



2021

FINTECH REPORT

**A Growing Industry
Despite Challenges**

Swedish
FinTech
Association.

The logo consists of a yellow square containing the text "Swedish FinTech Association." in black, bold, sans-serif font, arranged in three lines.

Swedish FinTech Association.

The Swedish FinTech Association is an industry association founded in 2017 to bring together the Swedish fintech industry.

We gather 76 companies in the fintech sector and work to ensure that the industry can speak with a common voice to those in power and authorities. We strengthen the ecosystem by creating a meeting place and a platform for Swedish fintech companies to become more numerous and larger.

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01

INTRODUCTION

- Purpose of the report
- What is fintech?

PURPOSE OF THE REPORT

Last year, the Swedish FinTech Association (SweFinTech) released its first report on the fintech industry in Sweden. The report presented the situation in the industry, the challenges it faced and concrete policy proposals to promote the fintech industry in Sweden and to contribute to its further growth.

This year's report also provides a current picture of the fintech industry in Sweden and describes how the industry has developed in recent years, including how it has been affected by the Covid-19 pandemic. The report also highlights five themes related to fintech: the industry's situation due to Covid-19, the need for recruitment, how the industry is affected by policies and regulations, access to financial infrastructure and the issue of sustainability. The main purpose of the report is to increase knowledge of Swedish fintech and contribute to creating conditions for an industry that is growing rapidly. The fintech industry is, and will continue to be, an engine in the digital transition and a key to restarting the economy and society after the pandemic.

WHAT IS FINTECH?

In recent years, digitization has rapidly changed the financial landscape. Through technological innovations, new financial products and services have been introduced to the market and financial technology (fintech) has emerged as an alternative to traditional methods and established banks. Simply defined, fintech is a new financial industry whose players combine financial services with software technology and digital innovations, and thereby create new services and products for consumers and companies. The global fintech industry is growing very fast and is expected to be worth around \$305 billion (equivalent to approximately SEK 2,566 billion) by 2025.¹

1. Research and Markets, FinTech Industry Report 2020-2025 – Trends, Developments and Growth Deviations Arising from the COVID-19 Pandemic, 2019.

02

FINTECH - AN ENGINE FOR SWEDISH GROWTH

- Fintech includes different types of services
- An industry that creates many new job opportunities
- Primarily larger companies raise capital

FINTECH INCLUDES DIFFERENT TYPES OF SERVICES

At the beginning of 2021, the Swedish Agency for Growth Policy Analysis (Tillväxtanalys) released a report on Swedish fintech in which they identified approximately 450 fintech companies operating in Sweden.² Just over 130 of these were founded before 2008, while the largest number of companies were registered in 2014 when 68 new registrations were confirmed.

The industry can be divided into different categories based on the activities that the companies mainly engage in. The most common categories in Sweden are payment services and

loan products.³ New payment solutions attracted players early on, with companies engaged in everything from payment systems and international transactions to invoicing. Within lending, the companies engage mainly in arranging consumer or business loans. This category also includes crowdfunding, a method whereby small amounts of capital are raised from a large number of individuals. Furthermore, many fintech companies are active within savings and investment services, where they primarily focus on simplifying the management of personal finances for consumers.

450

... fintech companies were registered and operating in Sweden according to statistics from 2019.

Services which are more targeted at companies include cloud services and software solutions, where fintech companies provide IT infrastructure to enable digital financial operations. Other growing categories are RegTech and InsurTech, which offer services within regulatory compliance, e-identification, insurance and

ways to combat financial crime. Blockchain, a database technology which enables cryptocurrencies and direct payments, has also grown and is expected to continue to grow in the coming years.⁴

2, 3. Tillväxtanalys, Svensk fintech, 2021.

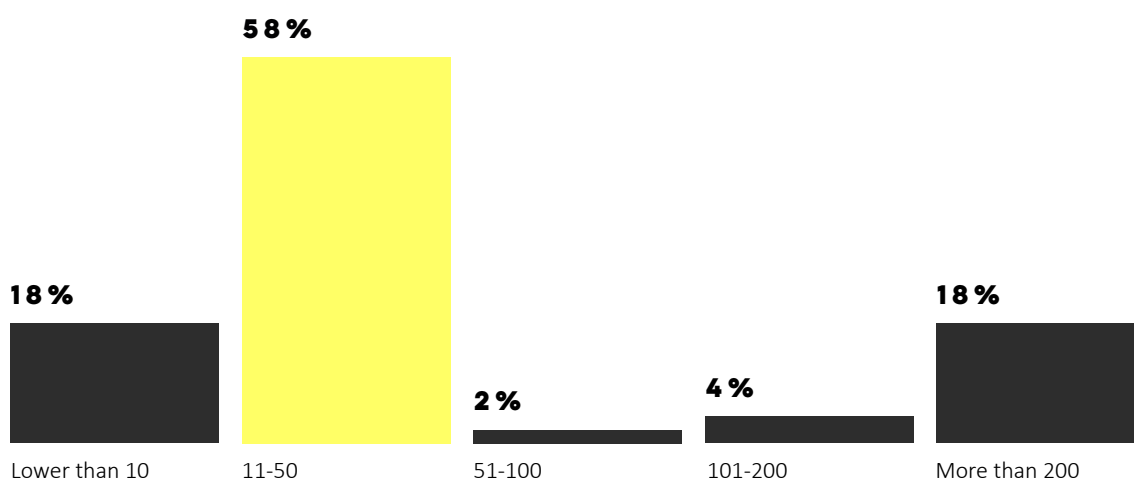
4. Markets and Markets, Blockchain Market Size, Growth, Trends and Forecast to 2025, 2020.

