FINTECH REPORT

FIFTH EDITION

2024

AN INDUSTRY IN TRANSITION

Swedish FinTech Association.

SUMMARY

Over the past year the macroeconomic situation has continued to impact the fintech industry. Companies are still finding it challenging to raise capital, and difficult times have resulted in fewer companies planning to seek new capital in the coming year. A fifth of the companies can only sustain themselves for up to a year without new capital, while just under half of the companies are profitable. The companies feel weighed down by the regulatory burden and continue to grapple with access to financial infrastructure; for example, the percentage of companies affected by de-risking doubled in 2023.

SweFinTech's goal is for the fintech industry to continue growing. In this report we have compiled SweFinTech members' perspectives on the development of the fintech industry and presented five new policy proposals to promote the fintech industry, building on the association's suggestions from 2023.

Swedish decision-makers should show initiative and take action to create the right conditions for a competitive fintech market.

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Swedish
FinTech
Association.

The Swedish FinTech Association (SweFinTech) is an industry association that gathers 93 companies from the Swedish fintech sector with the mission of creating a world-leading fintech scene. The Association was founded in 2017 and has since grown to become one of the largest fintech associations in Europe, playing a crucial role in bridging the gap between authorities, decision-makers and the business community.

SweFinTech's vision is to be a relevant voice in the public debate and to contribute to Sweden becoming the country that best promotes the growth of both established and new fintech companies.

PURPOSE OF THE REPORT

This is the fifth edition of SweFinTech's annual report, primarily aimed at increasing the knowledge about the Swedish fintech industry and helping to create even better conditions for its growth. As in previous years, this year's report will give an up-to-date picture of the Swedish fintech industry, describe how the industry has developed in 2023 and address the various challenges facing Swedish fintech companies.

The report is largely based on a survey sent to SweFinTech's member companies in the autumn of 2023, and proposes measures that decision-makers and authorities can take to promote the continued growth of the Swedish fintech industry.

01.

DEVELOPMENTS IN THE SWEDISH FINTECH INDUSTRY IN 2023

SWEFINTECH'S MEMBER COMPANIES

SweFinTech has grown during the year and gone from 87 member companies in 2022 to 93 companies in 2023. Amongst the member companies who primarily operate within fintech, the companies are active in several different product segments.

30%
Payments and Transfer

Avarda, Brite, Centiglobe, D2I, Finshark, Invenio, Juni, Klarna, Lesslie, Lunar, Open Payments, Payer, Plusius, Powrs, Qliro, Sileon, Splitgrid, Surfboards Payments, Transfer Galaxy, Trust Anchor Group, Trustly, Worldline, Zimpler.

22 %
Lending

Anyfin, Bliq, Creddo, Credpoint, DBT, Fairlo, Fedelta, Float, Fortnox, Homevest, Krea, Kreditz, Lendo, Qred, Toborrow.

19 %
Software-as-a-Service

Aura Cloud, Enable Banking, Gimi, Infinipi, Nordiska, Nordkap, Näktergal, Provenir, Sharpfin, Swimbird, Tink, Vilja, Visigon, ZWEBB.

11 %
Wealth Management

Alpcot, Brocc, Coeo, Hubins, Invoier, Lysa, Opti, Savelend, Zlantar.

7 %
Investment and Trading

Centevo, Fondab, SAVR.

4 %
Crypto and blockchain

CoinPanel, Safello, Trijo.

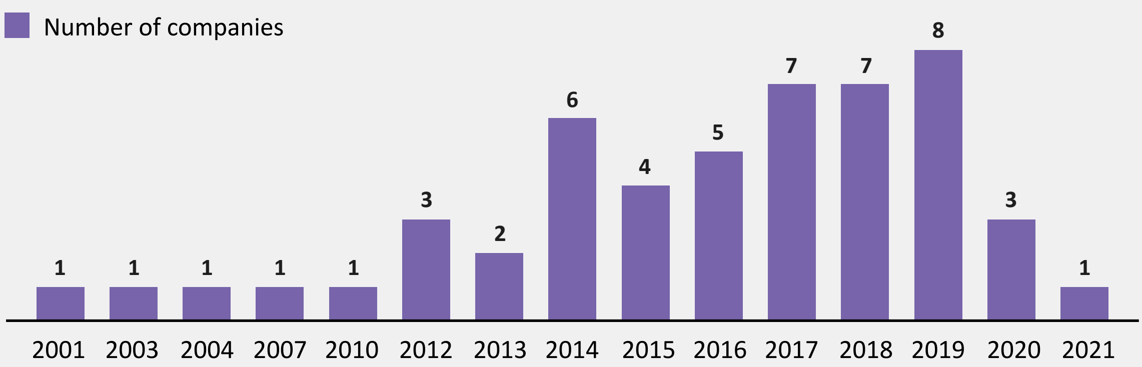
4 %
RegTech

Pliance, Springflod, Strise.

3 %
Crowdfunding

FundingPartner, Kameo, Tessin.

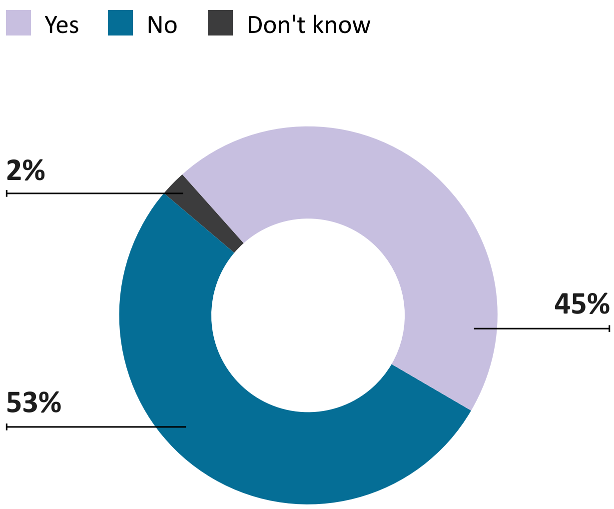
What year was the company founded?



