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The Future of Fintech

SVB's Outlook on the Financial Technology Sector

October 2024

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Reimagining Fintech: Leaner, Faster, Smaller — and Smarter

> “Generative AI is opening possibilities for value creation in fintech. Legacy companies are improving efficiencies by reducing labor costs, while AI-native companies are building novel solutions. The long-term vision is compelling. Hyper-personalization of financial services and advice will accelerate the expansion of open banking through secure data sharing between financial institutions and third-party providers.”

Here’s a conversation starter for your next industry dinner party: *What’s the most pivotal moment in the history of fintech?*

You might say 1967. The first automated teller machine is installed outside a bank in London, unshackling customers from normal business hours. What about 1998? That year saw the first 1 million internet purchases, as electronic payment systems began to forever change how people make online payments. Some might say 2009. The Global Financial Crisis shakes consumer confidence in big banks just as millennials are entering the workforce with iPhones in their pockets — and mobile banking is born.

Then again, what if that moment is now?

The tectonic disruption of generative AI (GenAI) is reverberating just as the sector grapples with heavier oversight and rising costs. These changes are forcing investors and founders alike to reimagine what fintech is, and what it can become.

In this fourth edition of our annual report, ***The Future of Fintech,*** we leverage SVB’s unmatched proprietary data and our broad network of sector experts for an in-depth look at the health of the fintech sector. **Our findings show that while fintech companies are facing significant headwinds, they are also finding immense opportunity.**

GenAI is opening possibilities for value creation in fintech. Legacy companies are improving efficiencies by reducing labor costs, while AI-native companies are building novel solutions. The long-term vision is compelling. Hyper-personalization of financial services and advice will accelerate the expansion of open banking though secure data sharing between financial institutions and third-party providers.

This new generation of fintech companies is creating more value per dollar invested than legacy AI companies.[1] They are building tools to automate portfolio management, retirement planning, market intelligence and many other facets of the sector. More conventionally, payment companies remain primed for growth as the shift toward embedded finance continues, creating new revenue streams and distribution channels that are shoring up customer acquisitions.[2]

That resilience will be needed as fintechs face heavier regulatory oversight.[3] The collapse of Synapse in April is fanning the flames for those who believe fintechs should be regulated as strictly as banks. Whether you’re building toward that reality with new tools to aid in compliance, or simply navigating those choppier waters, it bears remembering that every fintech company is, ultimately, a compliance company.

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Notes: 1) See our AI analysis on pages 17-18. 2) See payments’ share of fintech unicorn value on page 20. 3) See our regulatory spotlight on page 10.

Investor Perspectives on the Future of Fintech

Gen AI: Selling Labor, Not Software

"When a company sees 'adding software' they see 'adding an expense.' The solutions that are powered by AI are not selling software; they are selling work. **AI companies are not competing with software budgets; they are competing against hard labor costs.** Now, the hard part is 'can you do what you say you can?'"

Matt Harris
Partner

BainCapital VENTURES

One Foot in the New World, One in the Old

"Technology is not a moat. It maybe never was, but it certainly isn't anymore. It plays an important role but defensibility has to come from somewhere else. **You need one foot back in the traditional world: SWOT analysis, ground game of selling, sales cycles — all that is almost more important.**"

Nico Stainfeld
Partner

foundation capital

A Reckoning for BaaS Vendors

"For a long time, **fintechs thought compliance was a rubber stamp and regulators were there to slow things down: 'Why don't we move fast and break things?' It turns out, you can't do that.** Regulators' biggest fear is layering of fintech compliance — that the bank doesn't know who owns the customer accounts. Over the last three quarters we've seen a reckoning. That is not going to fly anymore."

Victoria Zuo
Principal

QED INVESTORS

Shifting Business Models for a New Age

"During the fintech funding boom, a lot of hype was centered around neobanks or models monetizing via interchange. **We're now seeing a shift toward software selling into financial services, solving for human-intensive functions such as onboarding or product customization**. Startups building in these areas are not only changing how financial institutions operate, but how they engage with increasingly global and nuanced customer base."

Dave Mullen
Partner

PINEGROVE VENTURES

De-risked Deals at Series A

"The gap between seed and Series A valuations has narrowed. The risk/reward at Series A now looks so much better. **Usually, you'd see a 2.5x to 3x step-up for Series A. When we looked at the top quality deals at Seed and Series A, that gap has narrowed to 1.5x to 2x.** What you're getting is a lot of de-risking. For many reasons, it doesn't make sense to be playing at seed anymore for the multistage funds. A lot of people are starting to put their time, effort and energy into Series A."

Emily Man
Partner

Primary

Fast Revenue Growth for AI Startups

"Investors are adjusting to what they're seeing in AI companies, which is really fast growth. **Getting to \$3M-\$5M ARR on a seed round used to be exceptional, but a lot more AI companies are getting there.** One reason is that teams can build products so quickly in this space, and then the new AI features are delighting customers. Customers are saying 'Sure, I'll try that.'"

