Moorwand

Be part of the future of payments

Specialists vs. Generalists:

How do fintechs fuel growth?

A report on outsourcing in the fintech industry

www.moorwand.com

Table of Contents

Introduction

from Vicki Gladstone

The growing prevalence of fintech has been driven by competition in every sector it touches, from institutional banking to consumer wearables and everything in between.

This competitive theme is inherent to 'disruption' in any industry. Where fintech is concerned, the pace of innovation has been more accelerated than in other sectors, so this sense of competition has been more pronounced. To demonstrate just how intertwined competition and innovation have become, as far back as 2016, Statista found that 37% of banks in Germany saw fintech as a threat.

Post-pandemic, the reliance on digital for our everyday financial needs has become even deeper, as evidenced by PayPal's 20% year-on-year growth, as reported during the third quarter of 2020.

Two of the most common market differentiators for fintechs of all types and sizes are the creation of digital-first products at a lower price point and better user experiences; which naturally present as competition for incumbents. It is for these reasons that the confrontational, David vs. Goliath story became the prevailing narrative as the sector emerged from adolescence.

Today, as the fintech industry matures, collaboration has become the new competition.

Fintech companies both big and small are increasingly outsourcing capabilities to third parties. There are three primary reasons for this:

1. **Scale** - This study has uncovered a quantifiable shift away from the archetypal developer-turned-fintech founder working alone and managing most, if not all, of their value chain in-house.
2. **Expansion** – Across the industry we are seeing the 'rebundling' of financial services. Fintechs have worked hard to acquire customers, and now they have their attention they are looking to offer more services. To expand the product portfolio – quickly – fintechs are outsourcing these requirements to third parties.
3. **Regulation** – As the sector matures it is becoming increasingly regulated. This has prompted the rise of Banking-as-a-Service (BaaS), as fintechs effectively outsource compliance to a licensed third party. Open Banking has also contributed to outsourcing as more firms have become API-fluent and connected to more third parties.

To better understand how and why fintechs outsource, Moorwand decided to speak to fintechs large and small across Europe regarding their own experiences of outsourcing. In particular, we wanted to understand if specialist or generalist partners are best to fuel fintech growth.

Through unique data and industry insight from leading fintechs, Ozone API, Pannovate, GPS and W2 and leading consultants and entrepreneurs in the space, David Parker and Matteo Dessi, *Specialists vs. generalists: how do fintechs fuel growth?* is a guide for any fintech looking to fuel its expansion through outsourcing.

Vicki Gladstone
CEO and COO, Moorwand

Executive Summary

This report is based on an independent survey of 75 fintechs across France, Germany, Ireland, Lithuania and the United Kingdom, five major European fintech markets.

With a focus on the service providers that help fintechs to grow, this report delves into operational decisions and their impact – namely, the impact of choosing one type of delivery partner over another. Specialist delivery providers and the business outcomes linked to their usage have been compared with the outcomes experienced when generalists were used. Throughout this report, we define specialists and generalists as:

Specialists /spe·cial·ist/

Noun

Service providers with deep knowledge of one distinct area, who share their expertise with fintechs via one core offering – e.g. payments or compliance.

Generalists /gen·er·al·ist/

Noun

Service providers with knowledge of various areas, who share their experience with fintechs via a multi-layered offering – e.g. payments, compliance, multi-currency, Open Banking and crypto.

The report explores:

- Why do fintechs outsource?
- What do fintechs outsource and how much do they spend?
- What types of fintechs outsource the most?
- From generalist to specialist: what types of providers do fintechs outsource to?
- The compliance imperative: how does this change as fintechs grow?
- Specialists vs. generalists: who delivers better results?
- Looking ahead, how will fintechs outsource?

This report is essential reading for fintechs who want to learn about the benefits of outsourcing. In particular, for those who would like to avoid common mistakes and learn lessons from those who have 'been there and done that'.

Outsourcing is critical to fintech success

With almost 20% of total fintech budgets dedicated to outsourcing (respondents said they allocated 18% of their resources to this), selecting an unsuitable delivery partner can be a costly mistake.
As well as being linked to finances, decisions around outsourcing are a major influence on fintechs' day-to-day operations.

When asked to rank 21 outsourced services using a scale of 5 (totally business-critical) to 1 (not at all business-critical), respondents identified the following as most crucial to their organisation:

- User experience (84%)
- Budgeting services (80%)
- Data privacy storage and handling (79%)
- Payment processing (77%)
- Fraud monitoring and management (77%).