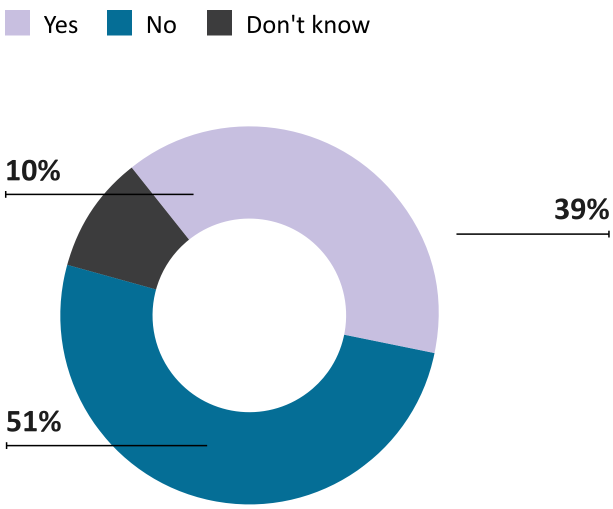
IT IS INCREASINGLY DIFFICULT FOR COMPANIES TO RAISE CAPITAL

In last year's report it was noted that the macroeconomic situation had deteriorated, making it harder to access capital. The global situation has not improved since then, and inflation has remained high throughout 2023. In Europe fintech investments decreased to USD 1.3 billion (approximately SEK 13.6 billion) in the third quarter of 2023, compared to USD 4 billion (approximately SEK 40.4 billion) in the third quarter of 2022.[1] In the Nordic region, as in the rest of Europe, access to capital has also decreased. The number of fintech investments in the Nordics dropped by 77 percent in the third quarter of 2023 compared to the same period the previous year, and the total capital invested has plummeted by a full 97 percent.[2] Despite the significant decline from 2021, the amount of capital invested in tech in Europe is still high overall compared to the past decade. However, there is a discernible trend for investors to prioritise areas such as artificial intelligence and carbon and energy[3] over fintech, where the share of capital invested has decreased since 2021 when fintech topped the lists.[4]

Have you raised new capital in 2023?



Do you need to raise capital during the coming year?

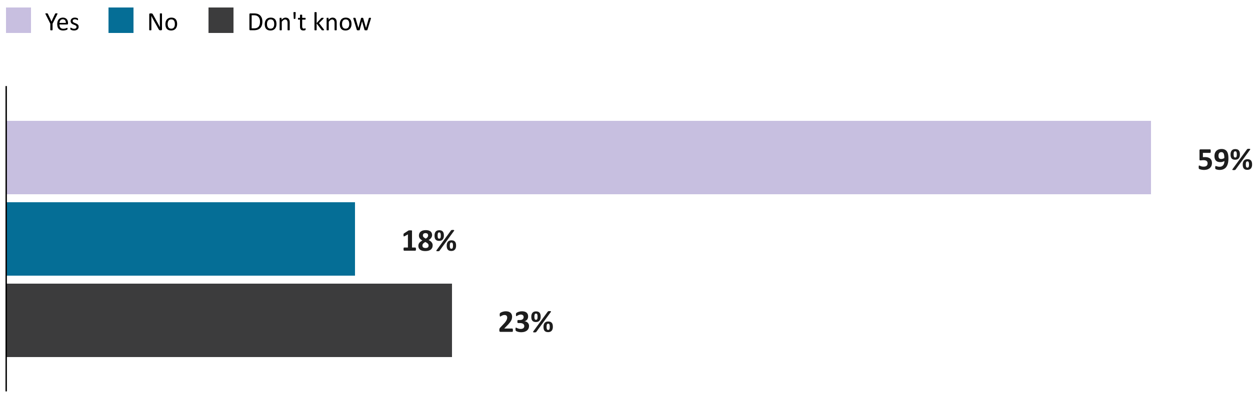


Percentage of companies that have taken in capital over time:

YEAR 2020	YEAR 2021	YEAR 2022	YEAR 2023
49%	52%	47%	45%
Raised capital	Raised capital	Raised capital	Raised capital

1. CB Insights Q3 State of Fintech Report
2. Fintech Global "Nordic Fintech Deal Activity drops to lowest level in past five years during Q3 2023"
3. AI (11%), Klimat & energi (27%) av den totala andelen investerat kapital (Atomico 2023)
4. Atomico (2023) "State of European Tech 2023"

Has it become more difficult to raise capital in 2023?



Among Swedish fintech companies, 59 percent assess that it has become more difficult to raise capital in the past year, a slight increase from 56 percent in 2022. Meanwhile, the proportion of fintech companies actually securing capital has remained relatively stable over time. In 2023 a total of 45 percent of companies raised capital, compared to 47 percent in 2022 and 52 percent in 2021. Moreover, only six percent of companies surveyed had to pause a funding round, compared to 11 percent the previous year. This may indicate that companies have been more cautious about seeking capital in the current climate.

There are also other signs that the companies have adapted their businesses to more challenging times. For example, 39 percent of the companies believe they need to obtain new capital in the coming year, compared to 47 percent in last year's report. This could indicate that the companies have extended their runway (survival time without new capital infusion) through cost-saving measures or have shifted their focus from growth to profitability. Around 43 percent of companies are currently profitable and various factors may impact the companies' ability to become profitable in the future. The ability to develop the business to reach profitability may depend on access to capital, for example, which is limited at present. In addition to a sustainable business model, factors such as access to relevant skills, innovation grants from authorities etc., economic conditions and consumer patterns can also significantly impact the ability to reach profitability. Among those still in need of capital, the survival time varies. One in five companies can only survive for up to a year without additional capital, and the market situation is very challenging for these companies. At the same time, just under a third of the companies' state that they can survive for more than three years even if they are not yet profitable.

Is the company profitable?

43%

REPLIED YES

57%

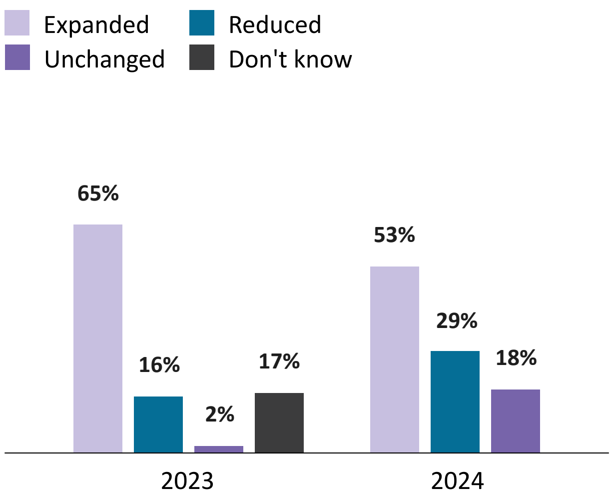
REPLIED NO

A SIGNIFICANT DECREASE IN RECRUITMENT RATE

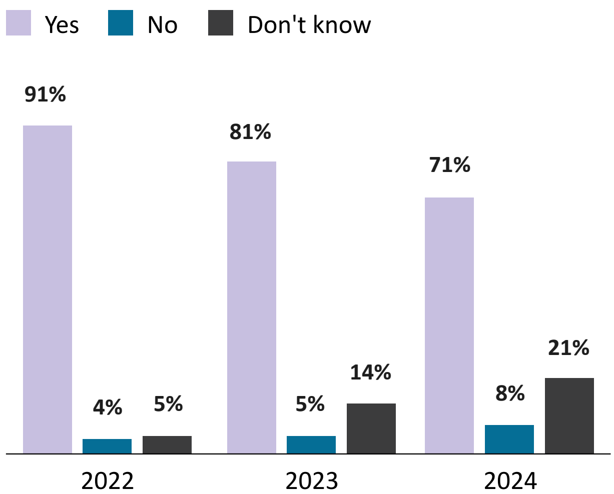
The macroeconomic situation continues to affect talent acquisition among the companies. Just over half of the companies expanded their workforce during the year, a decrease from 65 percent in the 2023 report. At the same time, nearly a third report that they have needed to reduce staff numbers – almost double the figure in the previous year. The main reasons stated for reducing the workforce are the need to cut costs and transition to profitability. Last year four out of five companies estimated that they would need to expand their workforce in 2023, that only just over half of the companies actually recruited new personnel indicates the difficulty of estimating recruitment needs in tougher times. Increased uncertainty about the future is also evident in the percentage of companies needing to recruit in the coming year, with 71 percent of the companies stating that this is necessary – a decrease of 10 percentage points from the previous year.

