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Modularization set to reorder the future market structure of the financial services industry

- Baker McKenzie explores how modularization will reorder the value chain of the financial industry in latest article in *The Next Decade in Fintech series*.
- Open Finance Initiatives could follow in other jurisdictions
- Regulation will be key to facilitate growth of modular financial services

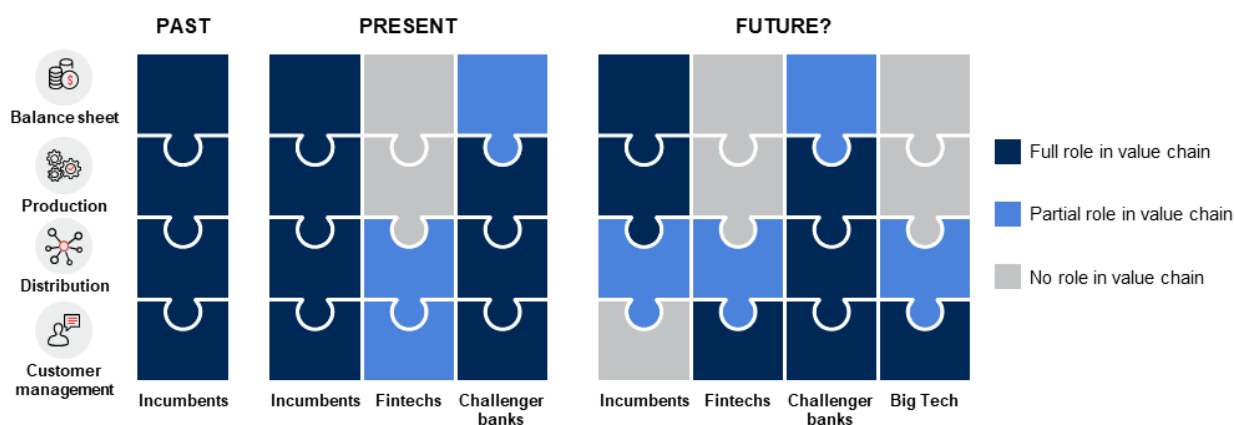
Global, 28 June, 2023:

Leading global law firm Baker McKenzie has published its latest piece in *The Next Decade in Fintech series*, and explores how modularization will reorder the future market structure or value chain of the financial services industry.

Titled "Modular Financial Services: new beginning or false dawn?" the article delves into how modularization has the potential to disrupt vertically integrated business models in banking and other sub-sectors.

Financial services are becoming increasingly modular with digital distribution platforms, new product providers, alternative sources of capital and a growth in outsourcing that is changing the sector. This shift has the potential to reorder the value chain, creating a future market structure for banks, fintechs and large technology companies to compete with financial incumbents in customer management, distribution and production.

Value-Chain Roles in Modular Financial Services



Acknowledgement

This graphic builds on a representation of digital banking value-chain layers appearing in a 2021 report from CGAP, authored by Peter Zetterli, entitled *The Great Unbundling: How technology is making financial services modular and what it means for inclusion*.

To date, modular finance has progressed furthest in banking and payments largely due to consumer behavior but also legal and regulatory reform (such as the UK's Open Banking Initiative and the Payment Services Directive), which has supported third party providers' secure access to customer financial data. There is the prospect of other jurisdictions launching similar initiatives as they look to catalyze the growth of modular financial services, but obstacles remain.

The article also addresses the crucial role of regulation in the development of modular financial services.

Commenting on regulation, Baker McKenzie Financial Services Partner Karen Man says: *"There needs to be a regulatory environment that facilitates growth. Many modular services rely on outsourcing, which is increasingly subject to regulatory scrutiny as concerns grow over the need to ensure that digital systems are sufficiently resilient."*

It explores the need for regulatory frameworks that strike the right balance between fostering innovation and ensuring consumer protection, paving the way for a thriving modular financial ecosystem.

Karen Man will be attending the Point Zero Forum and will be available to comment on June 27 between 3 and 5 pm.

ENDS

Notes to Editor

- This article is part of Baker McKenzie's The Next Decade in Fintech series, which provides valuable insights into digital transformation and the future of fintech. For more information, visit <https://www.bakermckenzie.com/en/insight/publications/resources/next-decade-in-fintech>

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