Convergence, Emergence and Resurgence

2025 Fintech Report

HSBC Innovation Banking

HSBC Bank, USA N.A. Member FDIC

Convergence, Emergence, & Resurgence
Executive Summary

After nearly two decades of rapid digital transformation and vertical disruption across banking, payments, lending, and wealth, **clear category leaders have emerged**, with some of these challengers having scaled with enduring velocity, reshaping customer expectations and acquiring material market share. Others, though innovative, have remained on the periphery – impactful but limited in scale.

As the **first wave of vertical fintech disruptors matures**, many are expanding horizontally to unlock new revenue streams and improve profitability. This convergence is intensifying competition, compressing margins, and in some cases, complicating exit paths – paralleling the platform wars and eventual consolidation seen in last decade's AdTech cycle, where **value accrued to those with direct user relationships and data moats.**

At the same time, **new tailwinds are emerging as the foundation** laid by API proliferation, Banking-as-a-Service (BaaS), and AI breakthroughs enabling a second wave of fintech transformation. This next phase is defined by the **rise of embedded finance** – where financial services are seamlessly integrated into non-financial platforms. From commerce and mobility to SaaS and creator platforms, embedded financial tools coupled with AI-native financial capabilities promise to lower acquisition and servicing costs, unlock novel monetization opportunities, and enable new classes of autonomous uber-efficient financial products.

With lower cost-to-serve and reduced customer friction, advancing hyper-personalization delivered through full-stack capabilities and increasing demand for contextual financial experiences delivered at the point of need, **fintech embraces the emerging opportunities for massive global reach** through the conflicting combination of Super Apps and embedded ecosystems, each powered by evermore intelligent infrastructure – marking the strategic inflection for the sector.

A renewed IPO pipeline – highlighted by the **successful public listing** of eToro and potential debuts for Chime and Circle – signals early signs of a reawakening in venture-backed liquidity to help feed this new cycle. As this next cycle begins, winners will be those who **combine scalable infrastructure, proprietary data access, and AI-driven operating leverage.**

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Convergence, Emergence, and Resurgence
Key Findings

- **Horizontal Convergence Has Triggered a Platform Battle:** As key fintech players with vertical financial service offerings grow and expand, the services continue to expand into one another creating increased competition and the opportunity for single solution providers.
- **Consolidation as a Defensive Strategy:** Where fintech startups have gained meaningful share – such as in business payments and asset management – incumbents have responded by consolidating with peers rather than acquiring disruptors. This signals a shift in strategy as traditional players fight to defend market position amid platform competition.
- **Emergence of Embedded Finance:** With the maturation of APIs and BaaS infrastructure, the expanded opportunity for embedded financial services offering, by both financial and non-financial companies, is opening the door for massive disruption and potential ecosystem shifting partnerships for incumbent financial services companies.
- **AI as a Defining Force for the Next Wave:** As the next broader technological wave of AI opens new customer opportunities, the financial services industry will find unique ways to both improve operating margins and to leverage data into new customer experiences, creating a paradigm shift in the way consumers and businesses engage with the market for their financial needs.
- **Resurgence of Fintech Liquidity:** Consolidation within and outside of the financial services industry will push some to the public markets to leverage a public currency and lower cost of capital while others seek acquisition by larger balance-sheet partners to compete in the next fintech wave that promises to further shakeup the status quo.

Perspectives on the Industry

"Increasingly, Fintech products are more digital and seemless experiences, enhanced by AI, and enriched by the data collected. This flywheel effect is pushing Fintechs deeper down the financial services stack to support a new generation of emerging products, and infrastructure players are enabling financial services for companies that have never before touched banking, lending, asset management, payments, or insurance. The result is increasingly digital functionality embedded in financial workflows and commercial activity."

Dan Allred

Managing Director at HSBC

"I've always believed that 'opportunities live between fields of expertise.' If much of the prior decade in Fintech was predicated on the disruptors competing for market share with the incumbents, I believe that this next decade will be defined by startups collaborating with the incumbents to solve the most human capital-intensive areas of financial services with AI. There is a new generation of AI-native enterprise software companies to be built in financial services — we'll be on the lookout for these."

