

**Morgan Lewis**

# **STARTUP & ACCELERATE**

**Fintech and Insurtech – Legal Strategies,  
Venture Capital Financing and Market Trends**

November 21, 2024

# Presenters



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# Agenda

- Fintech Market Overview
- Fintech Deal Activity
- Potential Future of Fintech / Trending Areas in Fintech / Fintech Hubs
- Case Study – Relationship between Banks and Fintechs
- Key Deal Considerations
- Questions?

# Fintech Market Overview

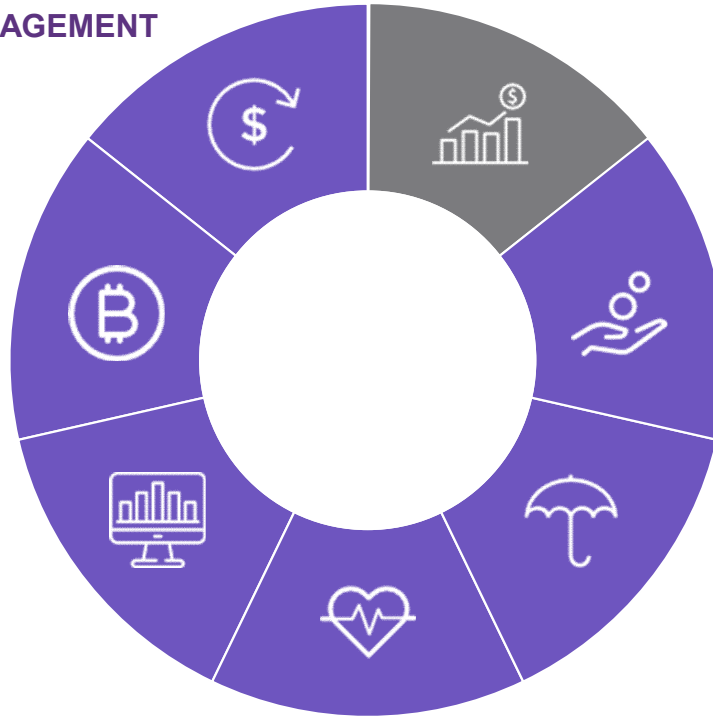
SECURITIES / INVESTMENT MANAGEMENT  
(IM)

PAYMENTS

BANKING & ALTERNATIVE  
LENDING

BLOCKCHAIN/  
CRYPTOCURRENCY

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HEALTHCARE

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FINANCIAL MANAGEMENT  
SOLUTIONS

# Fintech Market Overview - Key Players

- VCs
- Growth Equity
- Private Equity
- CVCs (Consortium)
- Banks
- Consumers
- Regulators

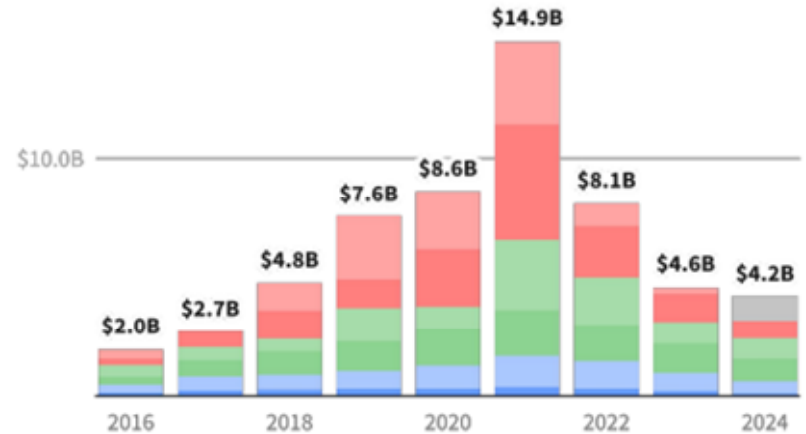
# Fintech Market Overview - Insurtech

Insurtech is the intersection between insurance and technology. Insurance touches many other sectors – real estate, health and mobility.

- Similar trend in activity relative to Fintech
- B2B SaaS on the rise
- Climate Risk Intelligence & Management
- Healthcare – Rapidly Evolving

Global VC funding in insurtech startups

■ \$0–1m (pre-seed) ■ \$1–4m (seed) ■ \$4–15m (series A) ■ \$15–40m (series B) ■ \$40–100m (series C) ■ \$100–250m (mega rounds) ■ \$250m+ (mega+) ■ Projection



Source: Dealroom.co.

