PitchBook

EMERGING TECH RESEARCH

Fintech

Q2 2020

Report preview

The full report is available through the PitchBook Platform

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Executive summary

Since the global financial crisis (GFC), fintech has been one of the most well-funded and fast-growing areas of emerging technology. The expansion of the sector was largely a technological response to the shortcomings of the traditional financial services industry, which came under extreme pressure during and after the global financial crisis. Yet as the COVID-19 pandemic appears likely to spark another recession, the traditional financial industry as well as newer fintech startups appear well prepared to weather this crisis. Widespread regulations and financial reforms enacted since the GFC, the creation of oversight committees, ongoing stress testing and capital requirements have left the financial system more prepared to handle the violent economic disruption it is experiencing today. This has been aided by federal efforts to shore up liquidity in the financial system while rapid stimulus and loan programs have helped borrowers meet loan obligations amid an environment of rising defaults. While it is still early and the full impact on consumers is not clear, accommodative measures by financial service providers (payment forgiveness, loan modifications, deferrals and insurance rebates) are likely to help contain the fallout at least in the near term.

The financial industry is broad and the impact of the downturn on certain services will be more severe than on others. Decreased consumer spending will be negative for payment service providers but increased ecommerce could benefit online payments providers. Commercial insurtech providers will struggle with increased payouts, but pandemic-related protection could drive new product opportunities. Trading and capital market platforms will benefit from temporarily increased market volatility but still face ongoing secular challenges of commoditization. While lending is likely to decline precipitously as underwriting standards tighten and economic activity slows, government stimulus and monetary intervention programs are likely to prevent the credit markets from locking up. Lastly, despite the probable acceleration of demand among banks for digital transformation, spending on new technology initiatives could remain muted until the economy recovers.

Despite these mixed headwinds and the pandemic-related challenges facing the industry, we believe the long-term opportunity to provide innovative digital financial services remains intact. Much of the world's financial services are still provided by a relatively small group of legacy providers and we view this as a long-term disruption opportunity. In H1 2020, cumulative global investment activity across VC, PE and M&A for fintech companies was just under $28 billion, much lower than the $39.4 billion observed in the first half of 2019. M&A, typically the core driver of investment, posting only $6.4 billion in overall value in the half. Global fintech VC reached almost $20 billion. While 2020 will likely see a pullback in deal activity and a shakeout among the lesser capitalized startups, we expect continued VC focus on the long-term secular opportunity.

This report provides an overview of the VC-backed fintech landscape in North America and Europe. While the fintech market is large and complicated, we have segmented the industry based primarily on end-market use case. We acknowledge some startups could belong in multiple segments or subsegments, but we have placed them within the categories that match our understanding of their primary use case. The accompanying market maps consist of VC-backed fintech companies in North America and Europe that have raised a significant amount of capital and gained considerable traction within their respective categories.

Fintech market map

Alternative lending
- Commercial lending
- Real estate lending
- Retail & marketplace lending
- Microlending
- Underwriting & credit scoring

Insurtech
- Commercial
- Enablement technology
- Health & life
- Automotive
- Home

Money transfer
- P2P & remittance
- Institutional

Consumer finance
- Consumer credit
- Wallets
- Digital banking
- Management tools
- Loyalty & rewards

Wealthtech
- Retirement planning
- Digital advisory
- Investment tools & platforms
- Brokerage
- Alternative investments

Companies included are VC-backed companies in North America and Europe that have raised substantial capital and gained significant traction within their respective categories.

