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2025 FinTech Outlook: 5 key areas to watch

1. Introduction

After a couple of turbulent years, the fintech sector in the EU is finally entering the new year with a high level of optimism.

First, the improved outlook for the long-awaited upswing in M&A activity and a more friendly fundraising environment are the major drivers of the high level of optimism that the fintech industry is entering 2025 with. Ripple effects of the Draghi Report and the increasing focus of the EU Commission and local governments on the strengthening of the EU competitiveness in the ever-changing world, may likewise serve as a catalyst for investments into innovative fintech companies "*made and run*" in the EU.

In addition to the expected market developments, a number of key pieces of EU legislation that aim to regulate some main areas of the fintech sector, are scheduled to be finalized or become operational in 2025. These are expected to provide a higher level of regulatory certainty for fintech companies operating in or considering expanding to the EU Single Market. The list is long and covers (among other) the harmonized EU regulatory framework on crypto-assets, long-awaited amendments to the existing payment services regulatory framework as well as the emerging regulatory framework on open finance, all of which aim to open the new avenues for the growth of the fintech sector in the EU.

There are a lot of developments that we expect to shape in the fintech industry in the EU this year, which can be summarized in the following key 5 areas that you should have on your radar.

1. Payment Services

The evolving payment services landscape in the EU will remain in the strong focus of the fintech industry with the increasing number of fintech players continuing to compete for the lucrative and relatively mature EU market for online payment services. In 2025, fintech companies specializing in payments, are expected to continue opening new avenues in the payment services ecosystem including by developing new products in some less traditional areas including direct-carrier billing, peer-to-peer payments as well as payment products that rely on the use of stablecoins instead of traditional payment infrastructures (see more on crypto related developments in the next chapter).

The regulatory framework on payment and e-money services based on the Second Payment Services Directive (PSD2) and the Second E-Money Directive (EMD2) is also going through a revision that will likely be finalized in 2025. Proposed in June 2023 as part of the EU Commissions Payments Package, the Third Payment Services Directive (PSD3) and the very first Payment Services Regulation (PSR) will continue their way through the EU legislative making process with the EU lawmakers expected to continue trialogue discussions in Q1 2025.

The PSD3/PSR framework will (once adopted) introduce a number of changes that will among other, provide for:

- creation of a single rulebook for payment and e-money services;
- harmonization of existing rules on exclusions from the licensing obligations;
- new rules that will more effectively combat fraud in payment services;
- harmonization of transparency and requirements on customer information;
- new requirements on strong customer authentication and open banking that shall streamline these two pillars of the PSD2 framework.

See our dedicated article on PSD3/PSR package for more information.

In addition to PSD3/PSR, 2025 will be an important year for instant payments: Namely, as of 9 January 2025, the first group of rules under the new EU Instant Payments Regulation have started to apply requiring credit institutions in the Eurozone to ensure their ability to receive instant credit transfers in the euro at no extra cost for their customers. In the second step, by October 2025 the EU credit institutions are required to be able to send instant credit transfers for their customers in the same way. Eurozone based e-money institutions and payment institutions as well as non-Eurozone based credit institutions will be required to ensure full compliance with the Instant Payments Regulation by 9 July 2027.

2. Crypto-assets

With the prices of major crypto-assets continuing to reach new highs on the back of the US election results, and the expected less crypto-hostile environment in the world's largest economy in the coming years, the crypto-industry is starting to show signs of a descent recovery.

The ripple effects of these developments are felt in the EU as well, where the crypto-industry is bracing for a new era of a fully regulated crypto-sector based on the EU Markets in Crypto-Assets (MiCA) Regulation.

Intended to become a backbone of the EU regulatory framework on crypto-assets, MiCA Regulation creates a common taxonomy of crypto-assets, harmonized set of rules applicable to issuers and offerors of crypto-assets as well as a harmonized authorization framework applicable to persons engaging in the provision of regulated crypto-asset services in the EU (like crypto-exchanges, wallet providers etc.).

The new framework also creates a designated regulatory regime on two major categories of stablecoins: (i) e-money tokens (that purport to maintain a stable value by referring to the value of one official currency) and (ii) asset-referenced tokens (that do not qualify as e-money tokens and purport to maintain a stable value by referencing another value or right or a combination thereof (e.g. commodities, other crypto-assets etc.)

