

Before we begin

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Q&A

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Morgan Lewis

STARTUP & ACCELERATE

Market Trends Impacting Fintech

April 14, 2022

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Agenda

- Overview of the Fintech Landscape
- Early-Stage Financing
- Due Diligence & Certain Issues to Consider in Fintech M&A
 - I. Regulatory Overlay
 - II. Intellectual Property
 - III. International Trends
- Questions

Overview of the Fintech Landscape

- Fintech is broadly defined
- For our purposes, we are focused on early- and mid-stage companies that use technology to deploy new financial products or services, or to deliver products and services in an innovative manner
 - Often seek to avoid regulation (or minimize regulation)
 - Limited staffing and budget for compliance infrastructure (compared to regulated banking organizations)
 - Adaptable and able to move quickly

Fintech Market Overview

SECURITIES / INVESTMENT MANAGEMENT (IM)

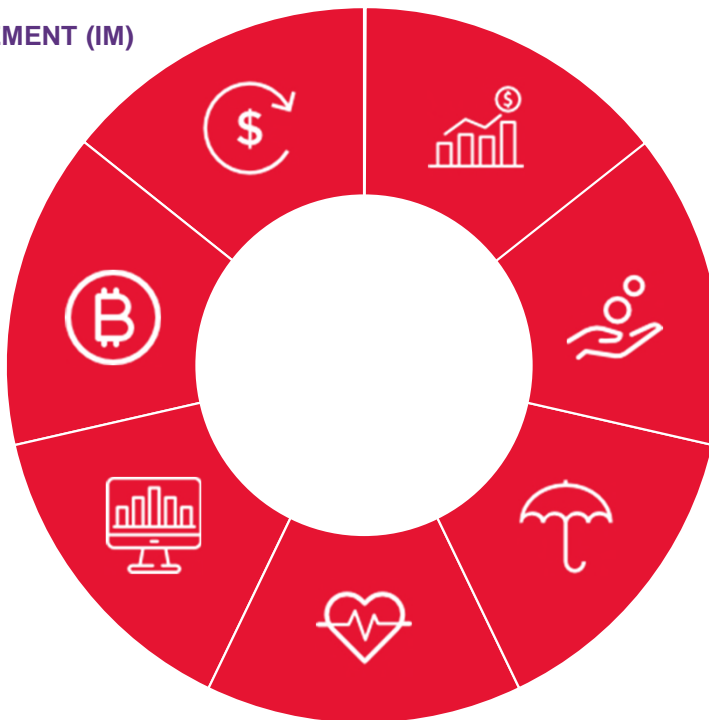
- Back-Middle Office Technology
- Infrastructure & Trading Technology
- Asset Management Technology
- Wealth Management
- Liquidity Pools
- Data / Analytics / Research
- Robo Advisors
- Online Brokers / Trading / Custodians

BANKING & ALTERNATIVE LENDING

- Enterprise Banking Tech
- Peer-to-Peer Lending
- Consumer-Oriented Financial Services
- Real Estate Tech
- Bank Payment Solutions
- Consumer, SME, Real Estate
- Buy Now Pay Later

BLOCKCHAIN / CRYPTOCURRENCY

- Wallets
- ITOs (Initial Token Offerings)
- Sidechains
- Securities ledgers
- ETFs
- Miners
- Exchanges



PAYMENTS

- Merchant Services
- Carrier Billing and NFC Infrastructure (Telcos)
- Transactions Security
- Card-Based Payment Products
- Online / Mobile Payments
- E-Rewards / Loyalty
- International Money Transfer
- Financial Institutions
- Networks / Associations

INSURTECH

- Core Software (e.g. Claims Management)
- Data and Analytics
- Sales and Distribution

FINANCIAL MANAGEMENT SOLUTIONS

- Enterprise Resource Planning
- Financial Planning
- Accounting Support

HEALTHCARE

- Patient Care Administration (e.g. RCM)
- Benefits Procurement and Management
- Health Insurance Sales & Distribution

Sources

Financial Technology Partners; CB Insights; Morgan Lewis

What Are We Watching - Trending Areas in Fintech

- “Banks of the future” business models, digital lenders, and Buy Now pay later and other innovative payment processors
- Increasing investment in early stage Insurtech companies
- Application of blockchain beyond digital assets as well as continuing digital asset activity
- Cryptocurrency, Stablecoins, and NFTs seem to be permanent part of the landscape

Overview - “Banks” and “Fintechs”

Relationships between the traditional banking sector and the fintech sector have evolved significantly over last several years

