

Morgan Lewis

M&A ACADEMY

**M&A in the Ever-Changing Fintech
Landscape**

**Andrew Ray, Eamonn Moran, Mark Riccardi, John Filippone, Steven
Lightstone**

March 1, 2022

Presenters



Andrew M. Ray
Washington, D.C.
+1.202.373.6585
andrew.ray@
morganlewis.com



Eamonn K. Moran
Washington, D.C.
+1.202.739.5037
eamonn.moran@
morganlewis.com



Mark Riccardi
Washington, D.C.
+1.202.739.5023
mark.riccardi@
morganlewis.com



John L. Filippone
Los Angeles
+1.213.680.6626
john.filippone@
morganlewis.com



Steven Lightstone
London
+44.20.3201.5663
steven.lightstone@morg
anlewis.com

Agenda

- Overview of the Fintech Landscape
- M&A Generally
- Unique Issues to Consider in Fintech M&A
 - I. Regulatory Overlay
 - II. Cybersecurity, Data Privacy and Related Issues
 - III. International Trends
 - IV. Intellectual Property
- Questions

Overview of the Fintech Landscape

- Fintech is broadly defined
- For our purposes, we are focused on early- and mid-stage companies engaged in a financial services business that uses technology to deploy new financial products or services, or to deliver products and services in a new way
 - Often unregulated (or less regulated)
 - Limited staffing and budget for compliance infrastructure (compared to regulated banking organizations)
 - Innovative and able to move quickly

What Are We Watching - Trending Areas in Fintech

- “Banks of the future” business models and expansion of challenger banks and digital lenders
- Continued M&A and consolidation of more major segments such as payments
- Insurtech venture capital backed deal activity
- Application of blockchain beyond crypto
- Cryptocurrency, Stablecoins, and NFTs

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

Fintech Market Overview

SECURITIES / INVESTMENT MANAGEMENT (IM)

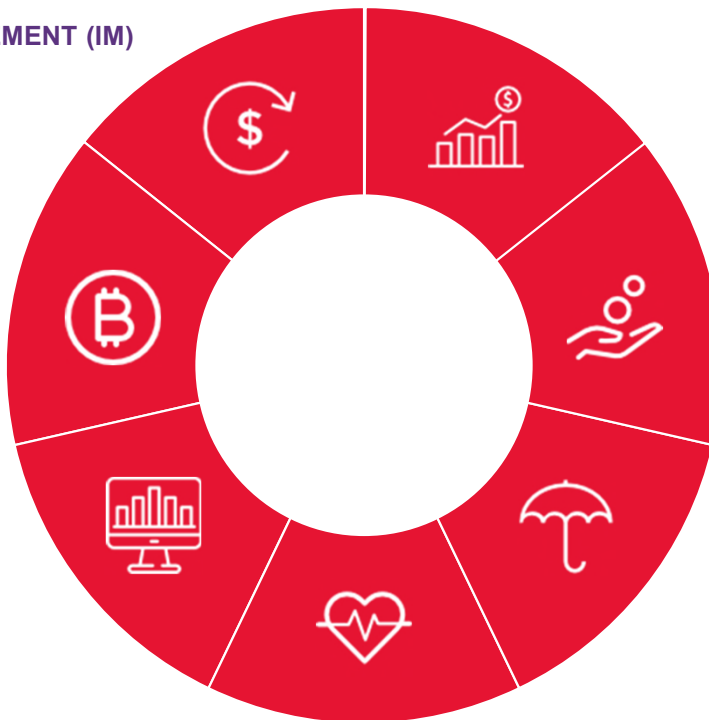
- Back-Middle Office Technology
- Infrastructure & Trading Technology
- Asset Management Technology
- Wealth Management
- Liquidity Pools
- Data / Analytics / Research
- Robo Advisors
- Online Brokers / Trading / Custodians

