbox for over two years. They work with FinTechs and financial institutions embarking on a new business that entails some legal uncertainty. It has so far supported seven projects. FSA has adopted a progressive approach in laying the legal foundation for cryptocurrencies and DLT in financial services.

The Kazakhstan government is working on the development of a regulatory environment related to FinTech. Thus, a recent law legalized and introduced the concept of blockchain, digital assets, and digital mining. Moreover, the government pays attention to developing a regulatory framework for venture financing, a necessary tool for FinTech evolvement. In addition to the laws already adopted, the government is developing a draft law that aims to uplevel the regulatory environment for venture financing.

Oman's Capital Market Authority (CMA), which regulates the capital market and the insurance sector in Oman, has chalked out an elaborate plan for establishing a comprehensive ecosystem for capital raising in Oman, from crowdfunding to mainboard, supported by incubators and various government programs. It has also embarked on creating data lakes on financial information about listed and licensed companies around the healthcare infrastructure in Oman, which will allow FinTech entrepreneurs to leverage such facilities to develop and offer various new products to the market without having to go through the pain of creating such large and expensive infrastructures by themselves.

6.3 Cybersecurity is a Top Priority

COVID-19 is undoubtedly accelerating the digital transformation in the FinTech domain, completely changing consumer and business behaviors. But this swift digitalization across all business processes coupled with the widespread adoption of remote working and cloud has brought the inevitable risk of increased cyberattacks. Cybercrime has increased during these challenging times, and cyber attackers have successfully breached major entities, including top government agencies like The World Health Organization (WHO) and the US defense agency.

Cybersecurity is a major challenge for many financial centers across the world, according to WAIFC Board members. One major effective hacking attack on a large FinTech platform can compromise the whole industry, damaging consumer confidence and trust in financial encryption.

The skyrocketing volume in online transactions has led to a higher risk of cyber-attacks. The new home working benchmark, on the other hand, means more massive amounts of online data and information are being shared across various networks and thus at risk of a breach of confidentiality. This data can range from video conferencing software to more frequent online shopping for necessary purchases while stores are closed and the related increasing cashless financial transactions.

High-grade risk management, enhanced security, improved customer service, and business efficiency will be the focus of the global FinTech industry post-COVID-19. Only those FinTech start-ups and incumbent financial organizations that readily embrace these innovations and cybersecurity technologies will become market leaders in the post-COVID-19 economy.

> "Many leading Canadian financial services firms are adopting the Financial Data Exchange (FDX) technical standards for secure financial data sharing" – TFI

7.0 WAIFC Policy Recommendations

Government policy interventions should aim to tackle short-term challenges, support short-term liquidity and availability of funding, and provide the right infrastructure conditions and incentives for innovative start-ups and potential entrepreneurs to thrive long-term after the crisis.

On their part, FinTech companies should gear up to become more resilient for future pandemic situations by reinforcing "offline" financial services and advancing the financial system. FinTech tools can be harnessed to respond to the COVID-19 shock, and the crisis has the potential to accelerate their development and use.

I. EXPANDING THE SPECTRUM OF FUNDING OPPORTUNITIES

Governments should support the short-term financial needs of existing FinTech start-ups, for example, through measures such as loan guarantees, direct lending, grants or subsidies, keeping in mind FinTech specificities in designing these policies while reducing bureaucracy.

Traditional lending nonetheless struggles to keep pace with the changing reality of the FinTech investment environment and will not solve the lack of funding and liquidity crisis for FinTechs. FinTechs, primarily early-stage start-ups, rarely have collateral against which they can borrow the necessary funds and often lack the time or the means to visit a bank branch. The members of the WAIFC believe that participation in equity funds and risk-sharing with incumbent financial institutions and corporate investors will be pivotal to raise investments to fuel financial innovation and FinTech development. To solve the liquidity crisis, offline loan lending by banks, not including internet banks, will play a critical role in supporting FinTechs.

As a complement, a growing number of FinTech alternative lenders for SMEs provide a new model of lending that is faster, easier, more efficient, and best suited to FinTech start-ups' needs facing the crisis. For the first time, FinTech start-ups can share data they have in exchange for access to credit to help them grow and access the marketplace. By using advanced analytics platforms and AI to assess transactional and alternative data (something as simple as a bank statement that shows an SME's cash flow), FinTech lenders are gaining a much deeper understanding of SMEs, representing the vast majority of enterprises. They can establish businesses' creditworthiness, evaluate risk more efficiently, and issue loans in as little as 24 hours. Today, these new, innovative, data- and AI-based solutions are better positioned to serve FinTech start-ups financing needs, lead them out of the imminent financial crisis, and unlock their potential. On their part, governments should provide the necessary supporting measures to reduce the negative impact of the COVID crisis on alternative lenders, ensuring them access to liquidity facilities, relief programs, and regulatory relief initiatives.