Fintechs outsource to establish new capabilities – at speed

Expectations of fintechs and traditional financial services providers have risen dramatically for a digital-first world. With so much of our domestic and business spending being dependent on the inherent speed of the platforms we use to transact, fintechs and their delivery partners must rise to the challenge. Two services that require low-latency, for instance, are 'issuing services' and 'mobile wallets'.

- When asked to identify operational requirements that had been outsourced in the last year, 62% of the fintechs surveyed outsourced issuing services whilst 59% outsourced mobile wallets.
- When asked about their reasons for outsourcing certain functions, 45% of those surveyed said that a major reason for outsourcing was because they were unable to manage the change or the process internally.
- And 43% stated that accelerating time to market - e.g. the ability to launch products quicker - was a major reason for outsourcing.

Established fintechs outsource more than younger firms

An almost universal trajectory among fintechs appears to be one in which new companies first hone their skillsets internally, before gaining the confidence to build external partnerships to manage both routine and more business-critical operations.
Through working with trusted partners, these newer fintechs become less introspective and more open to collaboration and leveraging the experience of their partners.

For nearly all services analysed, established fintechs (over five years old) outsourced more than their younger (up to four years old) counterparts. This is most prevalent in the following areas:

- Loyalty and reward programmes – 35% of younger fintechs, versus nearly double (67%) for established firms.

- Payment gateways - 45% of younger firms outsource, versus 67% for established firms.
- Accounts – 48% of younger firms outsource, versus 69% for established firms.

As fintechs mature, their needs change, as do the types of partners they outsource to

After ascertaining to what degree fintechs outsource (see previous sections), we are able to drill down and analyse the type of partner (i.e. specialists vs. generalists) that were being selected.

- Fintechs develop a preference for specialist partners as they mature. For example, when partnering for 'access to payment networks' 48% choose specialists whereas just 10% select generalist partners. This is also seen with 'payment gateways' - 43% of established fintechs outsource to specialists versus just 24% to generalists. As a reminder, generally speaking, 67% of fintechs surveyed who outsourced payment gateways (to a mixture of specialists and generalists), were more established companies – five years old and over.
- For younger firms, just 15% use specialists to outsource 'accounts', but this nearly triples to 43% for firms over five years in age. This information on the profile of delivery partners adds more context to the overall 69% of established (see previous section) fintechs who outsource accounts; whether to specialists or generalists.

The same can be said for 'fraud monitoring and management' which is outsourced to specialists by just 12% of younger fintechs, but triples to 36% for firms over five years.

Established fintechs also require more compliance-related services

Unsurprisingly, compliance was chosen from a list of possible benefits of outsourcing by 100% of respondents. An area where outsourced compliance is common is BaaS, which enables fintechs to be able to offer current accounts and related digital banking services without investing the requisite technical resource into their platform. This technical resource could include a team of developers who would need to code a platform from scratch and/or an internal design and UX function. Instead of recruiting, paying and managing these teams, BaaS users are simply outsourcing compliance and other banking systems to third parties. This opens-up the banking space to those without any technical, or even financial expertise, making for a diverse pool of fintech founders.

Regulatory controls are present for all businesses, however as they grow in size and scope the awareness of a fintechs' regulatory burden increases.

- Fintechs outsourcing accounts increases by 19% in those firms over five years old.
- Outsourcing customer due diligence and onboarding increases by 11% in fintechs over five years.
- Open Banking is outsourced 16% by established fintechs.

Specialists are preferred and deliver better business outcomes than generalists

Of fintechs who only use specialists:

- 86% rated the relationship as very good, versus 55% for those using generalists.
- 92% of fintechs using specialists reported an increase in customer engagement versus 76% for those using generalists.
- Those using specialists have seen their business grow by 19% versus 15% for those using generalists.

Fintechs switch to specialists to support their expansion and stick with them as they mature

To reach their expansion goals, fintechs are looking at new partners.

- Over a third of fintechs are planning to change how they outsource in the next year.
- Of those planning on changing how they outsource, the majority (75%) plan to use specialist providers.
- Mature fintechs also prefer specialists overall with 50% of companies operating for more than five years admitting they would choose to work with specialists if they were starting again.
- In total, 60% of companies that have passed the five-year milestone use specialists while only 34% use generalists.

Perhaps the most crucial benefit to using specialists uncovered in this research, is that those fintechs who do use them enjoy just under £1m more in revenues than those using generalists.

Data Analysis

Why do fintechs outsource?

Broadly, fintechs will use partners for a variety of reasons, spanning a variety of services. This will naturally depend on internal business requirements and the resource available.