AN INDUSTRY THAT CREATES MANY NEW JOB OPPORTUNITIES

The Growth Policy Analysis report, which is referenced above, highlights figures that have never before been produced in relation to fintech – above all, the number of individuals that the industry employs in Sweden. The report shows that as Swedish fintech undergoes economic growth, employment will also increase. From the financial crisis of 2008 to 2018, the

number of people employed within fintech increased from 955 people to 9,746, which corresponds to an average annual growth rate of 18%.⁵ If the industry has grown by at least the same rate over the past two years, which is likely, this will mean that at least 13,000 people were working in the fintech industry last year.

NUMBER OF EMPLOYEES PER MEMBER COMPANY



The industry's growth is not expected to have slowed, as the majority of SweFinTech's member companies have recruited new staff during the past year and report a continued need for recruitment in 2021 as well. One of the reasons why many companies are in need of recruitment may be that the industry is young and mostly consists of smaller companies. 82% of our member companies have fewer than 200 employees, and 58% of the companies have between 11 and 50 employees.

Finding the right skills is something that several of SweFinTech's members report as being one of the biggest challenges in 2021, which is worrying because recruitment is absolutely necessary. It is therefore absolutely central that this challenge be addressed, as small and medium-sized companies are crucial for both business employment and renewal.⁶

5. Tillväxtnalys, Svensk fintech, 2021.

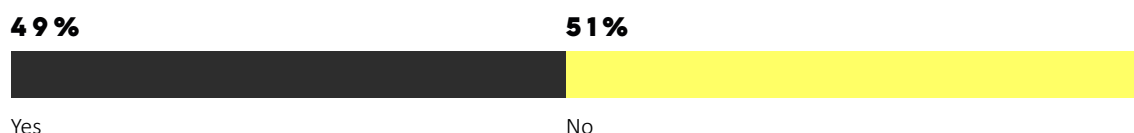
6. Vinnova, Innovation för ett attraktivare Sverige, 2016.

AN INDUSTRY THAT ATTRACTS VENTURE CAPITAL TO SWEDEN BUT IT IS PRIMARILY LARGER COMPANIES WHICH HAVE RAISED CAPITAL

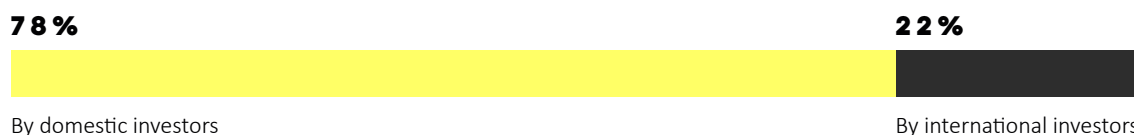
Like other industries that largely consist of young companies and start-ups, fintech companies are in great need of private financing in order to be able to continue their growth journey. In 2015, investments in Nordic fintech

companies amounted to SEK 1.8 billion and in 2019 this had increased to more than SEK 10 billion. Since 2015, more than half of these investments have gone to Swedish fintech companies.⁷

WAS VENTURE CAPITAL RAISED IN 2020?



IF SO, WAS THE INVESTOR IN QUESTION DOMESTIC OR INTERNATIONAL?



Over the course of 2020, 49% of all companies in SweFinTech's survey raised new capital, primarily from domestic investors but also from international ones. The largest investment

round in 2020 was Klarna's, which in the autumn raised SEK 5.7 billion in new capital and thereby topped the list of the largest tech investment rounds in Europe last year.⁸

7. Invest Sthlm, Stockholm FinTech Guide, 2020.

8. Atomico, State of European Tech 2020, 2020.

03

STATUS OF THE FINTECH INDUSTRY

- How fintech has fared during the Covid-19 pandemic
- Recruitment is a continuing challenge for the industry
- How policies and regulations affect the industry
- Difficulties in accessing the financial infrastructure
- The issue of sustainability is important for the fintech industry

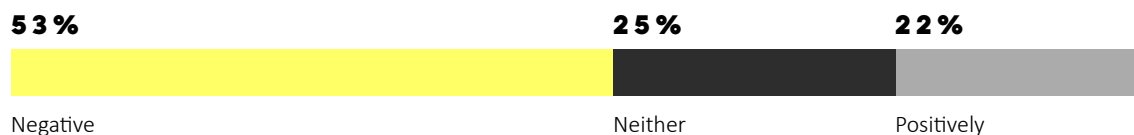
INCREASED INTEREST IN FINTECH BUT THE COMPANIES HAVE BEEN AFFECTED DIFFERENTLY BY COVID-19

The Covid-19 pandemic has shaken the whole world. Many industries have been hit hard as a result of the lockdowns and regulations that have affected demand, and the government has tried to support the Swedish business community through several initiatives.