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

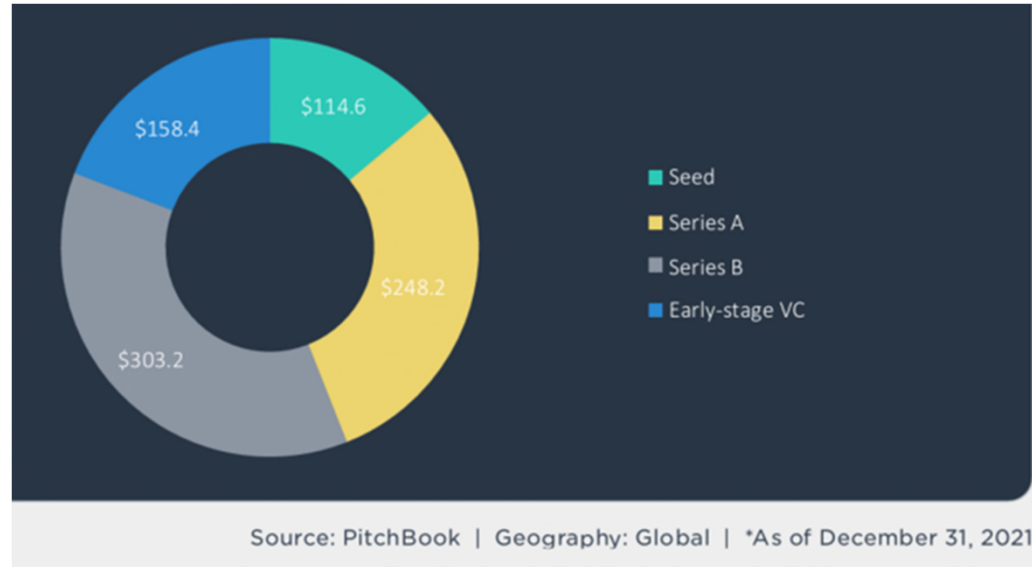
Sources

Financial Technology Partners; CB Insights; Morgan Lewis

Fintech Deal Activity

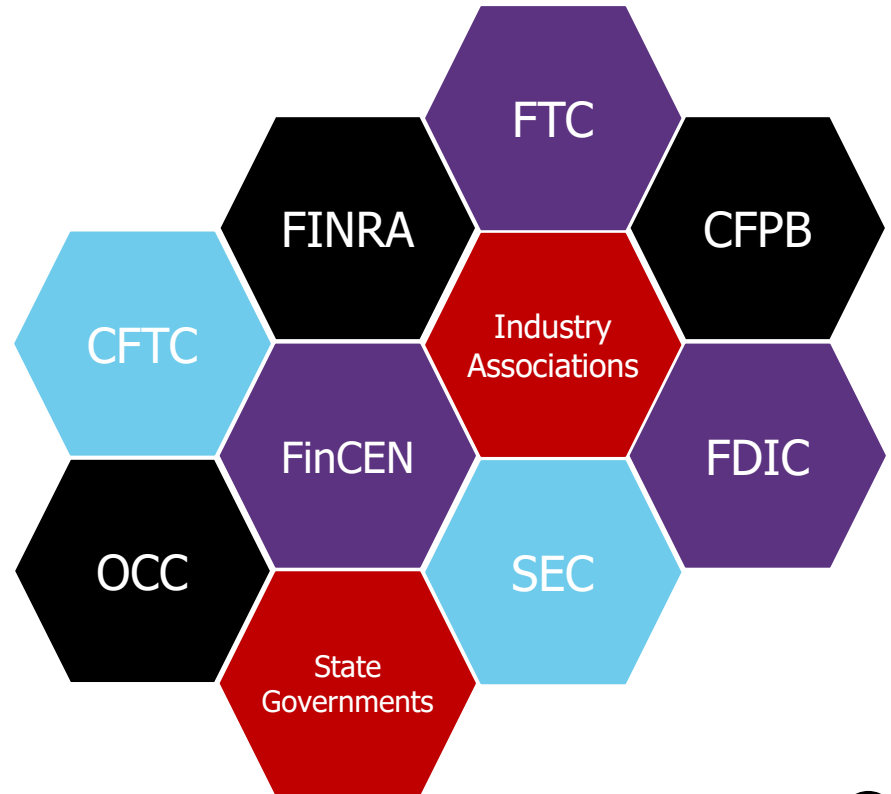
- Fintech was the second-largest area of emerging tech investment in Q4 at \$824 million across 23 deals
- Second-highest area of investment for the entirety of 2021 at \$3.8 billion
- Highest deal count at 118
- Deal activity shows opportunity for startups to sell products and services into the global financial ecosystem.

Q4 2021 Fintech Deal Value (\$M) by Stage



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.

