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Fintech for Good

Data provided by

PitchBook

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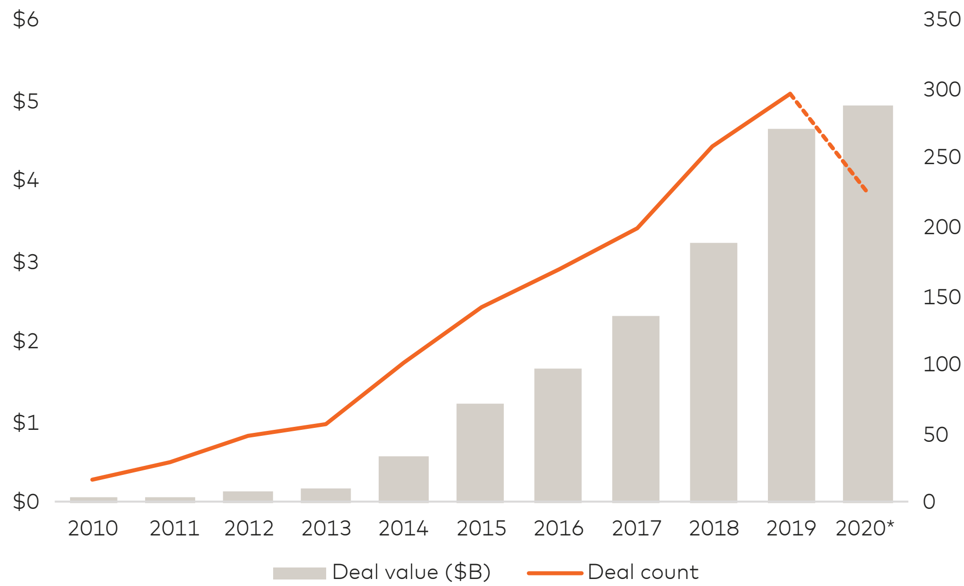
Introduction

METHODOLOGY

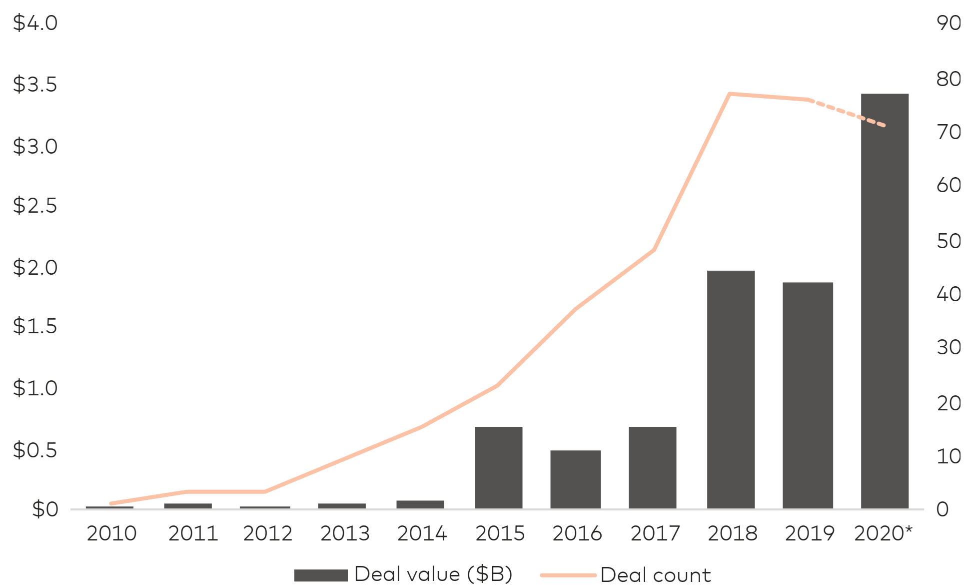
The datasets in this report were obtained by forming three distinct sets of keywords in combination with PitchBook industry codes in order to identify the target company populations that comprise the intersection of fintech and the following: sustainability, small- to medium-sized enterprises, and consumer-centric offerings. From there, the company populations were used as the basis from which to extract market trend data.