# Fintech Market Overview - Crypto

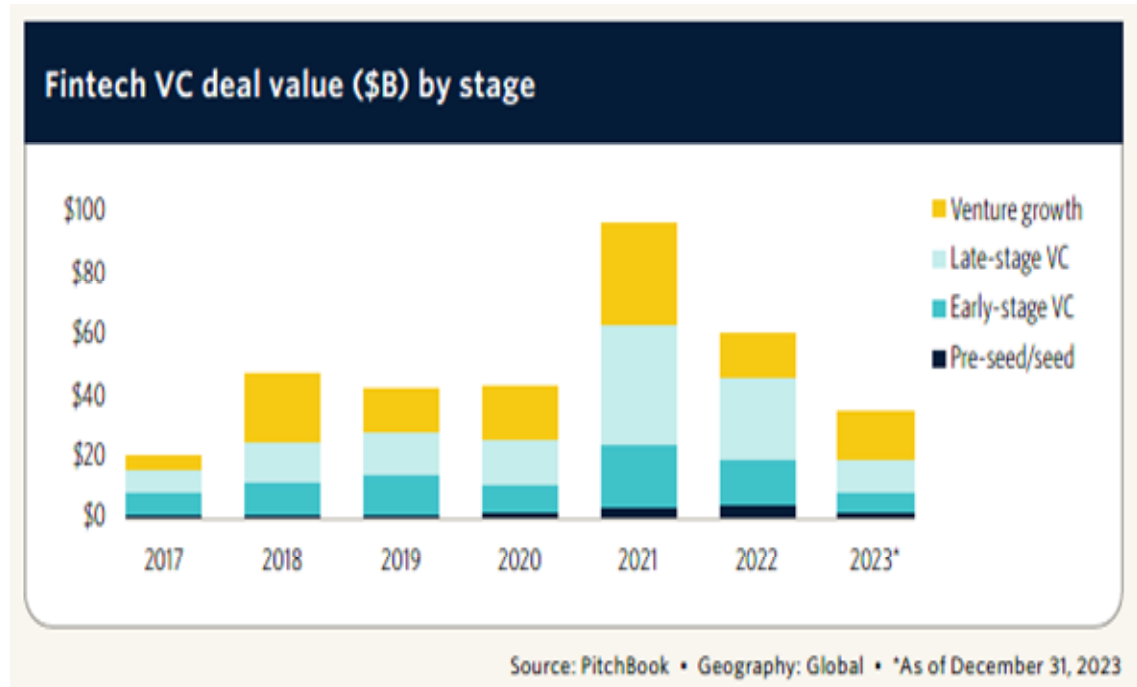
- FinTech is the use of new technology that seeks to improve and automate the delivery and use of financial services for businesses or customers.
  - Blockchain based solutions – mobile banking, investing services, “smart” card technology, secure payments
- 2024 VC investment in crypto on track to meet or exceed 2023
- Early-stage deals lead
- Largest investment category – Trading/Exchange/Investing/Lending
- Fundraising continues to be challenging
- Regulatory environment remains regulation by enforcement – incoming administration has signaled support for the industry

*Source: Galaxy Digital, Crypto & Blockchain Venture Capital – Q3 2024*



# Fintech Deal Activity – FY2023

- VC capitalists invested \$10 billion globally into retail fintechs in 2023, down 57.5% from \$23.6 billion in 2022.
- Capital was raised across a total of 699 deals in 2023.
- Both VC deal value and deal count dropped dramatically in 2023, suggesting investors are hesitant to deploy funds given higher interest rates, inflation, normalizing delinquency rates, and heightened geopolitical tensions