Finally, to prepare for a post-COVID-19 era, it is essential to continue to promote innovation in FinTech and digital finance through dedicated funding schemes to stimulate the digital economy in the broader global financial sector.

II. BUILDING A SOLID DIGITAL INFRASTRUCTURE TO FACILITATE FINANCIAL DIGITAL INCLUSION

Financial inclusion resulting from the rise in the provision of digital financial services will ultimately also boost economic growth. While the pandemic triggered a significant digitalization of financial services, it has also posed challenges for the industry's smaller players' growth and highlighted unequal access to digital infrastructure.

The trend towards greater digitalization of financial services is here for the long run. Many factors need to be considered to tap the high potential of digital financial services in the post-COVID era. Equal and widespread access to digital and IT infrastructure, including access to electricity, mobile and internet coverage, and digital ID, is one of those factors and necessary for a more inclusive economic recovery. To build inclusive societies and address rising inequalities during and after the ongoing crisis, global and national leaders must close the digital infrastructure gaps across and within countries to reap digital financial services' benefits. This means finding the right balance between enabling financial innovation and addressing the unequal access to digital infrastructure and data biases that need action at the national level.

Several actions will need to be taken to ensure maximum financial inclusion going forward. Investments in digital infrastructure to provide better connectivity, especially the deployment of 5G networks, will be key to support FinTechs, focusing on AI, cybersecurity, supercomputing, and cloud. Building a real data economy as the driving force for innovation, cyber resilience, and job creation will be pivotal in the post-COVID era.

III. REGULATIONS EMBRACING DIGITAL TRANSFORMATION AND SECTOR WIDE CYBERSECURITY

Countries globally should make haste in establishing a legal framework facilitating digitalization of financial services while ensuring digital contracts, signatures, and authentication to tackle the practical difficulties encountered by FinTechs with POS and their business development activities. Regulations in the post-COVID-19 era should balance the need for financial innovation with stability by strengthening the management and supervision of cyber risks such as financial data security and risk management for third parties. Money laundering risks should also be addressed through international agreements and information sharing.

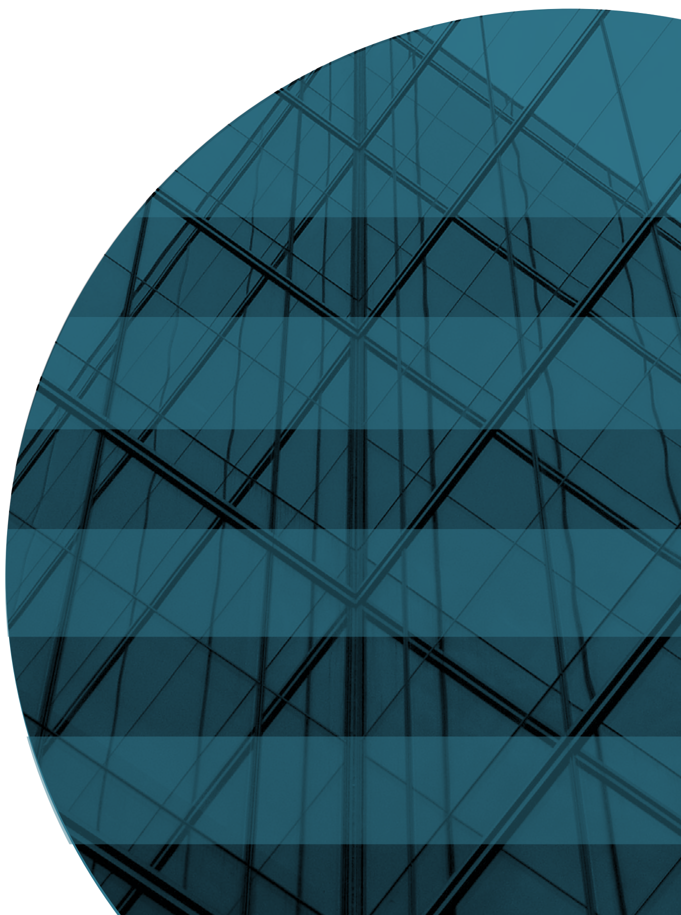
There are many approaches FinTechs can take to ensure protection against cyberthreats. Yet it is not always clear which cybersecurity protocols best allow FinTechs to secure their assets, create trusted commercial partnerships with incumbent financial firms, and ensure compliance with relevant regulations in the jurisdictions they operate.