David Haber

General Partner at Andreessen Horowitz

Evolution & Potential Revolution in Fintech

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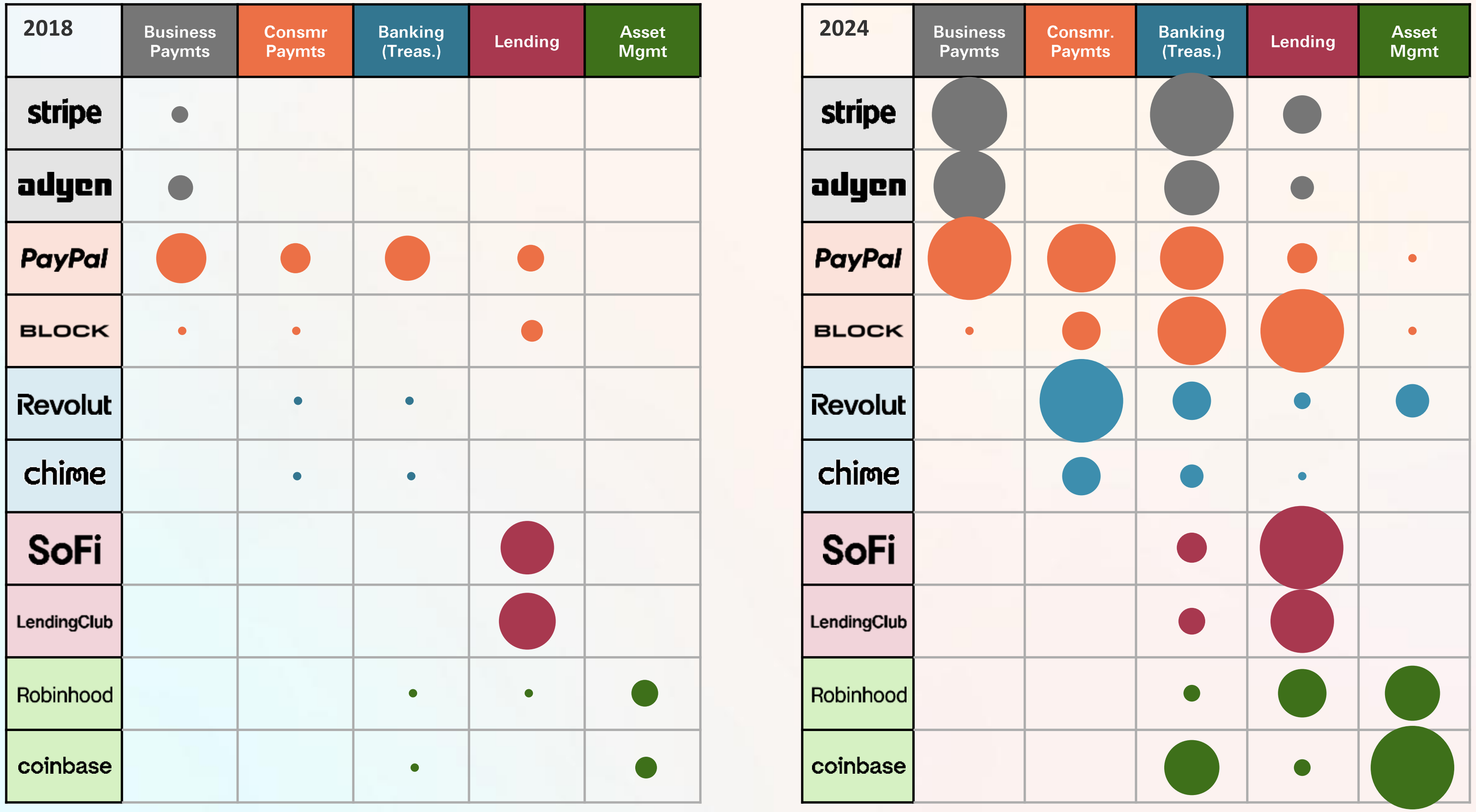
As the Disruptors Mature, Fintechs Converge on Adjacent Verticals

Expanded Offerings Across Platforms Opens Growth Opportunities and Competition

- Early fintechs began by disrupting a single vertical – such as payments or lending – but as they scaled, many shifted from focused towards full-stack, expanding horizontally into adjacent services, evolving into finance service platforms.
- As these fintechs scaled, they began expanding horizontally into adjacent financial services, creating a new layer of platform competition – not just with incumbents, but increasingly with one another.
- This convergence is ushering in cross-vertical platform battles, reminiscent of the mid-2010s AdTech wars, likely to drive both new challenger alliances and defensive moves by incumbents.
- While fintech disruption opportunities remain vast given the sector's position as the second-largest contributor to GDP, intensifying competition is compressing pricing and margins, with incumbents responding through acquisitions and horizontal consolidation.

Fintech Relative Market Strength by Product Offering: 2018 vs. 2024



Notes: Business Payments and Consumer Payments based on transaction volume.
Banking and Asset Management based on AUM. Lending based on loans portfolios.
Sources: SEC Filings and HSBC US analysis.