Access to talent is a challenge for the fintech industry as there is intense competition for tech talent, as highlighted by SweFinTech in previous reports. As more fintech companies have had to lay off personnel, SweFinTech has investigated whether this has made it easier for the companies to find relevant talent. 45 percent of the companies believe it has become easier, 14 percent believe it has become harder and the remaining respondents did not know. This can be interpreted partly as an increase in the availability of talent and partly that the competition for it is not as fierce as before.

How has your workforce changed during the year?



Do you need to recruit in 2024?



ALL IS NOT DOOM AND GLOOM IN THE TECH INDUSTRY

While fintech investments are decreasing in Sweden, there are signs that investment enthusiasm in the tech industry as a whole is in the process of stabilising in Europe. According to an analysis by venture capital firm Atomico, European investors are optimistic about the future, with 87 percent believing that the investment climate will improve in 2024. The total value of all European tech companies, both listed and unlisted, is back at USD 3 trillion and has returned to 2021 levels after a USD 400 billion decline in value in 2022. Europe often lags behind the USA when it comes to investments in tech and successful tech companies, but according to Atomico, the number of tech founders in Europe has been greater than in the USA not only in 2023 but every year for the past five years. This bodes well for a greater presence of successful tech companies in Europe in the future.[5]

5. Atomico (2023) State of European Tech 2023

THE GOVERNMENT'S SIGNIFICANTLY REDUCED FUNDING FOR RESEARCH AND INNOVATION IS AFFECTING INNOVATIVE STARTUPS

Early investment in an innovative, fast-growing company is often seen as very risky by private investors, as innovative business models may require significant resources and human capital with no assurance of the company's success. This means that few private investors dare to enter the process early. Instead, public funding can play a crucial role by enabling entrepreneurs to continue building their companies early on, then accessing private capital at a later stage.

From this perspective, it poses a challenge for many innovative companies that government funding for research and innovation, distributed through entities such as Sweden's innovation agency Vinnova and Tillväxtverket (the Swedish Agency for Economic and Regional Growth), will decrease significantly in 2024. Vinnova itself says that the decrease in and reprioritisation of its budget will make it harder to provide financial support to innovative start-ups.[6] The reduced funding for research and innovation at a time when the private capital market is cool, therefore hits small innovative companies especially hard.

6. Brändström, Jonas (2023) "Civilsamhället är viktigt för en hållbar omställning" Dagens Samhälle.

"

As an active investor in early-stage tech companies, I see a great need for startups to have access to various funding options to make their companies grow. A crucial component of the Swedish 'tech miracle' has been access to government support. Reduced funding for research and innovation is therefore very concerning and risks having a negative impact on Sweden's competitiveness and its position as an innovation hub.

Evelina Anttila
CEO at Wellstreet

THE SWEDISH FINTECH INDUSTRY RISKS FALLING BEHIND

Sweden has long stood out in a tech context on account of its very substantial tech sector relative to the size of the country's economy. Sweden has also been prominent in fintech, as several internationally well-known fintech companies such as Klarna, Zettle (formerly iZettle), and Trustly were founded here. The Swedish payment services market also stands out in a European perspective, as Sweden is one of the countries in the EU with the most nationally licensed payment institutions.[7]

However, Sweden is now in danger of falling behind the rest of Europe, and our strong position in tech and fintech can no longer be taken for granted. According to the organisation TechSverige, Sweden ranks fourth from the bottom in Europe when it comes to growth of the tech sector from 2015 to 2020.[8] Atomico's report states that Sweden is still the largest in the Nordics, but that our neighbouring countries are narrowing the gap here too. The Baltic countries have already overtaken Sweden by some measures. Estonia, for example, has the highest number of funded tech startups per capita. Sweden's share of invested capital in Europe has also fallen in recent years, although the share invested in fintech is greater than among our Nordic neighbours.[9]

This is not a coincidence, but rather a consequence of other European countries having actively taken measures to strengthen their tech companies. The Baltic countries have implemented many regulatory changes and innovation-promoting measures[10], while the Netherlands, for instance, has started a state fund of EUR 400 million (approximately SEK 4.43 billion) to support innovation.[11] If similar measures to promote innovation are not taken in Sweden, we risk losing competitiveness. The success of the Swedish fintech industry has led to the creation many job opportunities and tax revenues, as well as contributed to the image of Sweden as an innovative country. This is now at risk of being lost. In the next section of the report, we therefore present a number of proposals to promote Swedish fintech and innovation in the financial market.