However, the data shows that outsourcing at its core is key to creating successful fintech companies and driven by the need for new capabilities. Outsourcing is also driven by a need to release products and services that are robust, compliant and delivered to market at speed. These processes are overwhelmingly simplified when using outside expertise.

Reasons for outsourcing:

45% Were unable to handle the process internally.

45% Used outsourcing to deliver a better user experience.

43% Wanted to accelerate their time to market - e.g; the ability to launch products quicker was a major reason for outsourcing.

Furthermore, nearly all outsourced services are considered 'business critical' – meaning they are essential to the operations of the business. This includes:

User experience	84%
Budgeting services	80%
Data privacy storage and handling	79%
Payment processing	77%
Fraud monitoring and management	77%

Fintechs are using outsourcing to expand their capabilities efficiently and quickly, and support internal areas of the business. It also drives improvements for their user experience and fintechs are using partners to facilitate this correctly.

Taking products to market quickly is a major concern for fintechs so it is understandable that they want to look to partners to help them speed up launch times and get their ideas into people's hands faster.

Unsurprisingly, it also demonstrates that fintech decision-makers who choose to engage delivery partners, feel that outsourcing is critical to operations, particularly where user experience and budgeting are concerned.

Commentary from Pannovate:

The digital agenda for all businesses has always been a strategic imperative. This has been accelerated by Covid, which has also created significant uncertainty. Research like *Specialists vs. generalists: how do fintechs fuel growth?* is invaluable in offering an increased level of understanding of the current landscape and how partners can help to navigate this quicker, especially when it is unclear when 'usual service' is going to be resumed.

One of the notable things to come out of this research around outsourcing is the fact that flexible and quick access to expert resources is key for young businesses who want to go to market and scale quickly. As 45% of those surveyed acknowledged, many fintechs cannot handle some processes internally, so outsourcing these processes becomes a catalyst for their business.

The increased consideration of user experience among those surveyed shows the extent to which digital brands now realise that it is critical to long-term growth and customer loyalty. End users are hyper-critical and good user experience can be the 'make or break' of a product.

Taking into consideration the two crucial success factors for fintechs – 1. Digital best practice and 2. Confident, timely execution, I would conclude that businesses looking for a development partner should not necessarily look for the cheapest, but rather, the 'right fit'.

We at Pannovate have come to understand, over time, just how fundamental these partnerships are to strategic success; especially if there are critical factors such as time or budget pressures to take into account.

Pavle Ljujic

Director and Founder

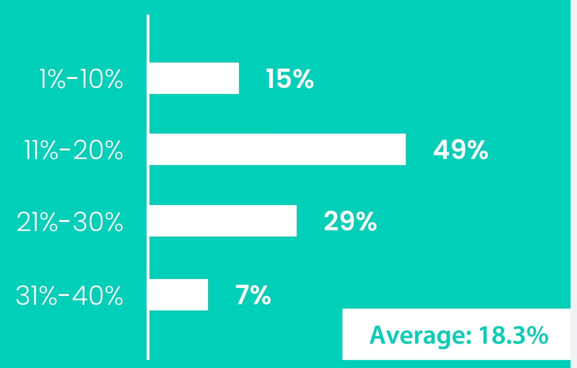
PANNOVATE smart solutions

What do fintechs outsource and how much do they spend?

On average, nearly a fifth (18%) of total fintech budgets are spent on outsourcing.

As 'collaboration becomes the new competition' – embodied in industry trends like Open Banking, BaaS and embedded finance, which are driven by partnerships - outsourcing has become an important part of any growth strategy for fintechs looking to scale.

% spent outsourcing business requirements



This data proves that more and more fintechs are beginning to outsource critical areas of their business, with 78% of respondents outsourcing between 11-30% of their requirements. Although fintechs aren't outsourcing everything, this demonstrates the growing trust in working with partners who are able to manage sensitive areas of their fintech business.

The significant amount spent on outsourcing across the industry also implies that fintechs are realising where to prioritise their time and money.

The most popular services to outsource are:

Issuing - 62% outsource

Customer communications - 60% outsource

Mobile wallets - 59% outsource

Developer Resources - 59% outsource

UX services - 59% outsource

Payment Gateways - 58% outsource

With fintechs unable or choosing not to handle all their requirements internally, they look to external partners to fill the void with a variety of services, plugging skills, knowledge and/or technical gaps. Taking into account the variety of services outsourced (issuing, mobile wallets, payment gateways and developer resources being some of the most popular among respondents, as aforementioned), we can see that almost every business unit within the fintechs surveyed, is being shaped by external partnerships.

Commentary from Ozone API:

This is a great research report from Moorwand, getting to the heart of some key issues.

