



RETHINKING FINTECH CLASSIFICATION: A STRATEGIC FRAMEWORK FOR PE VALUE CREATION

In 2023, private equity investments in the Fintech segment, particularly in the Capital Markets Fintech subsegment, declined compared to previous years. The total investment was approximately \$8bn in the overall segment across PE and venture investors. There are several obvious factors behind the lower of investment activity:

1. Macroeconomic and political uncertainty
2. Aggressive valuations which lead to a 'locked' market resulting in lower transactions
3. Regulatory uncertainty – certain regulations that SEC has been considering that resulted in industry pushback, resulting in 'wait and see' approach until 2025.

However, another, less well-known factor was the lack of investable opportunities that truly fit the PE investment thresholds with scalable upside potential. We believe a key reason for this lies in the structure of the Capital Markets Fintech segment, which resembles a 'barbell.' On one end of the spectrum are emerging Fintechs, while the other end is dominated by more established Fintech complexes with franchise value and multiple business lines. This type of structure creates a vacuum for companies that truly fit PE investment criteria. Furthermore, deal chasing created by pressure to invest record amount of equity capital raised by PE firms meant that most PE firms were chasing few large deals, leading to a crowded market, driving valuations for emerging and incumbent Fintechs higher.

The Capital Markets Fintech landscape is evolving rapidly, but the lack of opportunities in the 'middle' means that investors will need to be creative in deploying capital. Three strategies, in particular, will be interesting to observe as 2025 begins:

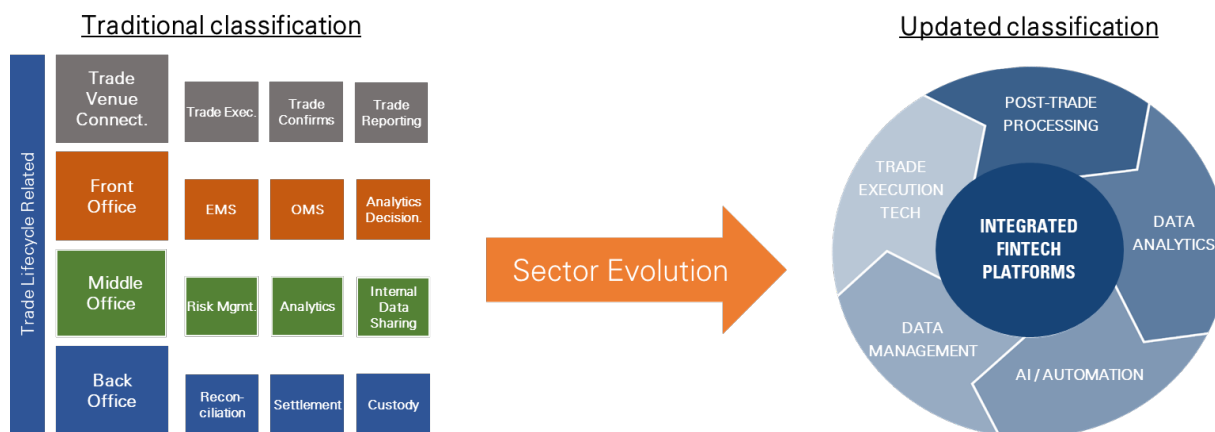
1. Consolidation at the top of the segment where larger enterprises combine to expand their capabilities or customer segments
2. Combination of complementary solutions based on creative deal structuring to create future Fintech complexes
3. Shedding of non-core assets by established financial services firms to unlock value and monetize internal capabilities that may be better being outside of the core organization

At OPCO Advisory, we interact with Fintechs daily along with all types of private investors looking for interesting investment opportunities. As part of these interactions, we have realized that we needed to develop a Capital Markets Fintech dataset that can truly capture how the industry structure is evolving. This evolution is driven by a shift from functional-specific workflow solutions (EMS, OMS, PMS) to cross-functional solutions that address broader enterprise needs (EDM, AI, Cloud, etc.). In the next few paragraphs, we will share some of our findings with you.

CAPITAL MARKETS INDUSTRY STRUCTURE EVOLUTION

The Capital Markets Fintech segment once operated within well-defined lanes: front-office systems handled trading and execution, middle-office systems managed risk and operations, and back-office systems took care of settlement and reporting. This clear delineation made technology decisions relatively straightforward. Firms could evaluate vendors within each category and select the best fit for their specific needs.

