MOSSADAMS

Fintech's Frontier

Key Long-Term Trends

CONTENTS

SECTION ONE

Introduction

Globally, technical advances supercharged by digitization allow consumers more choice and flexibility, empowering them with improvements to transparency, access, and usability.

As a result, three primary, emergent themes appear to shape the fintech frontier: the increasing insistence on empowering end consumers; balancing decentralization with security; and aligning regulatory bodies and novel, bespoke financial products and services.

Our report helps define the key segments of the fintech sector by breaking down trends—such as payments remaining a juggernaut, highly competitive space.

We analyze private investment datasets to establish which fintech niches seem more set to grow than others and provide insights about record-breaking tallies and how fintech companies achieved capacity to command more financing and rapid expansions.

The forecast indicates that fintech companies innovatively interpret traditional financial products and services. They've decentralized the process to facilitate user experience and increase efficiencies, eliminating value chain intermediaries along the way.

We expect a proliferation of large fintech companies, particularly in the cryptocurrency segment, to take sides during discussions with federal agencies and regulatory provisions. You can look for robust activity, if not record-setting results, in insurtech, lending, and business products and services payments. There's significant potential for good prospects moving forward, especially for small to midsized businesses.

Find out more about how your organization can stay up to date with market trends.

CHERYL TEETER-BALIN
Partner, Technology Practice

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SECTION TWO

Executive Summary

1 Private investment in fintech accumulated gradually throughout the 2010s, culminating in record-breaking tallies in 2021 easily exceeding $100 billion in aggregate deal value to date.

2 As investment grows, mature fintechs command larger financings, fueling rapid expansion as well as preparations for liquidity events.

3 Market leaders have emerged in select fintech segments such as payments and trading infrastructure, stiffening the competition between these companies and incumbent financial services companies.

4 The coming decade is likely to see large fintechs—especially those in the cryptocurrency space—increasingly align or grapple with government agencies and regulatory provisions.

5 Key fintech segments enjoying either record or robust investment activity include cryptocurrency, insurtech, lending, and business products and services payments, particularly in the realm of small to midsized business end cases for the latter.

6 Fintechs are reinterpreting traditional financial products and services in a decentralized, more user-friendly, efficient manner as they eliminate intermediaries from value chains.

7 Looking forward, private investment in fintech is primed to increase given favorable liquidity trends, the desire for exposure to new end markets, and the ongoing digitization—driven by the COVID-19 pandemic—of all businesses.

"The fintech landscape continues to change, with the pace of growth in the variety and number of products and services for consumers accelerating. Regulatory policies are changing at a much slower pace. However, fintechs can still increase their potential for success and obtain competitive advantages by ensuring their risk management controls are robust, given how regulations may ultimately evolve."

– Theresa Wright, Partner, Assurance Services

SECTION THREE

Industry Trends

The fintech ecosystem continues to change rapidly, while traditional financial services work to compete via research and development (R&D), partnerships, investment, or consolidation.

Across the industry globally, technical advances empower consumers and enable more efficient workflows, although aligning regulatory agencies and innovation initiatives will require more work.

KEY TRENDS INCLUDE:

The explosion in growth of e-commerce in 2020 saw no less than **$4.6 trillion in transactions**—an increase of 19% compared to 2019's tally.

Globally, the financial services market could grow to **$30 trillion in size by 2025**, according to a range of industry estimates.

The proliferation of models such as so-called buy now, pay later showcase how **fintechs are reinterpreting traditional financial services products**.

To retain their market positions, **incumbent banks will increasingly offer integrated mobile services**.

More governments will introduce financial services tools at the national level—for example, Brazil, which launched PIX, a real-time payments system, and the European Payments Initiative, which leverages the Single Euro Payments Area Instant Credit Transfer for point of sale (POS) and online credit usage.

As commerce moves online, security concerns will increase, leading to renewed efforts by fintechs and banks, among other players, to develop stronger methods of protection than current encryption standards allow.

Most of the world's central banks engage in digital currency pilots, looking to issue stabilized cryptocurrencies as vehicles for payments that maintain their store of value.

Decentralized finance (DeFi) ecosystem maturation and expansion requires organizations to surmount key technical and regulatory hurdles—from authentication to processing times to institutional adoption.

Beyond payments, more bespoke niches of **fintech see investment activity accelerate as technical advances securitize parts of value chains**, such as insurtechs' use of machine learning programs and alternative data to better quantify risk profiles.

"Ultimately, one of the key taxation challenges that many fintechs will face is whether their company truly is a technology company or a financial institution. Unless regulations across different jurisdictions are modified to become clearer, or new standards are adopted, the decision can be incredibly complicated for a fintech company when it has multiple service offerings spanning different categories."

– Bill Sturges, Partner, Tax Services

Global private investment deal making in fintech already surpassed **$100 billion** across **3,500+** completed transactions by the end of **Q3 2021**.

The median late-stage venture financing size hit **$25 million by October 2021**, surging massively from 2020's mark of **$14.2 million**.

The red-hot equities market enabled multiple fintech initial public offerings (IPOs), **47 by October 2021**, notching more than **$150 billion** in aggregate exit value.

Cryptocurrency achieved a record **$21 billion** in private deal flow globally.

The lending segment also sees record deal value, eclipsing **$21 billion** in aggregate investment value as of October 2021.

Q3 2021 saw a new high for fintech investment activity in the United States, with **$17.4 billion** in deal value across **441 completed transactions**.