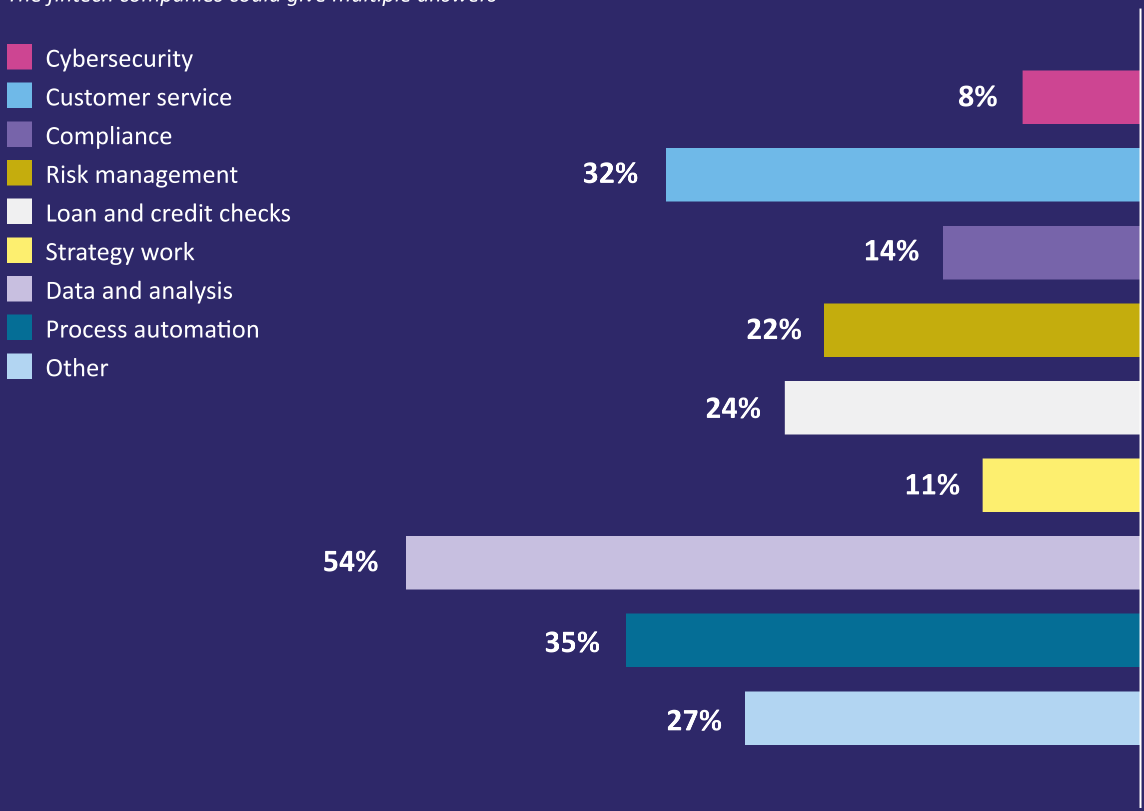
7. SOU 2023:16 "Staten och Betalningarna" s.431
8. Tech Sverige (2023) "Den svenska techbranschen 2023"
9. Atomico (2023)"State of European Tech 2023"
10. Tech Sverige (2023) "Den svenska techbranschen 2023"
11. Ny Teknik (2023) "Elva innovativa start-ups: "Regeringens nedskärnigar får Sverige att halka efter"

THIS IS HOW AI IS USED WITHIN FINTECH:

Since the company OpenAI launched the chatbot ChatGPT, artificial intelligence (AI) has become one of the hottest topics of 2023. This has also accelerated legislative efforts. In December 2023 agreement was reached within the EU on the AI regulation (AI Act)[12], which will be the first AI legislation in the world. In connection with this, the Swedish Government announced an AI Commission to review and bolster the conditions for AI in Sweden. AI is also an area that has been attractive among investors and is one of the few areas within tech where investments have increased in the past year. The French company Mistral, for example, received USD 113 million (approximately SEK 11.8 billion) in Europe's largest seed round in 2023, while AI-based companies account for 22 percent of the largest investments in Europe.[13] Among fintech companies, 73 percent use AI in their operations, often for a variety of purposes. The main applications are data analysis, process automation and customer service.

If you use AI in your business, for what purpose do you use it?

The fintech companies could give multiple answers



12. European Parliament (2023) "Artificial Intelligence Act: deal on comprehensive rules for trustworthy AI"
13. Atomico (2023) State of European Tech 2023.

02.

POLICY & REGULATIONS

POLICIES AND REGULATIONS THAT CAN PROPEL SWEDISH FINTECH FORWARD

2023 was a transformative year for the fintech industry, with several events that will impact the sector for a long time to come. During the summer the European Commission proposed a framework for access to financial data along with changes to the regulations on payment services (Financial Data Access & Payments Package). This will have a significant impact on the industry in the coming years by promoting digitalisation and competition in the payment services market and the broader financial sector.

In the autumn the EU's Council of Ministers and the European Parliament also successfully negotiated the legislative proposal on instant payments, which could streamline payments in Sweden and especially to the eurozone. In 2023 various government inquiries presented their reports, such as the reports on the payment services market and on over-indebtedness, while new inquiries were initiated, such as the inquiry into implementation of the Consumer Credit Directive in Sweden.

A range of changes were also introduced into the appropriation directions given to authorities. The Swedish Financial Supervisory Authority (FSA), for example, was directed to enhance its analytical capabilities in respect of innovation in the financial market. These changes have had a significant impact on the industry and may continue to do so.

In last year's report SweFinTech proposed a number of measures aimed at improving the industry's position. In view of the changes and decisions that have taken place in 2023, we have analysed our policy proposals from 2023 to evaluate how well they have been fulfilled – the aim being to follow up on the impact of SweFinTech's advocacy efforts. Based on this we are updating our existing proposals and presenting new proposals for promoting the industry, which are presented at the end of the report.

FOLLOW-UP ON SWEFINTECH'S POLICY PROPOSALS FOR 2023

Implemented Partly implemented Not implemented

1.

The Financial Supervisory Authority (FSA) should engage in deepened dialogue with the Fintech Industry in accordance with the new political directive for the FSA to improve the analysis of innovations and digitalisation in the financial market.

2.

The FSA should introduce a regulatory sandbox to promote innovation in the financial market.

3.

Regulators should provide fintech companies with better access to guidance in regard to regulatory compliance as well as during permit processes.

4.

The system for qualified employee stock options should be expanded to include the financial sector.

5.

Authorities should ensure that all regulated market participants have access to the financial infrastructure.

6.

An Open Finance regulation should be introduced and include a broad spectrum of financial services in order to increase competition in the financial market.

7.

The European Commission's proposal on Instant Payments should be implemented quickly and Swedish legislators should ensure that it is also applicable for Swedish currency.

8.

Amortisation documents should be digital and easily accessible for consumers to enable healthy competition in the mortgage sector.

9.

A national debt register should be introduced for consumer credit to improve consumer protection.

1)

The FSA's appropriation directions for 2023 instructed the authority to strengthen its analytical capabilities in respect of innovations and digital developments in the financial market and their associated risks.[14] The government's initiative was positive, but SweFinTech has only partially seen how this is being implemented in practice.

2)

The FSA has not introduced a so-called regulatory sandbox, a method where innovative companies can test their products in a freer but still supervised regulatory environment in 2023.

3)

In this year's report the companies feel that understanding of the industry has increased, and a slim majority believe that the dialogue with the FSA is working well. This can be interpreted as the dialogue having improved somewhat. The government has also tasked the FSA with starting a regulatory and procedural simplification process within the authority in 2024, and to explore how the FSA can facilitate regulatory guidance to the companies that it supervises.[15] Since we do not yet know how this will be implemented, it is too early to say whether the goal has been achieved.

4)

The Tidö Agreement presented in November 2022 mentions improved conditions for employee stock options as a reform for companies to attract key talent. During 2023 the government has given additional directives to the 3:12 study to review how possible rules on tax relief for qualified employee stock options could make these more effective in attracting and retaining key talent.[16] However, no initiative has been taken to amend the law on employee stock options, which means that closely-held companies in the financial industry are still excluded from participating in employee stock options.