In May 2020, 93% of SweFinTech's member companies reported that they were being affected by the crisis. What we did not know then was that we were at an early stage of the pandemic and that it was important for companies to find long-term strategies and ways of working to persevere. When we asked member companies again in the autumn how

they were affected by the pandemic, it turned out that just over half of all responding companies considered themselves to have been negatively affected, but that just over one in five companies also experienced a positive change. Another fifth of members reported that they were not significantly affected by the crisis.

HOW IS YOUR COMPANY AFFECTED BY THE COVID CRISIS?



Several of SweFinTech's members mention that they have seen an increased interest in personal finance among consumers during the crisis, and that as a result of restrictions limiting freedom of movement, more people have been left with no option but to begin managing their financial affairs entirely online. Interest in fintech services has consequently increased as they enable financial services to be delivered remotely, which is confirmed by the survey where several members experience a positive change in consumers' attitudes towards fintech services. The same trend is also visible internationally. A study undertaken by the World Economic Forum together with the

University of Cambridge from 2020 examines how the pandemic has affected the global fintech industry, where the number of new customers is reported to have increased by 22% between 2019 and 2020.⁹

Fintech products are predicted to increase in relevance even after the pandemic as more transactions take place through digital channels and people's experience of digital services becomes greater, which puts pressure on other financial players to develop digital solutions.

9. CCAF, World Bank and World Economic Forum, The Global Covid-19 FinTech Market Rapid Assessment Report, 2020.

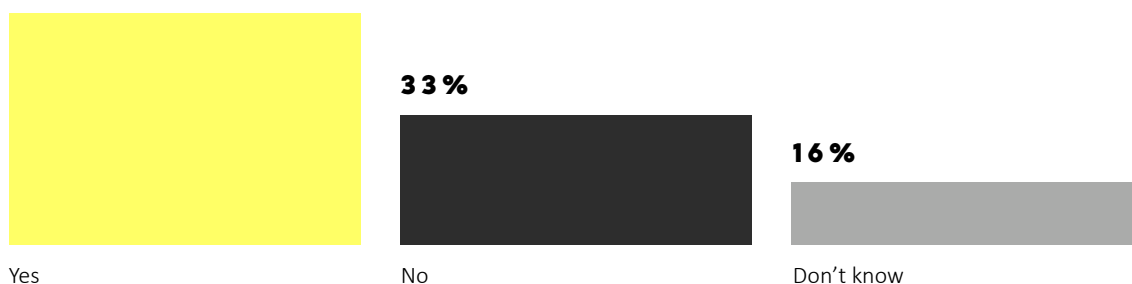
THE IMPACT OF THE PANDEMIC ON ACCESS TO CAPITAL

Despite the fact that the industry has so far done relatively well, some challenges remain that have become even clearer as a result of the pandemic. One such challenge is to secure access to capital, which is something that 31% of member companies state has become more difficult during the pandemic. The fact that the willingness of investors and creditors to invest has decreased and that they have become more hesitant appears to be one of the most common reasons. In SweFinTech's report from 2020, many companies testified that it is more difficult to

raise capital in the early stages of their business, and this is something which we also see in this year's results. It is often considered safer to invest in later investment phases as companies have become more established and have had the opportunity to test their business models to a greater extent. Many member companies also experience that the reduction of physical meetings constitutes an additional obstacle to efficient capital raising as physical meetings often promote a longer business relationship, which may be required to raise larger sums of capital.

DO YOU NEED TO RAISE CAPITAL WITHIN THE NEXT YEAR?

51%



As the pandemic is still ongoing, there is a risk that the challenges exacerbated by the crisis will continue for the rest of 2021. 51% of member companies report that they need to raise new capital during the year, of which 96% have fewer than 50 employees. Among those who state that they do not need to raise capital in 2021, the majority are larger companies with more than 50 employees, several of which have

more than 200 employees. This could be an indication that the pandemic has created a more polarized industry, where larger companies are becoming more established while smaller companies have not grown at the same rate. The smaller companies are therefore in greater need of raising new capital in order to continue to expand, something which 91% of companies plan to do in 2021.

ARE YOU PLANNING TO EXPAND YOUR BUSINESS IN 2021?

91%



THE GOVERNMENT'S RESCUE PACKAGE HAS NOT BEEN ENOUGH

The pandemic has placed great demands on the fintech industry in Sweden, which is still a young industry. Apart from the fact that the capital market has to some extent stalled and that investors are acting with greater caution, much of the state aid presented has not reached wide enough. Furlough subsidies constitute the support that the largest proportion of fintech companies has used, but at the beginning of the crisis it was unclear how the subsidies would be implemented for start-ups and smaller fast-

growing companies. For example, it was difficult for companies without a collective agreement to avail of short-term furlough support, and as a large proportion of the fintech industry does not have a collective agreement, this led to difficulties in using the subsidies. Like several other forms of support, furlough subsidies have been adapted for a more traditional industry, while newer, more innovative companies have not had the same opportunity to benefit from them.

“In 2020, the capital market came to a halt and investors acted with greater caution – a development which affected the industry, especially smaller companies.”