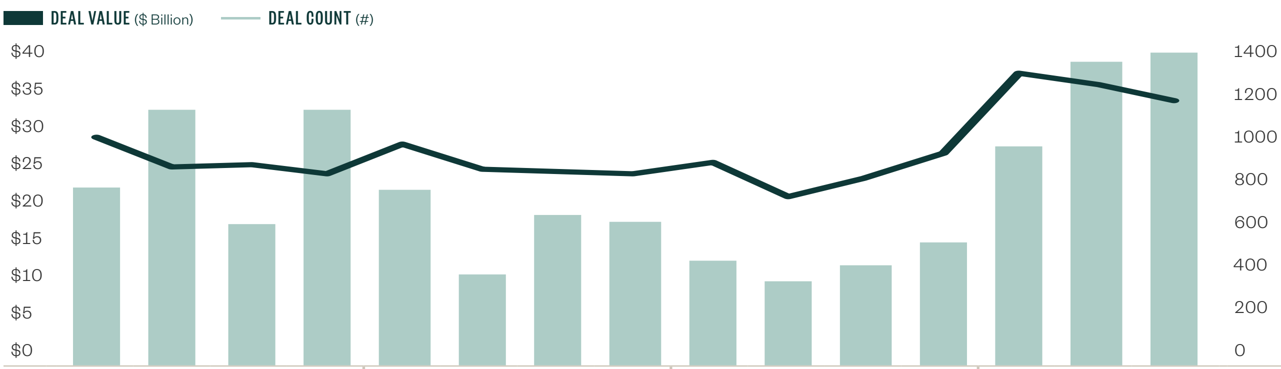
Private equity (PE) fund managers have grown increasingly active within fintech, closing **100 growth equity investments** for an aggregate of **$8.4 billion** to date.

Mature fintechs continue to rake in vast sums at an accelerated clip, with **899 completed late-stage financings** already closed by October 2021—**a new record for volume**.

SECTION FOUR

Investment and Market Landscape Overview

FIGURE 1: Private Investment Activity in Fintech



	2018				2019				2020				2021		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Value	$22	$31	$17	$31	$21	$11	$18	$17	$13	$10	$12	$15	$26	$36	$38
Count	957	842	850	808	928	826	816	804	861	711	789	890	1233	1181	1117

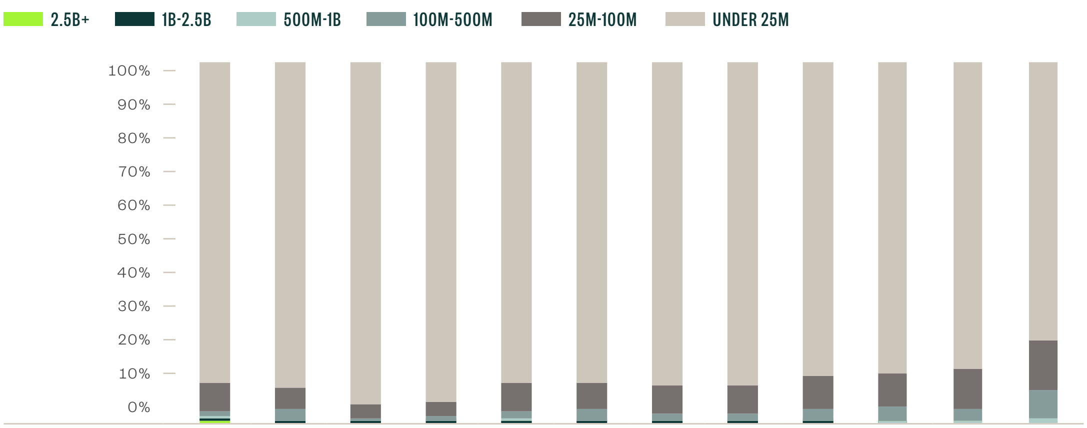
*As of 09/29/2021

FIGURE 2: Median Private Investment Size ($M) by Type in Fintech

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Angel/Seed	$0.78	$0.57	$0.50	$0.60	$0.69	$0.91	$0.95	$1.11	$1.06	$1.20	$1.45	$2.10
Buyout/LBO	$77.05	$77.88	$24.70	$86.75	$412.18	$147.00	$64.00	$147.80	$87.80	$192.42	$55.00	$128.86
Early VC	$2.31	$2.59	$3.11	$2.67	$4.00	$4.00	$4.07	$4.00	$5.00	$4.57	$5.00	$7.50
Later VC	$5.90	$5.46	$5.06	$5.38	$12.00	$15.68	$10.90	$10.00	$12.50	$10.52	$14.23	$25.00
PE Growth/ Expansion	$11.40	$30.65	$18.00	$10.00	$16.50	$8.00	$9.75	$14.45	$25.50	$16.65	$35.00	$90.00

*As of 09/29/2021

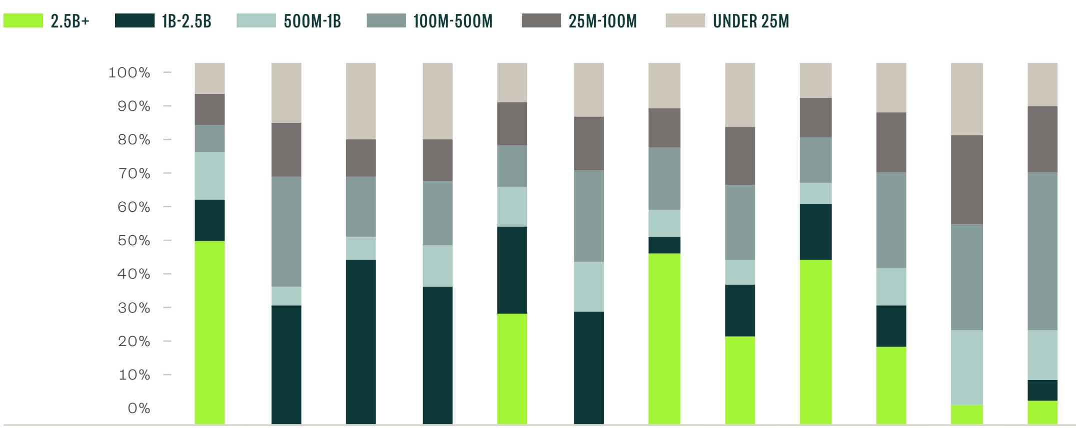
FIGURE 3: Private Investment Activity (#) by Size in Fintech