5)

Regulated fintech companies still do not have access to central financial infrastructure. Progress may be made shortly since Article 31 of the draft for the new Payment Services Regulation (PSR) allows all regulated payment service providers to connect to payment systems as long as access requirements are met. Legislative amendments to enable access to payment systems are also made possible by changes to the EU's Settlement Finality Directive.

6)

The framework for Financial Data Access (FIDA) mentioned above is a proposed regulation on data sharing within the financial sector that was presented by the European Commission during the summer, which includes a wide range of data points. The proposal is at an early stage, with the Parliament and the Council developing their positions for subsequent negotiations. It is likely to be several years before the proposal comes into force.

7)

In autumn 2023 the EU reached agreement on the legislative proposal on instant payments. The directive has an implementation period of nine months within the eurozone, while countries outside the euro area have 42 months. However, the law only applies to instant payments in euros, and it is uncertain whether a similar initiative will be taken to enable instant payments in Swedish kronor.

8)

SweFinTech has long advocated for the digitalisation of mortgage amortisation documentation and received support from Niklas Wykman (Moderate Party), the Minister for Financial Markets, in the spring of 2023. The FSA has now presented new regulations regarding digitalised amortisation documents, which are currently out for consultation. It is proposed that the new regulations will take effect on 1 July 2024.[17]

9)

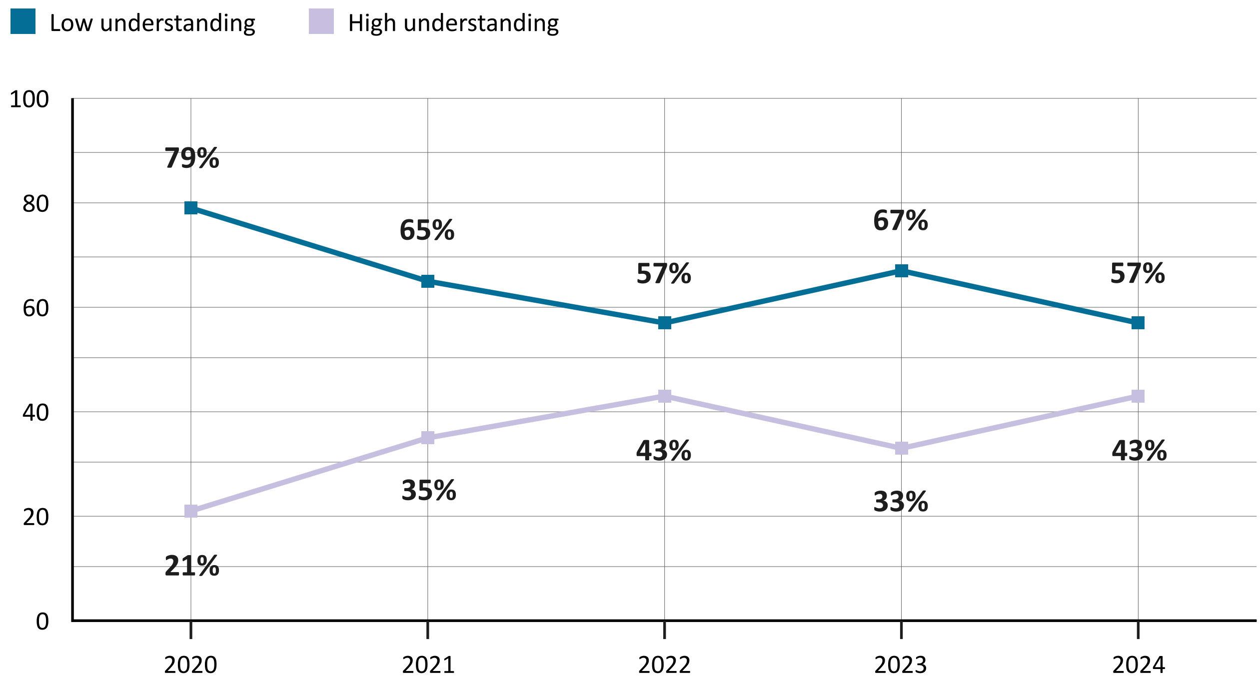
The report by the Swedish government's inquiry into over-indebtedness that was presented in June 2023 proposes a privately operated debt and credit register (known as the SKRI register).[18] This has been under consultation and in 2024 the government is expected to present a bill based on the inquiry's conclusions.

14. Finansdepartementet (2022) "Regleringsbrev för budgetåret 2023 avseende Finansinspektionen"
15. Finansdepartementet (2023)" Regleringsbrev för budgetåret 2024 avseende Finansinspektionen"
16. Regeringen (2023) "Bättre möjlighet att attrahera och behålla nyckelkompetens"
17. Finansinspektionen (2023) "Remisspromemoria: Enklare och snabbare hantering av amorteringsunderlag."
18. SOU 2023:38 "Ett förstärkt konsumentskydd mot riskfylldkreditgivning och överskuldsättning"

THE UNDERSTANDING OF THE INDUSTRY AMONG DECISION-MAKERS IS INCREASING AGAIN

Last year SweFinTech reported a deterioration in the understanding of the industry, breaking the positive trend of a steadily improving understanding among decision-makers since SweFinTech's initial report in 2020. The understanding has now improved and is back to 2022 levels. The reason for this development is difficult to say with any certainty, but it may be due to SweFinTech's inclusion in more dialogue forums such as consultation meetings between the FSA and the Swedish Anti-Money Laundering Institute, as well as with other authorities and decision-makers. This increased presence may have given the industry greater impact for its positions. It could also be attributed to the industry gradually becoming more established and less unknown than before.

How do you perceive the understanding of the Swedish fintech industry amongst politicians and decision makers?