During the spring of 2020, SweFinTech worked actively to put out information about the needs of the fintech industry and the fact that a stalling of the capital market could have major consequences for the start-up sector. In other countries, such as France and the UK, large crisis packages were introduced aimed at the start-up sector, but in Sweden this industry was almost completely forgotten about.¹⁰ In May 2020, the government and its partner parties

provided capital of SEK 400 million to Almi Invest to remedy the stalled capital market and help start-ups through the current crisis. According to Almi Invest, a total of around SEK 50 million of this additional capital was invested in 2020, of which just under SEK six million was invested in three different fintech companies.¹¹ This shows that only a small part of the fintech industry has benefited from the additional capital.

10. TechCrunch, France announces \$4.3b plan to support startups, 2020.

11. Mejlkorrenspendens Almi Invest, 2021-02-12.

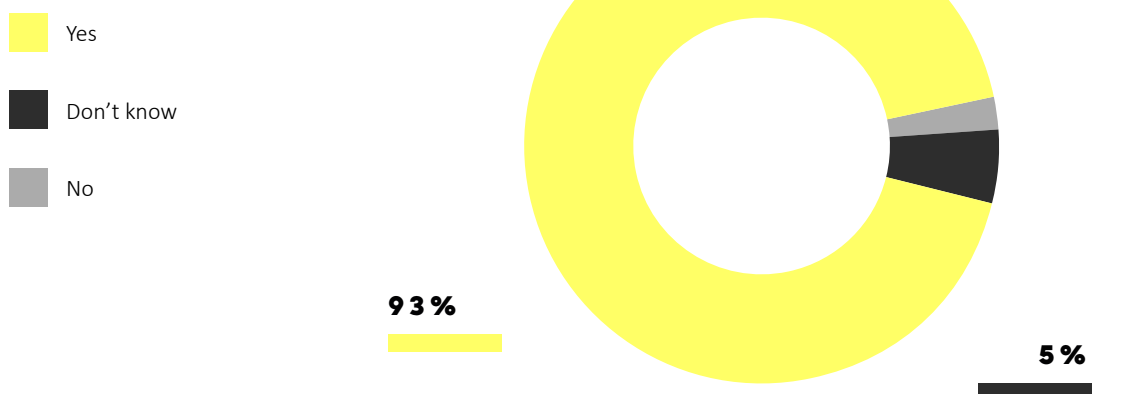
RECRUITMENT IS A CONTINUING CHALLENGE FOR THE INDUSTRY

Last year, SweFinTech reported on the fintech industry's need for expertise. Despite a turbulent time, we see that the industry continues to grow and that the need for new skills remains.

The Swedish fintech industry is in great need of new skills. In SweFinTech's report last year, 96% of the companies reported that there was a continued need for recruitment in 2020. Despite the pandemic and the continued challenges it has posed, 73 percent of the participating companies reported that they recruited new

staff last year, which indicates that the industry is continuing to grow at a high rate. Most of the member companies do not feel that the pandemic has made any difference in terms of finding the right competences, while 27% feel that it has become easier than before.

DO YOU NEED TO RECRUIT IN 2021?



Although the majority of member companies have been successful in their recruitment efforts, there are still challenges in finding the right competences. 93% of the companies need new recruits in 2021, and technical specialist competences is the competence that most member companies are looking for. At the same time, this is difficult to find due to the fierce level of competition in both the Swedish and the international labor market. It therefore seems all the more important to promote relevant competences in Sweden, and at the same time make Sweden attractive as a country for companies to succeed in attracting foreign competence.

SweFinTech's report from 2020 highlighted several concrete proposals on how this can be promoted: talent visas for international labor in sectors where there is a shortage, relevant university programs designed for fintech, combating the housing shortage in large cities and simplifications of the taxation of employee stock options. The proposals still apply to the highest degree as the industry's need to recruit key people and industry-specific competences in order to continue growing remains just as great today as it was before.

TRAINING IN FINTECH

In Sweden, there is a shortage of developers who have an understanding of the financial sector and fintech, and there is a demand within the industry for people who have undergone combined training and acquired both technical and financial knowledge. In Lithuania, for example, Vilnius University has introduced a Master's program in fintech, which is something that does not yet exist in Sweden. However, there are a number of private initiatives and training initiatives in the area. An example is

Hyper Island, an institution for higher vocational education in Stockholm, which in the autumn applied to the Swedish National Agency for Higher Vocational Education to introduce a course entitled "Fintech Software Developer". Unfortunately, the application was not granted because the authority received a record number of applications and had to deprioritize new programs. Hyper Island has announced that they will try again for 2022.

EMPLOYEE STOCK OPTIONS

For smaller companies that do not have the opportunity to offer a competitive salary, it can be a challenge to attract and retain skills. One way for such companies to attract talent is by offering employee stock options. In the autumn of 2020, a government inquiry into qualified employee stock options was presented, which proposed that the existing program for such options should be expanded so as to also reach companies with more employees and with greater turnover. The current rules cover companies which consist of fewer than 50 employees and have a net and balance sheet turnover amounting to a maximum of SEK 80 million, while the new proposal includes companies with a maximum of 150 employees and a turnover of a maximum of SEK 280 million. The inquiry also proposes that board members be included in the option programs.¹²

The reason for the proposal is that Sweden needs to become a more attractive country and be able to attract key expertise.

Unfortunately, the inquiry proposes that banking and financing operations should continue to be exempt from the qualified employee stock options. This would mean the fintech sector would be excluded even under the new rules. This is despite the fact that the fintech industry faces the same challenges as other tech companies when it comes to attracting the right skills to be able to scale up and become competitive internationally. SweFinTech has presented this criticism to former Minister for Financial Markets Per Bolund in the hope that the government will review this in the forthcoming bill.