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
2.5B+	2	0	0	0	3	0	5	3	6	3	1	2
1B-2.5B	1	2	2	4	6	7	2	4	10	5	0	4
500M-1B	2	1	1	2	6	8	6	4	8	11	15	21
100M-500M	5	13	6	10	21	47	38	45	69	91	77	220
25M-100M	23	27	21	32	96	116	127	158	231	238	267	370
Under 25M	269	386	540	800	1074	1431	1568	1796	2166	2136	2075	2090

*As of 09/29/2021

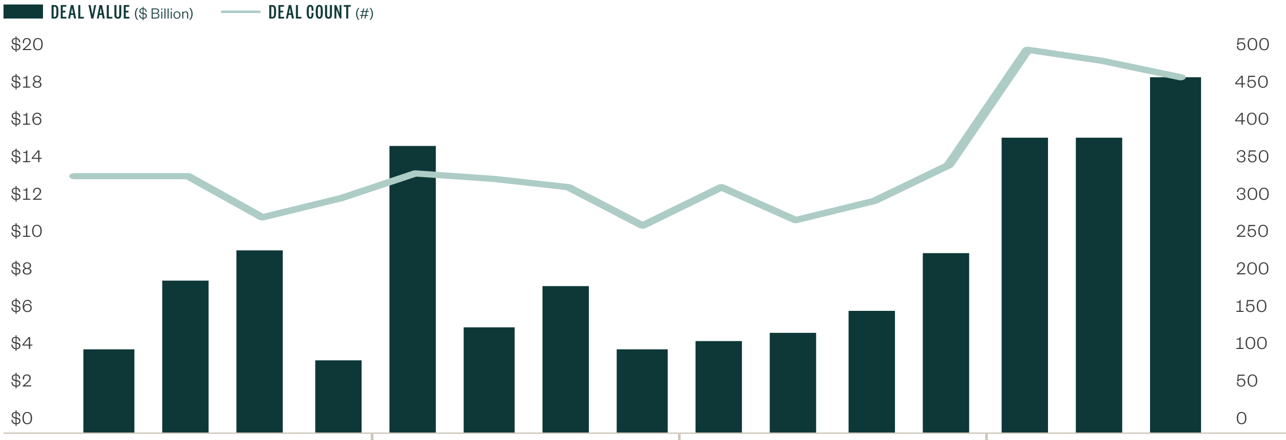
FIGURE 4: Private Investment Activity ($) by Size in Fintech



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
2.5B+	$6.33	$0.00	$0.00	$0.00	$11.44	$0.00	$23.90	$10.46	$45.88	$14.73	$3.00	$7.15
1B-2.5B	$1.40	$3.00	$4.10	$4.87	$8.85	$11.89	$2.21	$5.94	$15.48	$7.71	$0.00	$5.70
500M-1B	$1.64	$0.50	$0.55	$1.41	$4.03	$5.20	$3.54	$2.66	$5.89	$7.07	$10.44	$13.62
100M-500M	$0.90	$2.69	$1.50	$2.23	$4.23	$9.45	$8.59	$8.53	$12.15	$17.67	$14.35	$43.42
25M-100M	$1.01	$1.37	$0.91	$1.42	$4.52	$5.57	$5.47	$6.73	$10.85	$11.34	$12.52	$18.23
Under 25M	$1.08	$1.48	$1.89	$2.65	$3.88	$5.47	$6.20	$7.38	$9.71	$9.23	$9.87	$12.15

*As of 09/29/2021

FIGURE 5: Private Investment Activity in Fintech in the United States



	2018				2019				2020				2021		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Value	$4	$8	$9	$4	$14	$5	$7	$4	$5	$5	$6	$9	$14	$14	$17
Count	319	317	268	291	323	314	305	257	306	265	287	333	472	459	441

*As of 09/29/2021

Fintech experienced record-setting rates of private investment in 2021. Globally, more than $100 billion in aggregate deal value closed across more than 3,500 completed transactions spanning the entire spectrum of private investment, from angel financings to private equity buyouts. Q2 and Q3 2021 set consecutive single-quarter records for deal value. Moreover, the volume of fintech investment activity went higher than ever, with three quarters of 2021 recording more than 1,000 completed transactions.

> "Driven partly by the pandemic and the consequent rapid changes in digitization, 2021 saw a significant volume of new deals. For fintech start-ups in particular, this profusion of capital and level of competition entail the need to generate significant transactional volume to scale quickly, alongside robust plans for developing a more sustainable, robust customer base."

– Theresa Wright, Partner, Assurance Services

Not surprisingly, this surge in deal making caused the number of larger financings to grow, with more than 200 completed transactions between $100 million and $500 million. For comparison, the highest single-year tally in 2019 totaled fewer than 100. Financing metrics continue to set new highs across the board.

The early-stage venture financing median leapt from $5 million to $7.5 million between 2020 and fall 2021, while the late-stage median nearly doubled, jumping from $14.2 million in 2020 to $25 million.

> "Lately, we're seeing more venture fund managers that were historically focused across a traditional range of sectors expand into fintech, with funds explicitly targeting fintech subsegments."
>
> – Erik Weinapple, Senior Manager, Tax Services

Numerous drivers contributed to this record wave of deal making. Chief among them, however, is the maturation of key fintech segments such as payments, which saw multiple start-ups grow to such a scale that they closed on hundreds of millions of dollars of funding, whether from venture firms or nontraditional investors. And, the sheer size of the financial services market, as well as its different incarnations across countries, continue to yield disruption opportunities for start-ups.

> "Historically, financial services had a higher barrier to entry due to varying regulatory and compliance requirements, as well as high levels of capital reserves that were stipulated. However, fintechs have been able to utilize novel business models and relationships with local entities to lower those barriers; that's likely to change as regulatory bodies across countries see more pressure from governments to provide additional oversight."
>
> – Theresa Wright, Partner, Assurance Services

For example, many companies consider cash forecasting one of the least efficient financial workflows due to its complexity and reliance on manual consolidation across different formats of needed datasets. Dedicated digital platforms that improve administration and consolidate the required data streams are often last resorts that companies must build in-house.

