

FinTech in 2020: Five Global Trends to Watch

start path

CB Insights in partnership with Mastercard Start Path

Looking ahead to 2020, FinTech is at a tipping point.

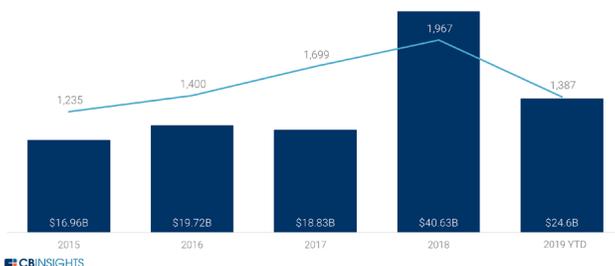
FinTech startups are moving out of niche use cases and are beginning to operate at scale. Where they once catered to specific demographics, the sector is now providing services across the financial services value chain — to all demographics, in a much larger playing field. And after proving product-market fit in their home geographies, the most successful FinTech companies are testing altered products in new geographies with unfamiliar regulations.

In addition, these players are continuing to build out a tech-first financial infrastructure. Echoing other sectors, FinTech companies first “unbundled” incumbent offerings and are now “rebundling” them in an entirely reimagined financial stack.

All of this comes as funding to global venture-backed FinTech companies has continued to set records. FinTech funding in 2019 has already surpassed 2017’s total, coming to \$24.6 billion through the end of Q3’19. However, FinTech deals are expected to fall of short of 2018’s record with a continued pullback in early-stage FinTech investing. This comes as the maturing sector is seeing increased deal flow at later stages.

Global FinTech funding tops \$24.6B in 2019 YTD

Annual global VC-backed FinTech deals and financing, 2015 – Q3’19 (\$B)



Start Path has once again partnered with CB Insights to look at top FinTech trends heading into 2020.

Specifically, this report looks at FinTech trends and companies in five geographies:

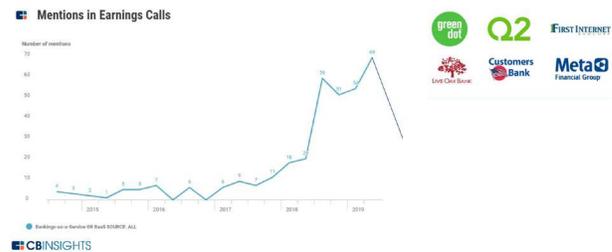
- **North America:** FinTech startups in North America are enabling any startup to become a FinTech company
- **Europe:** The biggest European FinTech winners are now looking to acquire customers abroad
- **Asia Pacific:** Well-funded Southeast Asian startups are in an arms race to become the next super-app
- **Latin America and the Caribbean:** FinTech startups in Latin America are lending to underserved consumers and SMBs
- **Middle East and Africa:** FinTech startups in Africa are enabling online and offline payments

North America: FINTECH STARTUPS ARE ENABLING ANY COMPANY TO BECOME A FINTECH COMPANY

Broadly described as Banking-as-a-Service (BaaS), an emerging set of startups in the U.S. are providing suites of APIs, which other companies are leveraging to build banking and payments products.

Public companies are talking up banking-as-a-service on earnings calls

Mentions of “banking-as-a-service” or BaaS on earnings calls. Q3’14 – Q2’19.



In practice, this means that companies across verticals are bundling FinTech into their platforms, echoing broader “unbundling and rebundling” efforts across the tech ecosystem. Three emerging FinTech companies illustrate this trend.

Start Path portfolio company and Denver-based Infincept provides a suite of automated services and APIs which allow companies to become payment facilitators. This means that businesses can own, manage and monetize their entire payments experience without building an in-house system from scratch.

Based in San Francisco, Bond (disclosed funding of \$10 million) connects banks with companies looking to offer financial services. Specifically, Bond enables brands to offer "personalized and compliant banking products through [banks] that want to grow by providing financial services," [according to a press release](#).

In the U.S., FinTech startups are enabling other companies to integrate financial offerings



Bond offers APIs to connect banks with companies looking to offer financial services.