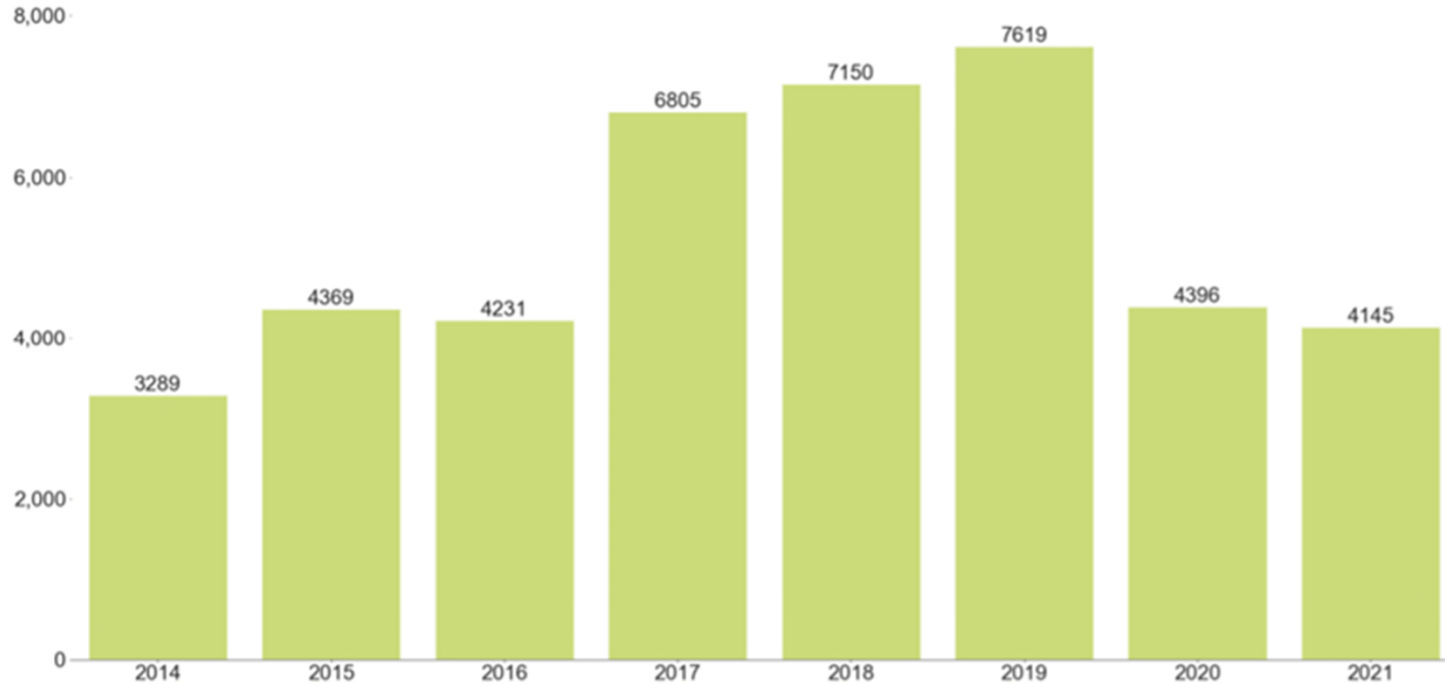


Regulatory Overlay

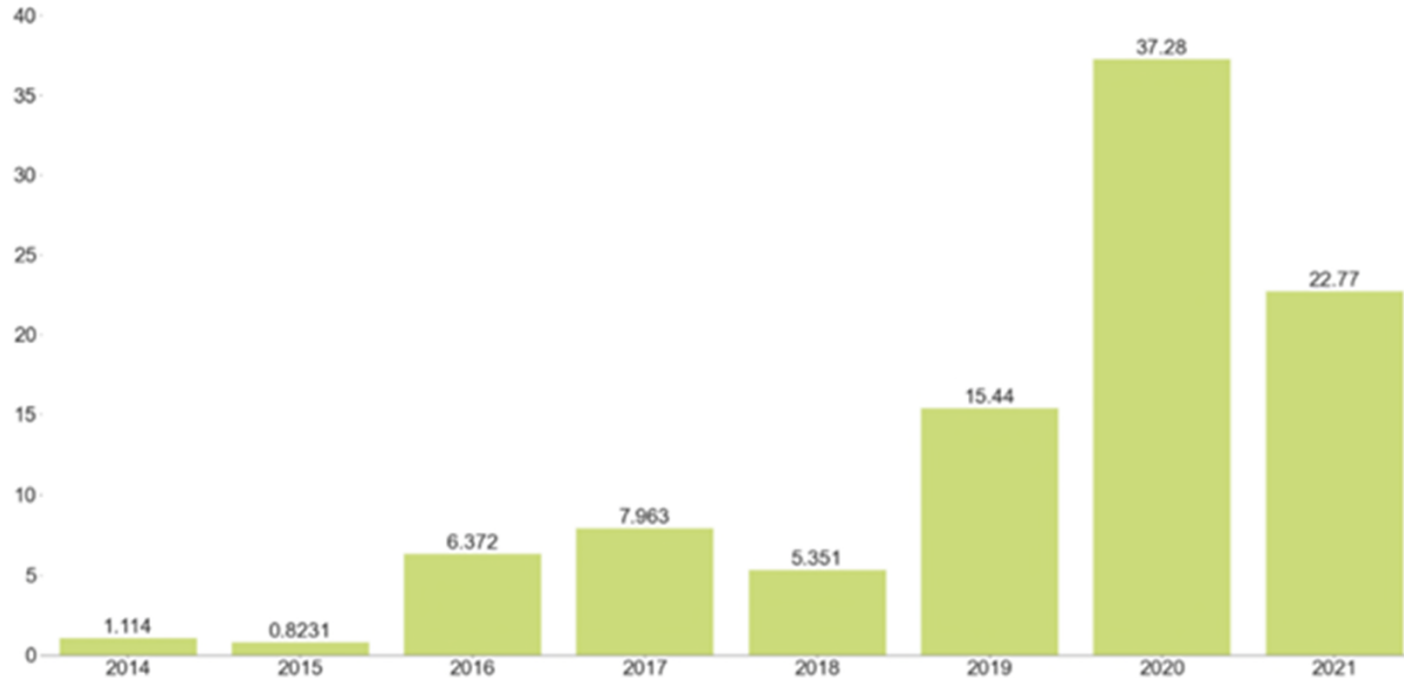
Fintech Regulations in the US
Gramm-Leach Bliley Act
Fair Credit Reporting Act
US Anti-Money Laundering regulations
JOBS Act
Fund Transfer Act and CFPB Regulation E
Securities Act and Exchange Act
CAN-SPAM