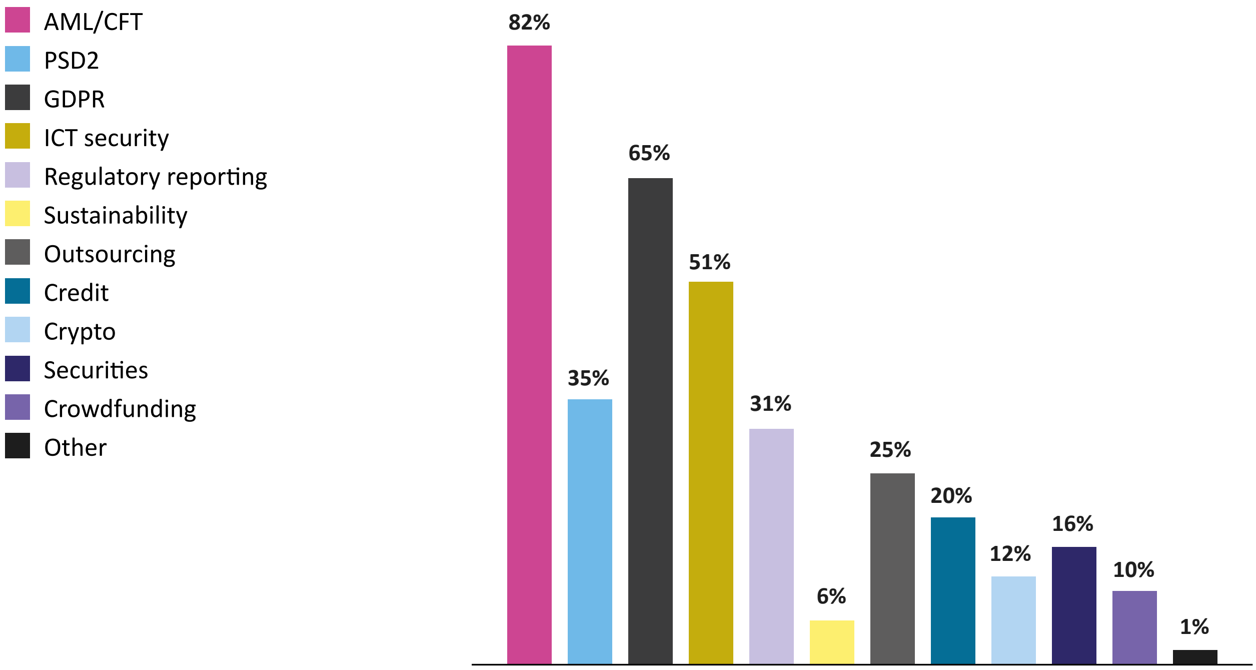
COMPANIES CONTINUE TO EXPERIENCE A HEAVY REGULATORY BURDEN

The regulations affecting the industry has remained relatively stable since SweFinTech's first survey in 2020. A total of 82 percent of member companies believe that regulations concerning anti-money laundering and combating the financing of terrorism (AML/CTF) are having a significant impact on their operations, followed by the General Data Protection Regulation (GDPR) at 65 percent, and legislation related to information and communication technology security (ICT) at 51 percent. This year 76 percent of the companies also reported finding the regulations burdensome, which is similar to previous years. The financial industry is highly regulated, with many companies under the supervision of the FSA. Of SweFinTech's members, 67 percent are under supervision; those that are not, are usually technical suppliers to financial companies still affected by regulations such as GDPR and other legislation on ICT security.

The number of new laws and regulations has increased significantly in recent years, with more regulatory frameworks to come – including an anti-money laundering regulation, a payment services regulation (PSR) and a regulation on open financial services (FIDA).

Which regulation(s) have had the greatest impact on your business?

The fintech companies could give multiple answers



THE DIALOGUE WITH THE FSA IS WORKING WELL OVERALL

The FSA is the agency responsible for supervising the financial market in Sweden. It is tasked by the government with ensuring a well-functioning financial market by issuing licences, registering companies that operate in the financial market and monitoring how companies under supervision are complying with regulations. The nature of the dialogue between the industry and the supervisory authority therefore has a significant impact on market actors, given the authority's crucial role in companies' ability to operate in the market.

55%

believe that dialogue with the FSA is working well.

Just over half of the fintech companies believe that dialogue with the FSA is working well, although there is room for improvement. For example, several companies highlight that communication works well if the company representative in dialogue with the FSA is well-prepared and knowledgeable about the specific issue. Some companies point out that the FSA is knowledgeable and more open to dialogue when it comes to traditional areas of finance, but that the dialogue becomes more challenging, and the message unclear, as soon as discussions involve newer and more innovative business models.

Another common comment is that how the case is dealt with by the FSA depends very much on the allocated case manager and that varying answers may be given about the same regulations. High staff turnover at the FSA is also seen as a problem among industry operators. At the same time, it is recognised that the FSA plays a crucial role in ensuring a well-functioning and stable financial market. SweFinTech therefore believes that an improved and expanded dialogue that includes the possibility of obtaining regulatory guidance from the FSA would strengthen the trust between the authority and the industry.

THE FSA CAN CONTRIBUTE TO MORE INNOVATIVE COMPANIES

The FSA often points out in dialogue with the industry that it does not have a mandate to guide companies more specifically, but this may soon change. The FSA's latest appropriation directions task the authority with boosting and accelerating regulatory simplification efforts, which includes investigating how the FSA can improve access to regulatory guidance.[19] There are interesting examples from other successful fintech markets where the supervisory authority plays a more guiding role, which could potentially inspire the Swedish FSA when putting this mission into practice. In the United Kingdom the Financial Conduct Authority (FCA) has so-called 'innovation pathways', which could be described as regulatory guidance for companies with innovative business models that are hard to categorise. More concretely, the FCA offers a preparatory meeting on what the licence requires and the authority's expectations of the company ahead of the application process, as well as individual meetings at which the company, along with an expert, can discuss its business model and how it fits into the regulatory landscape. To receive such guidance the company must meet a number of criteria such as maturity, an innovative business model and consumer benefit.[20] This type of niche guidance for innovative companies can be combined with more routine guidance on standard regulatory issues. The UK has one of the most innovative and successful fintech markets in Europe, and a similar approach from the Swedish FSA could similarly increase the level of innovation in the Swedish financial market.

19. Finansdepartementet (2023)" Regleringsbrev för budgetåret 2024 avseende Finansinspektionen"
20. Financial Conduct Authority (2022) "Innovation Pathways Guide"

SweFinTech looks forward to monitoring the FSA's regulatory simplification process and hopes that this may lead to initiatives that benefit the dialogue between the industry and the supervisory authority and enhance the competitiveness of the fintech industry

Louise Grabo
Secretary General of SweFinTech

THE SWEDISH AUTHORITY FOR PRIVACY PROTECTION IS LEADING THE WAY

In 2022 the Swedish Authority for Privacy Protection (IMY) initiated a pilot project for a regulatory test bed (another name for a regulatory sandbox) to explore innovation in relation to data protection legal issues. In its evaluation of the pilot project IMY states that its assessment is that regulatory testing creates value for innovators, for authorities interpreting and applying regulations, and for society at large.[21] Thanks to this, the regulatory sandbox has become a permanent feature at IMY.[22]

The success of IMY's sandbox shows that the tool has the potential to guide both authorities and the industry in complex regulatory issues and thereby clarify how innovative business models should be interpreted or adapted to the regulations. Hopefully this can lead to other relevant authorities, such as the FSA, also being tasked with starting pilot projects for regulatory sandboxes in the future – something SweFinTech has long been calling for.