Disclosed funding of \$10M

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Sure enables retailers to quickly spin up insurance tech products and integrate them within their apps.

Disclosed funding of \$23M

Lastly, Start Path company and New York-based Sure (disclosed funding of \$23 million) offers insurance tech tools to retailers and insurance partners. These tools enable companies to white-label insurance products, as well as embed insurance natively into their websites and apps.

A WORD ON REGULATION

Of note, startups here are building this infrastructure layer without top-down, comprehensive FinTech regulation. Such regulation is present in other geographies; Europe's Open Banking regulatory initiatives, for example, have enabled a slew of emerging "challenger banks".

"Friendly" U.S. regulators have found it difficult to push FinTech innovation. In October, a federal judge ruled that the Office of the Comptroller of the Currency (OCC), did not have the authority to issue banking charters to FinTech startups – a significant setback for the sector. The OCC had planned to launch a "FinTech charter," enabling FinTech startups to quickly offer loans and payments services.

**CLOSING THOUGHTS:
WITH ALL THIS, VENTURE INVESTMENT INTO U.S.
FINTECH IS CONTINUING APACE.**

Top investors here include Andreessen Horowitz, Goldman Sachs, Insight Partners, Canaan Partners, Greycroft and Sequoia Capital. Each of these investors participated in at least 10 venture rounds to FinTech companies in 2019.

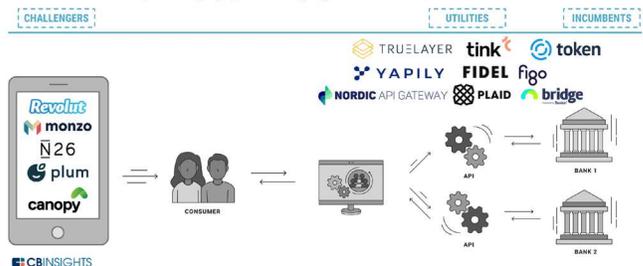
Going forward, FinTech will continue to shift the financial services value chain in the U.S. Even without comprehensive regulation, top investors are continuing to bet on FinTech startups successfully building a new financial infrastructure.

Europe: THE BIGGEST FINTECH WINNERS ARE NOW LOOKING TO ACQUIRE CUSTOMERS FROM OTHER CONTINENTS

In Europe, regulatory tailwinds have helped transform the continent into a hotbed of FinTech activity. Open Banking and PSD2 have enabled the rise of challenger banks and middleware data players, and have also been leading to market consolidation.

In Europe, regulations – like Open Banking and PSD2 – are a boon for FinTech upstarts

Select FinTech startups leveraging open banking regulations in Europe



Now, a number of these emergent FinTech startups are moving out of Europe - and into new geographies like North America.

London-based Revolut, a Mastercard Start Path participant, has grown rapidly in Europe and will be partnering with Mastercard when it makes its entry into the U.S. market by the end of 2019. A digital alternative to large, traditional banks, Revolut has grown rapidly in Europe since its 2015 launch, with more than 7 million customers. Now, with Mastercard as a card issuer in the U.S., Revolut is aiming to offer its innovative financial and payment solutions to people and businesses in the U.S. – an important step in its plans to expand globally.

Also, Germany-based N26 (disclosed funding of \$683 million) is a challenger bank that provides more than 3.5 million customers (as of early Q3'19) with personal finance and mobile banking solutions. In late August, N26 launched in the U.S., partnering with Axos Bank to hold and insure deposits.

U.K.-based Monzo (disclosed funding of \$416 million) is also looking to find additional customers in the U.S. on top of its more than 2 million existing customers (as of early Q3'19). In June, the challenger bank announced that it would be expanding into the U.S. and partnering with Sutton Bank.

European FinTech players are expanding into North America



Disclosed funding of \$416M
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Disclosed funding of \$683M
In August, challenger bank N26 launched in the US, partnering with Axos Bank to hold and insure deposits.



Disclosed funding of \$122M
In September, recurring payments provider GoCardless launched in the US and opened a San Francisco office.