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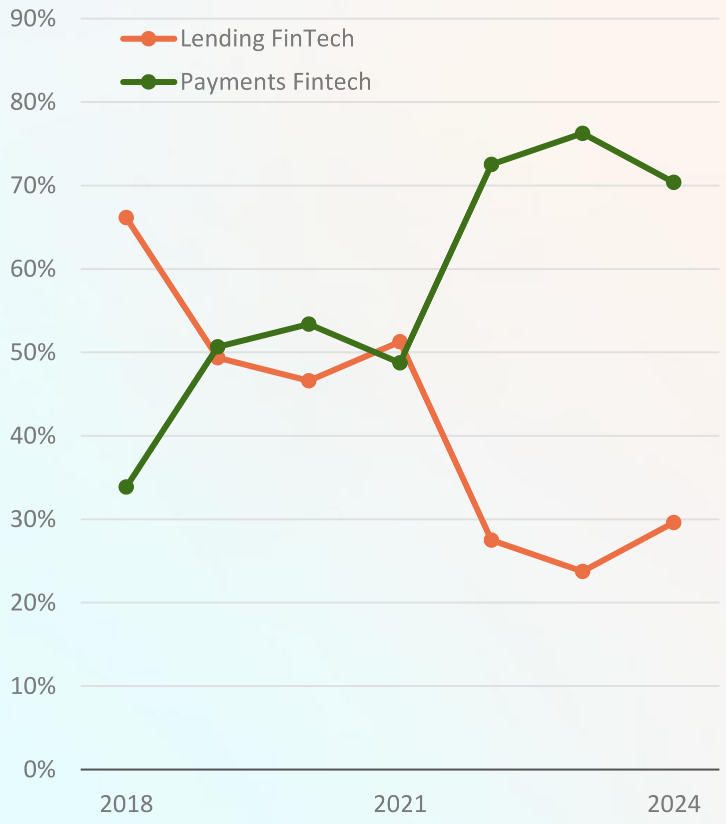
Commercial Finance Distribution Shifting to New Gatekeepers

API-Enabled, Data-Rich Platforms Emerge as the Preferred Commercial Finance Partner

- Maturing fintech firms leverage their greater visibility into real-time customer data to expand their share of wallet by converging on adjacent areas, as evidenced by platforms originally focused on payments now issuing more SMB loans than dedicated lending fintechs, illustrating how data and distribution matter more than product origin.
- Highlighting the direct user and data access, ERP and accounting platforms, traditionally back-office system-of-record tools, are leveraging their embedded data advantage to offer integrated financial services, such as payments, cash flow management, and lending, embedded directly into the workflows of platforms used by SMBs.
- Strategic acquisitions by firms like Stripe (Bridge) and FIS (Bond into Atelio) point towards a deliberate push toward building full-stack, API-native platforms designed to power the next generation of embedded commercial financial services.

Opportunities for Embedded Finance Abound

Market Share of Fintech Originated Loans



Expansion of Enterprise Offerings

Core Business	CFO Services	Financial Services
INTUIT	quickbooks	creditkarma QuickBooks Capital
SAP	S/4 HANA SuccessFactors	SAP BTP
ORACLE	NETSUITE FUSION APPLICATIONS	*Not Offered*
workday	workday	*Partnered*
Sage	Intacct One	*Partnered*
xero	gusto *Partnered*	*Partnered*

Fintechs Preparing for Embedded Commercial Finance

stripe + Bridge   Atelio by FIS + BOND

Sources: TransUnion, SEC, and HSBC US analysis.

Consumer Finance Disruption Emerges with Embedded Finance

Non-Financial Brands Redefine Distribution and Disintermediate Incumbents

- In emerging markets, consumer-facing Super Apps – from ride-hailing and messaging to food delivery – have embedded financial services directly into their platforms, creating seamless access for billions and leapfrogging traditional financial institutions.*
- In developed markets, brands with strong consumer reach, both physical and digital, are embedding financial services into their ecosystems. An example of this trend: Walmart's $300M controlling interest in One Financial, supported by Ribbit Capital, is set to serve as a gateway for its 240M+ weekly shoppers to access a full suite of consumer financial services.
- Recognizing embedded finance as a distribution paradigm shift, fintechs such as neobank SoFi (through acquisitions of Galileo and Technisys) are expanding from a direct consumer finance platform to a licensed core technology infrastructure provider, joining Marqeta (Power Finance) in offering non-financial companies the ability to embed consumer finance products at scale.

Opportunities for Embedded Consumer Finance Abound

Int'l Super Apps Demonstrate Embedded Opportunity for Digital Native Apps

Consumer Brands Seizing Opportunity

Walmart + one

Fintechs Preparing for Embedding Opportunity

SoFi + GALILEO + technisys

MARQETA + power.

