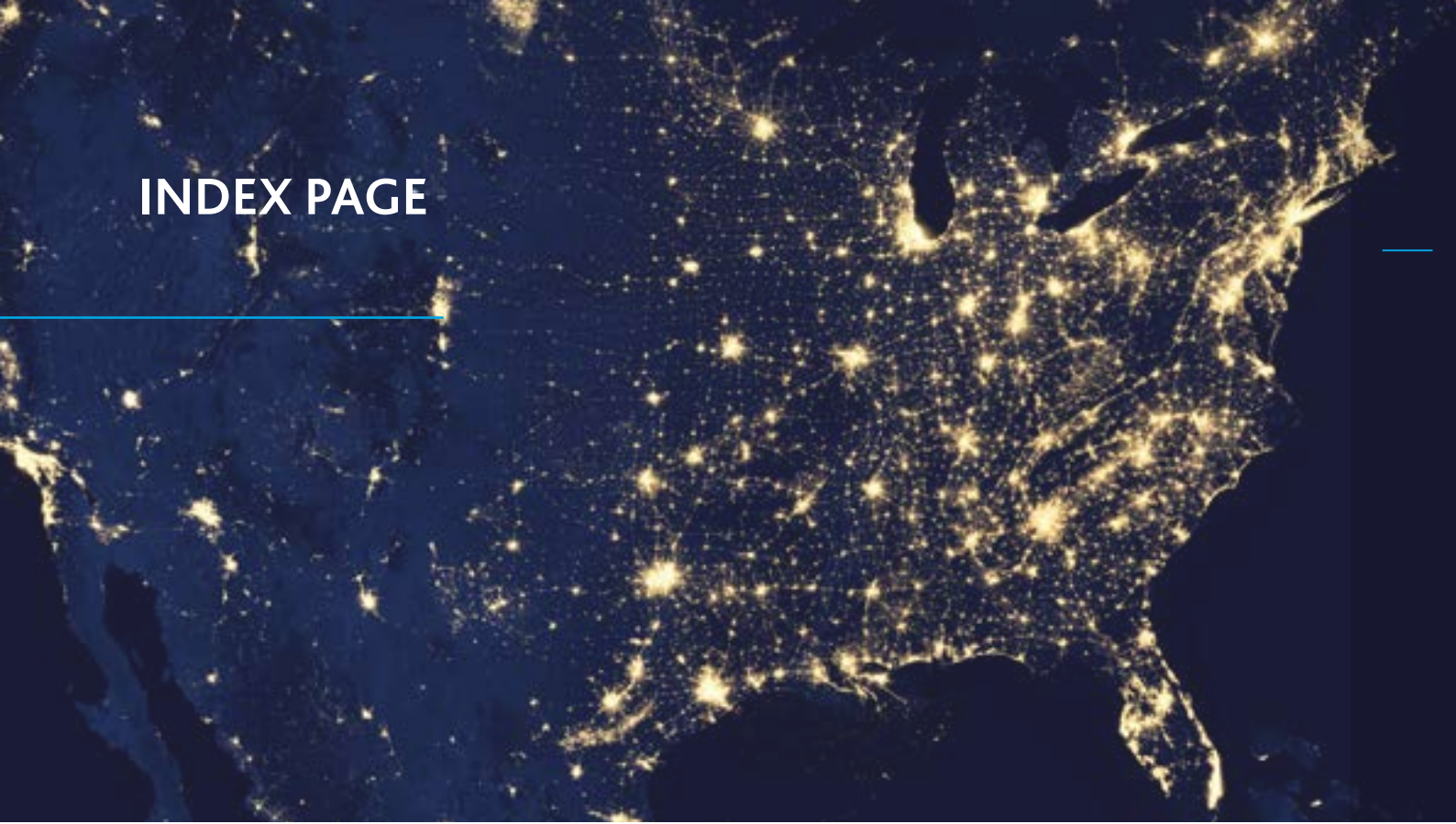


RETHINK FINTECH

Crisis as an opportunity –
US

September 2020

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INTRODUCTION

While the current uncertainty in the US has halted much business growth, the transformative change that the adoption of Fintech can bring to meet consumer needs has been clearly demonstrated. While challenging times are ahead, the COVID-19 crisis has opened up opportunities for Fintechs - not only through traditional financial services products, but in their ability to embed within the e-commerce sector and help SMEs become more digital.