12. Regeringen, Remiss av promemorian Utvidgade regler om lättnad i beskattningen av personaloptioner i vissa fall, 2020.

HOW POLICIES AND REGULATIONS AFFECT THE INDUSTRY

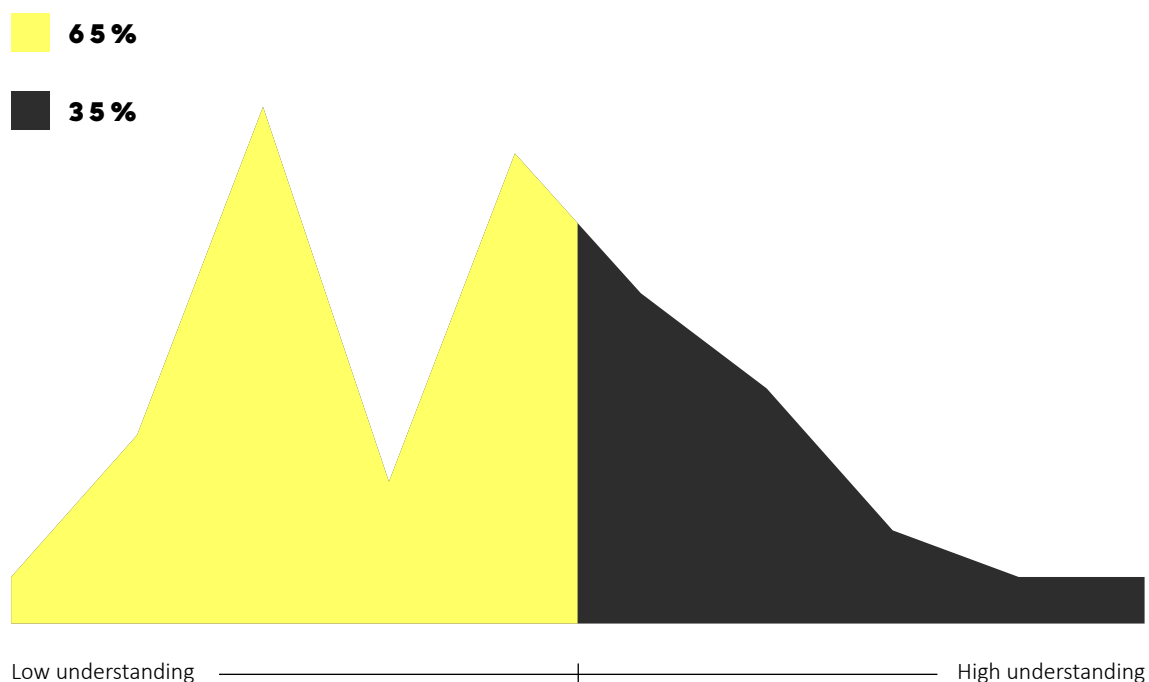
Sweden is at the forefront when it comes to fintech. Despite this, fintech companies still feel that politicians and those in power have a low understanding of the industry, and that a higher political ambition is needed for the fintech industry to remain strong.

THOSE IN POWER ARE STILL PERCEIVED TO HAVE A LOW UNDERSTANDING OF FINTECH

SweFintech's 2020 report described, among other things, one of the challenges that the fintech industry is affected by: a heavy regulatory burden from the financial legislation side. 79% perceived the understanding of fintech among politicians and those in power to be low, and

91% of companies enlisted external help to comply with the rules. The report described the importance of authorities and regulators becoming familiar with new business models and for regulations to be reviewed as the financial industry develops.

HOW DO YOU PERCEIVE THE UNDERSTANDING OF THE SWEDISH FINTECH INDUSTRY TO BE AMONG POLITICIANS AND THOSE IN POWER?



65%

... of the members perceive that level of understanding among politicians and those in power is still low.

62%

... of the members enlist external help in order to ensure regulatory compliance.

When SweFinTech asked the same questions in this year's survey, a small improvement was seen. 65% of the members perceive that understanding remains low among politicians and those in power, while 62% bring in external help in order to ensure regulatory compliance. Despite improvements from the previous year, the regulatory burden is still perceived as heavy by 63% of the member companies, who feel that the regulations they are affected by are more adapted to traditional banks than to their operations. In order for the regulatory work not to become overwhelming for established companies, and in order to ensure that newcomers are not discouraged, greater efforts are still required from authorities to review and understand how existing and future regulations affect the fintech industry both directly and indirectly.

In 2018, the Swedish Financial Supervisory Authority (Finansinspektionen) set up an innovation center to assist fintech companies with information and guidance in relation to the rules, permits and processes.¹³ Despite good intentions, in last year's survey, SweFinTech's members described that the innovation center had not made a major impression yet. Unfortunately, no improvement has been seen since then. Despite the heavy regulatory burden and the fact that many experience permit cases as challenging, only nine companies have been in contact with the innovation center, two of whom found the contact helpful. In order for the innovation center to be able to fulfill its mission and contribute with sought-after guidance for both start-ups and more established companies, clearer political guidelines, increased powers and more resources are required.