*Note: Interested in learning more about technological leapfrogging?
Dive deeper with HSBC Research: Big Tech Singularity
Sources: Company press releases, SEC, Pitchbook and HSBC US analysis.

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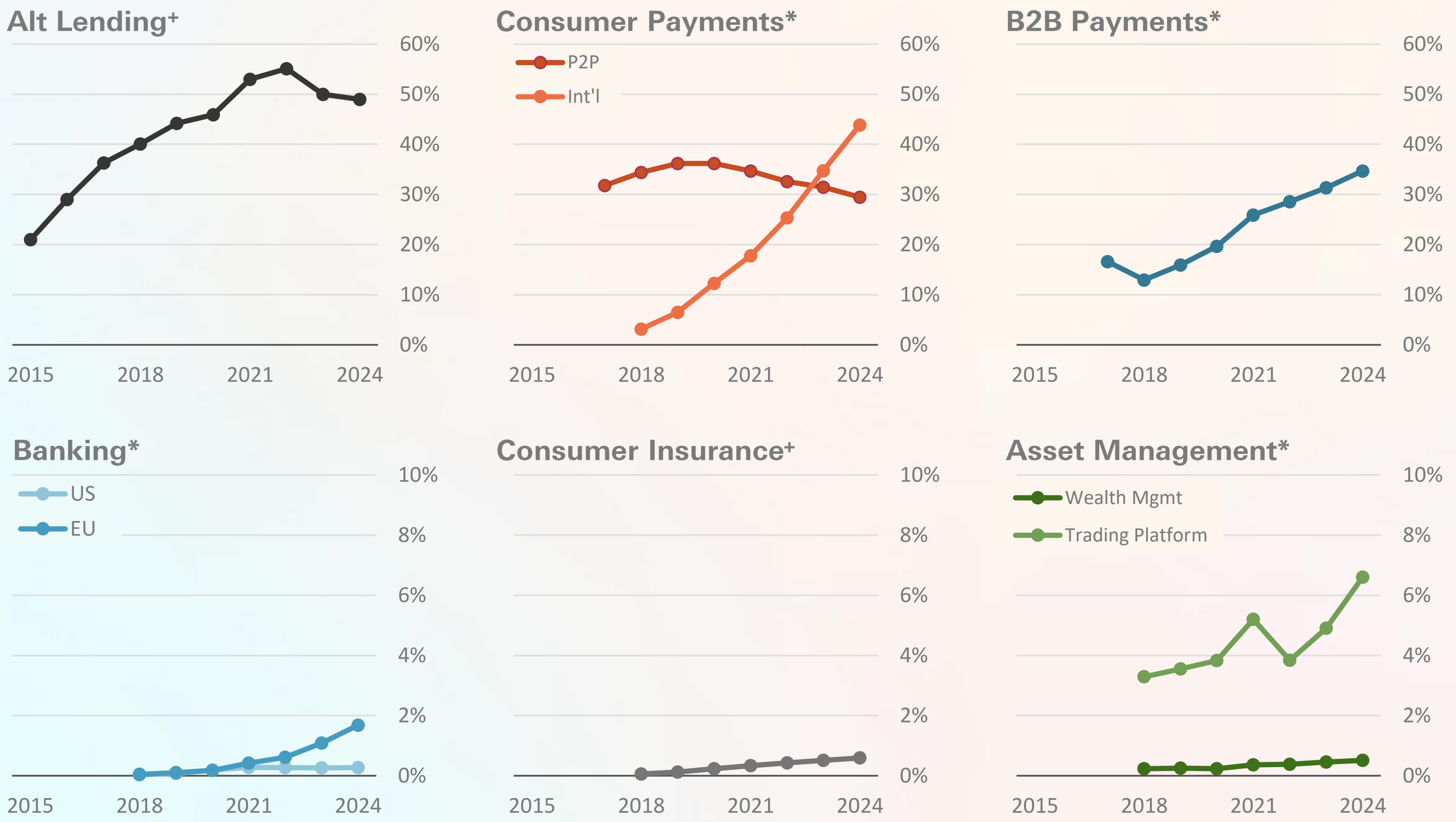
First Digital Disruption Wave Captures Significant Share in Transactions

Size, Experience & Relationships Limited Rapid Share Decline Providing Reaction Time

- In the Lending, Payments, and Remittance areas of Financial Services, fintech start-ups were able to quickly take significant market share from incumbents by leveraging better consumer experiences and more aggressive pricing.
- In the multi-trillion-dollar categories of Banking, Insurance and Wealth Management, fintech firms took nominal share and continue to grow, but have yet to significantly impact incumbent market share. However, trading platform disruptors are seeing recent acceleration on the back of broader cryptocurrency growth, including the acceptance of stablecoins as an operational currency.
- While not on par with the consumer usability of their fintech counterparts, incumbent banks and insurance companies either launched or acquired digital front-end systems and lowered pricing to limit market share erosion in core business areas.