It's incredibly hard to be the best at everything. The older I've got and the longer Ozone API has been around, the more I realise that I am far more effective if I focus on my strengths and surround myself with people who have complementary strengths. Quite the opposite of what you hear early in your career – i.e; to focus on your 'development areas'.

So, the fact that this report validates my belief that outsourcing of key activities is a core requirement, is heartening. Especially when you see that the percentage spent on outsourcing is significant.

At Ozone API, many of our clients have fantastic technology teams with some really skilled developers. At the same time, they all recognise that there are certain areas that are either sufficiently specialist that it would not be a great use of internal resource for them to deliver themselves; or for other reasons, they may be better delivered at scale and at a lower cost, by a partner.

It has been fascinating to see the results of the survey. One point that stuck out for me, was the tendency for more mature financial institutions to partner with specialists more than generalists, particularly in the areas of complexity, speed of delivery, specific expertise and user experience. This may partly be based on scale, but I expect it is also based on learning some hard lessons and getting some scars along the way.

Back to my opening line. It really is hard to be the best at everything. At Ozone API we try and be the best at just one thing.

Huw Davies
Co-founder and CCO

OZONEAPI.COM

What types of fintechs outsource the most?

Established fintechs outsource more than their younger counterparts.

Fintechs of different ages have different needs, objectives, and subsequently, outsourcing requirements. When you are a brand new start-up, your focus may be getting your core offering off the ground and establishing all operational procedures. As you grow, you may want to offer more services to your customer base, you may have a bigger team of staff, and you'll likely be reaching larger audiences than when you began.

All of this changes how you outsource.

In nearly all services analysed, established fintechs (over five years) outsourced more than their younger (up to four years) counterparts.

This trend is even more apparent in the following services:

- Loyalty and reward programmes – 35% of younger fintechs outsource, versus nearly double (67%) for established firms.
- Payment gateways - 45% of younger firms outsource, versus 67% for established fintechs.
- Accounts (the supply of bank accounts to fintechs) – 48% of younger firms outsource, versus 69% for established firms.

When asked which requirements or services they expected to outsource to third parties in the next year, 37.5%, on average, of fintechs established for five years and longer said that they would use specialists. This insight offers further credence to the idea of more established companies prefer specialist partners, in comparison to, an average of just 29.1% of fintechs with less experience who came to the same conclusion.

Fintechs up to four years old		Fintechs five or more years old
29.1%	Use specialists	37.5%
37.3%	Use generalists	23.0%
32.7%	Will not outsource	39.5%

* This data represents average numbers of respondents who were asked how they would be managing operations within their fintech in the next 12 months.

As fintechs grow, diversify, and expand, they increasingly outsource additional services and capabilities to third parties. Diversification and expansion is often service-led. When fintechs mature, they outsource more to third parties to bolster their competencies. This is likely in response to customer demand – meaning, their audience wants more features, and fintechs then look to partners to be able to offer those enhancements. Whereas younger fintechs are more focused on their core offering before expanding their services more broadly.

Commentary from Polymath Consulting:

This research demonstrates how vastly different each fintech business is. Their needs are ever changing, and as they grow in maturity, this data shows that what and how they outsource changes too.

I found insights into the different types of fintechs and their views on regulation, speed to market and growth, particularly interesting.

More experienced fintechs are clearly leading the way when it comes to best practice, with the majority of those who outsource naturally preferring specialist partners.

With increased regulatory oversight on outsourcing in fintech, it is no surprise that companies are looking more and more for specialist rather than generalist support. Key in my view, was that over half of fintechs agreed that partnering well allowed them to grow over 10-20% faster, with products and services delivered faster.

Markets and end users are expecting companies to move at lightning speeds and adapt to continually changing environments. The research highlights how both in existing and in new markets fintechs agreed (98%) that the right partners had enabled them to move at faster.

David Parker
CEO, Polymath Consulting

polymath consulting

What types of providers do fintechs outsource to?

More established fintechs prefer specialist partners to outsource to

In the fintech sector, businesses can work with a one-stop-shop partner who can do many things but are less specialised, or work with a specialist partner who is more focused but has expert knowledge in one (or a few connected) specific areas.

So far, we have discussed how firms outsource more as they grow, but as well as outsourcing to a greater degree, we can see that more established fintechs also prefer specialist partners to outsource to. For example, 48% of fintechs over five years in age choose specialists to allow them 'access to payment networks' and just 10% of those surveyed chose generalist partners for this activity.