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London-based GoCardless (disclosed funding of \$122 million) operates an international payments network for businesses to take and settle recurring payments. The company recently launched in the U.S. and opened a San Francisco office this past September.

A WORD ON REGULATION

With these examples in mind, it is challenging to expand globally – and these FinTech startups are facing headwinds both at home and abroad.

In Europe, regulations are contributing to a rapidly-shifting market. More specifically, Open Banking and PSD2 have catalyzed the development of "FinTech utilities" – such as Yapily and Tink – which provide financial APIs to help incumbent banks comply and compete.

On the other side of the coin, regulators in the U.S. have adopted a markedly different stance toward FinTech. As described above, regulators in the U.S. have yet to come up with a comprehensive regulatory policy toward FinTech innovation and have largely protected legacy incumbents.

Lastly, macroeconomic trends differ widely between the two continents. In Europe, negative interest rates have changed how banks service their customers, effectively charging their customers to safeguard deposits. In the U.S., interest rates remain positive, and banks pay their customers' interest on deposits.

**CLOSING THOUGHTS:
INVESTORS ARE CONTINUING TO DEPLOY CAPITAL TO EUROPEAN FINTECH PLAYERS, PARTICIPATING IN 90 DEALS TOTALING \$1.67 BILLION IN Q3'19.**

Top investors in the region include U.S.-based Accel, and Europe- and U.K.-based Speedinvest, Augustum FinTech and Index Ventures.

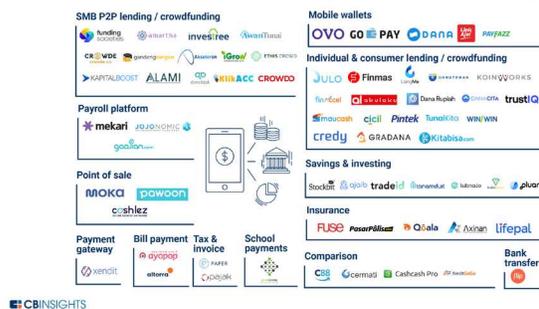
Looking toward the future, European FinTech will continue to reap the benefits of comprehensive, friendly regulations. From a regulatory perspective, investors and startups in other geographies should look to Europe as a model.

Asia Pacific: WELL-FUNDED SOUTHEAST ASIAN STARTUPS ARE IN AN ARMS-RACE TO BECOME THE NEXT "SUPER-APP"

Southeast Asia is at an inflection point in FinTech. With a rising middle class in a population totaling over 600 million people, as well as widespread mobile internet penetration, FinTech startups are finding fertile soil in which to build innovative financial services at scale.

The largest internet economy in the region is Indonesia, which has more than quadrupled in size since 2015 to reach \$40 billion. Startups are capitalizing on the opportunity.

Indonesia's FinTech ecosystem is growing fast



Some are following in the footsteps of China's "super-apps," Tencent's WeChat and Alibaba's Alipay. Both of these platforms first found product-market fit in verticals having nothing to do with financial services — social media and e-commerce, respectively — and have since expanded to provide comprehensive financial services to consumers and businesses.

In the same vein, a number of Southeast Asian startups are moving from their primary lines of business into FinTech.

For example, Indonesia-based ride-hailing giant Go-Jek (disclosed funding of \$3.4 billion) started as a pure-play transportation and delivery company, and has since expanded into payments. In 2018, the company's mobile wallet Go-Pay saw transaction volume of \$6.3 billion, and is used by over 240,000 online and offline merchants in Indonesia.

Transportation giants are moving into financial services to become the next Asian "super-app"

GrabPay

Grab has expanded from on-demand transportation into financial services. The company's digital payments service GrabPay — available for Grab's 100M+ users — is now promoting financial products beyond payments.

Disclosed funding of \$8.8B

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gopay

While Go-Jek is primarily a transportation and delivery company, the company's mobile wallet Go-Pay saw transactions reach \$6.3B in 2018, and is now used by 240,000+ online and offline merchants in Indonesia.