FIGURE 1.1: VC activity in consumer-centric fintech



Source: PitchBook | Geography: Global
*As of October 28, 2020

FIGURE 1.2: VC activity in consumer-centric fintech with corporate participation



Source: PitchBook | Geography: Global
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This market review focuses on three key segments in which fintech, at the nexus of other markets, is focused on improving and empowering consumer finances and sustainability, as well as enabling small businesses to thrive in a competitive environment. Given the cataclysmic changes that have affected so many in 2020, "fintech for good" was seen as a topic ripe for analysis and discussion, particularly across those three arenas.

MEETING CUSTOMERS WHERE THEY ARE

Over the past decade, consumer empowerment has led to significant reductions in friction across many arenas, from e-commerce to communications. Financial services incumbents such as Chase and TD Ameritrade have faced growing pressure to make their products and services more user-friendly. As a consequence, fintechs such as Neon or Robinhood have stepped in not only to address consumer pain points but also to enable consumers to control their finances independent of the traditional bank or investment intermediary. In order to accomplish this, new solutions are proliferating to provide personalized insights into financial wellness for gig workers and entrepreneurs alike, mostly using holistic payments and asset management platforms.

In emerging markets, which often lack a robust financial infrastructure, payments companies ramped up, swiftly skipping intermediary stages of development and going directly to immediate access, most often targeting consumer mobiles. They did not stop there, however, but continued to innovate by broadening the available types of services, such as incorporating overall asset management alongside credit offerings. Financial services platform Blend, which raised $130 million in 2019, exemplifies such unification of services.

Fintech companies have also empowered consumers by providing holistic views of their financial health; consumer-focused MoneyLion, which garnered a $530 million pre-money valuation in July 2020, is a notable example. Tightly integrating and incentivizing consumer-merchant interactions across platforms that provide savings to users while also boosting engagement and sales has become an emergent theme.

These diversifying niches have driven a strong increase in venture funding to consumer-centric fintech businesses for several years. 2020 has already set a record for VC funding within the space (see figure 1.1), while the flow of deal counts has been steady despite any pandemic-related slowdown. Corporates have participated at a high rate, however, eclipsing most other segments and contributing to aggregate results. As seen in figure 1.2, in 2020 corporate players helped fund $3.4 billion across 71 transactions.

Median financing sizes have steadily risen across the late and earliest stages and have especially surged in 2020—no doubt benefiting from consumers' rush to adopt fintech tools in the wake of COVID-19. Larger rounds have also grown as mature fintechs focus on raising ample VC to expand footholds in key markets. Prime examples of these more mature enterprises include mobile platform Chime, which has now raised over $1.5 billion, and OakNorth, which specifically targets entrepreneurs.