Disruptors' Share of Financial Markets (*Revenue Share or +Dollar Value)

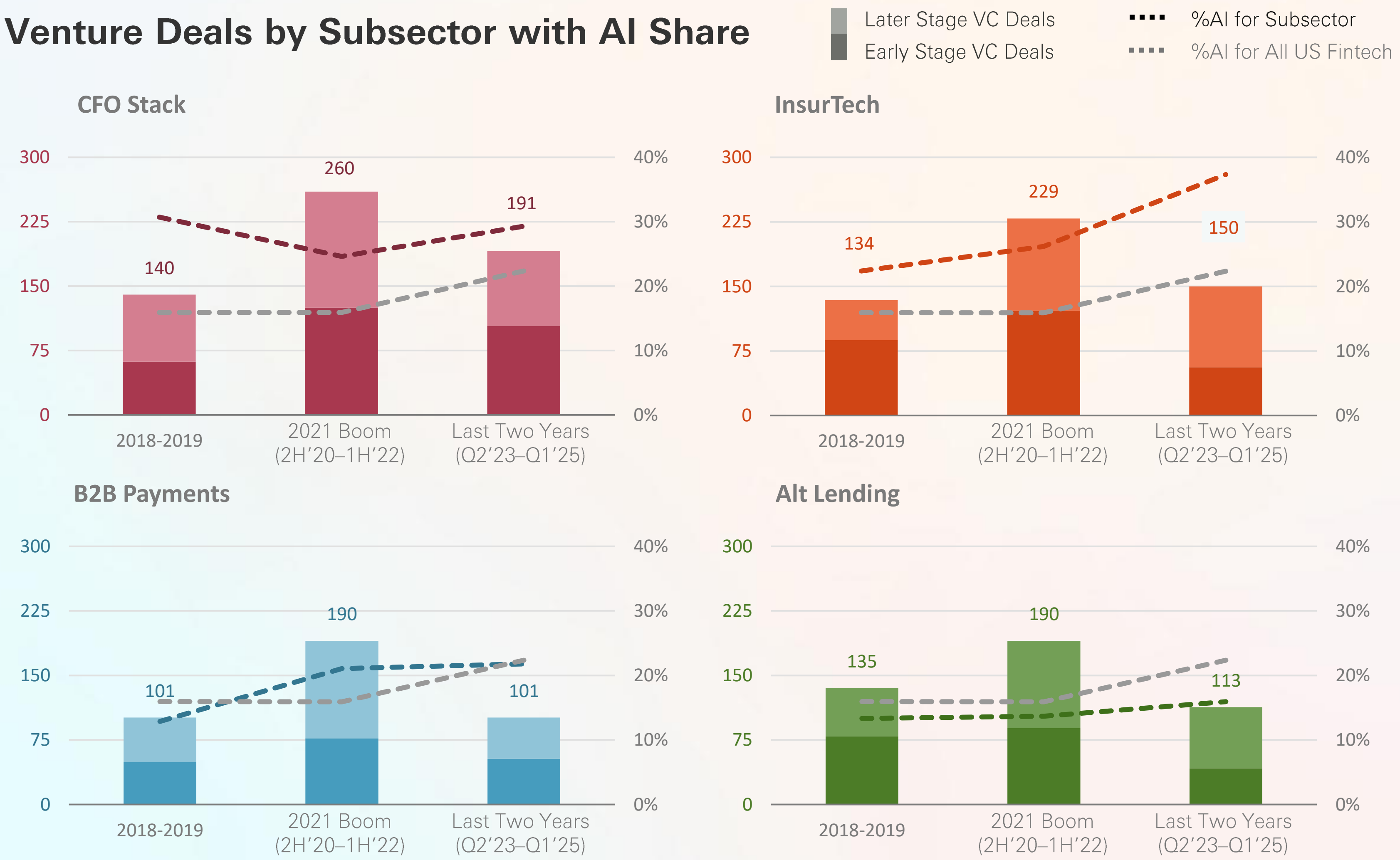


Sources: TransUnion, NAIC, SEC, Pitchbook and HSBC US analysis.