Looking at the data for a service respondents considered 'business-critical' - 'payment gateways' see the same story being told. 43% of established fintechs outsource to specialists versus 24% to generalist, 'one-stop shop' partners who provide access to payment gateways among other services.

Finally, more than double the number of established players choose specialists for outsourcing 'user experience (app or web interfaces)' where 43% choose specialists and just 21% choose generalists.

These findings demonstrate a preference among more 'seasoned' fintech decision-makers for specialist partners to deliver 'hard' technical outputs that require more than a deep tacit knowledge. 'Access to payment networks', 'accounts', 'fraud monitoring and management' and 'credit and borrowing' are services that require either licenses, an assessment of regulatory fitness and/or large amounts of capital to signify service provider's suitability and resilience.

The data points discussed above couple these 'hard' outputs with user experience (as a reminder, 43% of fintechs over five years old choose specialists to deliver user experience), in that the delivery of this service is also considered 'business-critical'. UX governs fintechs' 'shop windows' – their apps and websites. This 'business-critical' element, where fintechs' customers form their first impressions of the brand is also one that respondents preferred to leave in the hands of specialists. Among the dearth of statistics and use cases that evidence the value of good UX, *EY's third FinTech Adoption survey* found that 60% of those surveyed preferred to engage with fintechs through a 'single digital portal' and our respondents are clearly giving UX the consideration it needs when choosing to engage specialist delivery partners to manage said portals.

The top five services outsourced and the age of fintechs doing so. 'Older' fintechs are defined as having been established for five years or more and 'younger' fintechs defined as being four years old or less:

- Mobile wallets (outsourced by 38% of older fintechs) vs. 21% of younger fintechs
- Access to payment networks (outsourced by 48% of older fintechs vs. 27% of younger fintechs)
- Payment processing (36% older fintechs vs. 30% younger ones)
- Loyalty and Reward programmes (36% older fintechs vs. younger 18%)
- Payment Gateway (43% more established fintechs vs. 15% by fintechs under four years old)

Commentary from GPS:

The fintech sector is coming out of adolescence and reaching maturity, and as fintechs grow and seek to expand into new markets or add adjacent services, their requirements become much more complex and nuanced. Whether it's improving access to payment networks, the user experience or fraud management, fintechs are facing fresh challenges they haven't met before.

The data reveals that successful fintechs are companies that have recognised how to leverage specialist partnerships to facilitate rapid and low-cost setups, as well as provide ongoing agility.

As fintechs expand their product offerings and enter new markets, it is clear that they lean on specialists to do the heavy lifting for them, enabling them to focus on creating truly innovative customer experiences. By leveraging the expertise of specialists, fintechs will be able to bypass the operational complexity of, and high costs associated with, building specific capabilities in-house.

Payment processing, for instance, has become one of the most business-critical services for fintechs to outsource, providing economies of scale and cutting-edge technology. Next-generation fintechs looking to provide some of the hottest payment innovations, including crypto, lending and credit (such as Buy Now, Pay Later propositions), digital banking, FX, and open banking, also turn to specialist partners in order to differentiate, better serve customers, and boost revenues.

Ultimately, what specialists offer is real flexibility and choice for fintechs, allowing them to not only focus on delivering the best possible customer proposition and drive revenue growth, but to also choose from a marketplace of ancillary partners that offer solutions which are tailored specifically to their needs.

Joanne Dewar
Global Processing Services (GPS)

GPS

The compliance imperative: how does this change as fintechs grow?

Compliance was cited as a key benefit of outsourcing by 100% of respondents.

Compliance is a fundamental keystone for any company working in the highly-regulated financial services sector. Regulatory bodies such as the European Banking Authority (EBA) and the UK's Financial Conduct Authority (FCA) govern the pace of innovation to a large extent, as European fintechs are bound to operate within the parameters these organisations set.

Influential financial bodies such as the Bank of England contribute to this pace-setting as well. An example of this would be their interest in digital currencies, expressed in their June 2021 publication of two consultation papers on the matter. This sent a signal to fintechs involved in crypto and the service providers that may support them – digital currencies are becoming mainstreamed. This is especially relevant as 83% of fintechs surveyed in this study said they were hoping to expand into adjacent sectors within the next year, with crypto being selected by many. So this type of message from BoE encourages an investment of fintechs' time and finances as well as creating another layer of urgency around speed-to-market.

As discussed earlier, 43% of the fintechs surveyed said that 'accelerating time to market' was the reason that they used specialists. Fintechs must ensure they are working with subject matter experts when trying to gain a competitive advantage in such a fast-moving space.

High-profile scandals have put a spotlight on the fintech sector, underscoring the fact that fintechs' very existence is governed by regulators.