FIGURE 1.3: Median VC financing size ($M) by stage in consumer-centric fintech

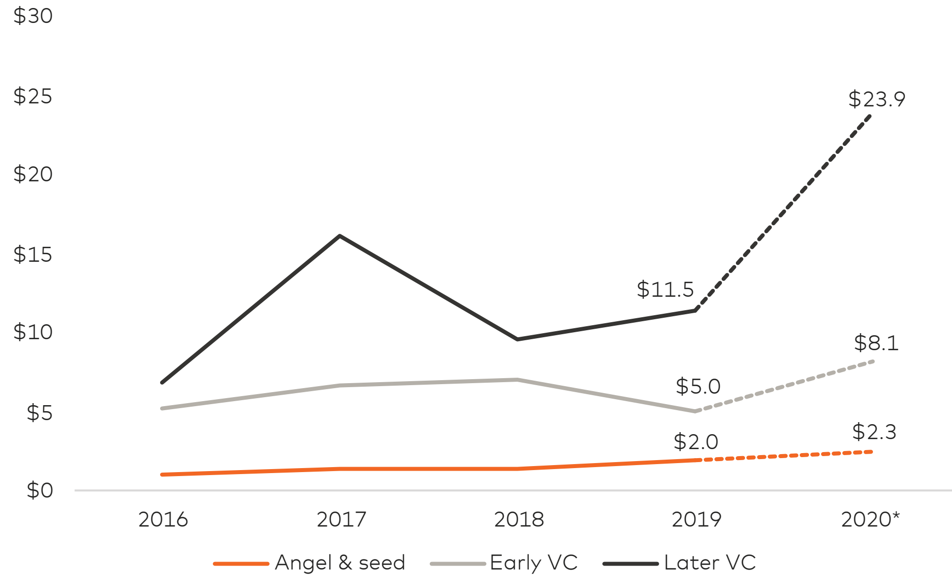

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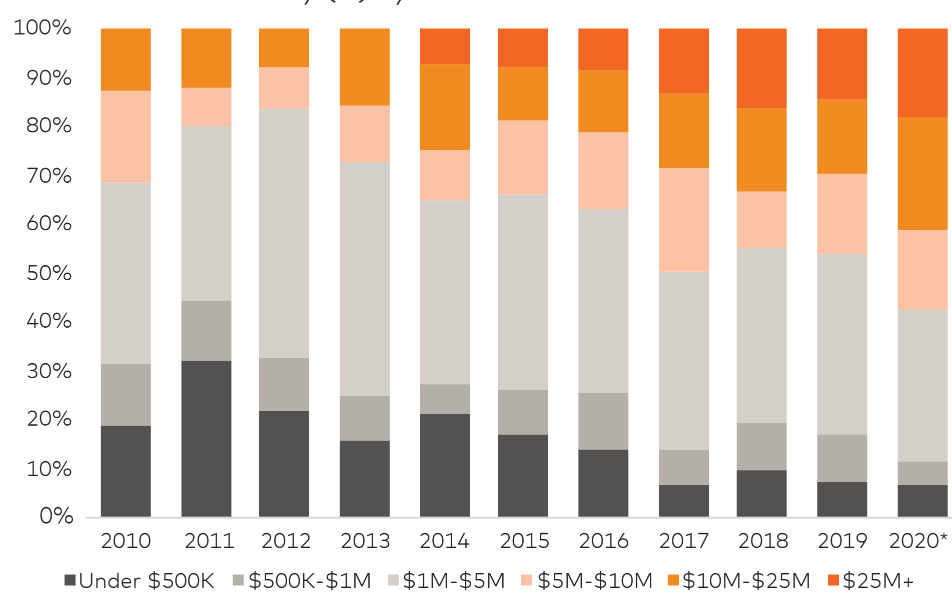
FIGURE 1.4: VC activity (#) by size in consumer-centric fintech



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Such fundraising is often critical to maintain market position, as incumbents increase their efforts to compete with innovative fintechs. Category leaders are likely to emerge on a regional and segment basis, but to get there, they must continue to raise funds to ensure additional infusions of late-stage capital. Eventually, some of these fintechs likely will grow large enough to go public or be acquired in major deals.