AI Adoption Accelerating Recovery in Some Fintech Sectors

Uneven Distribution of AI's Impact Across Fintech Verticals

- Venture activity has slowed across sectors since the 2021 Boom, but verticals within fintech that have shown resilience have done so largely on the pervasiveness of artificial intelligence within the subsector.
- Back-office business process automation and arduous insurance paperwork have long been ripe for disruption, with AI breakthroughs driving activity well above historical levels for disruptors such as Ramp and Tab. Notably, more than 100 early-stage venture rounds were directed to address the CFO Stack (e.g. AP, billing) in the past 24 months.
- Deals within subsectors like Alternative Lending have cooled with below-average application of AI technologies.



Sources: PitchBook and HSBC US analysis.

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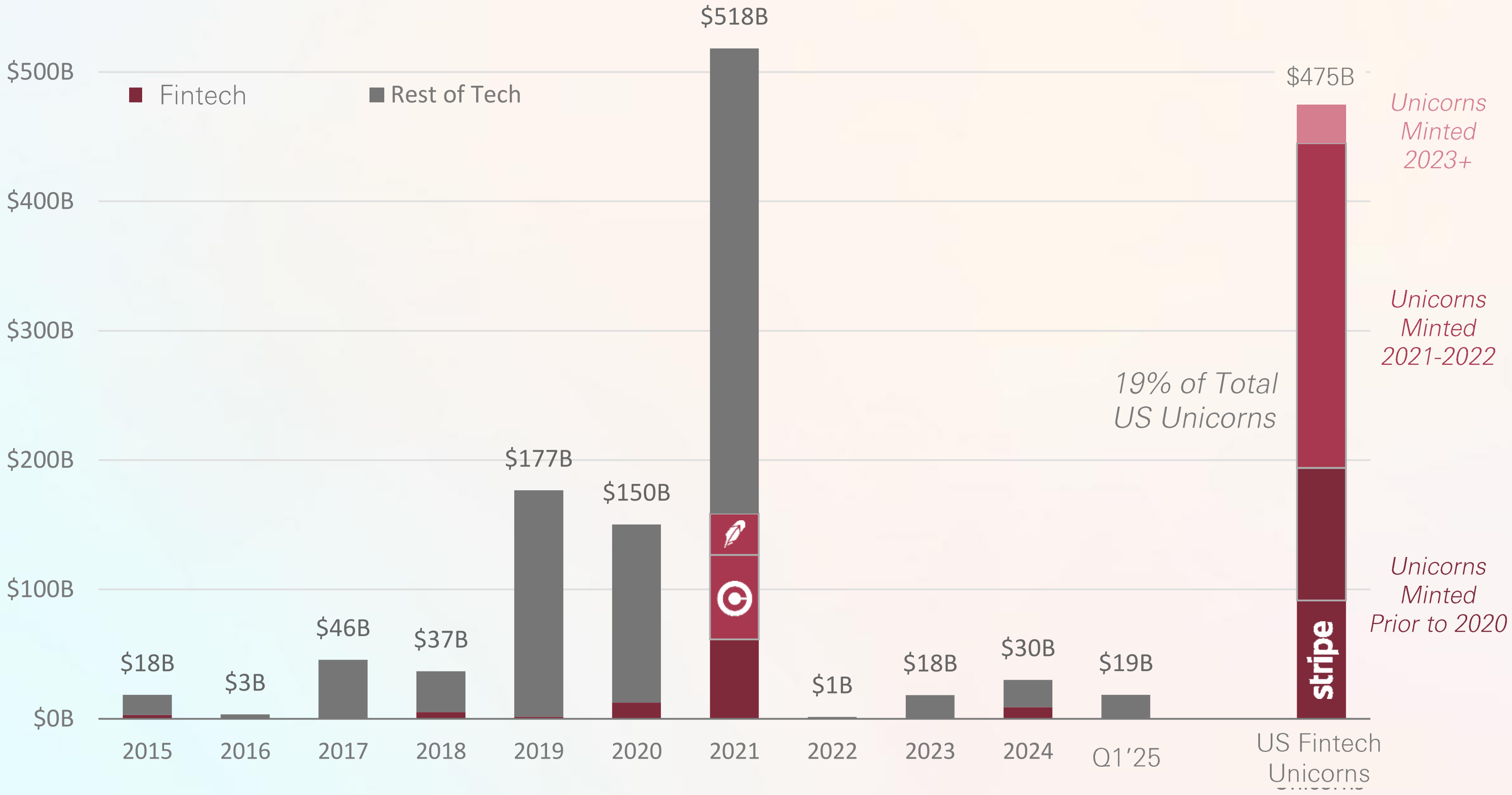
Privately Valued Fintech Unicorns Represent a Decade's Worth of IPOs

Nearly $500B of Private Value Will Seek an Exit at Potentially Compressed Valuations