That niche could be fruitful ground for entrepreneurs to develop a product that would suit corporate treasurers' needs. Many such niches still need exploration; combine that with existing companies' drive toward scale and it could perpetuate the frenzied level of deal making seen in 2021.

> "Many fintechs on the smaller side are enjoying a significant demand to deploy capital on the part of fund managers; in addition, they retain more flexibility and adaptability than incumbents in many cases."
>
> – Erik Weinapple, Senior Manager, Tax Services

Note that regional variations also drive deal making, as disparities between nations' financial systems and domestic markets usually result in market leaders first emerging in their respective countries and then expanding abroad once they reached sufficient scale.

For example, the United States saw one of its largest spurts of private investment activity for a variety of reasons including global financial centers such as New York or San Francisco. But across Latin America and Europe, other ecosystems produced fintech unicorns in similar categories just now expanding abroad and competing with US-grown fintechs.

After the sheer growth of the fintech space and primary segments such as payments in the 2010s, the coming decade should see an explosion of innovation and subsequent investment in newer, less crowded niches.

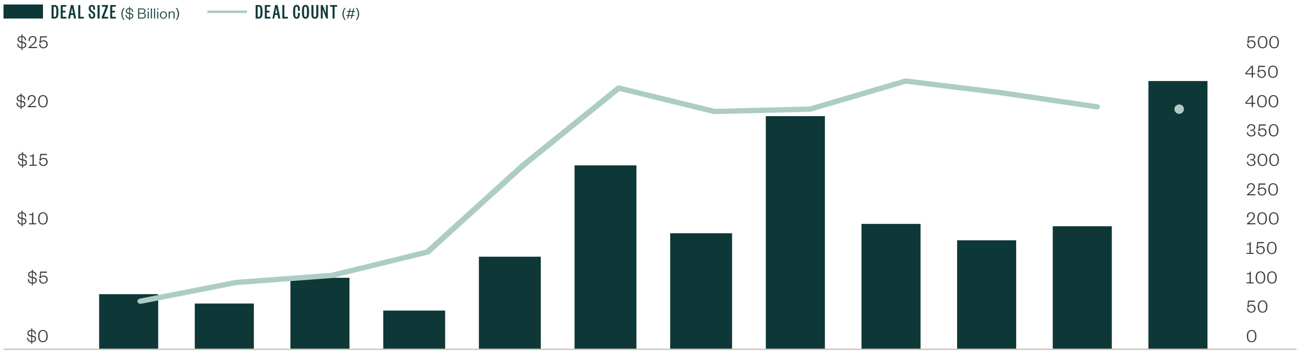
At the same time, some of the largest private fintechs are likely to go public, or incumbent financial services companies will absorb them in a tide of industry-wide consolidation.

> "We're seeing more partnerships between financial institutions and fintechs, as well as an increase in the number of fintech acquisitions by large, traditional financial services companies."
>
> – Theresa Wright, Partner, Assurance Services

The frontier of fintech will continue to evolve, especially around the themes of security, decentralization, personal consumer empowerment, and accessibility to broader swaths of financial products.

PROLIFERATION AND INNOVATION

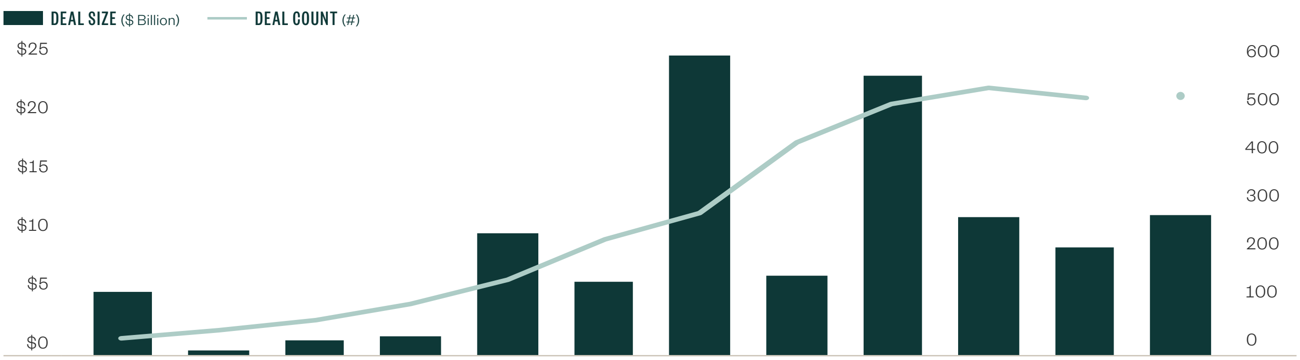
FIGURE 6: Private Investment Activity in Lending



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021*
Size	$4.45	$3.76	$5.67	$3.15	$7.41	$14.75	$9.28	$18.69	$10.10	$8.68	$9.76	$21.33
Count	78	109	117	155	293	418	380	383	429	410	385	381

*As of 09/29/2021

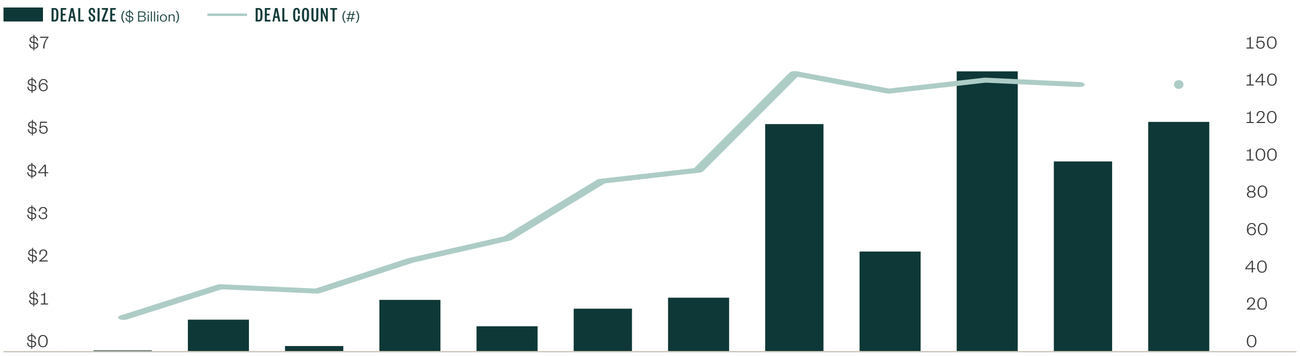
FIGURE 7: Private Investment Activity in Insurtech