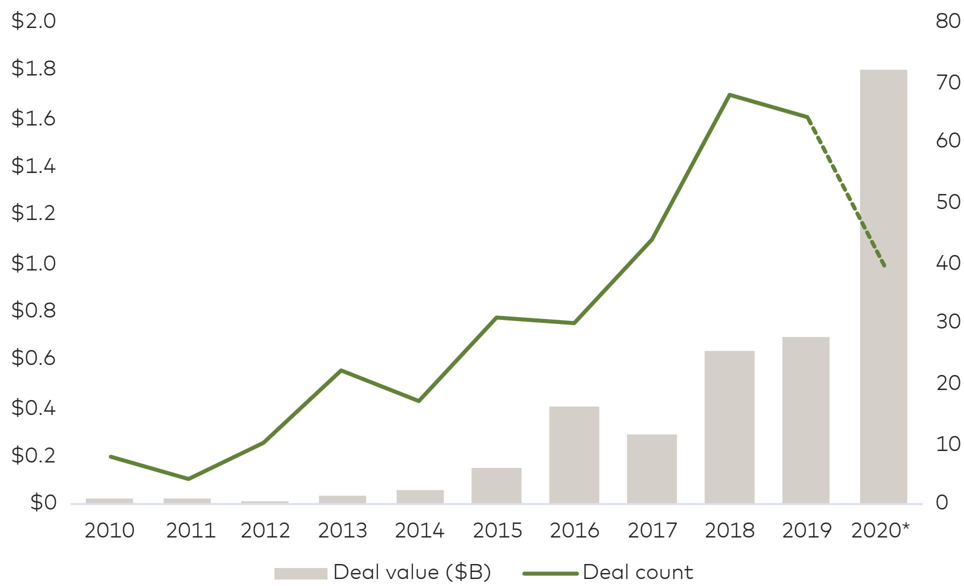
Banking on sustainability

Environmental, social, and governance (ESG) issues have increasingly become a focal point for companies worldwide as climate change's effects and regulatory evolution have begun to crystalize. Novel technologies have enabled a greater array of tools and solutions that address environmental concerns, empowering more companies to support sustainability initiatives. The nexus between fintech and sustainability—although in the fledgling stage—has also attracted increased investor interest in recent years, as new lenders have sought to help support renewable energy and make infrastructure construction more efficient, and as consumers demand the ability to make informed and impactful choices.

Notable examples include infrastructure platform Generate Capital, which has raised more than $1 billion in order to support companies such as Alturus, which funds, develops, and operates energy-storage systems, air conditioners, and generators that consume less power, or data analytics provider Deepki, which helps companies make their real estate portfolios more ESG friendly by collecting and centralizing data on environmental footprints and energy cost reduction.

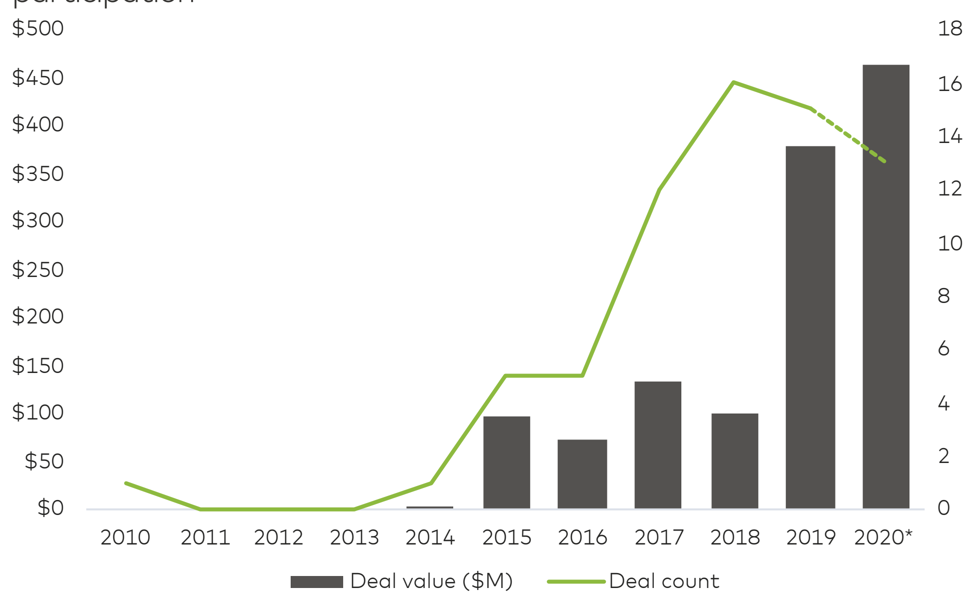
While these advances in toolkits for businesses are important, more direct, sustainability-focused fintech companies have also started to emerge. For example, Solarise Africa, a South African financial services provider that aims to support clean energy initiatives throughout the continent, closed a $10 million Series B financing in August 2020. An example of Solarise's efforts includes helping