63%

... of members consider that the regulatory burden is still heavy despite small improvements in the previous year.

13. Finansinspektionen, Om FI:s innovationscenter, 2018.



ELEONORA PAVLIOUK

SWEFINTECH BOARD MEMBER

"The government needs to do more to promote innovation in the financial system. The Financial Supervisory Authority's innovation center was a good idea, but without resources and guidance from a political point of view, it is ineffective."

PSD2 AND OTHER EU INITIATIVES

The Payment Services Directive 2, or PSD2, is an EU directive from 2015 which, among other things, regulates the access of so-called third-party providers to information from payment accounts, which in most cases is with an account-holding bank. PSD2 has been an important reform to open up the market, and for third-party providers to use data to be able to build new services for consumers – this is what is known as Open Banking. The directive was implemented into Swedish law in May 2018, but unfortunately not all players live up to what the law says. SweFinTech has reported on this before and we work in dialogue with other players to resolve the problems that have arisen in the market.

The European Banking Authority (EBA), an authority tasked with harmonizing supervision within the EU and ensuring that current rules are complied with, has on several occasions criticized the insufficient implementation of PSD2. In particular, the EBA has criticized the fact that the APIs do not meet high enough standards for information to be shared effectively between different players.¹⁴

In order to resolve these problems, the Swedish supervisory authority needs to more strongly demand that all parties covered by PSD2 must comply with the requirements in the regulations. This is necessary for Open Banking to work in Sweden. At present, the situation remains unsatisfactory, which is anti-competitive for third-party suppliers that are fintech companies.

“The EU’s digital finance package will have a major impact on the Swedish financial industry.”

Furthermore, there is hope that the European Commission will act to promote the fintech industry when they announced the Digital Finance Package in the autumn of 2020 as part of the journey towards digitizing the financial sector in the EU.¹⁵ The digital business package contains strategies and legislative

proposals on how the EU can support the digital transition and create regulations that are more suited for a digital financial market in order to thereby provide better and more secure financial products to consumers and businesses in the EU.

14. European Banking Authority, EBA publishes Opinion on obstacles to the provision of third party provider services under the Payment Services Directive, 2020.

15. European Commission, Digital Finance Package, 2020.

The digital finance strategy highlights various approaches to promoting the digitization of the financial market and how the European Commission will address legislative proposals linked to the field in the coming years. Among other things, it is stated that the Commission will review PSD2 in the coming years, that an evaluation will be carried out and that it may be necessary to change the regulations. The Commission needs to realize the benefits of opening up the financial market even more and

that the regulations could be applied to more than just debit accounts. This could, for example, also apply to information from insurance or other accounts, as long as the consumer gives their consent to this. Such changes may, in the long run, become highly relevant for the fintech industry in Sweden and lead to a smoother playing field between fintech companies and traditional players in the financial market.

FINANCIAL CRIME CAN BE FOUGHT WITH THE HELP OF FINTECH

The fight against money laundering and terrorist financing is an issue that has become increasingly relevant for the financial industry in recent years, and which is taking on new forms with the digitization of the financial market. Implementing complex regulations in this area requires enormous resources, both for established financial market players and for banks and fintech companies. The majority of the established players often still use manual control systems, which

has created a demand for services that enable the automation and digitization of processes in order to be able to comply with the regulatory requirements in a more efficient way. Therefore, RegTech, a sub-category within fintech, has emerged and created new opportunities for banks and fintech companies to take a more supple approach towards their efforts to prevent all types of financial crime.

THE IMPORTANCE OF COLLABORATION BETWEEN THE PRIVATE AND PUBLIC SECTORS

It is of great importance that authorities and politicians continue to show interest in the fintech industry and that they try to understand new business models. To make this possible, an active ecosystem is needed in Sweden, and perhaps primarily in Stockholm, where many fintech companies have their headquarters. Ecosystem in this respect means an area which encompasses companies, relevant higher education and research institutions, but also meeting places for the industry via fintech hubs and associations and a good collaboration between business and the public sector.

It is therefore positive that in 2020, the Bank for International Settlements (BIS) decided to open a Nordic Innovation Center in Stockholm.¹⁶ The center was started on the initiative of Sweden's central bank (Sveriges Riksbank), which applied for its opening in Stockholm, and it will work to deepen the analysis of financial innovations that are relevant to central banks. Hopefully, the initiative will cause ripples on the water and attract both talent and researchers to Stockholm, which in the long run should be positive for the fintech industry's ecosystem.

16. Riksbanken, BIS Innovation Hub Nordic Centre, 2020.



SIAM CHOUDHURY

FOUNDER AND CEO, PLIANCE

“There needs to be much more focus on the fight against financial crime and not just on the basic checks. In this regard, RegTech companies can help banks as well as start-ups to understand the risks that come with their operations and be able to develop better processes to prevent the risks.”

DIFFICULTIES IN ACCESSING THE FINANCIAL INFRASTRUCTURE

In order to be able to conduct business in the financial industry, not only are permits required, but companies also need access to various parts of the financial infrastructure. Having a financial infrastructure that all players can enjoy on equal terms is a basic precondition for healthy competition to prevail in the financial market.

What distinguishes the fintech industry from other parts of the tech industry is that the financial market is more strictly regulated, for which there are good reasons. This is about ensuring stability and preventing risks, and if it is handled incorrectly, it can affect not only individual players but entire economies.