David Jegen
Managing Partner

F/PRIME

A Bumpy Ride to Rebundle the Bank

"We thought rebundling the bank was going to happen seamlessly, but it turned out to be a bumpy ride. On the way to building full stack financial service products within b2b software, **you have to have enough revenue stream – enough proof points.** You can't launch everything all at once."

Adam Nelson
Partner

FIRSTMARK

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Source: SVB interviews.

Themes To Watch in 2025

KYC: Know Your Compliance Strategy

Compliance must be top of mind as regulators untangle risk and confusion in customer accounts.

Heightened federal scrutiny on third-party partner banks has forced fintech founders to put new urgency on regulatory compliance. Banking as a Service (BaaS) partners represent less than 2% of all chartered US banks, but have accumulated at least 10% of severe enforcement actions in the last 12 months.[1] That's up from one action the prior year. Beefing up compliance may include hiring talent, re-evaluating existing partnerships or investing in new tools, including AI-powered solutions.

Self-Driving Finance Is Just Around the Corner

AI is poised to transform every fintech sector, but technology isn't the moat that founders may expect.

AI-native fintech companies are bringing a new level of automation to financial services, from reviewing insurance claims to negotiating a car purchase. However, technology is only half the battle. When the wow factor wears off, achieving a long-term competitive advantage becomes key. Copycat competitors are ready to pounce. Customers will stick with companies that provide a variety of valued services, including data lock-in and relationship management.

False Unicorns Stranded at the Later Stage

A cohort of fintech unicorns created in 2021-22 may be drastically overvalued with options running out.

Many fintechs raised large investments at the peak of the venture capital (VC) boom, some valued at more than the unicorn level of $1B. Among the 114 US fintech unicorns that are still active, more than 76% were last valued over two years ago, when investors were hungry for deals. Now, they have lost their appetite. Exit options are limited, which may force these false unicorns to carve a path to profitability as public fintechs have done. There's still time. Many in this group raised money during the peak of zero interest rate policy (ZIRP) and still ample reserves before they must raise again.[2]

Cracking CAC By Leading With Value

Fintechs are increasingly overcoming soaring CAC the old-fashioned way: by meeting a need.

Custom acquisition costs (CAC) have skyrocketed in recent years, with fixed and variable costs nearly doubling for public fintechs as interest rates have climbed.[3] To overcome higher CAC, some companies are leaning into value-based products as a way to entice low-cost repeat customers. For example, solutions that help customers save money or pay off debts faster are finding traction. Other platforms are embedding financial services into their offerings to enhance convenience for customers and unlock new revenue streams.

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Notes: 1) SVB identified 35 fintech partner banks with assets less than $10B. S&P Market Intelligence estimates fewer than 100 partner banks exist in the US. Severe enforcements defined by S&P Market Intelligence include prompt corrective action directives, cease and desist orders, consent orders and formal agreements that were issued and made public by federal regulatory agencies. 2) The median runway for US tech unicorns was 20 months through H1 2024. 3) See analysis on page 8.
Source: PitchBook Data, Inc., SVB State of the Markets H2 2024, S&P Market Intelligence and SVB analysis.

Macro

Fintech finds its footing in a post-ZIRP world.

Fintech in a Post-ZIRP World

In September, the Federal Reserve started unwinding its rate hike cycle with a 50-basis-point (bps) cut. While this is certainly welcome news, it does not translate to immediate relief for fintechs. Since early 2022, interest rates for consumer loans have skyrocketed, including a seven percentage point increase for personal loans. Those higher rates — combined with the spending down of pandemic-era stimulus savings — have constrained consumers' ability to borrow and repay. Delinquencies on consumer loans have marched steadily upward over the past two years.

In response, fintechs are doubling down on acquiring customers with superior credit. High-quality borrowers command lower finance charges, and in the card space, prime demand remains high. Prime borrowers, however, generally do not carry balances, leaving lenders to reap only fixed interchange fees while experiencing higher funding costs. Customers carrying balances pay more in interest, but they also drive an increase in defaults, cutting into revenue growth.

With this backdrop, revenue growth has slipped steadily. Rates remain high compared to the recent past, and near-zero interest rates remain in the rearview mirror. While consistent profitability has proven challenging, the industry has proven that lenders can originate good credits in a high interest rate environment.