Disclosed funding of \$3.4B

Similarly, Singapore-based Grab (disclosed funding of \$8.8 billion) has expanded from on-demand transportation into financial services. The company's digital payments service GrabPay has more than 100 million users and is increasingly promoting financial products beyond payments, like installment financing, loans and insurance.

Of note, Grab and GoJek differ in how they are each building their respective ecosystems. More precisely, Grab is partnering to provide services, as evidenced by its partnerships with Agoda for travel, Hooq for video-streaming, and BookMyShow for movie tickets. On the other hand GoJek is taking a decidedly more aggressive approach, acquiring companies outright to bulk up its offerings.

Some companies are helping banks compete with these emerging super-apps. India-based and Start Path portfolio company Nuclei is building an omnichannel API platform to enable banks to improve their digital offerings, driving engagement and new user experiences.

A WORD ON REGULATION

Vietnam's Law on Cybersecurity came into effect in January 2019 and restricts cross-border data flows, requiring companies that process data from the country's citizens to store that data in Vietnam: a challenge for emerging tech companies.

At the same time, Singapore and Hong Kong are proving friendlier to innovation, exploring "digital-only bank licenses" for FinTech startups; rumors swirled in July that Grab was considering applying for a license in Singapore.

**CLOSING THOUGHTS:
INVESTORS HAVE BEEN QUICK TO SEIZE ON THIS
REGIONAL OPPORTUNITY.**

Top Southeast Asia FinTech investors in 2019 include Indonesia-based East Ventures, as well as U.S.-based Quona Capital and 500 Startups.

Looking ahead, it remains to be seen whether Grab or Go-Jek can become super-apps. While investors want it, regulators — and the citizens they serve — have yet to make a decision.

Latin America and the Caribbean: FINTECH STARTUPS ARE LENDING TO UNDERSERVED CONSUMERS AND SMBS

Several emerging lending startups are transforming Latin America and the Caribbean (LAC) into a focal point for FinTech innovation. These companies are lending to underserved consumers and SMBs, with some countries in the region lacking developed financial infrastructure and facing political unrest.

For example, Brazil-based Creditas (disclosed funding of \$312 million) is a digital lending platform for consumers. Creditas funds customer loans through both investors and financial institutions. Core products include a version of home equity and auto loans, in which borrowers offer residences or vehicles as collateral for first-lien lending products.

FinTech startups in Latin America are lending to underserved consumers and SMBs



Creditas funds consumer loans through both investors and financial institutions. Core products include a version of home equity and auto loans, in which borrowers offer residences or vehicles as collateral for lending products.

Disclosed funding of \$312M



Credijusto is an SMB lending platform that offers credit solutions to Mexican companies and individuals. In March 2019, Credijusto said that it had originated \$70M+ in loans.

Disclosed funding of \$152M

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Another company operating in this space is Mexico-based Credijusto (disclosed funding of \$152 million), an SMB lending platform offering credit solutions to Mexican companies and individuals. In March 2019, Credijusto said that it had originated over \$70 million in loans.

Colombia-based Sempli (disclosed funding of \$17 million) grants loans to underserved SMBs in Colombia. Sempli offers loans between \$10,000 and \$100,000 for anywhere from six months to three years. Loans are funded by credit facilities from Triple Jump, AlphaMundi and Bancoldex. According to the company, Colombia is the third-largest market in LAC for SMB lending.

A WORD ON REGULATION

Regulations in the region are fragmented, with stances varying widely between countries.

For instance, Mexico has been proactive in its regulatory approach, enacting the FinTech Law (which offers legal standing and guidelines for FinTech companies) along with a regulatory sandbox in March 2018. Brazil is also making moves, establishing regulations in April 2018 to allow FinTech firms to provide P2P lending services.

On the flipside, Panama, Colombia and Chile have issued little regulatory guidance around FinTech, according to 2019 International Monetary Fund research exploring FinTech in the region.

Of note, LAC regulators have been slow to respond to FinTech needs and requirements. According to a 2018 IDB and Finnovista survey, about 45 percent of LAC's FinTech entrepreneurs consider current regional regulation "very loose" or non-existent.