- Venture-backed companies rushed to list in the post-pandemic boom of 2021, with high profile exits for fintech standard bearers Coinbase and Robinhood. More fintech firms listed that year (12) than the rest of the past decade combined (10).
- The majority of the startup value built in the decade of maturation for fintech remains in private companies: 130 venture-backed companies totaling nearly $500B. This would represent nearly a decade of IPOs at the average rate for VC-backed tech, and 3 years even at the robust pace set by 2021 fintechs.
- Fintech debuts anticipated in Q2 2025, eToro and Chime, may prove out demand is strong enough for the best-positioned unicorns to find their exit.
- Stripe, the largest by far, has remained private by providing limited liquidity to existing shareholders through secondary transactions.

Billion-Dollar Backlog: Fintech Unicorns vs $1B+ US VC-Backed Tech IPOs



Note: Data through March 31, 2025.
Sources: PitchBook and HSBC US analysis.

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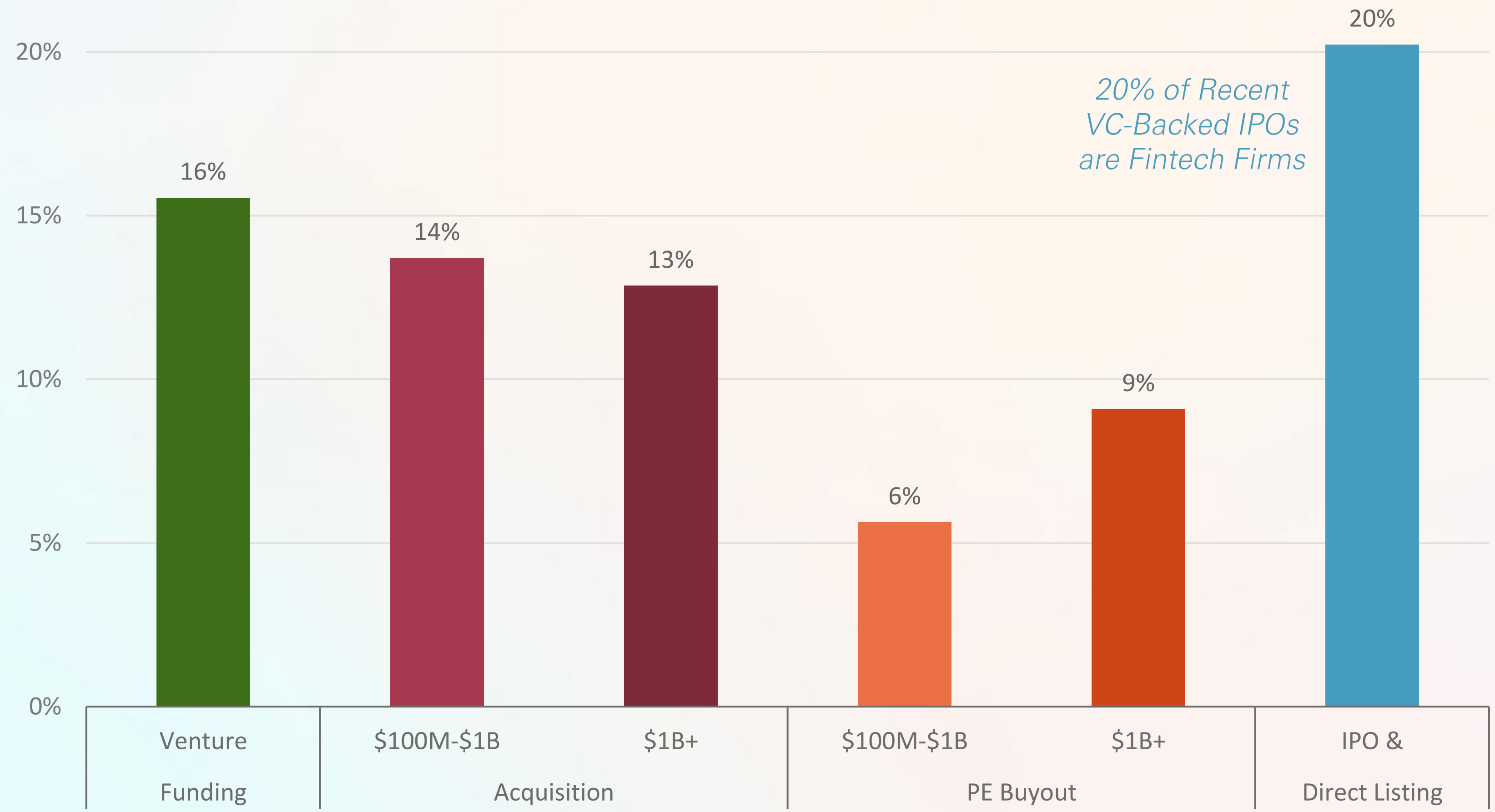
Fintech Exits Skew Toward Highest Valuation Outcomes Through Public Listings