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021*
Size	$5.10	$0.37	$1.15	$1.57	$9.58	$5.75	$23.66	$6.30	$22.01	$10.98	$8.57	$11.01
Count	38	52	70	101	147	223	275	406	481	510	491	494

*As of 09/29/2021

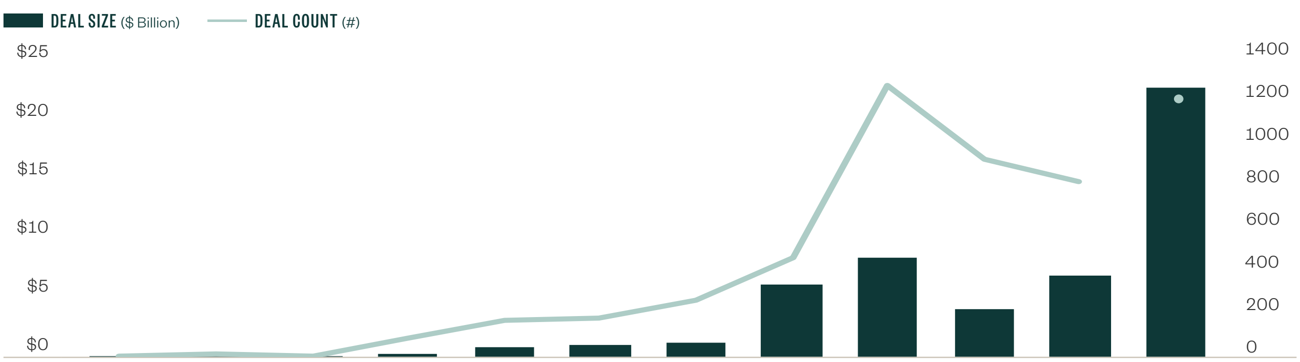
FIGURE 8: Private Investment Activity in Business Products & Services Payments



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021*
Size	$0.08	$0.75	$0.17	$1.20	$0.60	$1.01	$1.25	$5.11	$2.28	$6.24	$4.25	$5.13
Count	18	34	32	47	58	87	93	142	133	139	136	136

*As of 09/29/2021

FIGURE 9: Private Investment Activity in Cryptocurrency



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021*
Size	$0.04	$0.04	$0.07	$0.27	$0.88	$1.10	$1.15	$5.80	$7.99	$3.84	$6.47	$21.41
Count	9	15	13	89	172	180	261	446	1205	875	785	1140

*As of 09/29/2021

Payments became the juggernaut fintech segment for much of the 2010s, as many companies across multiple regions launched to provide mobile-based, user-friendly solutions for peer-to-peer, business, and other payments categories.

> "There's a dire need for easier access to payments for unbanked and underserved communities. Traditional brick-and-mortar banks don't work well for many developing markets that are primarily only able to get online via mobile."
>
> – Erik Weinapple, Senior Manager, Tax Services

As market leaders emerge in each region and category and begin to expand their consumer offerings into asset management, financial advice, and more, investment and start-up activity has begun to flourish in other fintech niches.

Four of the most active include cryptocurrency, insurtech, lending, and business products and services payments.

LENDING

At $21.3 billion, the lending space set a record for deal value this year with a full quarter to go. Activity generally remained high in the 2000s at around 400 completed transactions per year.

The variety of products and services within lending has grown substantially since 2010, proliferating beyond peer-to-peer into more complex securitized offerings and focus areas such as auto financing and education.

> "Lending platforms are connecting consumers with more options for financing, ranging from real estate loans to traditional consumer plays, employing better user interfaces and more bespoke options."
>
> – Theresa Wright, Partner, Assurance Services

The expansion rate is so great that the Consumer Bankers Association recently sent a letter to Rohit Chopra, the incoming Consumer Financial Protection Bureau (CFPB) director, urging the CFPB to expand rules so that nonbank fintech consumer lenders would have more regulatory oversight.

Stakeholders in the lending space will likely focus on discussion around potential increases in oversight in the 2020s, as the major lending companies that stay private will have to likely prove out the rigor of their processes and health of their balance sheets.

Those lenders that went public already had to conduct due diligence and preparations at the level a public listing requires, and have already partially prepared.

> "Taxation of fintech is evolving, but as is often the case with rapidly changing industries, its pace lags. As a result, companies and their advisors will often need to interpret tax law that addresses business models that evolved since the drafting of the legislation."
>
> – Bill Sturges, Partner, Tax Services

In terms of innovation, lending companies will also have to keep making technical advances in key arenas—such as automated risk assessment based on broader collections of information—to keep differentiating and capture additional market share.

Origination and adjudication have seen considerable innovation by fintechs since 2010, but as firms increasingly compete with banks, they'll need to figure out how to drive down funding costs.

Some may opt to obtain banking licenses, while others will seek to secure consistent sources of funding.

CRYPTOCURRENCY

However notorious nonfungible tokens (NFTs) became in 2021, the real advances in cryptocurrency are the gradual buildout of DeFi protocols and projects that have explicit end-use cases in mind, although in some ways they largely replicate traditional financial processes—but without intermediaries.

> "DeFi protocols enjoyed a huge surge in interest and financing activity as of late. NFTs are drawing the most attention, but largely due to hype and celebrity adoption and only across marketplaces. It remains to be seen how regulators may attempt to monitor and control this space as more DeFi protocols seem to mimic traditional financial products and services, just via a decentralized model."
>
> – Erik Weinapple, Senior Manager, Tax Services

An increasing number of platforms allow users to earn interest on crypto holdings or lend or transact in other ways. Several companies have developed iterations on wallets for crypto users compatible with select networks and chains. Prior to institutional adoption, start-ups and investors will likely focus on consumer use cases for crypto transactions and investments.