Since March in the US, there's been a surge in Fintech use. Access has cut across the usual Millennial demographics - with Generation X and Baby Boomers utilising its potential - and also geographic regions. Its ability to service those most vulnerable, during the here and now, whilst also crystallising the market opportunities that lay ahead during recovery provide Fintechs the ability to harness economic opportunity and conquer uncertainty.

This US Country Snapshot takes a look at the current state of Fintech, outlining the challenges, support measures and power of innovation.

At BDO, we have dedicated teams of industry experts covering areas such as business development and strategy, financial consulting and technological development - helping Fintech companies through the immediate fallout of COVID-19 and helping them prepare to grasp the opportunities awaiting on the other side.

ANTHONY FERGUSON
Fintech Industry Group Lead



FINTECH IN US PRE-COVID-19, TILL NOW

Technology is revolutionising the financial services industry. Fintech is considered to be one of the fastest growing markets, helping financial service providers innovate new products, streamline operations, personalise solution offerings, improve working capital management, enhance customer experiences and more. Whether it's through the provision of a wealth management, marketplace lending or payment platform, or offering innovative Blockchain based solutions, Fintech companies are helping give rise to more efficient financial markets and systems. Nevertheless, as Fintech companies navigate through uncharted territory, they will encounter many challenges. New and evolving global and national regulations can create many unknowns as companies look to solidify and execute their strategic plans. For example, the [Dodd-Frank Wall Street Reform and Consumer Protection Act](#), which was passed in response to the 2008 Global Financial Crisis (GFC), then repealed with the [Financial CHOICE Act](#) in 2017; as well as the European General Data Protection Regulation (GDPR) which requires compliance from companies outside the EU. Arising from this is technology-related risks, including cybersecurity and data privacy concerns which increasingly threaten business-as-usual operations. The pace of change is rapid, as everything centers on the product in an increasingly saturated marketplace. This means Fintech companies must strive to differentiate their solutions. The uptake in Artificial Intelligence and Machine Learning is driving adoption and usage of Fintech apps and tools, resulting in the industry driving new and updated business models within the financial services industry. These updates to business models have also driven large banking institutions to purchase and collaborate with many Fintech organisations.

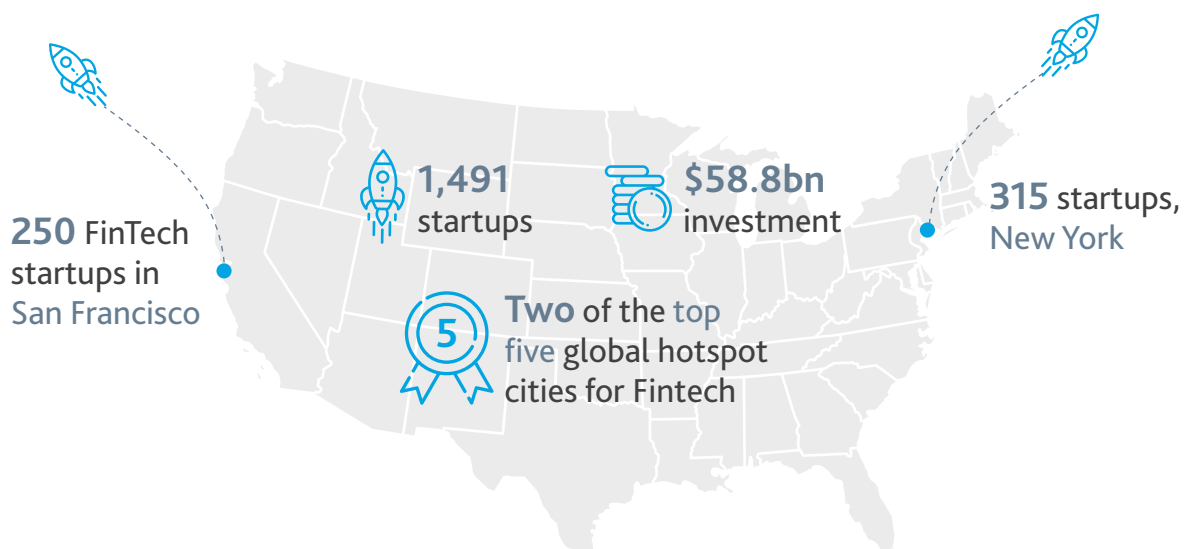
In the wake of COVID-19, Fintechs will either thrive or succumb to the effects of the pandemic. Continued regulatory pressure and concerns have a heavy influence on next steps and development within the space. Domestically, the regulatory framework has been evolving for Fintechs in the lending space. Federal regulators are exploring different avenues to enable Fintechs to offer bank competitive products to customers without having to partner with banks. These efforts have led to suggestions for novel chartering processes to accommodate Fintechs.