The designated regulatory framework on stablecoins has become operational as of 30 June 2024 and it has already shaken up the stablecoin market in the EU: whereas some major stablecoin issuers have announced their plans to leave the EU Single Market altogether, others have started to press full steam ahead with the approval of their MiCA-compliant stablecoins that will be offered on the regulated crypto-exchanges across the EU.

The national competent authorities (NCAs) in several EU Member States have already started to organize dedicated industry roundtables with the intention to promote their jurisdictions to prospective CASPs and issuers of crypto-assets. National lawmakers have also largely completed national transposition laws that provide for a transitional periods for existing CASPs and the European Securities and Markets Authority (ESMA) has published an overview of national transposition periods in selected EU Member States, that shall help the industry navigate the implementation process.

As move further into 2025, the interest of domestic and foreign players in establishing a solid footprint in the EU crypto-market is only growing: whereas those that have operated before are looking to ensure compliance with the new framework now, the others are increasingly looking to leverage the new regulatory framework to establish their headquarters in one of the EU Member States from where they will now be in position to serve the entire EU Single Market (something that was due to the fragmented regulatory landscape, particularly difficult before).

With the increased level of regulatory certainty and harmonization, the financial institutions in the EU are also expected to show more interest in entering the space now. By offering their customers selected regulated crypto-asset services (like custody and trading) they can effectively establish a bridge between traditional finance and the digital asset ecosystem, which can serve as a catalyst for more wide-spread institutional adoption of digital assets in the coming years.

To find out more about the MiCA framework, check out our dedicated article series "Navigating MiCA".

3. Open Finance

Alongside the reform of the payment services regulatory framework, in 2025 the EU lawmakers are also expected to continue their work on the new EU regulatory framework on open finance based on the proposal a Regulation on financial data access (FIDA Regulation).

The open finance framework is poised to start a new era for the financial services sector in the EU, in which consent based sharing of customer's financial data between financial institutions across various sub-sectors (incl. investment services, insurance and consumer credit) shall become a new normal. By leveraging the data about the past customer behavior, their preferences and financial situation, the financial institutions shall become able to provide the customers with more individualized financial products and services.

The framework builds on the open banking framework based on PSD2 and broadens the scope of financial data that will be eligible for consent-based sharing which will cover data about:

- Mortgage credit agreements, loans, and accounts (except payment account related data that is already regulated under PSD2);
- Savings, investments in financial instruments, insurance-based investment products, crypto-assets, real estate and other related financial assets as well as economic benefits derived from such assets including data processed as part of suitability and appropriateness assessments under MiFID II;
- Pension rights in occupational pension schemes within the scope of Institutions for Occupational Retirement Provision II and Solvency II;
- Non-life insurance products (e.g. car insurance);
- Creditworthiness assessments of companies (where data is collected as part of a loan application process or based on a request for a credit rating).

Financial institutions will be able on the one hand to obtain the above-mentioned categories of data about their customers from their previous financial service providers and leverage them for the purposes of more efficient and more individualised provision of their service. On the other hand, they will likewise be obliged to share their customers data with their competitors upon customers' request.

Conscious of the pivotal role that online platforms play in the data driven economy, the EU lawmakers have proposed the creation of a new category of regulated entities that solely act as intermediaries in this dataflow between financial institutions and their customers – the so-called financial information service providers. They will be able to act as a key point in data exchange between them after ensuring compliance with key regulatory requirements under FIDA Regulation and obtaining a license from their home NCA accordingly.

The open finance framework is expected to open new avenues for the provision of more efficient and more personalised financial services and products in the EU. It is also expected to provide a fertile ground for the growth of fintech companies that are active in the embedded finance, API infrastructure as well as so far less developed "super-apps" space. One of the main catalyst for the growth of the open finance ecosystem will also be the new EU Digital Identity Wallet based on the eIDAS 2 Regulation that shall allow individuals and businesses to securely store and share identification data, credentials, and documents in one standardised digital wallet. The customers will be able to use their Digital Identity Wallet (among other) for KYC onboarding purposes, allowing financial institutions to rely on this interoperable identification method to onboard their new customers across the board in a more efficient and more secure way. Investment firms will likewise be able to leverage the customer data processed by their previous financial service providers for the purposes of the suitability assessment under the MiFID II framework, that shall enable them to offer individualised investment advice and portfolio management solutions to their customers from day one.

To find out more about the FIDA framework on open finance see our dedicated article.