FIGURE 2.1: VC activity in fintech & sustainability



Source: PitchBook | Geography: Global
*As of October 28, 2020

FIGURE 2.2: VC activity in fintech & sustainability with corporate participation



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support phase one of a 1-megawatt-peak solar project in Kenya, which will later expand to integrate geothermal energy and additional solar energy capacity.

Other companies in different focus areas have been able to garner even larger fundings as of late: More than 20% of all 2020 funding volume has been in rounds sized $25 million or more—such as Aspiration, an asset management platform that focuses on socially conscious financial services. It has raised more than $200 million to date, most recently closing a $135 million Series C investment in May 2020, in order to help broaden its platform features, which currently include carbon offsets for all gas purchases and tree planting funded by rounding up purchases.

At the aggregate market level, investment trends have remained robust even in 2020, thanks in part to a handful of large financings such as Aspiration's that have pushed total capital invested to close to $2 billion (see figure 2.1). Corporate investors have clearly contributed to that robustness, joining in rounds totaling nearly $463 million in 2020 to date, following similarly strong results in 2019 (see figure 2.2).

Analyzing activity by size and series to gauge maturation in market trends (see figures 2.3 and 2.4) makes it evident that the flow of funding is trending toward larger financings, which indicates maturing businesses across the space as well as increased investor subscriptions in the larger, later-stage rounds. Given the macro backdrop and clear imperatives within sustainability, we anticipate such interest will only grow as more fintechs join the conduits of capital supporting renewables applications and research.