Adversarial

- Fintechs seeking to displace traditional banks
- Banks view fintechs primarily as threat for market share

Shift

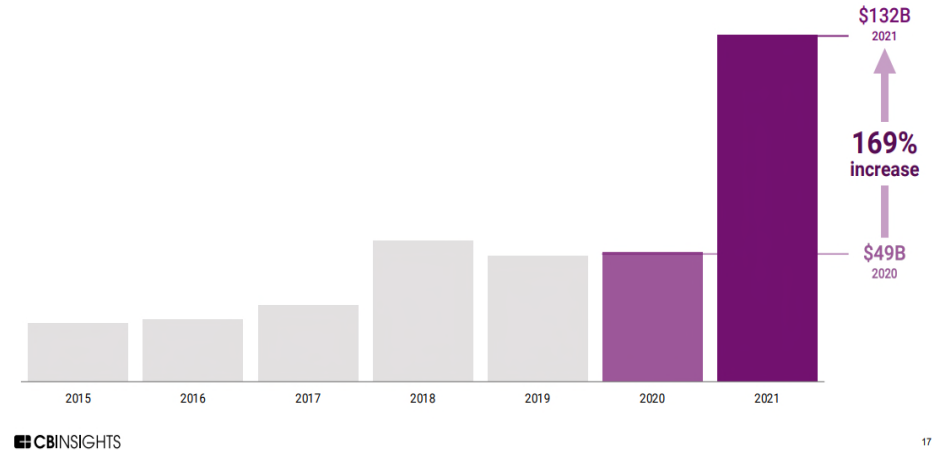
- Traditional banks recognize benefits of incorporating fintech into traditional business; inability to match innovation
- Fintechs recognize the benefits of bank partnership (branding, customers, delivery channels, funding, infrastructure)

Cooperative

- Increasingly seeing traditional banks seeking to harness new technologies; banks and fintech startups finding ways to work with one another
- Partnerships and joint ventures
- Minority investments
- Other cooperative relationships

Why Do We Care?

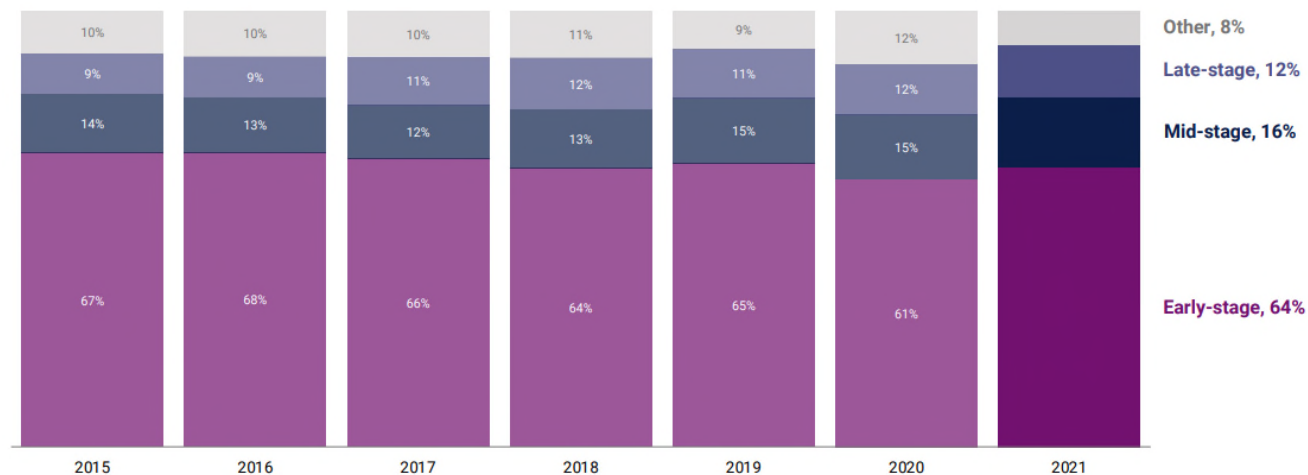
- Fintech startups raised \$132B in funding in 2021 – accounting for 21% of all venture dollars
 - \$1 out of every \$5 in venture financing goes to fintech
- Fintechs saw the highest proportion of early-stage deals of any industry