Specialist partners are in place to ensure fintechs operate in line with regulatory controls, and are uniquely placed to support fintechs so they understand the impact of these regulations. This enables fintechs to operate without having to invest precious time and money into the 'hands-on' management of specialist compliance tasks.

Instead, working with partners allows fintechs to monitor how compliant they are, whilst somebody else does the day-to-day 'managing'. This leaves fintechs free to focus on their strategic objectives. By putting specialist functions where compliance is an essential consideration (providing bank accounts, for instance), into the hands of a third-party expert in the field, the fintech has comfort that they are operating in-line with industry standards and can focus on their core strengths. So, beyond being an opportunity for fintechs to dedicate more time to strategy, partnering with specialists is a cost and operational efficiency. This is made clear by respondents with compliance cited as a key benefit of outsourcing by 100% of those surveyed.

As fintechs develop and expand into new services and new markets, they also need expert partners who can deliver more highly regulated services as the business increases in size and scope. Specifically:

- The number of fintechs outsourcing 'accounts' increases by 19% in fintechs over five years old.
- Outsourcing 'KYC and onboarding' increases by 11% among fintechs over five years old (50% of more established fintechs v 39% of younger firms).
- Open Banking is outsourced 16% more by established fintechs (55% v 39%).
- In the case of Open Banking, it is also outsourced largely to specialists in fintechs over five years in age (38% v 19%).

This suggests that as fintechs diversify or grow in areas that are more heavily subjected to regulation, they recognise what strengths and efficiencies they have within their business, and the need for expert partners increases. Therefore, it makes sense that established fintechs who offer more services to their users, also need more support with compliance.

Commentary from W2 :

Ensuring best-of-breed regulatory compliance solutions can be a complicated task for fintechs. As pressure from regulators rises across the industry and ever-changing requirements make it difficult for fintech businesses to have a true understanding of the best procedures to have in place, partnering with specialists in the compliance arena is clearly integral to both the security and success of fintechs aiming to verify the customers they are onboarding.

Granted, fintech businesses can employ their own compliance team to onboard and verify customers manually, however this process is inefficient and much more costly than outsourcing compliance procedures to a specialist. When outsourcing compliance to a specialist, it can instead be seamlessly integrated within the onboarding journey using technology and real-time data sources to provide the verification they need to comply with regulatory requirements.

Warren Russell
Founder and CEO, W2

W2

Specialists vs. generalists: who delivers better results?

Those using specialists have seen their business grow by 19%

With competition increasing and new business models being introduced to the sector, fintech companies have realised that being a specialist and addressing an acute but specific problem is key to creating a successful business. However, to develop specific offerings you need to work with the best partners – who are also specialists.

Specialists are preferred by the fintechs who use them, and they get better results than their generalist counterparts. This is clearly shown in the following data points:

- 86% of fintechs who only use specialists rated the relationship as very good, far higher than those who use generalists (55%).
- 91% of fintechs using specialists said they saw an increase in customer engagement versus 76% for those using generalists.

That is a sizeable difference in an industry where your customer volume can make or break a business.

> Those using specialists have seen their business grow by 19% – which based on the average annual turnover of respondents, £22.23million, - **amounts to nearly £1m in additional revenue for fintechs who use them.**

Given the impacts and results shared by those surveyed, it would be reasonable to conclude that there are other benefits to their businesses that were not discussed within the scope of the research.

Taking a wider view, additional reasons that fintechs may use specialists are likely to include the speed at which specialists can execute (a natural product of knowing one's market better and how to overcome its various hurdles), the depth of understanding they possess in comparison to generalists and typically shorter contract lock-in times. Specialists also bring with them existing infrastructure, knowledge, resource and capability, all of which lend themselves to speed and reliability; helping fintechs to scale quicker.

Commentary from Matteo Dessi, FN1X:

It is not surprising to see how, in recent years, due to evolution of the payment landscape and its increasing complexity, fintechs tend to outsource some specific functions more and more often.

The report clearly highlights the increase of this trend, in that it shows 18% of all fintechs' budgets are now allocated to outsourcing. In my opinion and experience, outsourcing first and foremost allows new fintechs and start-ups to focus on their core business and materialise their vision.

Outsourcing is never an easy first step to take as there might be many players in the market that offer similar services, especially to the eyes of a new entrant.

In my experience with my clients and across many conversations with many players in the payment space, outsourcing to specialists is clearly the preferred route among fintechs. As the report highlights, this trend is even more embedded into mature fintechs.