FINTECH COMPANIES ARE NOT ABLE TO COMPETE ON EQUAL TERMS

In previous reports SweFinTech has discussed structural entry barriers in the financial market, making it difficult for fintech companies to compete on equal terms. This is also mentioned in the report of the inquiry into the role of the State in the payments market.[23] One of the inquiry's proposals is that the government should instruct an authority to conduct an in-depth analysis at a macro level of competition in the payments market and, if necessary, propose concrete measures to improve it.

It is not only the payments market that is affected; there are also other areas where traditional actors have regulatory advantages that hinder the ability of new actors to enter the market. One such example is the mortgage market, where few new players have managed to establish themselves. The Swedish Competition Authority should therefore be given additional tools to investigate competition in various parts of the financial market.

The infrastructure for payments, such as Dataclearing and Bankgirot, is mainly controlled by established banks with an interest in maintaining high entry barriers for new players. The payments inquiry also mentions that the Bankgirot clearing system is outdated and should be reviewed to future-proof it. Bankgirot is currently the oldest clearing system in the Nordic region, dating as far back as 1959.[24]

If the state transfers the responsibility for renewing the clearing infrastructure to the banks, there is a risk that payment service providers will continue to be excluded – hampering both competition and innovation in the payments market. When initiatives are taken to future-proof the infrastructure it is therefore important that not only the traditional banks, but also other actors are included in the dialogue and given access to the new infrastructure.

21. Integritetsskyddsmyndigheten (2023) Slutrapport pilotprojekt regulatorisk testverksamhet.
22. Integritetsskyddsmyndigheten (2023) ”IMY söker innovationsprojekt med rättsliga dataskyddsutmaningar”
23. SOU 2023:16 ”Staten och Betalningarna”
24. Bankgirot (u.å.) ”Viktiga milstolpar”

THE PERCENTAGE OF FINTECH COMPANIES FACING DIFFICULTIES ACCESSING BANKING SERVICES HAS DOUBLED

The difficulty of obtaining and maintaining bank accounts is hampering many fintech companies. The arbitrary de-risking* of companies is something SweFinTech highlighted as early as 2021.

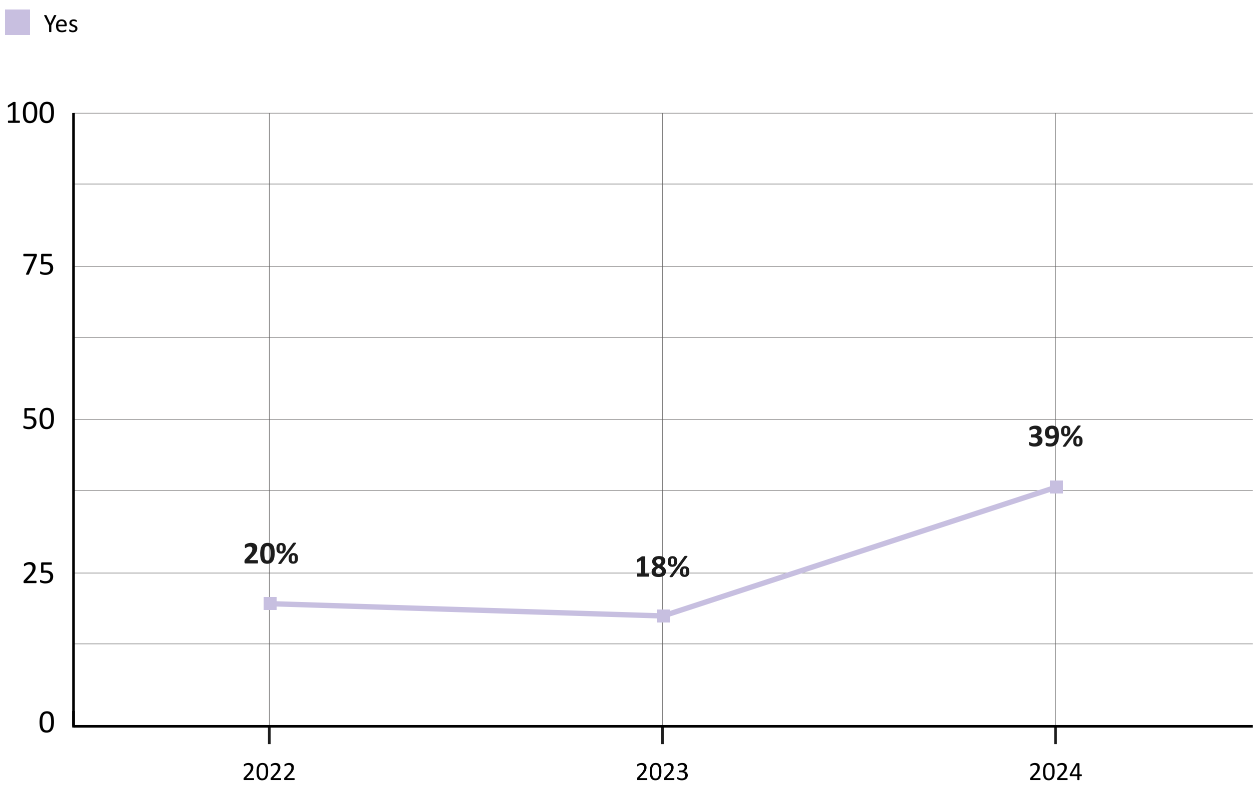
Over the past year the problem has worsened, and the percentage of companies experiencing de-risking doubled in 2023 from 18 percent to 39 percent. From having previously mainly affected payment service providers and companies in digital assets, the issue has widened to also include other types of companies such as loan companies and crowdfunding companies. In the FSA's report on the prevalence of de-risking, presented in December 2023, the authority describes how more accounts have been denied for companies than for consumers.[25]

Access to a bank account is crucial for companies to conduct their business. The European Banking Authority's (EBA) report on de-risking mentions three main reasons why de-risking takes place: reduced risk appetite by banks, a lack of knowledge about business models and the bank perceiving the cost of regulatory compliance as too high.[26] This aligns well with what the companies themselves describe. The increased requirements to combat money laundering and terrorism financing, along with the significant sanctions for banks violating these rules, often make it easier for a bank to reject an application for a payment account than to take the risk.

*DE-RISKING

De-risking means that a company has had difficulties establishing/maintaining a customer relationship with a bank or has been threatened with so-called off-boarding. For example, the bank no longer provides financial services to a company or provides services to a limited extent.

Have you experienced issues with de-risking?