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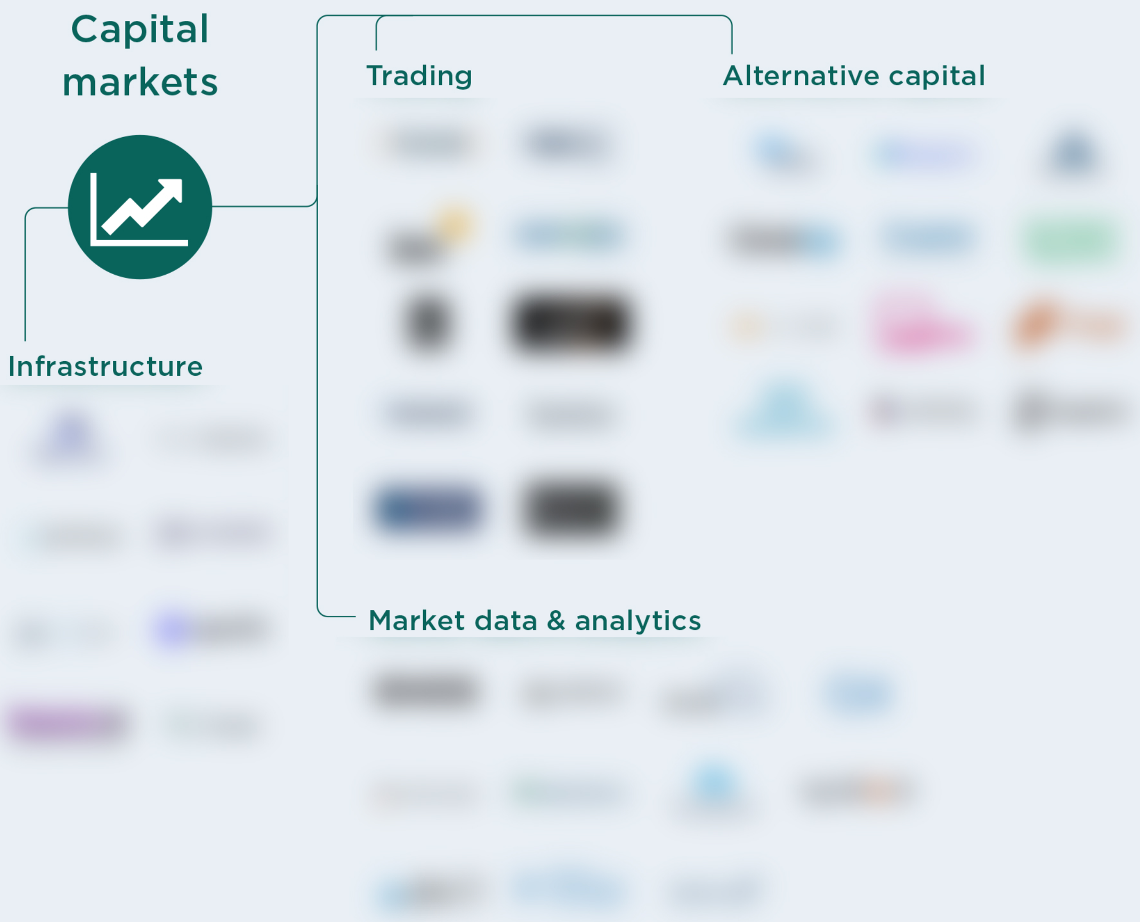
Capital markets

Overview

The capital markets industry primarily consists of large institutional firms that engage in the buying and selling of public equities, private equity, debt, bonds or other securities for businesses, individuals and governments. Functioning capital markets are an important feature of functioning economies, with open-market asset exchange systems tracing their roots back to the earliest days of commerce. The largest stock exchange in the world, the NYSE, has a market cap of $23 trillion dollars, and the US bond market amounts to upward of $40 trillion in asset value.

Participating in capital markets and ensuring they function correctly is a complex undertaking. Traders and investors utilize a byzantine system of global technologies and networks, both private and public, designed to ensure transactions are completed, settled and accounted for in a quick and regulatory-compliant manner. While several market participants rely on innovative technologies—such as high-speed trading systems—to give them an edge, we believe many of today's capital market participants still rely on antiquated technologies and processes that may be slow and prone to error or that lack features and functionality. We believe this aging infrastructure adds to costs, increases regulatory risk and reduces strategic opportunities.