4. AI in financial services

The application of AI in financial services will continue to be another major area of the fintech sector in 2025. Now when the dust around the Gen-AI hype has slowly started to settle, the financial institutions are expected to have a bit more clearer understanding of the viability of the deployment of AI-based solutions in various areas of its operation.

This is not however expected to affect the interest of the financial industry in the deployment of AI-based solutions wherever this could achieve time, cost and operational efficiency: from the front-office and securities trading, investment research, portfolio-rebalancing systems to the back-office where the internal monitoring, compliance and fraud-prevention systems and procedure require more efficiency.

Fintech companies that prove their ability to effectively leverage the use of AI will continue to be attractive targets for venture capital investors and incumbent financial institutions that may show increasing readiness for cooperation arrangements or strategic acquisitions (more on M&A activity and fundraising environment in Chapter 7).

The regulatory landscape in the EU will continue maturing in 2025: with the first set of rules under the EU AI Act set to become operational on 2 August 2025 (and the remaining one year thereafter) the EU will become the largest single jurisdiction with a comprehensive regulatory framework on AI that will impact financial institutions that are:

- Providers of AI systems, where they develop AI system with the aim of making it available on the market, or putting it into service under their own name or trademark, or
- Users of AI system, where they use AI based systems whether their own proprietary systems or external systems based on a license from a third party.

The EU AI Act differentiates between several groups of AI systems by introducing quite strict requirements for the so-called high-risk AI systems (e.g. used for assessment of creditworthiness or credit score) and transparency requirements for AI systems used for interaction with natural persons (such as chatbots). When it comes to financial institutions, it is expectable that they will have high level of exposure to requirements that apply to high-risk AI systems will be of relevance where they use AI based systems for (among other) creditworthiness assessments, staff recruiting and staff performance monitoring.

See our dedicated articles on the use of AI in Financial Services and the impact that the regulation will have on the financial institutions in this process:

5. Fundraising and M&A

As the interest-rate environment is becoming slightly more stable and the interest rates are slowly edging closer to pre-2023 levels, private markets are becoming (again) increasingly popular among investors putting, the venture capital industry is also expected to enter a slightly more stable period. These developments combined with the high level of optimism across the Atlantic (where the most powerful venture capital funds come from), is expected to put venture capital investors in a more relaxed position that would enable them to provide more fresh capital to innovative fintech companies seeking financing.

The VC investments are expected to continue fueling development of fintech businesses in key areas like payments, online-brokerage, AI in finance and crypto, as well as in some emerging areas that are increasingly gauging investor's attention like wealth-tech, super-apps and embedded finance.

M&A activity is also poised to increase in 2025 on the backbone of a solid potential for market consolidation and some appealing opportunities for distressed acquisitions. Well established fintech companies looking to benefit from market consolidation, may well consider acquiring some smaller players that have failed to successfully fund their way through the turbulent fundraising environment in the last couple of years.

Incumbent financial institutions on the other side are expected to continue eyeing potential cooperation partnerships with innovative fintech companies, like the ones we witnessed being established throughout 2024. This may particularly be the case in some emerging areas of the fintech industry where incumbent financial institutions have little to no experience in which include (among other) fintech companies specializing in leveraging of AI for more efficient provision of financial services or support activities to the back-office departments, embedded finance and the use of digital identities, an area that will on the backbone of the regulatory developments (see below) become increasingly in focus of financial institutions.

Last but not least, for some super-mature fintech companies the IPO window may be opening up in 2025: whereas the IPO was a pretty undesirable option for them in the last couple of years, according to same latest research data more than 370 European venture capital-backed firms have a high probability of undertaking first-time share sales in 2025 (including a number of well-known fintech companies that have passed the VC growth stage a long time ago). It remains to be seen whether the improve climate in the public markets will incentivize them to take the IPO route or decide to still remain in the domain of the private markets with all related benefits and drawbacks.

Stay ahead of the curve

Throughout 2025 we will closely follow market and regulatory developments shaping the fintech industry and continue analyzing their regulatory and practical impact. Stay up to date with our publications, webinars and forthcoming events that will address this year's most important topics for the fintech industry. Our dedicated podcast series **"FinTech Stories"** will regularly explore key topics from around the globe that shape the fintech ecosystem.

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[1]In PitchBook „Year of the IPO Window" link: https://pitchbook.com/news/reports/q1-2025-pitchbook-analyst-note-year-of-the-ipo-window#:~:text=Europe's%20IPO%20backlog%20is%20set,to%20our%20latest%20analyst%20note.

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