FIGURE 2.3: VC activity (#) in fintech & sustainability by size

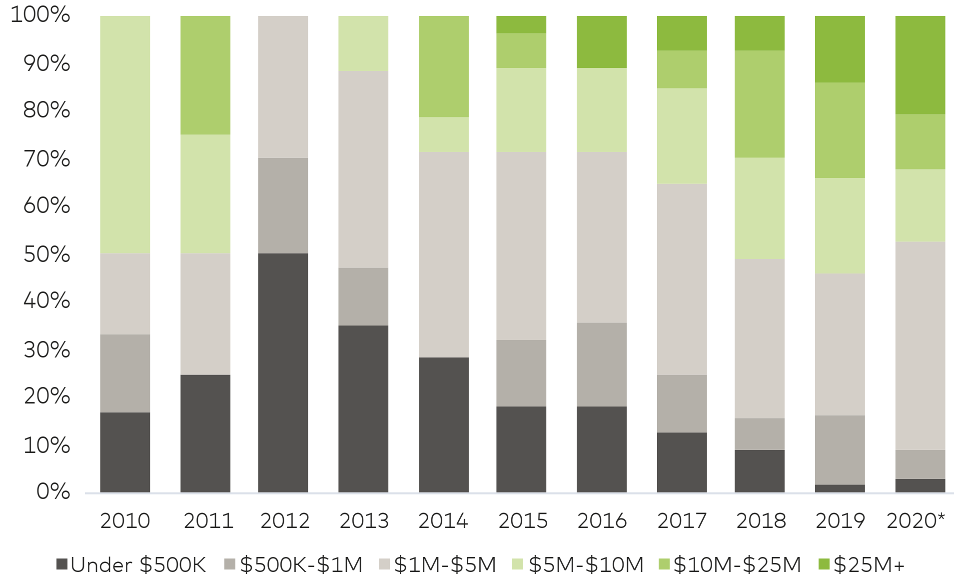

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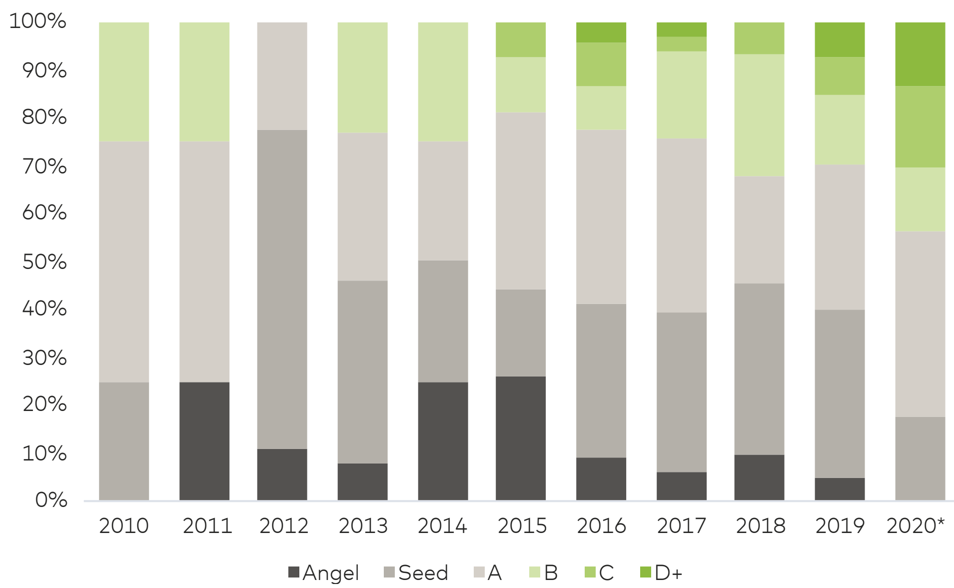
FIGURE 2.4: VC activity (#) in fintech & sustainability by series



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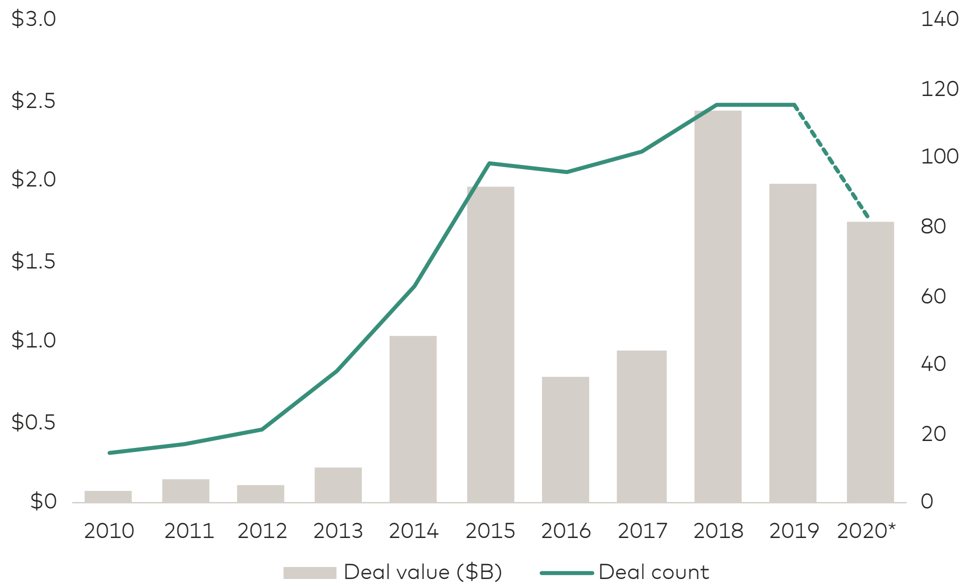
SMBs: The engine of the economy

The COVID-19 pandemic has spurred the vast web of small-to-midsized enterprises (SMBs) to fully embrace digital and e-commerce. A surge of fintechs that prioritize supporting SMBs has enabled them to attract significant funding in recent years, building out additional tools to broaden the range of financial options for SMBs. For example, lending platform StreetShares, which has raised just over $100 million, seeks to provide an omnichannel suite to connect credit unions and banks with small businesses.