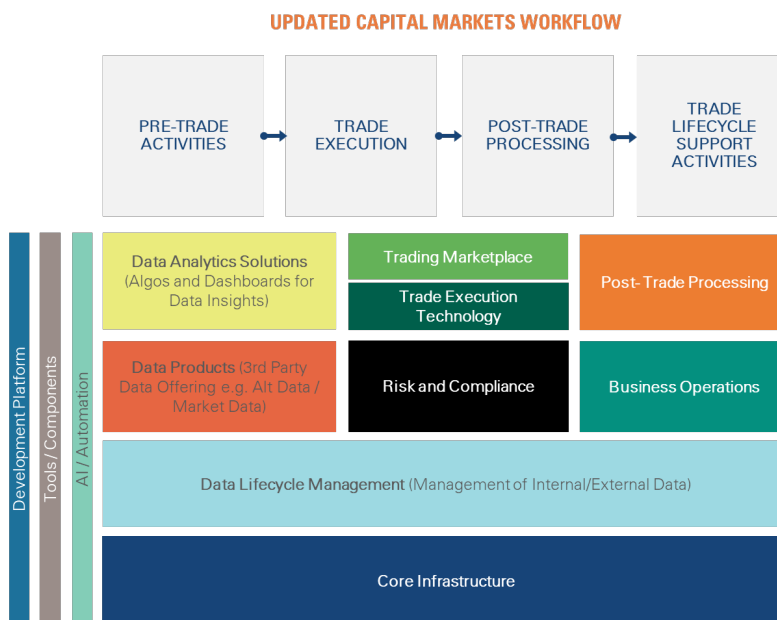
Today's reality has disrupted this model. OPCO's analysis of over 1,500 Capital Markets Technology providers reveals that 65% now operate beyond traditional functional boundaries. This isn't just a case of vendors expanding their feature sets; it reflects a fundamental shift in how financial institutions operate and how technology drives value. It also reflects the microeconomic elements of how companies are opting to broaden their capabilities driven by client demands for new technologies and capabilities. Upon reviewing company-level metadata, we found that the traditional classification approach is outdated. It calls for a re-evaluation of how companies should be categorized—based not just on 'siloes' functional features, but on the broader capabilities they can genuinely deliver, beyond the marketing claims to identify and understand evolving capabilities, we needed to rethink the way these companies are classified. The diagram below illustrates how we think about industry classification based on our review of company-level data.



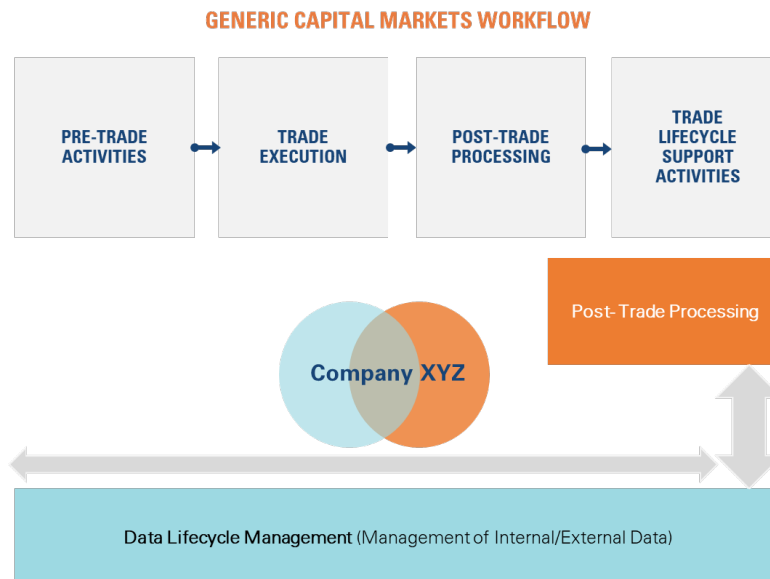
By reclassifying companies this way, we can enhance the industry landscape and achieve the following:

- Update an outdated traditional classification methodology
- Account for business model and capabilities convergence among capital markets Fintech participants
- Include next gen Fintech companies with horizontal technologies invading Capital Markets segment

“We’re seeing a profound shift in what matters to firms,” says Michael Rude, Managing Partner at OPCO Advisory. “Vendors that historically focused on specific functions are now competing based on their ability to integrate across the enterprise. The old boundaries between front, middle, and back office are dissolving as firms demand more integrated solutions.” Based on a deeper dive into company-specific data, we also tweaked the traditional categorization of companies as illustrated in the following diagram:



Consider the evolution of order management systems. Initially designed as tools focused solely on trade order management and processing, they have evolved into comprehensive platforms that include portfolio management, risk analytics, compliance monitoring, post-trade processing, and enterprise data management. This expansion isn’t just adding unnecessary features — it mirrors the realities of modern trading operations. The ability to seamlessly move data across functions delivers greater value than excellence in any single area. It is also because of the way the investment community is diversifying its portfolios across equity, fixed income and derivative areas, as well as public and private (credit in particular) investment segments. Another area that is also seeing some revival is risk management. Despite the existence of several prominent and well entrenched risk management providers, there are companies leveraging alt data, API capabilities, and new methodologies to provide capabilities that can overlay existing risk systems to allow quants to develop customized risk models while sharing next gen infrastructure. The diagram below highlights how companies are broadening their capabilities from being functional specialists to platforms that can address multiple needs of the enterprise.



From the creation of our own database, we observed that:

- Most Fintechs straddle at least 2 functional categories
- Double tagging enables precision/clarity for mapping CM Fintechs ("neighborhood" versus "borough")
- Dual category permutation reveals unique niche/capabilities allowing for better due diligence

From a practical standpoint, we've observed similar trends when working with our clients who are evaluating technologies to modernize their tech stack. Traditional vendors offering comprehensive platforms promising to handle everything from trade execution to post-trade processing have appeared attractive on feature comparison charts. However, their monolithic architectures frequently require extensive customization to support new business initiatives—creating the very technical debt that had previously hindered the firm's growth. In contrast, emerging vendors build their solutions around modern principles of data integration and workflow automation but often lack the necessary integrations/connectivity and functional breadth to meet the needs of larger organizations, unless the larger enterprises are willing to rethink their strategy/design and work with an emerging vendor. Rather than attempting to cover every function, emerging Fintechs excel in specific areas while offering strong capabilities for seamless integration with other systems.

LOOKING AHEAD: STRATEGIC IMPLICATIONS FOR PE FIRMS

These evolving market dynamics and structure of the Capital Markets Fintech industry segment create clear implications for how PE firms should think about their investment thesis and opportunities. To succeed in the Capital Markets segment of the broader Fintech landscape, private investors should be thinking about combining new and traditional businesses under a transformed business model to deliver future client needs. PE investors who have access to deeper industry domain expertise could use this knowledge to become catalysts of change and accelerate transformation in this segment. This approach will necessitate a rethinking of the traditional PE approach to investing in this segment, focusing on identifying opportunities driven by broader themes of structural change.

This logic also applies to how corporate development and strategy groups within large Fintech enterprises approach inorganic growth opportunities. Increasing wallet share from existing client base or franchise can be just as lucrative as making a sizable acquisition to drive top of the line growth. The latter often brings internal execution challenges, such as integrating legacy and modern capabilities, which can lead to end-user challenges that impact the overall user experience.

To succeed in this competitive landscape, private investors should focus on integrating innovative solutions with established business models. As a recent example NEXT Investors layered a next-gen EDM platform alongside a traditional Public Cloud Managed IT + OMS / PMS business to form Portfolio BI, solving a pressing need in the market for an end-to-end solution given present day trading lifecycles.

A transformed business model that addresses future client needs is crucial for success in the Capital Markets segment. This may involve leveraging multiple technologies such as artificial intelligence and big data analytics to enhance trading strategies, risk management, and client services. PE investors with deep industry domain expertise are uniquely positioned to drive change and accelerate transformation in this segment, provided they are willing to risk capital in a different way to catalyze new outcomes that accelerate change in the industry as opposed to betting on just the size factor.

“By acting as catalysts of change, PE investors can identify opportunities to streamline operations, improve efficiency, and create new revenue streams within Capital Markets firms.” says Talal Khan, Managing Director at NEXT Investors. “Their industry knowledge allows them to navigate complex regulatory environments and anticipate future market trends, making them valuable partners in the transformation process.”

[Nilesh Nanavati](#) is the Co-Founder and Managing Partner of OPCO Advisory Inc. He brings 28 years of experience in the financial services technology sector as a management consultant and an entrepreneur/operator. His experience includes assisting banks with consortium launches, advising capital investors on due diligence and development of thematic investment opportunities, assisting Fintech with their GTM/scaling efforts and assisting financial services firms with the development and launch of new digital businesses. He holds an MBA degree from Manchester University & also completed a BA in economics from State University of New York. He serves as a Board Member at Automated Data Inc.

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