- 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.
- Current White House is more active

Number of Breaches Reported by EOY



Number of Records Lost (in billions) reported by EOY



Cybersecurity, Data Privacy and Related Issues

- Data/system breaches have been steadily on the rise over the past several years. However, reports of data breaches in 2021 were down 6% from the number of reported breaches in 2020 (although that difference may be attributable to underreporting or delays in reporting 2021 breach incidents)
- The number of records exposed decreased to 22.7 billion.

Cybersecurity, Data Privacy and Related Issues

- Data breach costs rose from USD \$3.86 million to USD \$4.24 million, the highest average total cost in the history of the 2021 IBM Cost of a Data Breach Report
- The average cost was USD \$1.07 million higher in breaches where remote work was a factor in causing the breach, compared to those where remote work was not a factor
- Compromised credentials caused the most breaches
- The most common initial attack vector, compromised credentials, was responsible for 20% of breaches at an average breach cost of USD \$4.37 million

<https://www.ibm.com/security/data-breach>

NR76YN2

Please save this number; you will need this to receive a Certificate of Attendance.

Please insert this code into the survey that follows this webinar; the survey will generate once you close out of this window.

You will be contacted within 30-60 days by our CLE administrative team. We will process your credits for other states where this program has been approved.

Please email Jennifer LeBlanc at jennifer.leblanc@morganlewis.com if you have any questions.

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

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
 - 2021 has been 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 \$3.94 billion, across venture capital (VC), private equity (PE) and merger and acquisition (M&A) deals in 2021, up from \$2.48 billion in 2020.
 - Overseas fintechs continue to view Singapore as a gateway into the wider Asian market.
 - Local players are also using M&A for market consolidation and to create larger product and platform ecosystems.
 - Fintechs in the payments space attracted the most investment, totaling about S\$1 billion.
 - Various government initiatives have been introduced to support digital payments.
 - Monetary Authority of Singapore (MAS) announced a plan to link the country's national real-time payment system (PayNow) to Malaysia's equivalent infrastructure (DuitNow).
 - M&A activity in the local fintech ecosystem is likely to remain robust, as corporates seek to expand their capabilities and footprint in Asian, and private equity firms and US SPACs set their sights on targets in the region.

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

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.)

QUESTIONS?