Fewer Strategic Acquisitions and PE Buyouts Compared to Venture Exits at Large

- Fintech firms have made an outsized splash for the venture-backed IPO market over the last five years compared to their deal share.
- The path to an IPO may not be the clearest, but could be the only option for many of the backlogged fintech unicorns. Public listings represent 62% of billion-dollar exits in the space compared to 47% for the rest of tech.
- Notable fintech unicorns from representing $14B+ in equity capital raised are exploring public listings, including Klarna (filed F-1 but pulled), Circle (filed S-1), Chime (filed S-1), and Navan and Ethos (hired underwriters).
- While enterprise software or CPG startups make attractive bolt-on acquisitions, fintech represents just 6% of such exits – less than half its 16% share of all venture funding rounds.

Fintech's Share of Total Venture Activity & Exits by Type: 2020-Q1'25



Sources: PitchBook and HSBC US analysis.

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Established relationships enable us to connect you to new opportunities. We can help you fuel growth through venture capital and corporate investors, industry influencers, customers, and global opportunities.

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We move quickly and with assurance, so you can act on decisions and seize the opportunities in a fast-moving market

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Fitch	AA-
Moody's	Aa3
S&P	A+

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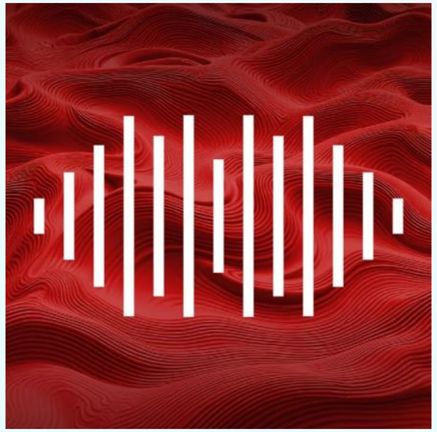

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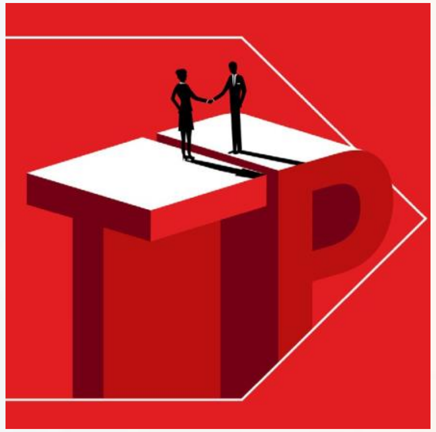

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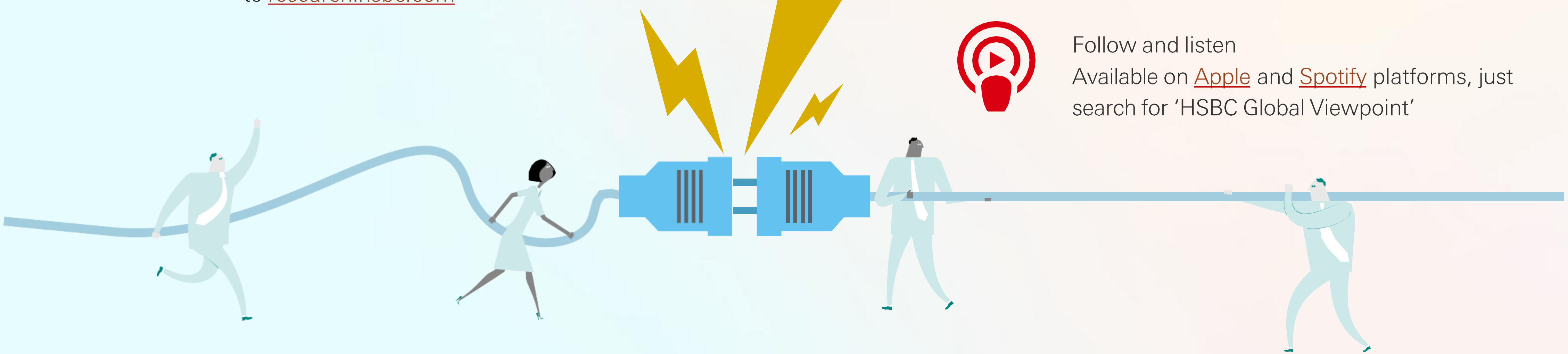

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