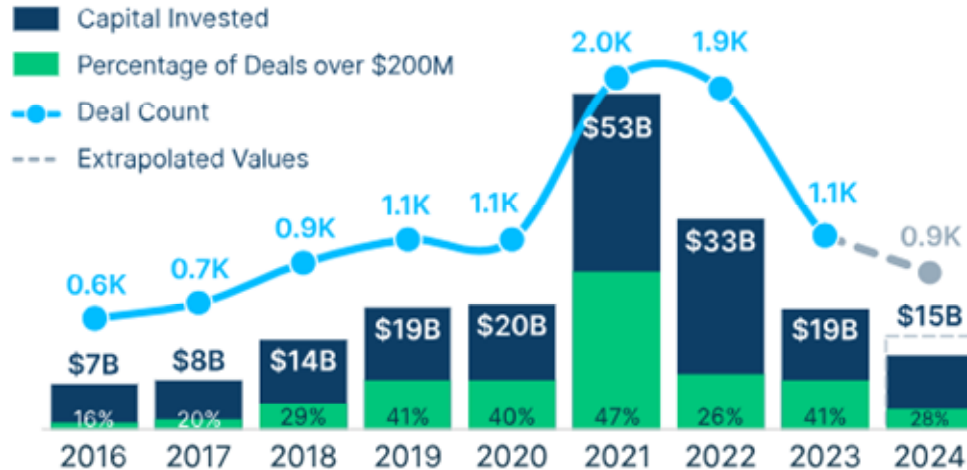


Source: PitchBook, Global, as of December 31, 2023



# Fintech Deal Activity – FY2024

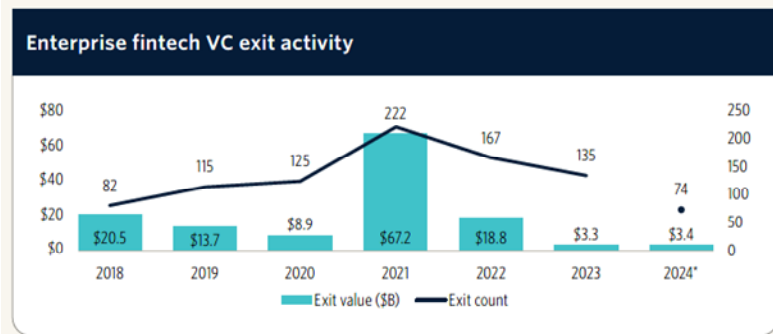
Fewer Mega-Deals, as VC Falls to 6-Yr Low  
Fintech VC Deals and Dollars, Fintech Mega-Deals Count  
as a Percentage of VC-Backed Fintech Deals



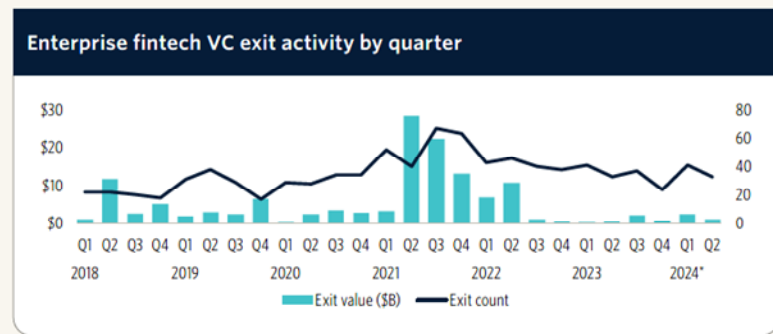
Notes: Data as of 10/17/2024. Dotted line shows projected 2024 values.

Source: PitchBook Data Inc. and SVB analysis.

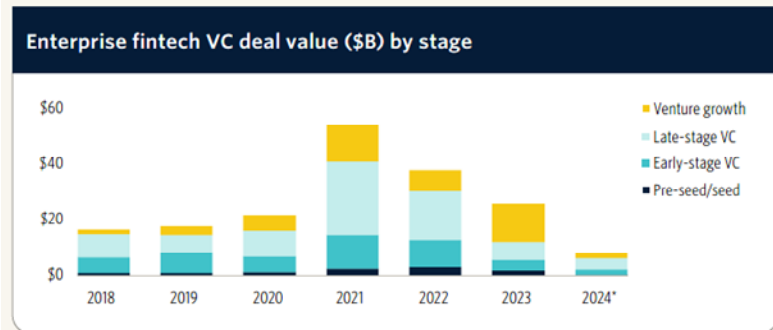
# Fintech Deal Activity – FY2024 (cont'd)



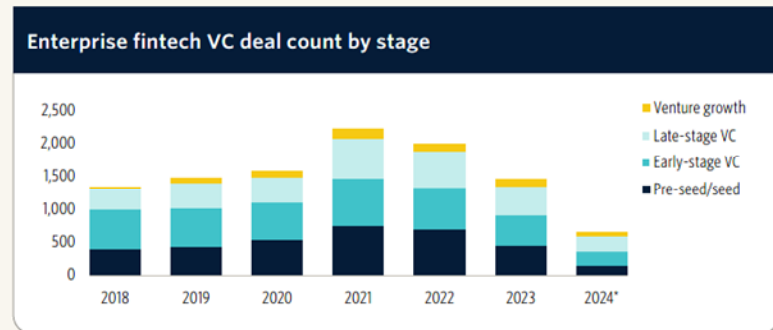
Source: PitchBook • Geography: Global • \*As of June 30, 2024