The broader financial sector should start by putting in place comprehensive and up-to-date policies on how to effectively and securely manage financial technology. All industry participants should have the necessary tools in place to mitigate cyber-attacks and other risks. The financial regulatory framework should require all firms to ensure that they can withstand all types of Information and Communication Technology (ICT) - related disruptions and threats. Accordingly, the financial sector should work on a mutually understood and widely accepted base level of cybersecurity controls. Clarity at the base level of security will support the adequate protection of business and client assets across the wider supply chain. This will ultimately accelerate the speed at which FinTechs can go to market and promote more efficient commercial partnerships – and, in turn, incentivize cybersecurity tools among early-stage FinTech companies, improving cyber resilience across the whole system.

IV. CONNECTING GLOBAL DIGITAL IDENTITY SOLUTIONS

COVID-19 is forcing societies to avoid physical contact and is restricting access to both public and private services. The digitalization of services and, in complementary ways, identities is an important tool through which businesses can provide safe financial services seamlessly under the COVID-19 threat. The growth in electronic payments, but also remote working and cloud, have triggered innovation in personal authentication services outlining the importance of digital identity solutions for complementing the provision of financial services. Strong, trustworthy digital identities promote safety, both from a physical perspective, by allowing people to stay apart from each other, and from a digital perspective, by facilitating accurate user identification.

Digital identity solutions provide the core authentication and authorization tools to secure the remote workforce through access management functionality. This includes managing who has remote access to which applications, controlling how access is granted, and enhancing the overall user experience by delivering single sign-on and passwordless authentication, which is crucial to ensure a seamless financial experience to scale-up customer engagement, experience, and trust.



Digital identity should be the subject of a detailed and broader political discussion in a post-COVID-19 scenario so that it can be implemented consciously and with nations' mutual consent. Aspects of data privacy, traceability, and applicability must be well balanced to allow the citizens of countries worldwide to enjoy a seamless digital financial experience without losing their autonomy as individuals in today's increasingly interconnected financial world. The WAIFC does not expect the COVID-19 pandemic to push governments to create global interoperable digital identities, even though such a development would help safely open global trade borders as conditions permit.

V. THE DEVELOPMENT OF DIGITAL FINANCIAL LITERACY SKILLS IS PIVOTAL

It is of the utmost importance that families, students, and schools are provided with the necessary tools to adapt to the increasing dependence on digital financial services quickly. As societies, we find ourselves amid the global pandemic.

Digital financial literacy is set to become an increasingly important aspect of education for tomorrow's digital age. The development of the "gig" economy means that individuals will become more responsible for their own financial planning in the future.

Countries across the world should cooperate in developing consistent definitions of digital financial literacy, in designing and implement systems to assess it and develop strategies and programs to promote digital financial education as well as special programs for vulnerable groups, including the elderly, the less educated, and the owners of FinTech start-up firms.

For this purpose, the WAIFC members recommend developing dedicated national survey platforms and coordinated studies that shall be used to collect high-quality, comparable data on levels of financial literacy across jurisdictions to achieve mutually-recognized financial literacy goals. Governments should also establish and implement national policies to ensure a coordinated approach to digital financial education. This could be achieved by cooperating with the relevant stakeholders to create ad-hoc responsible bodies and establish a roadmap defining education objectives and the upskilling challenges for individuals and companies. National strategies should be continuously monitored to assess their implementation progress and subject to updates and changes accordingly.

VI. ESTABLISHING GLOBAL FINTECH PARTNERSHIPS AND LINKAGES FOR KNOWLEDGE TRANSFER

More partnerships among the different FinTech ecosystems can be formed as the world transitions into a post-COVID-19 environment to address the need for innovation and new ideas in light of the changes inflicted on the global financial services industry by the pandemic.

WAIFC members found that one key best practice for FinTechs across leading financial centers worldwide was to have clear FinTech strategies that align to financial institutions' organizational objectives, consider their current assets and capabilities, and include an execution plan for addressing gaps and managing the ongoing digital transformation.

WAIFC's FinTech and Innovation survey also identified that FinTech ecosystems worldwide possess varying degrees of capabilities, know-how, and skillsets. Establishing cross-border partnerships and linkages will help enable knowledge transfer and a regular exchange of expertise among the FinTech ecosystems. The development of partnerships among FinTech ecosystems will generate the necessary know-how for the respective players to advance their overarching strategies and support the long-term growth and competitiveness of the various FinTech subsectors.