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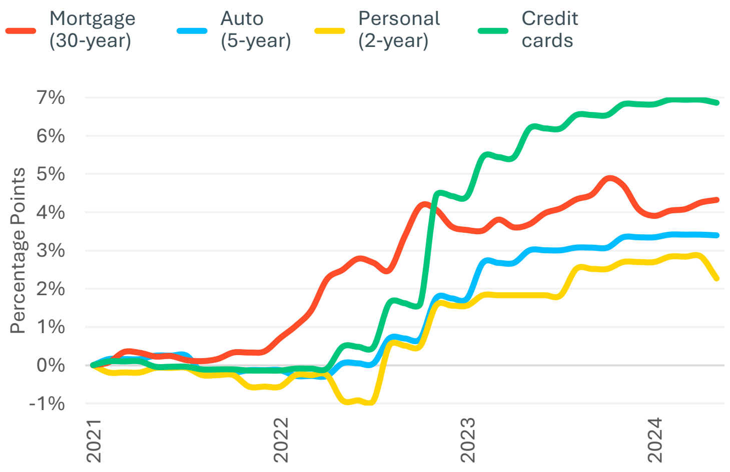
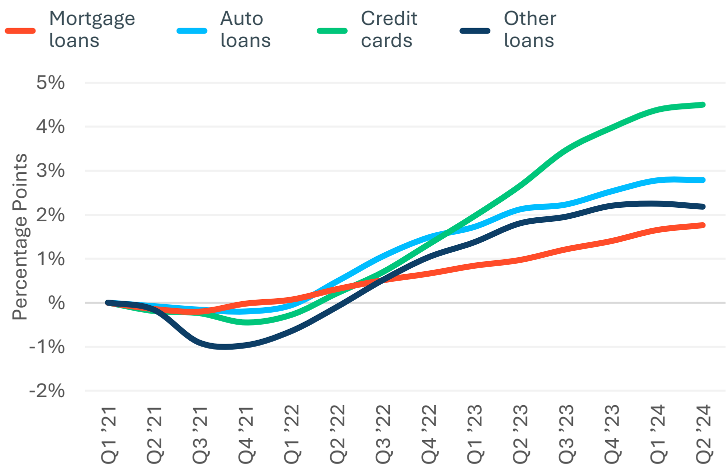
Interest Rates Reach Their Peak

Increase in Average Monthly Interest Rates Since Jan. '21



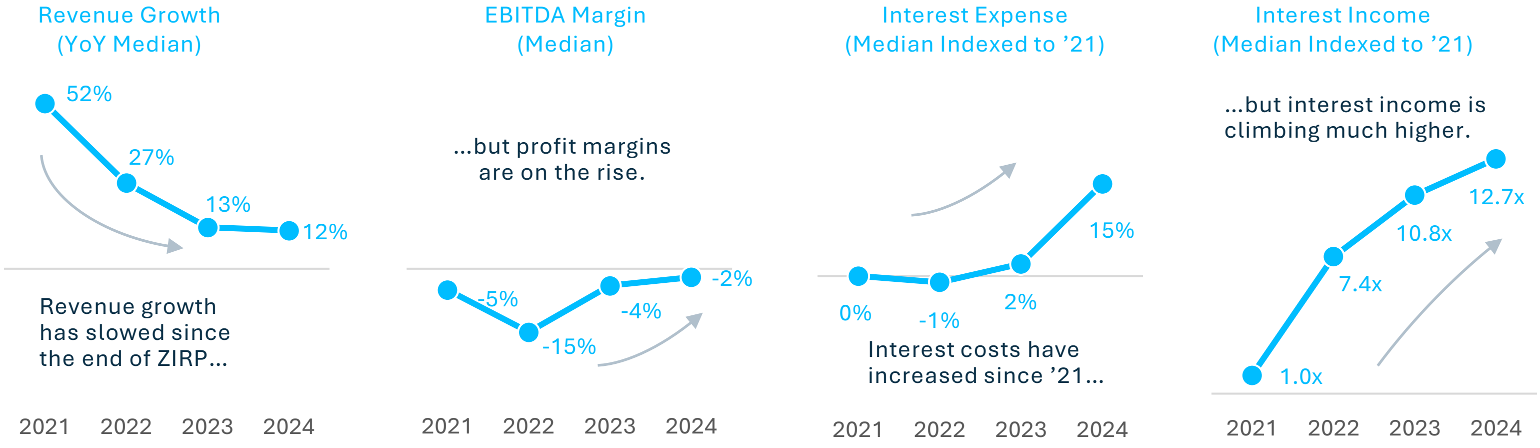
Higher Rates Lead to More Delinquencies

Increase in Percent of New Delinquent Balances by Loan Type



Slicing and Dicing the Bottom Line: For Fintechs, Higher Rates Are a Double-Edged Sword

Analysis of Key Financials for Public VC-Backed Fintechs:[1] Revenue Growth, EBITDA Margin, Interest Income and Expense



Notes: 1) Aggregated financials from a cohort of 35 formerly VC-backed public fintech companies. Year-over-year comparison of calendar year financials. The 2024 data is the extrapolated year-end total based on YTD 2024 quarterly earnings.

Sources: Federal Reserve, Federal Reserve Bank of New York's "Quarterly Report on Household Debt and Credit," S&P Capital IQ and SVB analysis.