With that said, the financial industry in Sweden is largely regulated according to the four major banks that have been on the market for over a

hundred years. As a result, parts of the financial infrastructure are now in the hands of private companies rather than in the hands of the government. These include identification methods such as Bank-ID or the direct payment app Swish, both of which are initiatives of the major banks, meaning that it is these players who decide who is allowed to use the services.

“The financial industry in Sweden is largely regulated according to the four major banks that have been on the market for over a hundred years. As a result, parts of the financial infrastructure are now in the hands of private companies rather than in the hands of the government”

Another problem is access to a business account. In order for a payment institution to be able to conduct its operations in Sweden, a business account is required with one of the major banks. This applies to both national and international players, and in the past year it has become more difficult for payment institutions to maintain their business accounts. Several international and well-known fintech companies have warned about the problem in Sweden and the Nordic countries, where agreements on business accounts are terminated without further explanation.

The Growth Policy Analysis report on the Swedish fintech industry's innovative power also highlights problems with bank accounts, mainly in relation to start-up companies that work with blockchain technology or cryptocurrencies. According to information that SweFinTech has received, this also applies to both new and established players in the payment service area.¹⁷ The banks choose not to issue or to close bank accounts with existing customers on the grounds that there are risks in the business.

It is of course problematic if companies that have a permit from the Swedish Financial Supervisory Authority (Finansinspektionen) to operate in the payment market cannot gain access to business accounts or if agreements are terminated, which is highly anti-competitive. This could also put Sweden in a bad light and risk hampering the establishment of new fintech companies.

In December 2020, the Government commissioned an inquiry into the development of the payment market, which will take a closer look at the role of the government in the payment market. The inquiry has a broad mandate based on the rapid change that has taken place in the payment market in Sweden, both in terms of the reduction of cash but also many new players. Access to the financial infrastructure is the basis for being able to operate in the market and it is necessary to review which and in what way all serious actors should be able to participate on equal terms. SweFinTech welcomes the inquiry, and we hope that the investigator Anna Kinberg Batra will bring the fintech industry's perspective with her when the inquiry presents its final report in 2022.¹⁸

17. Tillväxtanalys, Svensk fintech, 2021.

18. Regeringen, Tilläggsdirektiv till Utredningen om stärkta åtgärder mot penningtvätt och finansiering av terrorism, 2020.
Svenska Bankföreningen, Samverka mot penningtvätt, 2021.



LUDWIG PETTERSSON

CEO, SAVELEND

“The financial infrastructure is basically a matter of democracy. It is a risk for the whole of Sweden if the banks are allowed to form a monopoly position where they decide who is allowed to open an account or not. It is of the utmost importance that this is reviewed and that all companies have equal opportunities.”

THE ISSUE OF SUSTAINABILITY IS IMPORTANT FOR THE FINTECH INDUSTRY

Sustainability has become a key word that all industries must relate to. It is not just a matter of meeting consumer demand or living up to political and regulatory requirements, but of the business community actively striving to contribute to the transition to a sustainable society and economy. In this regard, the financial sector, including fintech, plays a key role.

The issue of sustainability is something that engages many fintech companies. As many as 69% of SweFinTech's members report that sustainability is an important part of their business model and that it is something they work with actively. Most of SweFinTech's members consider themselves to work primarily with social aspects of sustainability, and that through their products they can include more people in the financial system. Many of the fintech companies are working to lower the thresholds in the financial world by creating more user-friendly and affordable products and thereby provide individuals and companies with a wider range of services that can help them improve their personal finances, which in the long run creates positive societal effects.

Due to the high rate of digitization that society is undergoing, it is also important that groups do not fall behind and become excluded from new digital systems, as not everyone has the ability or opportunity to use new services. Several fintech companies are therefore working to financially include different groups. Examples of such solutions are services aimed at educating children and young people about economics, companies which simplify pension savings or services which "democratize" international transactions so that people or aid organizations can send money between countries more easily and cost-effectively. By making financial services available to more people, fintech can improve people's personal finances and in the long run create conditions for a more equal society.

69%

... of the companies state that sustainability is an important part of their business model.



YOSEF MOHAMED

FOUNDER AND CEO, TRANSFER GALAXY

“By replacing older and more costly methods for people to manage their finances, fintech is able not only to improve the personal finances of individuals, but also of their loved ones and across national borders.”



PHILIP HAGLUND

FOUNDER AND CEO, GIMI

“The ability to independently manage money wisely is of course important to you as an individual and it is a necessity for a sustainable society with equal conditions. The fintech industry can contribute via new services which can make it easier for more groups to take control of their personal finances.”

04

SUMMARY AND CONCLUSIONS

- The Swedish fintech industry has the opportunity to become a world leader
- SweFinTech's proposals

THE SWEDISH FINTECH INDUSTRY HAS THE OPPORTUNITY TO BECOME A WORLD LEADER

The Swedish fintech sector continues to grow and now consists of more than 450 companies that employ over 10,000 people. 91% of the companies plan to expand their operations in 2021, and there is a great need for recruitment as 93% of the companies plan to recruit in 2021. Several Swedish fintech companies are strong internationally and the industry has good future prospects.