Beyond that, however, budding business use cases will spread. Prominent examples include smart contracts, gaming, transfers, and security applications.

Significant risks remain, as blockchains remain vulnerable to attacks and sufficient alignment between regulatory agencies and many of the leading companies lags; but additional rules and regulations will likely follow this coming decade which will aid many crypto companies' growth.

INSURTECH

Insurtech had blockbuster years earlier than other sectors, with 2016 and 2018 seeing nearly $24 billion and $22 billion in aggregate deal value, respectively. However, financing volume has rarely been as high as in 2021, even where aggregate deal value stood at $11 billion.

The elevated levels of deal making speak to the growing proliferation and sophistication of insurtech start-ups, as well as increased investment rates by nontraditional investors expecting to gain exposure in the fast-growing space.

Traditional insurers have posed significant competition throughout the years, prompting insurtech start-ups to develop niche products and significantly better user experiences.

> "Start-ups have been able to push the forefront of innovation in insurance by more powerful analytics and novel types of datasets that are used to assess risk, but incumbents can often contend with similar solutions eventually, leading to strong competition."
>
> – Theresa Wright, Partner, Assurance Services

However, as many start-ups have grown in scale to the point they can compete more effectively, their scope of products and services has also expanded, adding new categories of insurance and providing settlement assistance, claims scoping, and more.

Going forward, it will be essential to monitor the competition between incumbent insurers and insurtechs, especially as the former invest in their own tech stacks to hone their edges.

You may expect further proliferation into key spaces such as automotive and brokerage.

BUSINESS PRODUCTS AND SERVICES PAYMENTS

Many payments companies took off in the early 2010s, and gradually, category leaders emerged in key end markets, primarily the consumer market. However, spurred by the COVID-19 pandemic, enterprise-level digitization surged.

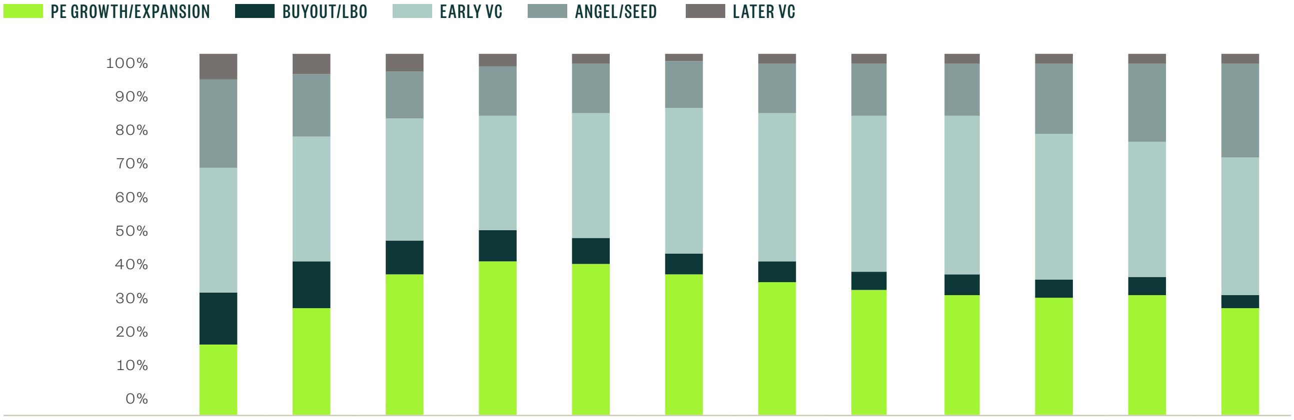
Particularly, that drive saw the development of affordable fintech tools that can aid small to midsized businesses in developing online portals for their customers, as well as meeting internal needs.

Hence, the more robust rates of investment in terms of back-to-back aggregate deal values since the start of 2020, with considerably more than $9 billion in private investment during that time.

As more businesses gradually implement additional digital tools and infrastructure as part of their normal workflows, business products and services payments start-ups will diversify further to target sector-specific end needs such as billing systems for regional health care providers, as opposed to e-commerce platforms.

CONSOLIDATION AND INCUMBENCY

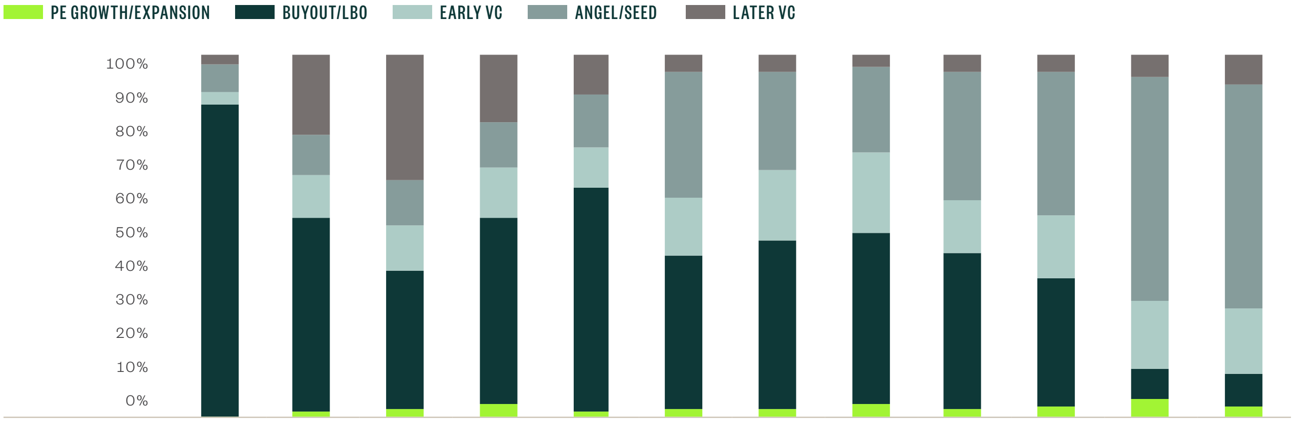
FIGURE 10: Private Investment Activity (#) in Fintech by Type