It is worth noting (as seen in figure 3.1) that venture funding within this space had been robust even before the onset of COVID-19. Much of that resiliency can be attributed to large, more broadly focused fintech businesses also debuting some products and services for SMBs throughout the 2010s, and given their late-stage funding, also supporting overall investment within the space. Recently, more and larger rounds have closed as mature businesses have brought to market additional fintech solutions with the flexibility and customizable scale that SMBs often require.

Figure 3.1 illustrates how consistent capital inflows within this fintech have been, with an aggregate of $6.2 billion invested since 2018 across 300+ funding rounds. In addition, corporate venture arms or corporates via direct participation have ratcheted up their activity as of late, joining in over $1 billion worth of funding rounds in 2020 alone, as they did in 2018. A key driver behind corporates' and their venture arms' interest is the

FIGURE 3.1: VC activity in fintech & SMBs



Source: PitchBook | Geography: Global
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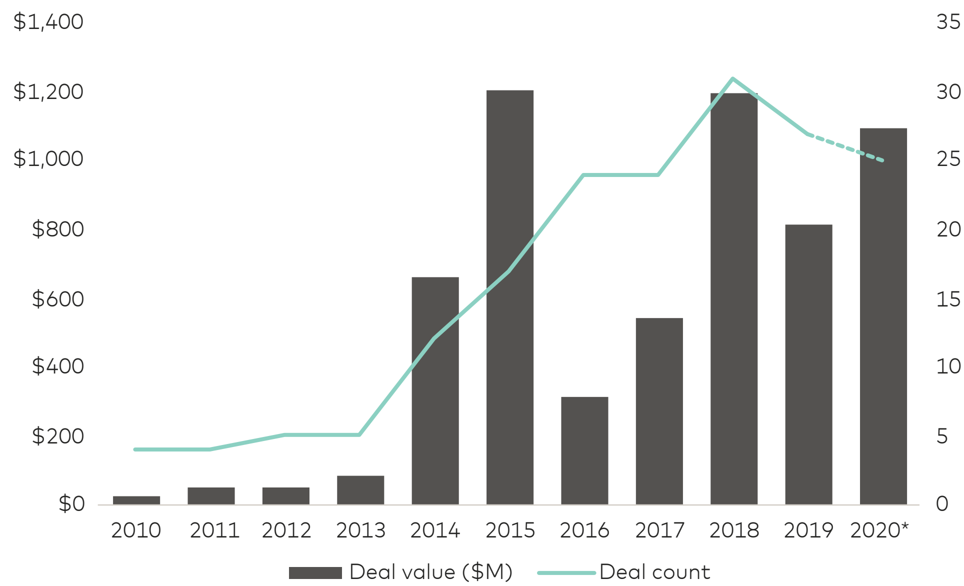
FIGURE 3.2: VC activity in fintech & SMBs with corporate participation



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increasing scale and sophistication of some of the larger SMB-targeting fintech enterprises. Mexico-based Konfio, which provides micro-loans to SMBs, has now raised well over $400 million; SMB-focused digital payment platform Melio Payments closed on a Series C funding of $80 million in August 2020.

A key area of focus for fintechs within this space has been either providing financial infrastructure for SMBs to process payments and handle administration and accounting or acting as a lender with customizable financing options. As these segments have matured, there is a trend toward larger funding volumes, as seen in figure 3.3.

In general, median financing sizes have also trended upward or held steady over the past two years (see figure 3.4), although the early stage remains variable given its degree of competition and the emergence of category leaders that have attracted a large share of investor interest. Further growth in this market, as leading businesses consolidate their positions, is to be expected given the need to digitize commerce flows to align with fast-changing consumer bases.