**CLOSING THOUGHTS:
VENTURE INVESTORS ARE CONTINUING TO
INVEST IN LAC.**

Top investors in 2019 include Argentina-based Kaszek Ventures and Brazil-based Monashees, as well as U.S.-based investors Goldman Sachs, QED Investors, and Redpoint Ventures. Japan-based Softbank has also been

particularly active, announcing a \$5 billion LAC-focused tech fund in early 2019, and placing bets on six FinTech companies in the region in 2019.

Big rounds to unicorns boost Q3'19 LatAm funding

VC-backed South America FinTech funding, Q3'18 - Q3'19 (\$M)



Looking toward the future, FinTech startups in LAC should continue to flourish — in spite of instability and sparse regulatory guidance — benefiting LAC consumers and businesses alike.

Middle East and Africa: FINTECH STARTUPS IN AFRICA ARE ENABLING ONLINE AND OFFLINE PAYMENTS

In Africa, FinTech startups are leapfrogging legacy architecture, building mobile-first payments applications for the over 340 million adults in Sub-Saharan Africa without bank accounts (according to data from the World Bank).

Mobile payments platform M-PESA provides what is perhaps the most striking example of FinTech players leveraging vast and growing mobile penetration in the region. Launched in 2007 by telecom operator Vodafone, the mobile money transfer and financing service is now widely accepted across multiple markets in the region. Importantly, transactions can be made with any mobile device, without requiring credit cards, bank accounts, credit histories or minimum balances.

Payments are emerging as a FinTech trend to watch in Africa, as startups increasingly build out mobile wallets and payments processing platforms, testing whether mobile money can serve as a catalyst for financial inclusion.

For example, Nigeria-based OPay (disclosed funding of 170 million) is a one-stop mobile-based platform for payment, transportation, food and grocery delivery, as well as other common everyday services.

In Africa, FinTech startups are helping consumers and businesses transact online



OPay is a mobile platform for payment, transportation, food and grocery delivery.

Disclosed funding of \$170M

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Flutterwave's payments infrastructure enables African banks and businesses to make and accept payments.

Disclosed funding of \$19M

San Francisco and Nigeria-based Flutterwave (disclosed funding of \$19 million), a Start Path company, provides modern payments infrastructure for banks and businesses to make and accept payments across Africa.

Another Start Path portfolio company, Kenya-based Lipa Later (disclosed funding of \$40,000), offers consumers risk-free micro-lending payment options and unlimited access to products and services as they pay for them over time.

In addition, Zambia-based Zoono (disclosed funding of \$21 million) is a mobile payments company using technology to provide financial services to underserved and financially excluded communities throughout the continent.

A WORD ON REGULATION

Africa's FinTech startups are largely working without much regulatory pushback. This is predominantly because African FinTech startups are bringing hundreds of millions of people into the financial system, while legacy banking institutions primarily cater to the continent's wealthiest.

South Africa in particular has adopted a pro-innovation stance. In early 2018, the South African Reserve Bank announced the establishment of the Financial Technology Programme to assess new FinTech developments, with other South African regulatory bodies also collaborating.

CLOSING THOUGHTS: INVESTORS ARE CONTINUING TO DEPLOY CAPITAL TO FINTECH STARTUPS IN THE REGION.

Top investors in 2019 are regional accelerators and incubators, such as Go Global Africa, Startupbootcamp Africa, AlphaCode Incubate and Google Launchpad Accelerator. The top pure play VC firms investing in the region are Trinity Ventures and Andreessen Horowitz.

Looking ahead, mobile devices will continue to drive FinTech innovation in the region. With more investment — and supportive regulators — Africa's population should increasingly move online and into the global financial system.

FINAL THOUGHTS

Broad FinTech adoption faces a number of hurdles, including diverse regulatory stances, incumbent competition and challenging macroeconomic environments.

Still, the future is bright, and there is little doubt that this coming year will be a big one for global FinTech. In 2019, FinTech startups have gained scale, moved into new geographies and continued to build a financial stack from the ground up. Those trends should continue gaining speed and significance in the coming year.

Entering 2020, the discussion is no longer about how FinTech startups will find mass adoption and scale, but when.