Re-Bundling the Bank

Costs are growing for fintechs, but it's not just higher interest rates affecting their margins. Customer acquisition costs (CAC) are also on the rise and contributing to overhead. In response, some fintechs are seeking partners with existing customer bases. In June, for example, eBay and Venmo announced a partnership, allowing shoppers to pay for their purchases with their Venmo balance or methods linked to their Venmo account. Other fintechs, including big names like SoFi, have applied for bank charters. There is also a move to diversify revenue streams, illustrated by Robinhood's reduced reliance on transaction fees for the bulk of its income. Both trends underscore a clear reality: As fintechs get squeezed, it is less viable for them to offer single, standalone products.

At the center of these moves is a focus on customer value. One effective way to reduce CAC is offering customers value on the financial side through products that help build savings or offer rewards. Another strategy is to add products to an existing customers base. Robinhood's history of investments and acquisitions typifies this approach. Since 2021, the company has added adjacent businesses that can add value to customers. These acquisition targets range from financial news and shareholder communications to credit cards and trading platforms.

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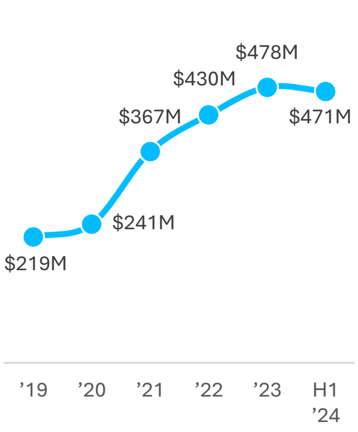
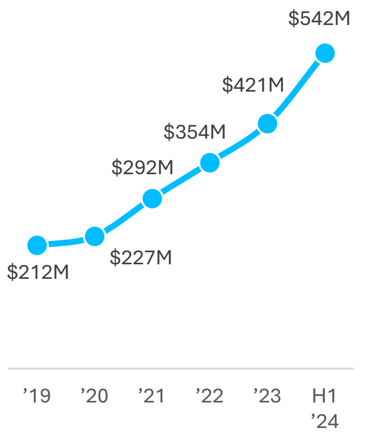
Costs Are Growing for Fintechs

Median Metric of Public Fintech Companies[1], by Calendar Year

Fixed Costs (SG&A)[2]

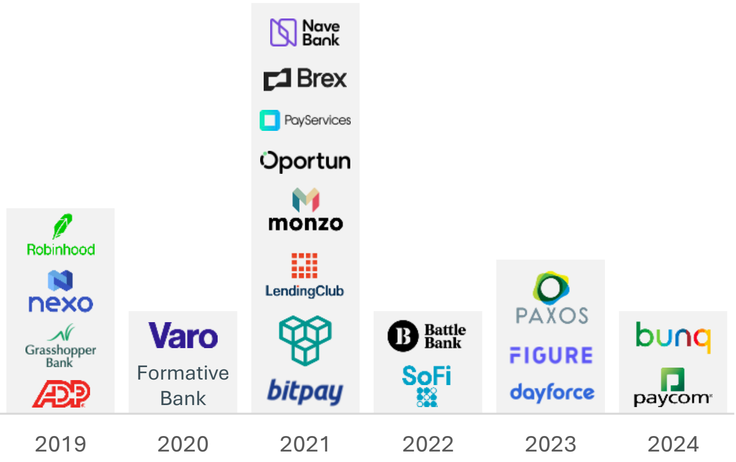


Variable Costs (Cost of Revenue)