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Angel/Seed	84	176	300	478	680	858	879	960	1168	1109	1104	1057
Buyout/LBO	56	77	65	96	118	126	118	150	200	174	148	134
Early VC	143	201	254	343	548	871	961	1177	1485	1353	1216	1341
Later VC	97	103	98	152	221	275	305	379	501	631	694	899
PE Growth/Expansion	31	33	38	39	45	56	76	88	103	107	89	100

*As of 09/29/2021

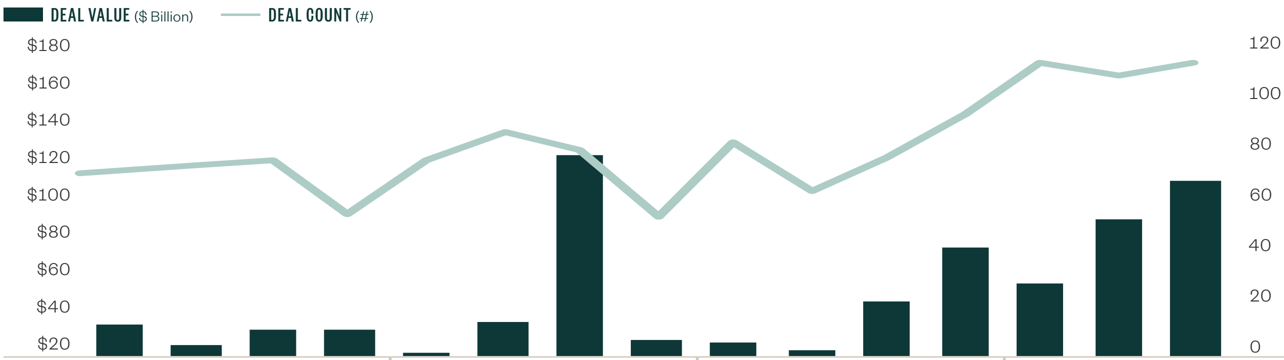
FIGURE 11: Private Investment Activity ($) in Fintech by Type



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Angel/Seed	$0.09	$0.16	$0.26	$0.53	$0.70	$1.04	$1.24	$1.67	$2.33	$2.17	$2.67	$3.21
Buyout/LBO	$10.53	$4.82	$3.35	$6.36	$22.75	$15.71	$23.20	$19.55	$42.99	$23.81	$4.02	$8.75
Early VC	$0.48	$1.04	$1.16	$1.80	$3.96	$6.12	$9.45	$9.10	$14.89	$11.67	$9.49	$18.39
Later VC	$0.89	$1.01	$1.09	$1.52	$5.51	$12.87	$13.74	$9.96	$35.23	$26.89	$30.98	$61.55
PE Growth/Expansion	$0.37	$2.01	$3.10	$2.35	$4.03	$1.85	$2.30	$1.41	$4.52	$3.20	$3.03	$8.36

*As of 09/29/2021

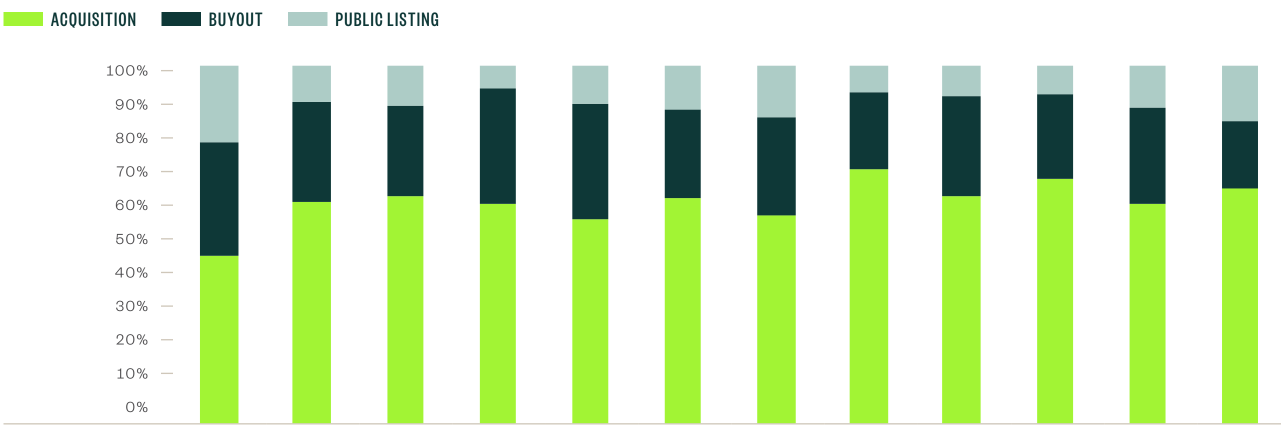
FIGURE 12: Privately Held Companies' Exit Activity in Fintech



	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2	2021 Q3
Value	$17	$7	$14	$15	$3	$19	$105	$9	$8	$4	$30	$57	$39	$72	$92
Count	65	66	68	50	68	78	72	49	74	58	69	84	102	97	102