Working with specialist on their own area of services, from compliance/risk services to IT and processing provides fintechs with the ability to service their customers with the best and most innovative solutions for their product. Specialist providers take pride in delivering cost effective and best in class solutions in their niche, allowing their partners to significantly improve their end user experience.

Last, but not least, specialist providers instigate partnership and healthy competition in the market space which is proving to be the secret to success.

Ultimately, the focus on specialists benefits fintechs and everyone involved in the value chain, which as a result, provides innovation and customer satisfaction for any end user.

Matteo Dessi
Founder and Director, FN1X Ltd

Looking ahead, how will fintechs outsource?

Not only do established fintechs prefer specialists, if they could start again, they'd use a specialist partner to begin with.

From a general industry perspective, younger fintech companies are looking to diversify the range of products and services they offer to their existing customer base in the future. This makes sense, as it takes a lot of time and resource to build up those networks. As a result, less established players are seen to be more likely to launch into adjacent sectors, judging by the data uncovered by this research. For instance, the fintechs we surveyed who outsourced 'crypto' or 'wealth management' at a rate of 91% for firms over five years old and 83% for firms under four years old.

On the other end of the scale, 38% of the established players we surveyed have said they are planning to launch into new customer segments following market saturation, including SME or corporate sectors. This is in contrast to 18% of younger companies we surveyed.

A natural trajectory of successful fintechs and indeed any business, is to refine core offerings and then move into serving new customer segments. Those fintechs we surveyed who are over five years' old (referred to as 'more established players', above) had simply had more time to get to this stage. So it seems, that this move into serving new segments correlates with the experience they have accrued and indeed leveraged from their specialist partners.

Of the fintechs that are going through or preparing for change, most will opt for specialists as they move from perfecting their core offering to expanding into adjacent sectors.

In contrast, younger fintechs are still establishing their offering and are looking to consolidate before they expand. They want to perfect their activity in those sectors so that they can broaden their offering to existing customers. This strategy directly impacts their use of partners.

Over a third of fintechs in the study are planning to change how they outsource in the next year. And looking at those who are going to change how they outsource their business-critical requirements, the majority (75%) plan to use specialist providers, versus only 18% looking to use generalists.

Not only do established fintechs prefer specialists, if they could start again, they'd use a specialist partner to begin with.

50% of companies operating for more than five years admit they would choose specialists if they were starting again, with only a third opting for generalists. And 60% of companies that have passed the five-year milestone use specialists with just 34% using generalists, uncovering the point where specialists become the primary partners for fintechs' outsourcing needs. This is likely linked with fintechs outgrowing the white label solutions often offered by generalists in favour of bespoke and more developed offerings that fuel long-term growth and differentiation among peers.

Commentary from Luc Gueriane, CCO, Moorwand:

Fintech is one of the fastest-growing start-up sectors in Europe with huge investment being raised and new financial products being created every year. However, each fintech is on its own journey and will have different needs based on its long-term business plans.

Generalist payment providers, for instance, often cater to those early stage start-ups who want to get an MVP to market and ensure their first round of funding is successful. After the six-month milestone, as founding teams mature and begin to understand the operations behind owning a fintech business, they 'lift the bonnet' on early-stage generalist payment partners. It is at this stage that they often realise that they have outgrown the offering, which begins to inhibit growth, if it is not replaced.

Specialists, on the other hand, work with those businesses that want to see their product evolve within the market. Through evaluation of specialists' track records on results, fintechs can better understand how experienced partners, with capabilities that match each stage of their roadmap, would benefit their long-term success.

It isn't surprising to me to see that 75% of respondents plan to use specialist providers when they next change how they outsource; especially if they have been operating with a diluted version of their vision through a white label solution.

Fintechs want to easily adapt their proposition for new territories, to replicate their product based on the successful foundations they already have in place and to cater for new customer markets - this is exactly why specialists are critical partners. Specialists encourage fintechs to develop more competitive offerings that are in line with where the market is heading - Open Banking and Embedded Finance are two current examples of important trends like these.

It's a testament to the work of specialists, that those who have become established players wish that they had partnered with them earlier on in their journey.

Luc Gueriane

CCO and Board Director, Moowand

Moorwand
Be part of the future of payments

Conclusion

This data, showing real-world experiences of active fintechs, shows that **outsourcing is the lifeblood of successful fintechs** and helps firms offer more services to their customers, enhance their products, achieve compliance, and support their expansion into new markets and customer segments.

Nevertheless, there is a lesson here for younger firms to learn from the more established players so that they don't suffer the same battle scars as their predecessors.

More mature fintechs understand the benefits of outsourcing and they use it to achieve their goals.