The United States – global capital of Fintech

The United States is the global capital of Fintech by quite a margin, with 1,491 startups and massive \$58.8bn investment in the industry. Two of the top five global hotspot cities for Fintech are located in the United States. In second place, with 315 startups, New York is the biggest hub in the US, and home to Virtu Financial, which has raised \$750 million with its trading and market services. Student loan and finance service specialists, SoFi are based in the third biggest city for FinTech in the world, San Francisco. There are 250 FinTech startups in San Francisco.

The United States

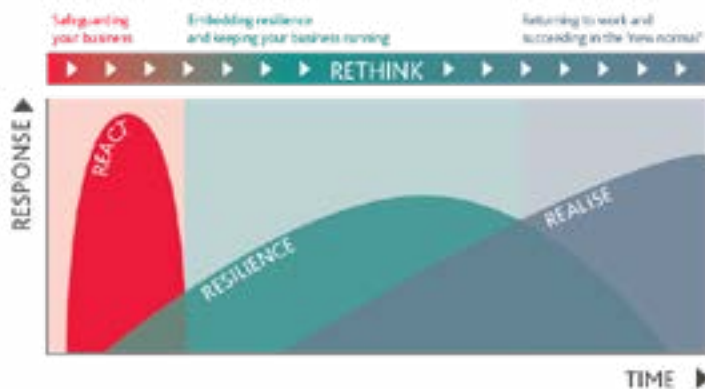


Source: [BusinessFinancing](#) used business data from 10,000 FinTech companies to find out where the biggest FinTech hotspots are around the world.

COVID-19 IS DRIVING CHANGE AND DEVELOPMENT

For Fintechs the crisis should be viewed as a catalyst for needed change driven by the sense of urgency, cooperation, innovation and decisiveness that emerges during this time with an eye towards securing long-term viability. The smaller Fintech companies will either be absorbed, go out of business without funding or product / service demand or be acquired due to fallout from the pandemic.

To overcome these challenges in response to the pandemic, BDO has developed the **RETHINK** model as a practical guide to help companies assess potential risks and issues. This is a three-phased structured approach that creates the optimal foundation to develop their business through each phase – **REACT**, **RESILIENCE**, **REALISE**.



Initially, Fintechs face the **REACT** phase. Focus was on the immediate fallout from COVID-19, such as protecting your workforce, managing your business during a crisis, mitigating risk during disruption, understanding the economic impacts of the pandemic and understanding the evolving legislation and compliance. As many transition into the **RESILIENCE** phase the emphasis during this transition will be on creating the foundation for work in 'the new normal' by optimising your workforce, managing your business during recession and recovery, managing risk and bolstering resilience, minimising the economic impacts of a downturn and continuing to navigate legislation and compliance. During the **RESILIENCE** phase, focus will be on scaling your workforce, managing your business recovery, bolstering flexibility and uncovering economic opportunities. Beyond this, a **REALISE** phase awaits where Fintechs will be able to take advantage of the opportunities from changes to economies, societies, as well and professional and personal lives. This will include, among other things, enabling your workforce, managing your business growth, conquering uncertainty, maximising economic opportunities and navigating regulation and compliance.

Fintech companies who successfully respond to the currently troubled economic waters, implement resilient, efficient strategies and initiatives, as well as lay the groundwork for grasping future opportunities, will be well poised for realising their full, disruptive potential in the years ahead.



