Capsule

FinTech State of the Market 2025

The Rise of Agentic AI, Smarter Risk, And Fresh Capital: FinTech In 2025

We're officially halfway through 2025, and while the funding taps haven't fully reopened, there's a definite change in the air. Investor confidence is creeping back, regulation is evolving at pace, and the FinTech sector is once again flexing its muscles.

To get the inside track, our Senior FinTech Broker, Jack Scott-Bowden, caught up with Markel's Head of FinTech and Investment Management Insurance Nick Rugg. With a decade of experience across the FinTech spectrum – from payments to InsurTech – and a key role in launching products like InsurtechRisk+, Nick brings serious insight to the table.

Together, Jack and Nick unpacked the state of play across funding trends, regulatory developments, emerging tech like agentic AI, and what the rest of 2025 could bring for fast-growth FinTechs in the UK – and beyond.

Jack Scott-Bowden,
Senior Fintech Broker at Capsule

Nick Rugg,
Head of Fintech & Investment Management Insurance at Markel

A snapshot of the current funding and investment landscape

Hey, Nick. Thanks for joining us again! Let's kick off with the 2025 funding environment so far, shall we? Where do you think investor priorities are this year?

Thanks Jack, it's nice to be back.

I'd say the shift from growth-at-all-costs to sustainable profitability is still shaping the funding landscape. But with interest rates and inflation starting to ease, that narrative could be set for a shake-up.

Investors are circling back to FinTech – especially those with a clear pathway to profit. In fact, a recent Boston Consulting Group report showed that 69% of FinTechs are now firmly in the black. It's a clear indication that the sector's sharper focus and financial discipline – sparked by the investment slowdown of recent years – is starting to pay off.

Any particular areas catching VCs' attention right now?

B2B FinTechs are still extremely popular with venture capitalists – particularly across payments, regulatory technology, and infrastructure. When it comes to the B2B side of things, investment was held back by certain areas such as lending and the buy now, pay later (BNPL) industry, where scrutiny is changing.

Overall, we're still in the midst of a tough macroeconomic environment, which is something that's also impacting the B2C space. Nonetheless, there are still early signs of improvement in B2C – especially in embedded finance and WealthTech, where consumer demand is rebounding and digital engagement remains high.

Key market trends and opportunities for 2025

What subsectors within FinTech are you most excited about?

From a growth perspective, the payments sector continues to outpace the rest of the FinTech industry – with a report released by QED Investors and Boston Consulting Group showing that a third of global FinTech revenue in 2024 came from FinTechs offering payments-as-a-service.

As people continue to embrace new technology and the world increasingly moves towards e-commerce, payments will continue to grow. Additionally, there are regulatory and technology advancements set to boost the payments sector through things like the Payment Services Directive 3 (PSD3), open banking, and the potential for a regulated environment for stablecoins and central bank digital currencies.

PSD3 is certainly driving momentum in open banking – with greater API standards and stronger consumer protection. Adoption is growing, particularly among mid-sized banks and FinTechs offering account aggregation, credit scoring, and payment initiation services.

We're also seeing innovation in the payments space through agentic payments – a form of artificial intelligence that's empowered to carry out complex financial transactions autonomously. This marks a shift from an AI agent making suggestions to an AI agent independently carrying out financial transactions based on its own decisions. The technology has enormous potential – but it also poses significant regulatory, security, and compliance challenges.

How about embedded finance? Is there still room to grow there?

Embedded finance is one area that's still experiencing rapid expansion – with plenty of opportunity for this sector to grow yet. While areas like e-commerce are already well established, there's still potential for embedded finance to advance areas like healthcare, logistics, and some B2B use cases.

Many sources are predicting that the embedded finance sector will grow at a compound annual growth rate of 20% over the course of the next five years.

BNPL's been in the news a lot recently with all the regulatory developments. What's your take on where the sector's heading?

With regulations tightening across the UK and the EU, the number of new entrants into the BNPL sector has certainly cooled down. Consolidation is likely to become more prevalent as the market stays competitive and companies look to scale. The new regulations coming into the sector will cause costs to rise for BNPL companies, which could lead to a need for new investment – as well as a ripple-effect impact on future revenue.

How regulation is evolving to meet emerging technologies

You predicted AI would dominate headlines in 2024. How's that prediction looking now, particularly from an insurance point of view?

AI has indeed dominated headlines. In FinTech, it's delivering real value across fraud prevention, underwriting, and customer service. Understandably, insurers remain cautious about AI-related liability – particularly surrounding explainability, bias, and data usage.

The AI regulatory landscape continues to evolve. Last year, we saw the EU AI Act coming into force, and it's expected that the UK regulator will follow suit this year. In the absence of clear rules governing the use of AI, insurers will continue to err on the side of caution when it comes to AI exposure.

What's the Financial Conduct Authority (FCA) up to these days? Anything FinTechs should have on their radar?

The FCA is in the process of developing a statutory code of practice for firms that develop or deploy AI systems, with the aim of providing clearer guidance on responsibilities – especially when it comes to third-party AI tools.

There are concerns around automated decision-making – particularly when it comes to customer-facing applications. The good news is that the FCA is focusing on a pro-innovation approach to ensure regulation that's proportionate and doesn't stifle innovation.

Additionally, the FCA has changed its approach to consumer duty – with a move towards streamlining regulation, enhancing outcomes-based supervision, and reducing unnecessary burdens on firms – an update that will be music to the ears of companies subject to its standards.

Cyber risks have been a big talking point recently. Any new developments keeping you up at night?

Cyber and crime are still very much key risks. As technology continues to evolve, we're seeing different ways of crime being carried out against companies. Examples of this include AI-generated fraud, synthetic identity theft, and attacks on supply chains.

Underwriting standards are adapting in response, with greater emphasis on real-time monitoring, vendor risk, and AI model governance.

How are your FinTech clients thinking about insurance these days? Any changes in what they're asking for?

FinTech clients are seeking modular policies with the flexibility to adapt to changing regulatory requirements. They're also prioritising best-in-class Cyber coverage given the heightened cyber attack threat at the moment. One thing in particular that we find clients really appreciate is a breach response provider with 24/7 availability.

What's next for FinTech in 2025?

Looking ahead to the rest of 2025, is there anything brokers and clients should begin preparing for now?

We're certainly keeping an eye on the macroeconomic environment. The interest rate and inflationary pressures seem to be easing, which is undoubtedly positive for the FinTech industry as a whole. As this trend continues, we should start to see more investment coming in.

Regulation is also an area that we're watching carefully. There's a lot of change on the horizon in the BNPL, payments, AI, and crypto asset industries – and while they might present significant opportunities for the companies operating in those sectors, they also come with new levels of risk.

Let's end things on a good note. What's given you reason to be optimistic about FinTech lately?

There's still so much to be positive about in the FinTech space. The levels of maturity that we're seeing across companies in the industry are driving investor confidence, not to mention consumer adoption of their services. As regulation evolves, this will further advance maturity throughout the sector – leading to growth and investment.

Future-proof your FinTech with the right insurance

As the FinTech world continues to develop at a rapid rate – with ever-tougher regulation keeping pace with ever-evolving tech – one thing is clear: having the right insurance partner in your corner is more important than ever.

At Capsule, we work closely with our extensive insurance network to help FinTech founders stay one step ahead. From Cyber cover tailored to your unique requirements to modular policies that flex with your business, we'll make sure your insurance keeps up with your ambition. If you're navigating new risks or gearing up for growth, let's talk.