They also know the importance of working with industry specialists, not just from a compliance standpoint but also more broadly so that they can offer the best service to their customers.

Specialists get great results, and they're better partners. The fintechs who work with them value their expertise be it in UX, payment processing, or accounts, and they choose to work with them time and time again.

For companies who are over five years in age, specialists are the preferred choice for outsourcing. And for younger companies fast outgrowing generalist partners, specialists can help avoid some of the pitfalls that other fintechs have suffered in years past.

There is a lesson here for younger firms to learn from the more established players so that they don't suffer the same battle scars as their predecessors.

Key takeaways:

- **Outsourcing is key to fintech success:** Be it user experience, access to payment schemes or budgeting tools, outsourcing is needed for fintechs at all stages in their lifecycle, and in particular, as fintechs expand into new markets and adjacent sectors.
- **Specialist partners are preferred by those who have 'been there and bought the t-shirt':** Mature fintechs understand the value of working with specialists, their expertise in the industry has helped successful brands take flight and it shows – those who use specialists have almost £1m more in annual revenues. The more established the fintech, the more likely they will favour specialists.
- **Over the next 12 months, fintechs will use specialists to support their wider objectives:** Younger firms will launch into adjacent markets, mature firms will look at SME or corporate segments, and to fulfil these ambitions, 75% of those who are changing partners will work with specialists to meet these goals.

Methodology

Survey conducted May-June 2021 by independent research agency Coleman Parkes, in accordance with the UK's Market Research Society guidelines.

Respondents were senior decision makers responsible for outsourcing business critical services in fintech companies of varying sizes.

Respondents by age of company:

- **Up to 2 years** - 13%
- **3-4 years old** - 31%
- **5-6 years old** - 44%
- **7+ years old** - 12%

Respondents by market:

- **27%** UK
- **20%** France
- **20%** Ireland
- **13%** Lithuania
- **20%** Germany

Disclaimer

Much of the outsourcing carried out by the fintechs surveyed for the purposes of this report does not fall into the Financial Conduct Authority's (FCA) definition of outsourcing, as described in its 2021 guide, *Outsourcing and Operational Resilience.* The FCA defines outsourcing as a specific circumstance in which "a firm is involved in an arrangement where a service provider performs a process, service or activity on behalf of a firm which the firm would otherwise carry out itself. For example, if a firm outsourced the hosting of a data centre or business process to a third party."

The FCA guide goes on to state that third parties can also provide services that are not classed as outsourcing. Within this section it outlines 'global network infrastructures (e.g. Visa, MasterCard provision), or the buying of 'off-the-shelf' software, or market information services as something which should not be considered as outsourcing.

About Moorwand

Moorwand is a London-based payments solutions provider offering Issuing BIN Sponsorship, Digital Banking, and Acquiring services. We support the innovators of the payments and fintech space by providing access to card schemes and electronic money services, so they can focus on more strategic tasks.

Our vision is to transform payments compliance into an enabler of innovation for banks, fintechs, and payment companies. We don't think it has to be complicated, so we provide specialist expertise to help you create the best payments products. We rapidly orchestrate agile and dynamic programmes designed to reduce payment friction, whilst ensuring compliance.

Our legal and payments experience make us uniquely placed to support our clients to understand the impact of regulations, whilst we anticipate the next wave of innovation before it breaks.

Moorwand is licensed by the Financial Conduct Authority of the United Kingdom as a regulated Electronic Money Institution to issue electronic money and provide payment services throughout EEA.

For more information about Moorwand's solutions, visit:

https://www.moorwand.com/

Contact Information

www.moorwand.com

customerservices@moorwand.com

www.twitter.com/Moorwand

www.linkedin.com/company/Moorwand-ltd

Relevant Articles

Dear Luc: The payments agony uncle on Fintech Futures

Read Article

The end of universal banking: why success in fintech relies on specialists

Read Article

How can fintechs build more trust with users after COVID-19?

Read Article

The benefits of starting a card programme for your customers

Read Article

Three key regulations you should know about when launching your payments business in Europe

Read Article

Thinking about creating a new payments product? Understand the different payment solution providers you need to partner with.

Read Article

What do customers want from their banking products?

Read Article

Why fintech firms must avoid becoming a jack of all trades and master of none

Read Article

Moorwand Ltd | Irongate House,
22-30 Dukes Place London | EC3A 7LP
customerservices@moorwand.com

Contact Neil Da Costa, Head of Sales, for information on how Moorwand can help you be part of the future of payments

Moorwand
Be part of the future of payments

https://www.moorwand.com/contact-us/