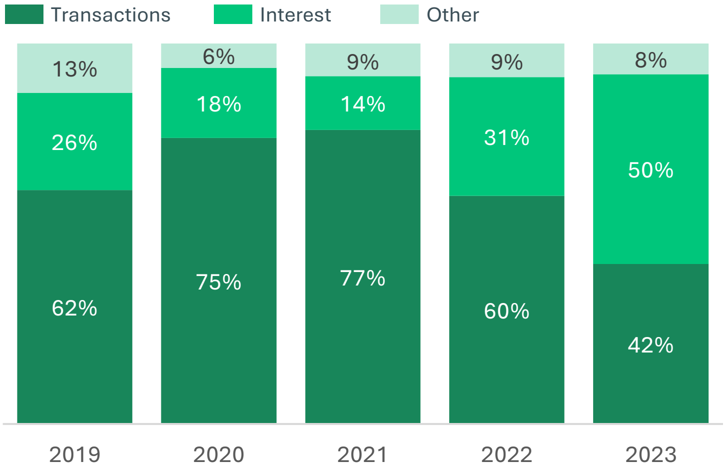
Some Take the Road Less Chartered

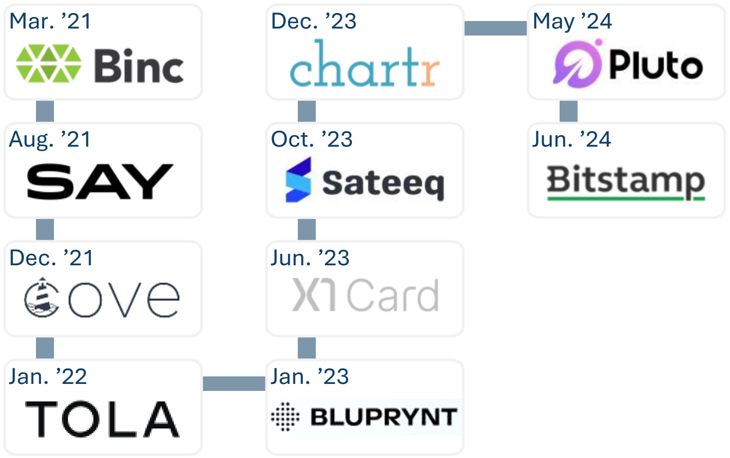
Fintech National Bank Charter and FDIC Applications[3]



Case Study: Robinhood Complexifies its Revenue Streams

Source of Revenues FY 2019-2023 and Timeline of Investments and Acquisitions Since 2021





Notes: 1) List of public financial technology companies compiled by Bain Capital Ventures. H1 2024 data is extrapolated to represent a full year. 2) Selling, general and administrative costs. 3) FDIC deposit insurance applications and new bank charter applications of fintech companies, regardless of outcome of the application.

Sources: S&P Capital IQ, Office of the Comptroller of the Currency, FDIC, Robinhood 10k filings, PitchBook Data Inc. and SVB analysis.

Joining the Fold: Fintech's Vertical Integration into Select Big Banks

Driven by their customers' growing expectations for digital solutions, Large Financial Institutions (LFIs)[1] are increasingly partnering with, investing in and acquiring fintechs, leveraging the functionality and customer bases that fintechs have built in their specialized areas. Acquisitions such as JP Morgan Chase's purchase of WePay for payments are one way for retail banks to add capabilities without building them in-house. At the same time, strategic partnerships can create efficiencies in customer acquisition. However, achieving a proper win-win in those relationships can be difficult to strike. Wells Fargo's partnership with credit card provider Bilt Rewards has attracted skepticism after gaining initial traction signing up millions of customers through its offer of feeless rent payments. The Wall Street Journal reported that Wells Fargo is losing money on the deal, which is producing less revenue than expected. Publicly, both companies remain committed to the project, which expires in 2029.

Acquisition

Investment

Partnership

	JPMorganChase	citibank	WELLS FARGO
	$4.1T Total assets[2]; $161B TTM[3] Revenue; 137 Investments and M&A since 2020	$2.4T Total assets; $70B TTM Revenue; 168 Investments and M&A since 2020	$1.9T Total assets; $78B TTM Revenue; 36 Investments and M&A since 2020
Payments/ Embedded Finance	wepay, Renovite, InstaMed / Slope, CANDEX	DRIVEWEALTH	volanté
Lending	Oakbrook, versana / Sharegain	dailypay., OCTANE, PAYJOY	Maxwell, versana / ChargeAfter
Digital Banking	10x	COLENDI	GREENWOOD
Financial Software	AlphaSense, Kingstar / aumni, LayerOne Financial	CAPITOLIS	AlphaSense, visible alpha, setpoint, iCapital Network, Forge
Credit Cards	cxLoyalty	ramp	extend / BILT[4]
Blockchain/ Crypto	PARTIOR, FIGURE	BLOCKDAEMON, TALOS, TRM	AXONI, TALOS, ELLIPTIC

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Note: 1) LFIs are those banks with over $100B in assets, according to the OCC. List is not exhaustive; select fintech companies represented. 2) As of 6/30/2024. 3) Trailing twelve months. 4) Wells Fargo has invested in and partnered with Bilt Rewards.
Source: PitchBook Data Inc., CB Insights, Federal Financial Institutions Examination Council, "Top Holdings," SVB proprietary data and SVB analysis.

BaaS in the Crosshairs

The April collapse of Synapse, a BaaS startup, locked 100K customers out of their savings accounts, raising concerns from the Federal Deposit Insurance Corporation (FDIC) about the fintech-banking relationship. Fintech partnerships are intended to be symbiotic, with tech companies like Chime providing a user-friendly front-end while a chartered partner bank such as The Bankcorp or Stride Bank provides the FDIC-insured accounts and handles risk and compliance. This allowed fintechs to walk like a bank and talk like a bank while leaving the actual banking to someone else. In the last decade, deposits in fintech partner banks[1] have skyrocketed, growing 9x faster than deposits in small US banks overall.