25. Finansinspektionen (2023) "Rätten till betalkonto- redovisning av Finansinspektionens tillsyn"
26. European Banking Authority (2022) "EBA Opinion and Annexed Report on De-risking"

According to the FSA's report on de-risking, banks cite several reasons for denying or closing down corporate accounts. For example, they mention that it is difficult to obtain all the information required to meet Know Your Customer (KYC) requirements. They also highlight a lack of knowledge about business models and the expected transaction patterns within them.[27]

Banks must be able to take action against company-specific money laundering risks, of course, but it is a problem if companies are excluded due to a lack of knowledge about the business model or if a bank makes a decision at group level to reject accounts for companies within a certain segment. The EBA points out in its report that arbitrary de-risking is an ineffective measure to combat money laundering and that it actually has a potential adverse impact on the EU's objectives of effective prevention of money laundering, financial inclusion, competition and financial stability.[28]

During the year measures have been proposed to reduce the occurrence of de-risking. In June the European Commission released its draft Payment Services Regulation (PSR), which strengthens the provisions regarding the right to an account for payment service institutions. According to Article 32 of the PSR, payment service institutions are to have the right to appeal a bank's decision to close a payment account or to reject an application to open a payment account. Banks also need to provide written justification, with company-specific examples, for closing a company's account or denying its opening.

These measures have the potential to reduce the risk of companies having an account closed or being denied an account for arbitrary reasons. However, the proposal only applies to payment service institutions, even though more types of fintech companies are affected. Moreover, the draft of the new Payment Services Regulation is at an early stage, and it is expected to be three to four years before it comes into effect. The same rules on appeal and written justification for denial or closure should apply to de-risking cases relating to all fintech companies; otherwise, there is a risk that the problem will persist. More detailed and company-specific reporting by banks to the FSA could also provide better statistics on the reasons for de-risking, leading to additional proposals to address the issue.

*PSD3/PSR

The European Commission's proposal for a Payment Services Regulation (PSR) and a new Payment Services Directive (PSD3) were presented in June 2023, with the purpose of updating and replacing the Second Payment Services Directive (PSD2). PSD2 has been plagued by many issues, such as an uneven implementation across the EU, as well as substandard APIs. The new regulation aims to implement stricter rules regarding the quality of the APIs and as well as harmonising the implementation of Open Banking in Europe.

27. Finansinspektionen (2023) "Rätten till betalkonto- redovisning av Finansinspektionens tillsyn"
28. European Banking Authority (2022) "EBA Opinion and Annexed Report on De-risking"

03.

HOW TO PROMOTE THE FINTECH INDUSTRY GOING FORWARD

PROPOSALS THAT CAN IMPROVE THE FINTECH INDUSTRY IN 2024

Several of SweFinTech's proposals to promote the fintech industry have made a difference over the past year. Digitalised mortgage amortisation documentation will become a reality in July 2024, the FSA will initiate regulatory simplification efforts and explore how it can better guide companies on regulatory issues, new regulations have been presented regarding open finance, and the legislative proposal for instant payments is in place. However, much remains to be done. For example, the employee stock options system needs to be expanded to also cover small companies in the financial industry, and instant payments in Swedish kronor should be reviewed.

SweFinTech is presenting five new proposals that decision-makers need to act on as soon as possible to promote an innovative and prominent fintech industry in Sweden. Where they have not been implemented during the year, the policy proposals that the association worked on in 2023 will continue to be priorities going forward.

SWEFINTECHS POLICY PROPOSALS 2024

TO PROMOTE AN INNOVATIVE AND OUTSTANDING FINTECH INDUSTRY IN SWEDEN

New proposals

1.

Strengthening the right to bank accounts for fintech companies

It should be a legal requirement that banks must provide a written report on the reasons for de-risking fintech companies. The companies should also have the right to appeal the decision to the Financial Supervisory Authority (FSA).

2.

The Financial Supervisory Authority should introduce regulatory guidance for innovative companies

The FSA should be inspired by the UK's Financial Conduct Authority and introduce regulatory guidance for innovative companies.

3.

The Swedish Competition Authority should investigate competition in the financial market

SweFinTech wants the Swedish Competition Authority to have clearer tools for conducting industry-specific investigations and to investigate competition in the financial market.

4.

The government should reinstate funding for Vinnova to support early-stage startups

The government should invest in promoting and maintaining an innovative startup market in Sweden and should increase funding for research and innovation to a level that better secures state funding even for small innovative companies.

5.

More actors should be included in efforts to futureproof the financial infrastructure

To future-proof the financial infrastructure it is important to include more actors than just the traditional banks in the dialogue and to make the finished infrastructure accessible to them.

Previous, but still current, proposals

6.

The Financial Supervisory Authority (FSA) should engage in deepened dialogue with the Fintech Industry in accordance with the new political directive for the FSA to improve the analysis of innovations and digitalisation in the financial market.

7.

The FSA should introduce a regulatory sandbox to promote innovation in the financial market.

8.

Regulators should provide fintech companies with better access to guidance in regard to regulatory compliance as well as during permit processes.

9.

The system for qualified employee stock options should be expanded to include the financial sector.

10.

Authorities should ensure that all regulated market participants have access to the financial infrastructure.

11.

An Open Finance regulation should be introduced and include a broad spectrum of financial services in order to increase competition in the financial market.

12.

The European Commission’s proposal on Instant Payments should be implemented quickly and Swedish legislators should ensure that it is also applicable for Swedish currency.

13.

A national debt register should be introduced for consumer credit to improve consumer protection.

A TOUGH YEAR FOR THE FINTECH INDUSTRY

BUT WITH LIGHT ON THE HORIZON

2023 has been a tough year for the fintech industry, with a cooler capital market having led to a need for cutbacks and a shift towards profitability. At the same time, some companies have become stronger during the year by adapting their business models and a cautious optimism can be discerned regarding developments in 2024. The need for new innovations in the financial market remains significant, since consumers and businesses will continue to demand financial services tailored to new needs. Although 2024 may come to be a challenging year, there is the prospect of a continued reshaping of the industry which could lead to exciting opportunities for Swedish fintech companies.

04.

ABOUT THE REPORT

METHODOLOGY AND DATA

The analysis in the report is based partly on quantitative data from SweFinTech's member survey and partly on qualitative data in the form of open responses and interviews with representatives of SweFinTech's member companies. The survey was sent out in October 2023 to 79 member companies, of which 51 responded. The questionnaire was restricted to member companies whose main activities are within fintech and therefore was not sent out to law firms, consulting companies and the like that are included in the total membership count. In total, the survey consisted of 28 questions covering six areas: information and background, financing, recruitment, legislation and regulations, and the financial infrastructure. The questions were both closed-ended (where the respondents chose from predefined options) and open-ended (allowing respondents to elaborate on their answers and reasoning). A large part of the report's content is based on the results obtained by SweFinTech from the survey.

The information in the report that is not based on responses from the member survey relies on SweFinTech's own knowledge of the fintech industry and information gathered through discussions with industry experts. Secondary sources, primarily from previous studies and reports, were also utilised.

The preparation of the report ran from October 2023 to January 2024 and was carried out by SweFinTech's Secretary-General and Business Policy Expert, whose work was guided and approved by SweFinTech's Board of Directors.

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