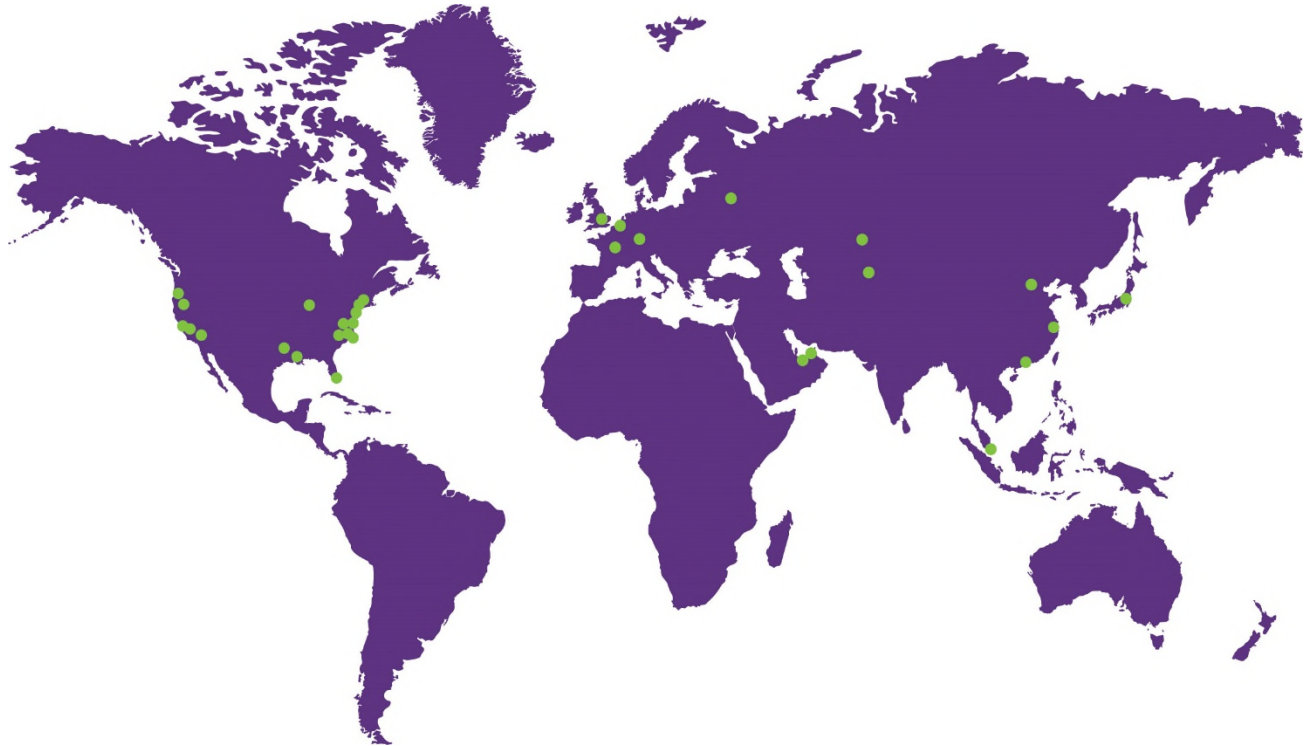
A long-exposure photograph of a highway at night, showing vibrant red and blue light trails from cars moving away from the viewer. The trails are dense and create a sense of motion and speed. The background is a dark, deep blue, and the overall composition is dynamic and energetic.

Our Global Reach

Africa
Asia Pacific
Europe
Latin America
Middle East
North America

Our Locations

Abu Dhabi
Almaty
Beijing*
Boston
Brussels
Century City
Chicago
Dallas
Dubai
Frankfurt
Hartford
Hong Kong*
Houston
London
Los Angeles
Miami
Moscow
New York
Nur-Sultan
Orange County
Paris
Philadelphia
Pittsburgh
Princeton
San Francisco
Shanghai*
Silicon Valley
Singapore*
Tokyo
Washington, DC
Wilmington



Morgan Lewis

*Our Beijing and Shanghai offices operate as representative offices of Morgan, Lewis & Bockius LLP. In Hong Kong, Morgan Lewis operates through Morgan, Lewis & Bockius, which is a separate Hong Kong general partnership registered with The Law Society of Hong Kong as a registered foreign law firm operating in Association with Luk & Partners. Morgan Lewis Stamford LLC is a Singapore law corporation affiliated with Morgan, Lewis & Bockius LLP.

THANK YOU

© 2022 Morgan, Lewis & Bockius LLP
© 2022 Morgan Lewis Stamford LLC
© 2022 Morgan, Lewis & Bockius UK LLP

Morgan, Lewis & Bockius UK LLP is a limited liability partnership registered in England and Wales under number OC378797 and is a law firm authorised and regulated by the Solicitors Regulation Authority. The SRA authorisation number is 615176.

Our Beijing and Shanghai offices operate as representative offices of Morgan, Lewis & Bockius LLP. In Hong Kong, Morgan Lewis operates through Morgan, Lewis & Bockius, which is a separate Hong Kong general partnership registered with The Law Society of Hong Kong as a registered foreign law firm operating in Association with Luk & Partners. Morgan Lewis Stamford LLC is a Singapore law corporation affiliated with Morgan, Lewis & Bockius LLP.

This material is provided for your convenience and does not constitute legal advice or create an attorney-client relationship. Prior results do not guarantee similar outcomes. Attorney Advertising.