In September, the FDIC proposed regulations requiring financial institutions to hold fintech partners accountable for managing consumer banking data, and strengthening recordkeeping requirements for bank deposits received from third-party companies. Regulators are stepping up their oversight by issuing 50 severe enforcement actions in the last six months, a 2.5x increase from the severe enforcements filed in same period last year. A lopsided number of these actions are targeting partner banks. Startups are responding to the increased regulation by beefing up compliance talent and by reviewing existing processes, in some cases severing ties with partners. That opens the door to AI-native startups who can meet a high bar for regulation with new tools for automation.

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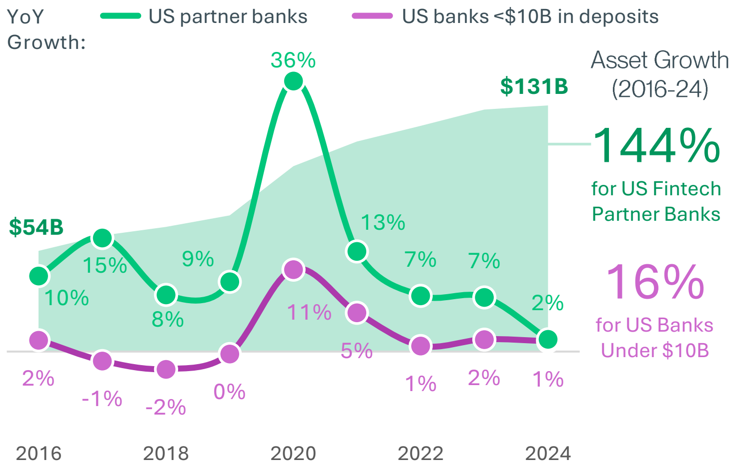
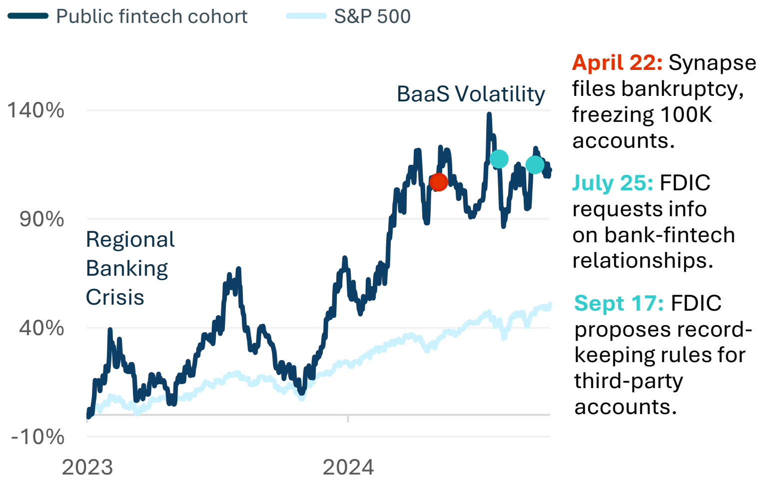
All About That BaaS: Deposits Boomed

Growth in Fintech Partner Bank Assets vs. US Small Banks[1,2]



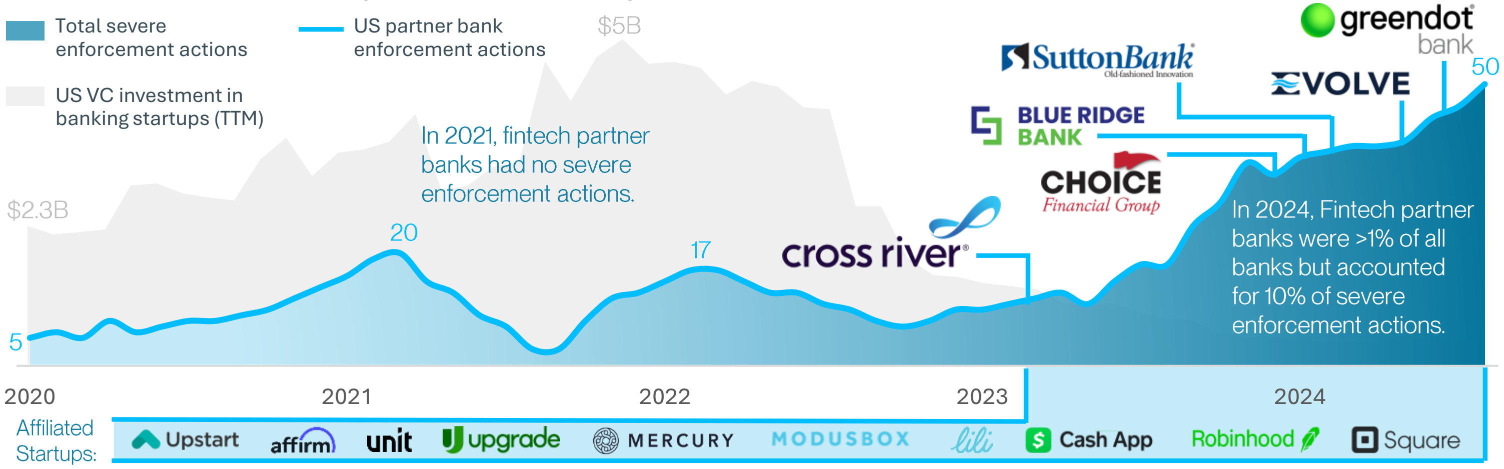
Synapse Collapse Rattles Fintech Stocks

Public Market Index: VC-Backed Fintech IPOs[3] vs. S&P 500



Regulators Ramp Up Enforcement on BaaS Partner Banks

Federal Enforcement Actions Against US Banks (Trailing Six Months)[2]



