

# Fintech battlegrounds: Europe vs. the U.S.

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**If you asked a stranger on the street where they keep their money, the most common answer would most likely be a bank. That's where you go to store your money and hopefully see it grow over time. But that is now changing all around the world.**

A new wave of so-called 'fintechs' merge the world of technology and finance, providing easy access to mobile internet with the safety and security of traditional banking. These mobile apps like Revolut, N26 and Monzo, just to name a few, have hundreds of millions of euros in investor funding and are starting to chip away at the facade of traditional banking giants.

Europe has been a hotbed of fintech activity over the last decade and for many, is now considered to be the most developed of all fintech ecosystems, globally. Product advancements and a focus on regulation has made fintechs like Revolut, N26 and Monzo attractive to investors - whose large funding amounts have helped keep fintech activity alive in Europe, beating the US and Asia to the top investment spot.

While much of the prominent and hyped-up fintech activity stems from the UK - which represents more than half of all mega deals in Europe over the past five years - other countries are driving fintech too and creating their own centers of activity, particularly in Lithuania, Estonia, Germany, Sweden and the Netherlands. Regulation and proximity to traditional financial services are the two main factors that influence the UK's fintech dominance. London is home to many of the big banks and financial organizations, meaning that they're only a quick tube ride away from the startup areas of the city.

The UK's FCA leads the way in terms of regulatory frameworks that appeal to startups, adding to the attractiveness of the UK for young companies. However, once you add Brexit into the mix, we may see the tides turning and

the European fintech landscape changing dramatically. Research by think-tank New Financial said that more than 275 firms in banking and finance have already moved to the EU away from the UK, with Dublin, Luxembourg, Paris and Frankfurt gaining the most so far. As the tale of Brexit continues, it opens the door to other cities, which are stepping up their game to make a welcoming home for fintechs.

European fintech is not just about mobile payments. While most (successful) European fintech companies operate in the payment sector - including the aforementioned big players, as well as TransferWise, Funding Circle and Klarna - the development of technology in Europe also supports the growth of niche markets, such as: automated loans, robo-advisers and automated investment management.

The European Payment Services Directive (PSD2) - which regulates payment services and payment service providers throughout the EU and European Economic Area - has helped define a stable regulatory environment and has sparked the introduction of Open Banking. The use of open APIs will enable third-party access to data held by the traditional banking giants, meaning that fintech businesses can use the data to develop new products and services. Will this mean that we will continue to see European fintech innovate in areas currently unavailable in the U.S.?

Fintech in the U.S. differs from Europe partly due to its sheer size and scale. Add the diversity of financial institutions into the mix - from global banks to local, community banks - plus the added complication of the

interaction between state and federal law; the U.S. fintech scene is unique. If something is regulated at state level, for example, this can lead to 50 different interpretations or sets of requirements for businesses to get their heads around.

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The European fintech scene is dominated by innovative payments businesses. Comparatively, the American mobile-payments industry is more than 50 times smaller than China's. Many Americans still favor paying with physical dollar bills, as 30% of all consumer transactions are paid for in cash, according to the Economist. It's also surprising that the average American writes 38 cheques a year, given that the cheque is almost obsolete across Europe - this figure is nearly five times the number of the average Brit. This dependency on cash is reflected in the U.S. fintech landscape and the products on offer - historically the U.S. has dominated insurtech investment: the top five insurtech investment rounds in the U.S.

in 2019 averaged \$405m; compared to \$98m in Europe.

Some European startup founders have gone so far as to suggest that U.S. companies could learn from Europe. But that hasn't stopped European neobanks for example from turning to the U.S., hoping to crack the retail banking market that is still dominated by traditional players.

Revolut, Monzo and N26 are all trying to break into the U.S. market but have so far received a mixed response, citing issues such as regulation, apparent lack of demand and competition from existing banks. The difference in interchange fees in the UK compared to Europe is also a likely impact: banks/neobanks can make money on interchange in the U.S. but cannot in Europe. Although things might be at a critical turning point, as N26 reported in January 2020 that they had attracted 250,000 users in the U.S. and new customers are shifting funds from Chase and Citibank.

It's clear that European fintech innovation is influencing the way that U.S. financial institutions are operating and will continue to do so. The current digital lag within the industry, due to the popularity of traditional payment methods, presents the ideal opportunity for European fintech players to get ahead of the curve.

## What will the next decade look like?

Fintech will look very different in the next ten years. Regions will continue to watch and learn from each other, and businesses will always want to expand their reach to become a part of everyday life for as many consumers as possible. Development will emulate the evolution of the internet and as consumers become more accustomed to financial services being part of other products, fintech will become more embedded in everyday services; impacting how we manage and shape our finances.