Capital market participants are under increasing pressure to modernize their technology to offset rising competition and macro headwinds. Revenues and ROI among the largest global banks have been stagnant for years as the industry adopts new capital and regulatory requirements. Smaller and more nimble boutique firms are challenging the hegemony of legacy financial institutions for wealth management and advisory business. In addition, automation in bond and equity markets is pressuring fee-based trading businesses and driving more capital to low-fee passive investment strategies.



SEGMENT DEEP DIVE

Financial services IT

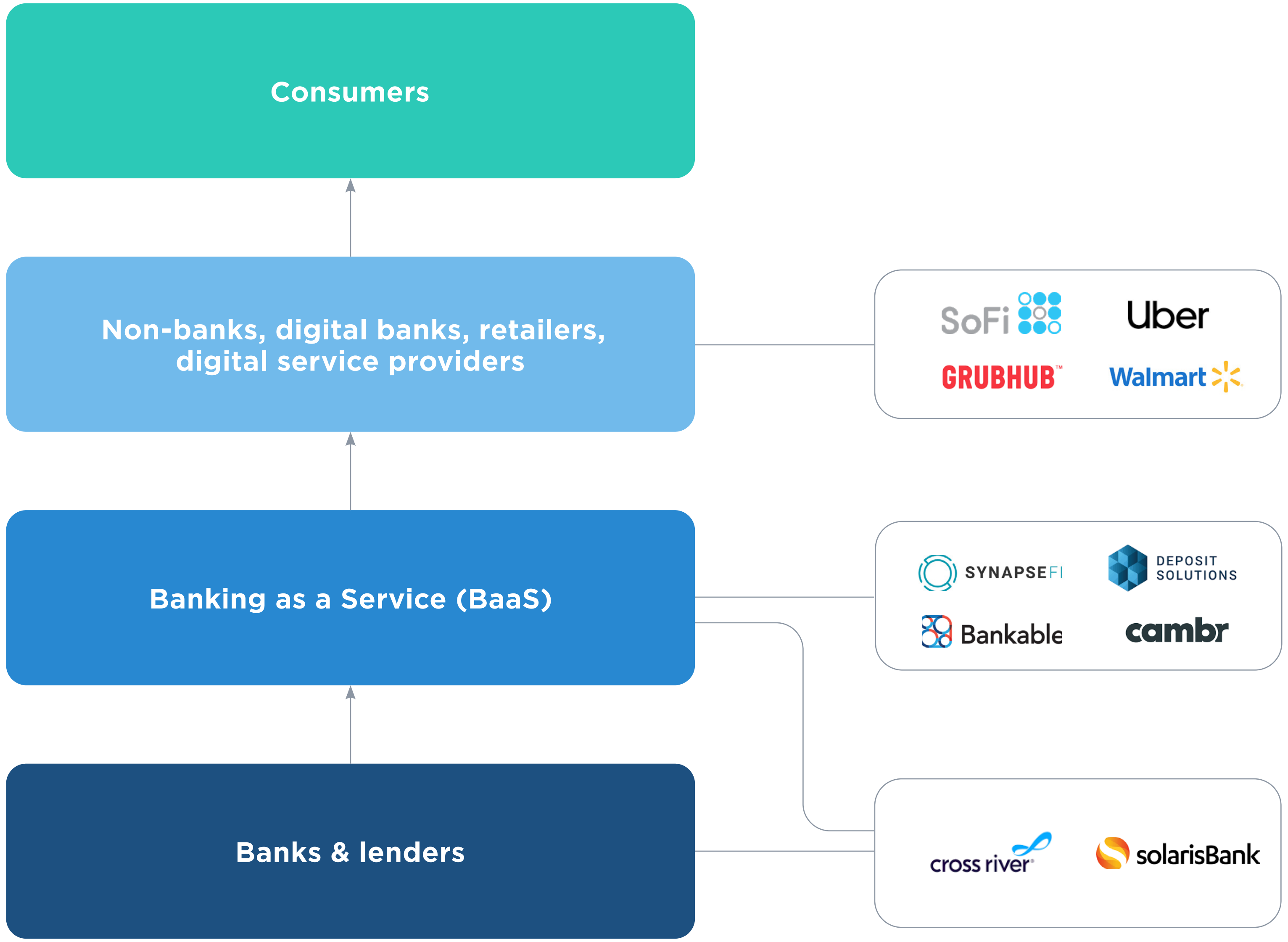
Opportunities

Modernizing the front-, middle- and back-end: Fintech companies focused on IT operations for banks could help sort through the arduous task of categorizing and isolating presentation layers and introducing more automation to reduce costs and drive scale. Providers such as **MX**, Alkami and **nCino** are helping banks modernize its front-end and middleware. These companies offer cloud-based banking platforms to allow banks and other financial institutions to white-label and deploy online signup processes, mobile banking applications, personal finance management and other retail banking services directly to their customers. **nCino**'s product is more robust, offering white-labeled portfolio analytics, treasury management and asset finance and leasing solutions in addition to retail banking solutions.

Core banking: In Capgemini's 2015 Banking Core Modernization survey, 78% of financial institutions agreed that their core banking system will be replaced in the next five years.[11] However, 43% of banking systems and 80% of in-person transactions still use COBOL today.[12] While core banking solutions exist from incumbent providers such as **Jack Henry** or **Fiserv**, we believe that startups in this space have an opportunity to deploy more modern offerings for their bank partners. For example, **Jack Henry**'s SilverLake core system requires IBM-powered systems on premise or at **Jack Henry**'s outsourced offering, JHA OutLink Processing Services. This contrasts with **Finxact**'s Core as a Service offering, which is cloud-native, API-based and allows banks to start with a hybrid model of their legacy core system and **Finxact**'s new system. This allows banks to iteratively test the new