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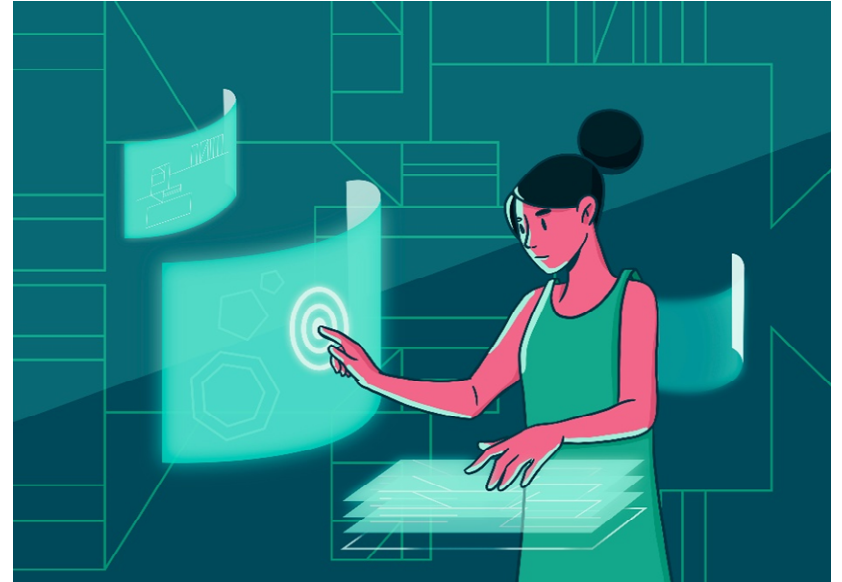
# Fintech Deal Activity – Key Takeaways

- Fintech has become one of the largest sectors in VC
- Volume Significantly down since '21
- “Two Sides to the Coin”
  - High-performing companies continuing to raise without much difficulty
  - Others struggling
- Entering an era of regulation
  - BaaS continues to receive heightened regulatory scrutiny and lingering effects of Synapse collapse
- AI-led models - S&P Global Market Intelligence Report identifies FinTech companies with AI-led models as an area of growth.

*Source: PitchBook, Global, as of December 31, 2023*

# Potential Future of Fintech

- Artificial Intelligence
- Blockchain development and crypto
- RegTech development



# Trending Areas in Fintech

- Declining Interest Rates
- Buy Now, Pay Later
- Open Banking
- Neobanks (digital-only banking)
- Increased Focus on Enforcement by US Regulators

# Trending Areas - Buy Now, Pay Later

- Domestic and international adoption
- Major retailer and other company adoption
- Increased debt among users
- Expected growth in 2025
- Increased regulatory scrutiny



# Trending Areas - Fintech Hubs



- Silicon Valley
- London
- New York
- Singapore
- Hong Kong
- Abu Dhabi
- Bengaluru / Delhi / Mumbai
- Frankfurt
- Dublin

# Case Study - Relationship Between “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



# Rise of RegTech Solutions

- Regulatory Technology (RegTech) – regulatory and compliance solutions
  - Financial services, health care, energy
  
- AI and Venture Capital Financing
  - Generative AI to digest large datasets to streamline diligence efforts
  - Predictive AI to more efficiently target investments
    - In depth market analysis
    - Potential risks and market trends

# Key Deal Strategies – Due Diligence

## Nature of Fintech targets necessitates robust diligence efforts

- Areas of particular concern
  - US and extra-US regulatory concerns
  - AML/KYC
  - Nature and volume of complaints, both internal and external
  - Expertise of internal teams and appropriate enterprise security
  - History of past operational failures
  - Intellectual property (patents, trade secrets)
- Sources of Information
  - Use of traditional diligence requests and efforts
  - Existing policies and procedures, control reviews and audit reports
  - Public records and regulatory reports
  - Media reports
  - Market information on competitors
  - Existing insurance policies

# Key Deal Strategies – Regulatory Approval & Enforcement

- Combination of increased attention by federal and state enforcement
- Federal
  - Department of Justice (DOJ)
  - Consumer Financial Protection Bureau (CFPB)
  - Federal Trade Commission (FTC)
  - Securities Exchange Commission (SEC)
- State
  - Attorneys General
  - Banking and insurance regulator
- Regulatory approval and licensing

# Questions

The background of the slide is an abstract composition of numerous thin, overlapping lines and streaks. These lines radiate from the left side and fan out towards the right. The color palette is rich and varied, featuring deep blues, vibrant reds, magentas, and purples. The overall effect is dynamic and modern, suggesting motion and energy.