Notes: 1) Banks with under $10B are exempt from the Durbin amendment, which limits transaction fees an issuing bank can charge a merchant. 2) SVB identified 35 fintech partner banks with assets less than $10B. S&P Market Intelligence estimates fewer than 100 partner banks exist in the US. Severe enforcements defined by S&P Market Intelligence include prompt corrective action directives, cease and desist orders, consent orders and formal agreements that were issued and made public by federal regulatory agencies. 3) Equally weighted returns for 35 formerly VC-backed public fintechs.

Sources: PitchBook Data, Inc., S&P Market Intelligence, S&P Capital IQ and SVB analysis.

Capital

Companies recalibrate as investors draw back.

Fundraising Fizzles

Limited Partner (LP) interest in the fintech space is starting to wane, with fewer US VC funds citing "fintech" as focus areas during fundraising. And those that are still interested in fintech are not raising as much money as they have in the past.

Fintech-inclined VC fundraising dropped 91% since its peak in 2021, with funds raising $5B through September. Announced funds, including those that have not yet closed, totaled $9B, the lowest since 2020. This drop in fundraising accompanies a decline in fintech investment overall. **One in 12 US VC dollars went to a fintech company in 2024, down from one in five dollars in 2021. If that drop reflects a changing attitude toward fintech investment, it's not due to a lack of results.** Historically, funds with fintech as one of the stated focus areas have performed well, with internal rates of return (IRR) outperforming overall VC returns in each of three cohorts we analyzed.

VC firms are not only reducing the size of their checks, they're also slowing their pace of deployments in fintech. In 2021, the most active 100 US fintech investors were closing more than two deals per month. That pace has dropped to less than one per month this year, though some are staying the course. Andreessen Horowitz has averaged nearly four fintech deals per months the last two years, bucking the larger trend.

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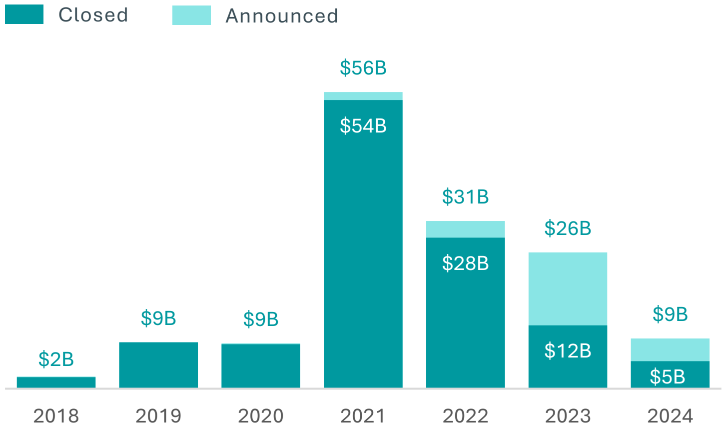
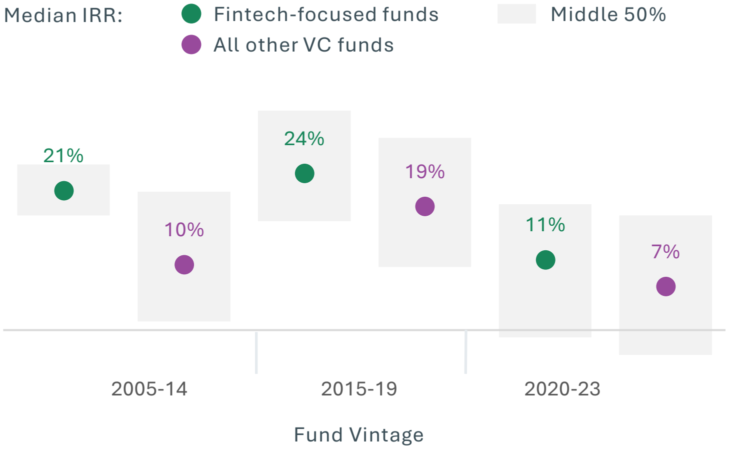
LPs Stray From Fintech

US VC Funds Announced and Closed With Fintech as a Vertical[1]