Tim Aman,
Global Fintech
Leader



Across the globe we are observing not only the resilience of Fintech, but also its power to support business and individuals through a number of facets including financially, practically, or by providing tech capabilities seamlessly. The challenge now is to weather the recessionary impacts by focusing efforts on key areas of the business while continually adapting a plan for the future.



BDO US sees **five key areas** where businesses must focus their efforts



People – supporting your workforce



Strategy and Operations – managing your business



Risk – mitigating risk



Financials – understanding the economic impacts



Regulation – understanding the evolving regulation legislation and compliance.



	 Supporting Your Workforce (People)	 Managing Your Business (Strategy and Operations)	 Mitigating Risk (Risk)	 Understanding the Economic Impacts (Financials)	 Understanding the Evolving Regulation Legislation and Compliance (Regulation)
React	Protecting Your Workforce	Managing Your Business During a Crisis	Mitigating Risk During Disruption	Understanding the Economic Impacts of a Pandemic	Evolving Regulation, Legislation & Compliance
	Optimising Your Workforce	Managing Your Business in a Recession	Managing Risk	Minimising the Economic Impacts of a Downturn	Navigating Regulation, Legislation & Compliance
Resilience	Scaling Your Workforce	Managing Your Business in a Recovery	Bolstering Flexibility	Uncovering Economic Opportunities	Navigating Regulation, Legislation & Compliance
Realise	Enabling Your Workforce	Managing Your Business to Growth	Conquering Uncertainty	Maximising Economic Opportunities	Navigating Regulation, Legislation & Compliance

CHALLENGES AND ISSUES

Many organisations are moving between the **REACT** and **RESILIENCE** stages while they assess their current business models, economic impact and risk. To effectively emerge from these stages, post the continuing saw-tooth COVID-19 impact, organisations will have to continue to be nimble and have adequate cash flow and funding to diversify where needed and shore up their areas of expertise in tandem. Immediate actions are required to ensure employees continue to be safe and healthy, capital is adequate, demand is met, and the platform infrastructure is secure. Scenario planning is ongoing using economic and customer data cross-referenced with recent regulatory input and market forces.

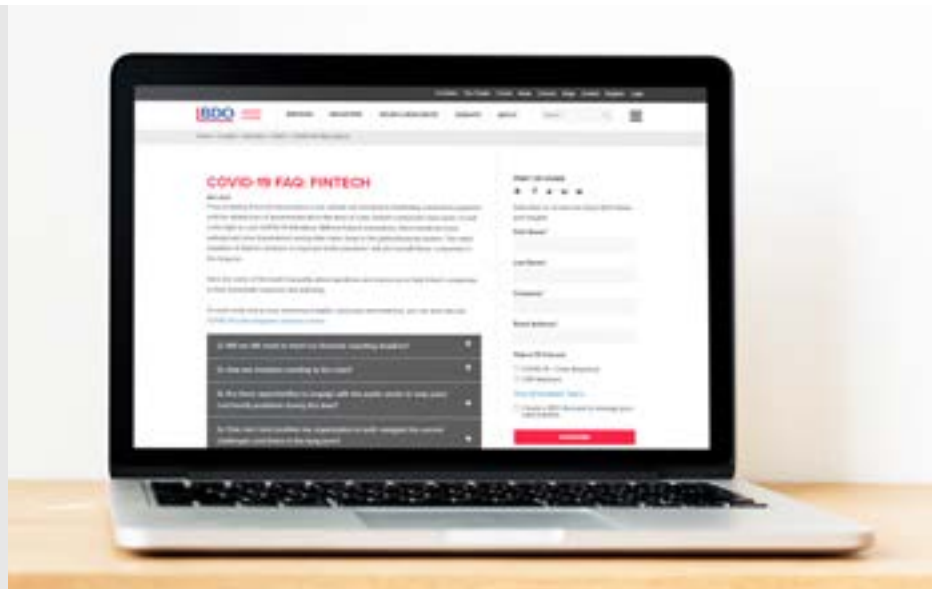
The Fintech market in the US has a healthy mix of organisations who will emerge stronger and more victorious and others who will be left to pick up the pieces in an already crowded field of disrupters.