Just as it has been for other sectors as well, the single biggest change for the fintech sector this year has been the pandemic. Swedish fintech companies have been affected in different ways by the pandemic – many companies have seen positive effects such as an increased demand for financial services and an increased interest in personal finance in general. On the other hand, some companies have experienced challenges, especially with regard to access to risk capital. This mainly applies to start-ups

seeking capital at an early stage. Investors have been more restrained in their investments during the crisis and it has primarily been the larger companies which have been able to secure capital during this period. Companies which experienced difficulties during the crisis have also had problems availing of the government rescue packages which aim to support companies. Several of the government support initiatives have been more adapted for traditional industry rather than small innovative growth companies.

It is of great importance that Sweden continues to attract capital and that both start-ups and scale-ups can secure the supply of capital needed in order to continue to grow and compete in the international market. This is a must in order for the industry to continue to develop and contribute to more jobs.

“It is of great importance that Sweden continues to attract capital and that both start-ups and scale-ups can secure the supply of capital needed in order to continue to grow and compete in the international market.”

An additional challenge is the difficulties in finding the right skills, as the fintech industry is in great need of technical skills such as developers and IT engineers. More people need to be trained in these areas, but Swedish companies must also be able to attract key expertise from outside through, for example, talent visas which simplify the processes involved in coming to Sweden.

The Swedish government also needs to take further action in regards to qualified employee stock options, which is an effective way for start-ups to attract expertise. Unfortunately, the current proposal excludes banking and financing operations, which shuts out the fintech industry despite the fact that this sector is facing the same challenges as other tech companies.

“If SweFinTech’s proposals are taken into account, there are great opportunities for Sweden to become the best fintech country in the world.”

Fintech companies continue to find that an understanding of the industry is low among politicians and authorities, and that more initiative and – above all – political will are going to be needed to understand and promote the industry’s growth. The Swedish Financial Supervisory Authority (Finansinspektionen) should be given an expanded mandate to promote innovation in the financial sector, an initiative that would enable more fintech companies to start and grow. It should also be the role of the government to make the financial infrastructure available so that it can benefit everyone in the market and ensure fair competitive conditions.

Sustainability, especially social sustainability, is something that a large part of the fintech industry works with: 69% of fintech companies state that sustainability is an important part of their business model and something they work with actively.

This report shows that the fintech industry continues to accelerate in Sweden and that hundreds, perhaps thousands, more individuals will take up employment within the industry in the coming year. However, the report also shows that there are still obstacles to the industry’s growth. We have come a long way, but there is still a lack of visions and initiatives from the government to give the industry the right conditions. If SweFinTech’s proposals are taken into account, there are great opportunities for Sweden to become the best fintech country in the world.

SWEFINTECH'S PROPOSALS

POLITICAL VISION AND WILL

- Give the Swedish Financial Supervisory Authority (Finansinspektionen) or another authority the task of promoting innovation in the financial market.
- Comply with the Swedish Agency for Growth Policy Analysis (Tillväxtanalys) in their report on Swedish fintech and show willingness to reform.
- Develop a political strategy or action plan for how the industry will develop in the future.

ATTRACT TALENT TO THE FINTECH SECTOR

- Include the fintech industry in the proposal for qualified employee stock options.
- Train more engineers, developers and create training programs which combine finance and tech.
- Invest more resources into research within fintech and the digitization of the financial sector.
- Introduce talent visas to attract key skills to Sweden.

OPEN UP THE FINANCIAL INFRASTRUCTURE

- The government needs to take on a greater role in making the financial infrastructure available to all serious players in the market.
- The European Commission should review the framework for PSD2 and develop it into an "Open Finance Framework".
- Before this happens, the Swedish supervisory authority should ensure that PSD2 is being complied with. It is time for the Swedish Financial Supervisory Authority (Finansinspektionen) to ensure that the APIs meet the requirements contained in the legislation for the law to serve its purpose.

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ABOUT THE REPORT

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METHOD AND DATA

The analyses in the report are based partly on survey responses and partly on interviews with representatives of member companies in SweFinTech. The questionnaire was sent out in October 2020 to 62 member companies, of which 45 companies responded. The questionnaire was sent only to the member companies whose main activities are in fintech and not to the law firms, consulting companies and similar companies which make up the total number of members (76). In total, the survey consisted of 26 questions and covered six areas: information and background, financing, legislation and regulations, sustainability, Covid-19 and its impact, and future plans. The questions were both closed (where the respondents were presented with multiple-choice answers) and open (where the respondents were given a chance to develop their answers and reasoning). A large part of the report is based on the results that SweFinTech obtained from the survey.

To gain an insight into the pandemic's impact on Swedish fintech, SweFinTech conducted a short survey in May 2020, which was followed up on in the member survey in the autumn of the same year. The conclusions drawn from the responses form the basis for the section on the effects of the pandemic, as the bearing of Covid-19 on fintech is still relatively unexplored.

For those parts of the report that are not based on the responses from these surveys, information has been obtained through interviews with industry experts and based on SweFinTech's own knowledge of the fintech industry. Secondary sources have also been used, mainly from previous studies and reports. Interviews were conducted and the report was prepared between November 2020 and March 2021. Both the survey and the report were prepared by SweFinTech's general secretary and project manager, who also received guidance and approval from the board.

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