Figure 34.

BaaS value chain with select participants



11: Simplifying the Banking Architecture, Capgemini, 2015
12: COBOL blues, TIOBE **Index**; International Cobol Survey Report; IBM; Microfocus; Celent; Accenture

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Wealthtech

Figure 63.

Notable wealthtech VC deals

COMPANY	CLOSE DATE	SUBSEGMENT	DEAL SIZE ($M)	STAGE	LEAD INVESTOR(S)	VALUATION STEP-UP
robinhood	October 31, 2019	Brokerage	$373	Series E	DST Global	1.3x
Aspiration	May 21, 2020	Retirement planning	$135	Series C	Alpha Edison	N/A
STASH	April 29, 2020	Digital advisory	$112	Series F	LendingTree	1.2x
FIGURE	October 31, 2019	Retirement planning	$103	Series C	N/A	2.9x
PeerStreet	October 28, 2019	Alternative Investments	$60	Series C	Colchis Capital Management	2.1x

Source: PitchBook | Geography: North America & Europe | *As of June 30, 2020

Figure 64.

Notable wealthtech VC exits

COMPANY	CLOSE DATE	SUBSEGMENT	EXIT SIZE ($M)	ACQUIRER/INDEX	VALUATION STEP-UP	VALUATION METRIC
RetireUp	June 10, 2020	Retirement planning	N/A	Tegra118, Motive Partners	N/A	N/A
united income	August 16, 2019	Retirement savings	N/A ($16 VC raised)	**Capital One**	N/A	N/A
Advizr	July 11, 2019	Investment tools & platforms	N/A ($15 VC raised)	Orion Advisor Services	N/A	N/A
GROVE	August 25, 2019	Digital advisory	N/A ($10 VC raised)	**Wealthfront**	N/A	N/A
haven	December 11, 2019	Digital advisory	N/A	**Credit Karma**	N/A	N/A

Source: PitchBook | Geography: North America & Europe | *As of June 30, 2020

About PitchBook Emerging Tech Research

Independent, objective and timely market intel

As the private markets continue to grow in complexity and competition, it's essential for investors to understand the industries, sectors and companies driving the asset class.

Our Emerging Tech Research provides detailed analysis of nascent tech sectors so you can better navigate the changing markets you operate in—and pursue new opportunities with confidence.

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