FIGURE 3.3: VC activity (#) by size in fintech & SMBs

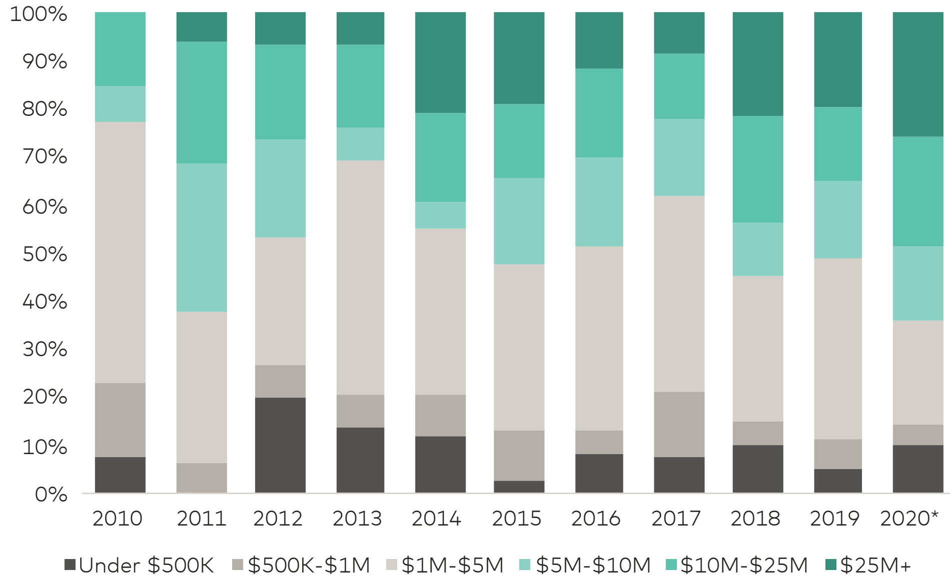

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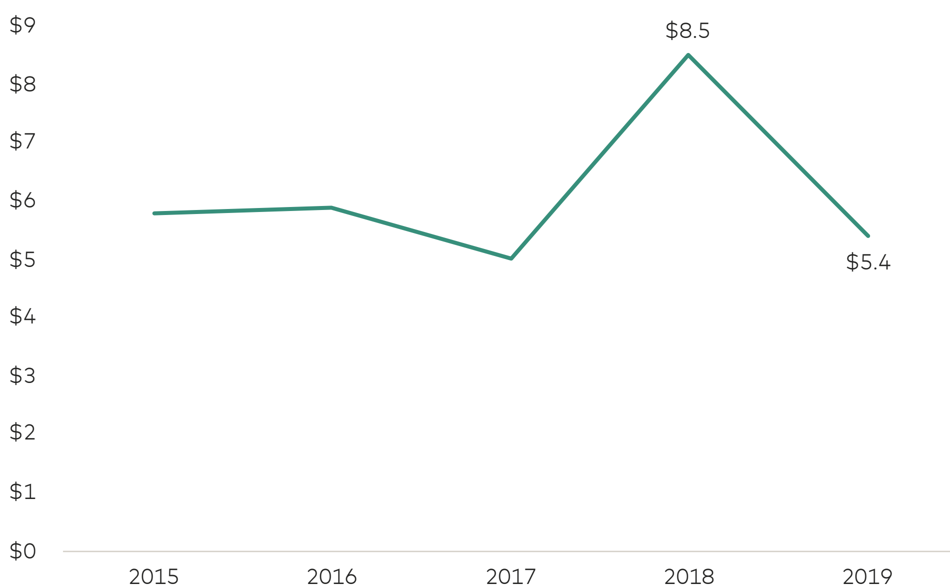
FIGURE 3.4: Median early-stage VC financing size ($M) in fintech & SMBs



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