*As of 09/29/2021

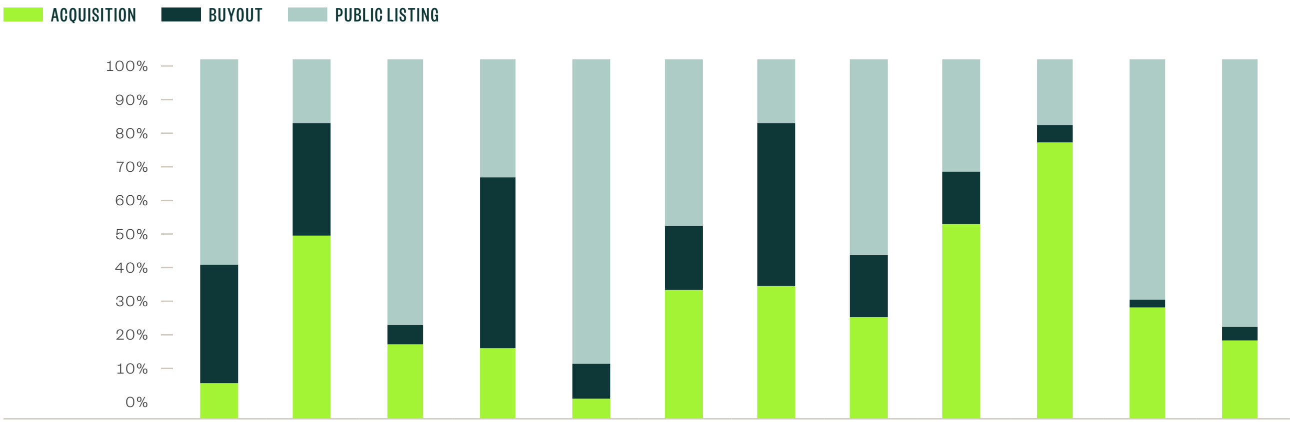
FIGURE 13: Privately Held Companies' Exit Activity (#) by Type in Fintech



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Acquisition	22	36	40	46	68	102	93	127	159	183	175	198
Buyout	15	16	16	24	38	40	44	38	69	62	77	56
Public Listing	10	6	7	5	13	20	23	14	21	22	33	47

*As of 09/29/2021

FIGURE 14: Privately Held Companies' Exit Activity ($) by Type in Fintech



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Acquisition	$1.69	$4.14	$2.29	$1.85	$10.41	$16.40	$10.44	$11.40	$29.10	$104.39	$30.77	$44.93
Buyout	$5.37	$2.58	$0.62	$4.35	$17.06	$7.91	$12.69	$6.73	$7.85	$6.85	$2.35	$7.46
Public Listing	$9.34	$1.44	$8.19	$3.06	$151.80	$21.00	$5.12	$21.68	$16.81	$24.84	$65.77	$150.21

*As of 09/29/2021

As the fintech ecosystem has matured, late-stage venture funding has accounted for a growing share of overall deal value, although it's important to note that the angel, seed, and early-stage rates of investment have also grown, just not as extensively.

PE firms have also become more active within the space—although they increasingly opt for acquisition of minority ownership stakes rather than performing buyouts—completing 100 growth equity financings by Q3 2021.

The remarkable rates of liquidity from most of 2021 contributed to part of the reason for the surge in late-stage venture funding. 2021 saw no fewer than 301 completed exits for an aggregate of well above $200 billion in exit value. The bulk of exit value resulted from public listings, as opposed to years prior, thanks to the uniquely bullish equities market since early 2020.

47 fintech companies listed publicly in 2021 via either traditional offerings, direct listings, or reverse mergers with special purpose acquisition companies (SPACs). Together, they accounted for approximately $150 billion in exit value.

Given the rate of late-stage venture funding, you could expect more blockbuster liquidity events for many mature fintechs. Multiple unicorns will likely raise capital in 2021 in preparation for going public in 12 to 18 months, and, given the size of many of these companies, public listing represents their best route to liquidity.

“Especially given how fast funding flows are now, companies should start to discuss exit strategies early, even if it entails choosing the route well in advance. Especially if an IPO is their ultimate goal, they should begin planning years in advance to ensure as seamless a transition as possible.”

– Theresa Wright, Partner, Assurance Services

Strategic acquirers will likely remain active, accounting for nearly 200 exits in 2021 alone for barely shy of $45 billion; however, as long as the equities markets stay favorable, listing publicly will remain a more attractive option.

SECTION FIVE

Looking Forward

Three primary, emergent themes shaped the fintech frontier: the increasing insistence on empowering end consumers by improving transparency, access, usability, and more; balancing decentralization with security; and aligning regulatory bodies and novel, bespoke financial products and services.

> "Ultimately, there hasn't been much guidance yet within the digital assets space, although some efforts have been made to clarify the definition of brokers and potential additional reporting requirements. Further monitoring of these changes will be required."

– Erik Weinapple, Senior Manager, Tax Services

Regulatory bodies already address key questions about consumer protection in nonbank lending, transactional security, investment management platforms, and more. However, to avoid stifling innovation, mature fintechs that can bear the costs of exploring compliance with regulatory agencies must compromise.

> "Especially for smaller fintechs, eligibility for qualified small business stock (QSBS) exemptions can create challenges, as banks, financial companies, and insurance companies don't qualify—so is this fintech company, a small technology business or a financial services business?"

– Bill Sturges, Partner, Tax Services

In addition, as consumers continue to demand lower costs for investment management and personalized products such as insurance, which will pull in vast amounts of alternative data to produce individualized quotes, fintechs will need to ensure adequate security and anonymity of personal data to avoid the types of security breaches that have cost retailers millions in recent years.

> “Fintechs have access to a tremendous amount of information about their customers, which could empower significant advances in tailoring products and services to even specific people—this is a huge advantage.”
>
> – Theresa Wright, Partner, Assurance Services

Finally, decentralizing core fintech stacks has improved efficiency and expediency but raised some risks, so one must strike a balance between clearance of trades, custody, brokering and transacting workflows, and data security, especially as more sophisticated attacking strategies grow and bypass standard encryption levels.

At the same time, incumbent financial services companies will likely invest in in-house R&D to tackle innovation, yet also expand capabilities via strategic acquisitions or partnerships, which should foster an enhanced source of liquidity for start-ups as well as a significant source of competition.

In summary, we expect the frontier of fintech to expand even more rapidly in the 2020s than in the past, fueled by a record wave of private investment activity.

SECTION FIVE

Methodology

We defined fintech, cryptocurrency, insurtech, and business products and services payments within this publication using the PitchBook verticals for each.

We defined lending with a mix of relevant keywords the company's profile contains. Companies in the underlying population had to possess at least one primary industry code tagged as a relevant key word.

We used standard PitchBook methodology regarding venture transactions and venture-backed exits for all datasets, and similarly for private equity or other private investment types. Find full details here.

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