Fintech Deal Activity

STATE OF VENTURE | SECTOR SPOTLIGHTS | FINTECH

Fintech early-stage deal share ticks up to 64%

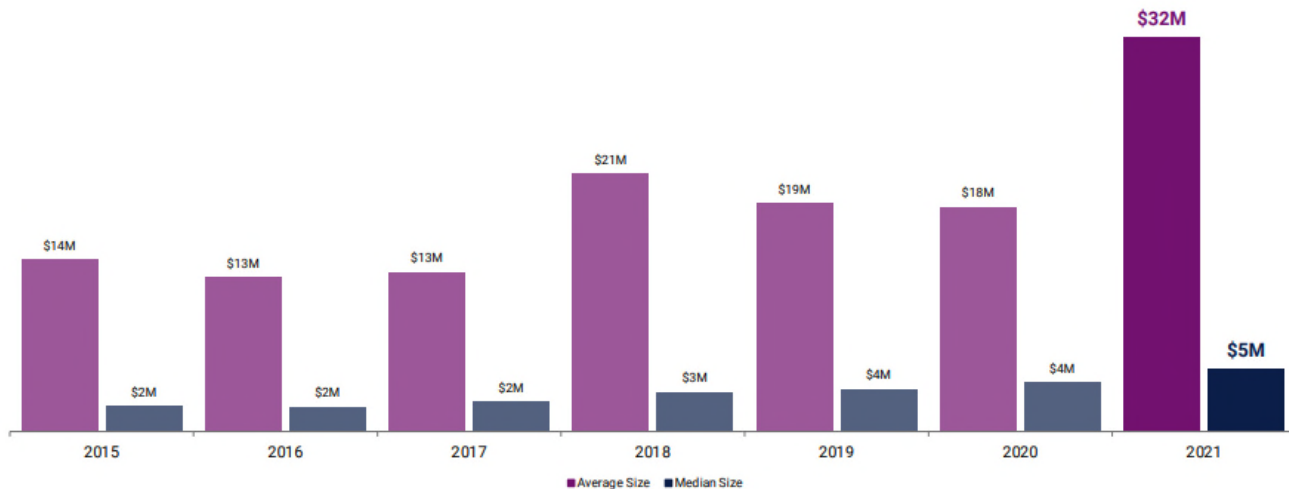


CBINSIGHTS

Fintech Deal Activity

STATE OF VENTURE | SECTOR SPOTLIGHTS | FINTECH

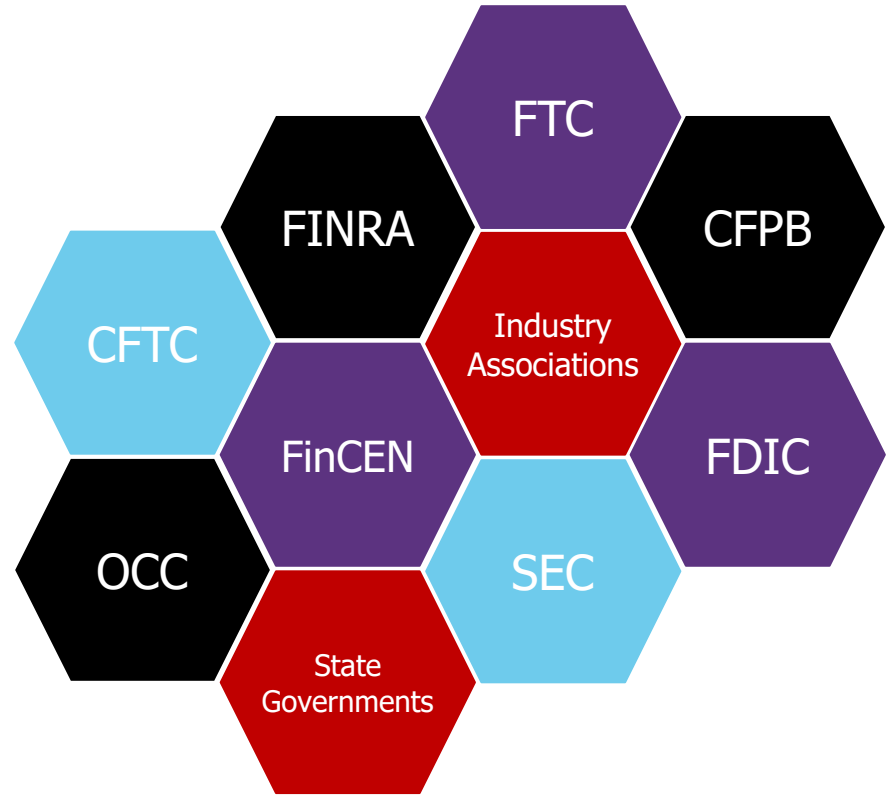
Average and median fintech deal sizes reach new records



CBINSIGHTS

Regulatory Overlay

- Fintech businesses will be subject to regulation at both a federal and state level.
- There is a wide range of regulatory bodies that may govern the activities of fintech businesses operating in the US. Some have extremely broad jurisdictions, while others focus on specific activities.
- Many countries have established 'regulatory sandboxes' - test environments in which fintech companies can carry out experiments under regulatory supervision.