The WAIFC members recommend that the different FinTech ecosystems establish durable and targeted partnerships to exchange knowledge and expertise. The partnerships could envision both the developed ecosystems lending support in implementing immediate solutions in the post-pandemic environment and in shaping long-term structural, education, and regulatory support to the emerging ecosystems. WAIFC members, in line with their commitment to support holistic economic recovery, believe that such transnational partnerships will incite more innovation in the FinTech sector and prepare the financial market for a more robust response during a second or third wave of the pandemic.

VII. ENHANCING COLLABORATION BETWEEN TRADITIONAL FINANCIAL INSTITUTIONS AND FINTECHS TO SEIZE THE GROWTH OPPORTUNITIES POST COVID-19

The COVID-19 pandemic has brought new challenges and created an array of opportunities for the financial industry, both the incumbent traditional financial institutions and FinTechs, to seize in the economic recovery phase.

The latest trends and developments show that enhanced partnerships among FinTechs, incumbent financial firms, and governments will further help with nurturing innovation in the financial industry as a way to overcome the constraints imposed by COVID-19. Trends show that banks across the developed and emerging economies have partnered to cater to their diverse customer base range in various ways, including enhancing digital payment solutions and digital, intelligent, and tailor-made investment schemes.

WAIFC members believe that successfully overcoming the financial industry's challenges will be made possible by fully embracing the natural differences between traditional financial institutions and the innovative, disruptive FinTechs, which will ultimately result in further collaboration among incumbents and FinTechs. Such cooperative relationships are not built overnight, as it will take relatively longer to strike durable widespread partnerships. Thus, the FinTechs and the incumbents need to find common ground based on mutual trust and interests to better the entire financial ecosystem.

8.0 Conclusions

The COVID-19 pandemic has proven to be a blessing in disguise for financial technology companies worldwide. It has undoubtedly dismantled the status quo of how we conduct business, social and personal affairs. Still, it has also created a plethora of opportunities for businesses worldwide to innovatively embed technology into their models as a parallel prerequisite for igniting a lasting and resilient global economic recovery.

The FinTech sector, which has been developing fast in all major markets worldwide, has not been entirely immune to the ultimate impact of the COVID-19 outbreak. As the world economy began a reactive response phase to control the pandemic's encroaching damage, FinTechs came under immense stress on multiple fronts, with lower investor appetite and limited capital as a major shock to the thriving nature of the sector. Fortunately, both the global innovation ecosystem at large as well as players within local markets have come together in solidarity with FinTechs as the world economy transitions into a more proactive recovery phase equipped with sporadic, multi-pronged support mechanisms from governments and transnational organizations.

In its essence, the FinTech industry is born out of necessity by first driving innovation within the broader financial sector. It is perfectly placed to respond effectively to the pandemic and play a pivotal role in the recovery period. This report provides a brilliant snapshot of how the world is preparing to regain the old dynamics of their national economies and achieve new resilience levels as the world moves into the post-COVID-19 era of technological innovation. Fintechs have already started to play their part.

FinTechs must be empowered, enabling them to grow faster and complement services offered by the incumbent financial institutions more efficiently in the post-COVID-19 period. FinTech organizations that want to contribute to the resiliency of the economy from this moment on need to partner with banks and financial institutions that have traditionally lagged in the adoption of technological innovations, which will also help their future industry growth. For effective digital financial expansion, enhancing legal and regulatory frameworks for FinTechs, providing better backing from the broader support ecosystem to increase FinTech adoption, and increasing funding to promote digital economy and innovation will prove vital in the long-term.

The pandemic made it difficult for people to travel and physically meet one another. It also made us realize the importance of constant communication, cross-border partnerships, and knowledge transfer. Most importantly, it has further amplified transnational organizations' intrinsic value, such as the WAIFC to uniting us together under a common goal of sharing knowledge, best practices, and working for a more collaborative future. In the post-COVID-19 period, FinTechs, especially from the emerging markets, will gain vital understanding from those in the developed ones to enhance their concepts, grow further and contribute to a resilient economy by building mutual, long-term partnerships.

Regardless of the industry and the scope, backed by governmental institutions' timely support, proactive innovation is essential in business resilience, stability, and longevity. Companies that invest heavily and efficiently in their human capital to innovate, problem-solve, and provide superior value to their audience will emerge victorious from this pandemic and find themselves in a position of strength against any unexpected crisis in the future.

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WAIFC member organizations

WAIFC WORLDWIDE

WAIFC facilitates cooperation between financial centers, exchange of best practices and communication with the general public. WAIFC members are city governments, associations, and similar institutions developing and promoting their financial centers.

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