Read the article: [COVID-19 FAQ: Fintech](#)

How can I best position my organisation to both navigate the current challenges and thrive in the long term? What happens if I default my covenant? And more...



[CLICK HERE](#)





What support is available for Fintechs?

There is no identified clear support methodology or aid designed purely for Fintechs. The CARES Act signed 27 March 2020, created the Paycheck Protection Program (PPP), which helps businesses secure forgivable loans and keep workers employed. Fintech lenders were initially excluded from receiving these funds¹. It is presently unknown how many Fintechs took advantage of the offering and what the impact of acceptance will be on those who continue to do business post first wave of pandemic and those who unfortunately do not withstand the impact. However, there have been several Fintechs who have either developed new technologies or pivoted to accommodate those seeking loans as well as those seeking loan forgiveness. For example, PayPal, BlueVine, Credibly, Funding Circle and Intuit QuickBooks all created platforms for businesses to apply for PPP loans through their applications. The successful Fintech Square issued more than \$800 million in PPP loans².

Outside existing stimulus measures, Fintech organizations should also consider tax relief measures that predate the COVID-19 pandemic. If businesses are working to develop, improve and adapt products and processes, they may be eligible for Research & Development tax credits from federal and state authorities.

EXPLORE THE BDO INTERACTIVE GLOBAL TAX TOOL: COVID-19 Fiscal and Financial measures to support businesses and individuals

BDO are monitoring the measures available to ensure your business can adapt swiftly to changes. Explore the various government and other bodies' relief in the U.S and across the globe.



[CLICK HERE](#)



¹ <https://fortune.com/2020/04/22/new-ppp-small-business-loan-bill-excludes-fintech-lenders-threatening-the-smallest-businesses/>

² <https://www.bizjournals.com/sanfrancisco/news/2020/06/15/square-issues-more-than-800-million-in-ppp-loans.html>



Innovation versus Risk

The nature of Fintechs in the US is one of innovation and insightful disruption and convenience to the consumer. Change is not a question but a standard as evidenced by disruptors in different industries and customer experiences, think Match for dating, Netflix for media, DoorDash for food delivery and Uber for YellowCab. The questions are how fast will change take place (does COVID-19 continue to accelerate change?) and whether or not individual organisations can also channel that same behaviour in such an uncertain and unprecedented time.

For Fintechs, innovation remains imperative. There are historical examples of those companies who innovate during a recession better position themselves for future opportunities. However, there are also inherent risks with breaking barriers. There are a number of innovative opportunities for tech companies, including Big Data, AI, Robotic Process Automation, 5G and blockchain. Our BDO US team outline each of these innovations and highlight the risk you may encounter, in their Insight: [Top Tech Balancing Act in 2020: Innovation vs. Risk](#)



Anthony Ferguson,
Fintech Industry Group Lead



We are bridging the gap between innovation and execution for Fintechs and companies adopting Fintech solutions. We see change as here and the question being how quickly and to what extent do you adopt change?



READ THE PUBLICATION: [Reimagining business resilience for the agile age](#)

The way most businesses manage risk doesn't work anymore. Not only do we need to evolve our business continuity programs, we need to rewire the way we think about risk altogether.



[CLICK HERE](#)

BDO RETHINK - HOW IS BDO HELPING?

BDO provides a number of services to clients and prospects geared at responding, preparing and weathering a crisis. This is a sampling of how BDO can help:



Support employees



Address reporting requirements



Improve cash flow & liquidity



Optimise tax posture



Develop cross and response business resiliency plans



Bolster cybersecurity



Prioritise products/service



Protect data and IP



Streamline operations



Chart the path from start-up to IPO



Mitigate supplier/vendor risk



Help to identify and close strategic acquisitions

ABOUT BDO IN THE US

BDO USA, LLP

\$1.8

BILLION
REVENUES

46%

Accounting
& Auditing

31%

Tax

23%

Advisory



670

Partners



6,822

Professional Personnel



8,063

Total Personnel

65+
OFFICES

740+

Independent Alliance
firm locations nationwide

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