# Profiles

The background of the slide is an abstract composition of numerous thin, overlapping lines that radiate from the left side towards the right. The lines are primarily in shades of blue, red, and purple, with some lighter, almost white, lines interspersed. The overall effect is a sense of motion and depth, similar to a light trail or a stylized representation of data flow.

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Douglas E. Kingston counsels clients on a wide variety of business law matters, focusing on mergers and acquisitions, venture capital, and financing transactions. He represents entrepreneurs, startup and emerging growth companies, as well as privately held companies, through their entire life cycle, including start-up matters, equity and debt financings, corporate restructurings, and sale transactions. Douglas has represented clients across numerous industries, including fintech, beverage distribution, pharmaceutical, medical device, digital health, consumer products, technology, data management, and energy. In addition, he serves as a counselor to privately and publicly held companies on a wide variety of general corporate matters.

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# Christina W. Wlodarczyk



Christina Wlodarczyk advises clients on a broad range of corporate and transactional matters, with a focus on public and private securities offerings, securities regulation, and corporate governance. Christina also advises public companies on Securities Exchange Act of 1934 disclosure obligations and compliance with NYSE and Nasdaq rules. As a member of the firm's capital markets and public companies practice, Christina represents established and early-stage companies in a variety of industries and advises clients ranging from Fortune 500 businesses to emerging companies.

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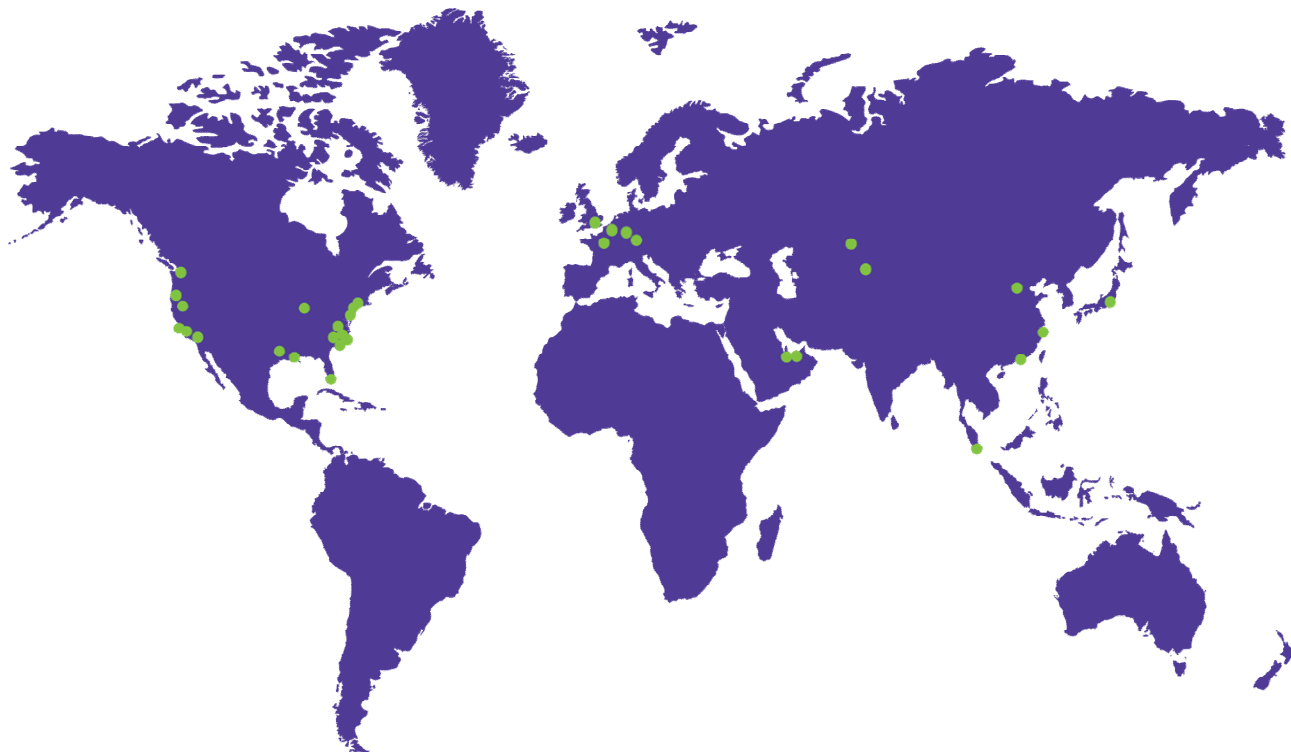


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