Regulatory Overlay

Fintech Regulations in the US
Gramm-Leach Bliley Act
Fair Credit Reporting Act
US Anti-Money Laundering regulations
JOBS Act
Fund Transfer Act and CFPB Regulation E
Securities Act and Exchange Act
CAN-SPAM

- With numerous regulators, fintech firms noted that identifying the applicable laws and how their activities will be regulated can be difficult
- The specific regulations with which fintechs must comply will depend on the activities they are pursuing
- Regulators and others note that fintech activities create data security and privacy concerns and could potentially impact overall financial stability as fintech grows

March 9, 2022 – Executive Order on Ensuring Responsible Development of Digital Assets

- The order lays out six policy objectives and calls on federal agencies to produce reports on how these objectives interact with the industry
- Objectives outlined are expansive and likely to yield significant industry-wide changes as a result of the Biden-Harris administration's research and reporting
- Do not expect *immediate* changes to result from the executive order, particularly without congressional action

Intellectual Property

- Fintech companies will likely hold several types of IP that they can and should seek to protect
- Multijurisdictional issues
- Significant potential lags in IP due diligence
- NFTs – certificate of authenticity may not confer copyright
- IP litigation (Miramax/Tarantino, Nike/StockX, Hermes/Mason Rothschild, et. al.)

International Trends: North America

- North America
 - USA
 - Regulation impacts on the industry
 - Despite some pullback in the number and value of average deals, long-term opportunities abound
 - Partnerships still growing between new and more established fintech players
 - Fintechs are looking to legitimize with charters and licenses
 - Big Deals: Credit Karma/Intuit, Honey/PayPal, SoFi/Galileo, Personal Capital/Empower
 - Big IPOs: Lemonade, nCino, Upstart
 - DeSPAC

International Trends: Europe

- Europe
 - UK
 - Kalifa Review: HM Treasury published independent report last year, recommending:
 - digital finance package creating new regulatory framework for emerging technology
 - providing additional support to firms focusing on innovative technology
 - securing Fintech's position as integral part of UK trade policy and continuing to establish Fintech Bridges
 - HM Treasury consultation: Regulatory Approach to Cryptoassets and Stablecoins
 - Financial promotion regime to be extended to cryptoassets
 - Bank of England and FCA to publish discussion paper on AI later this year

International Trends: Europe

- Europe
 - EU
 - European Commission has adopted digital finance package, including proposals for:
 - regulation on markets in cryptoassets
 - regulation on a pilot regime for market infrastructures based on DLT
 - regulation on a digital operational resilience framework for financial services
 - directive clarifying and amending existing EU financial services legislation
 - Insurtech
 - Insurtech work remains a strategically important area for EIOPA
 - EIOPA published last year discussion paper on “open insurance”
 - Artificial Intelligence
 - European Commission published proposal for regulating AI last year
 - While the US fintech market remains attractive to European digital banks, a complicated regulatory landscape limits many from entering the space.

International Trends: Asia

- Asia
 - China
 - Chinese regulators announced a blanket ban on all cryptocurrency transactions and mining
 - Concerted effort to address illicit activities conducted using digital assets
 - Announced on September 24, 2021, authored by a group of agencies including the China Securities Regulatory Commission and the People's Bank of China

International Trends: Asia

- Asia
 - Singapore
 - Overseas fintechs continue to view Singapore as a gateway into the wider Asian market.
 - 2021 was a strong year for M&A activity in the local fintech ecosystem, with a variety of companies going public or being acquired by major players
 - Singapore's fintech industry hit a five-year high at 191 deals transacted in 2021, a 37 percent increase compared to 2020's deal count (139 deals) and a 91 percent increase from 2019's figures (100 deals)
 - Total transaction value in Singapore also surged by 59 percent year-on-year at US\$3.94 billion, across venture capital (VC), private equity (PE) and merger and acquisition (M&A) deals in 2021, up from US\$2.48 billion in 2020
 - Fintechs in the payments space attracted the most investment, totaling about S\$1 billion

Questions?

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More Information

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Save The Date

STARTUP & ACCELERATE

Key Issues in Tech M&A

Thursday, May 12 @ 12:30pm ET

THANK YOU

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