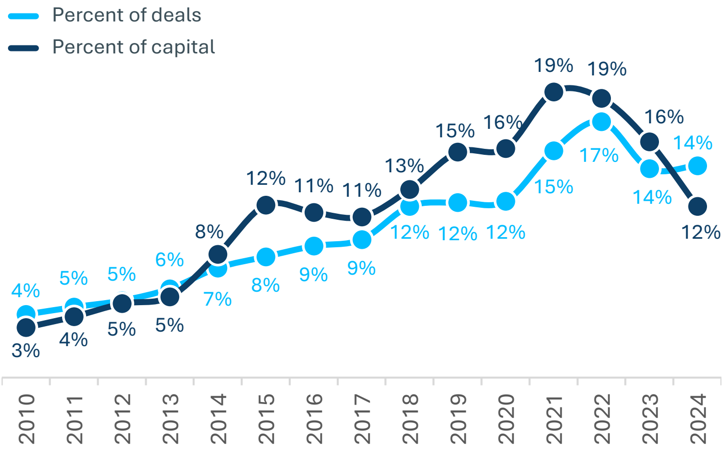
Fintech Funds Outperformed the Field

Net IRR for US VC Funds With and Without Fintech as a Vertical



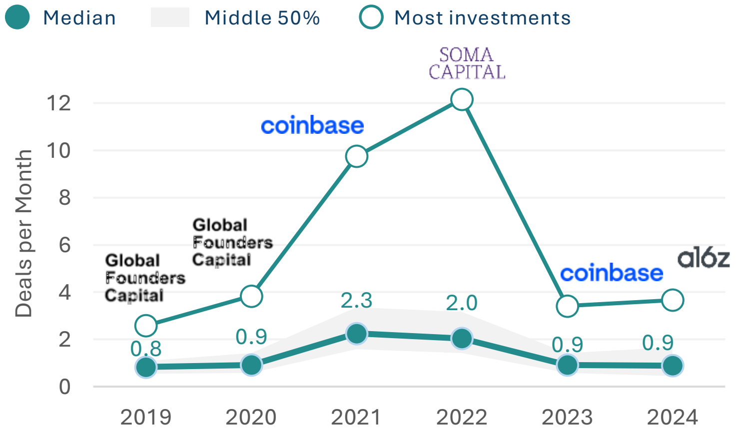
A Smaller Slice of VC, But Deals Hold Up

Fintech's Share of US VC Investment



Rate of Deployments Cut in Half

Pace of Fintech Investment: Among the 100 Most Active US Fintech Investors, Median and Max US Fintech Deals Per Month[2]



Notes: 1) Focus areas may include multiple tech verticals. 2) The top 100 most active fintech firms include VC-focused funds with minimum median fund size above $50M.

Sources: Preqin, PitchBook Data, Inc. and SVB analysis.

Ditching the Mega- Deals

VC Investment in fintech is nearing a six-year low, both in deal count and in dollars. This may signal the start of a new era of leaner, more targeted fintech investing rather than the capital-heavy deals we saw in the pandemic years, particularly 2021.

The end of ZIRP has stunted demand in many fintech sectors. Growth in consumer lending is half what it was pre-pandemic, mortgage originations are still low, delinquencies are up and CAC costs are rising. Increased regulatory uncertainty has also put a damper on VC investment. The funding crunch is especially squeezing companies at the late stage. Valuation step-ups for Series B and C are approaching a 10-year low. Many of these companies are simply unable to grow into their inflated valuations from 2021-22.

Mega-deals of $200M or more now account for just 28% of invested capital, down from 47% in 2021. This shift may reflect a fundamental change in the sector. Higher interest rates make certain capital-intensive business models less viable for venture investing, said Matt Harris, partner at Bain Capital Ventures. “Generally, we’re seeing that $50M-$100M rounds are not happening. That activity is never coming back. Some of that was lending companies or proptech companies that required hundreds of millions of dollars but never had a great ROI — these were ZIRP value propositions.”

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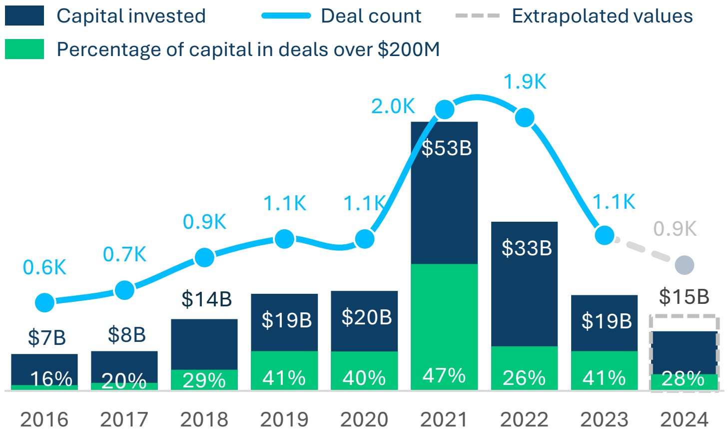
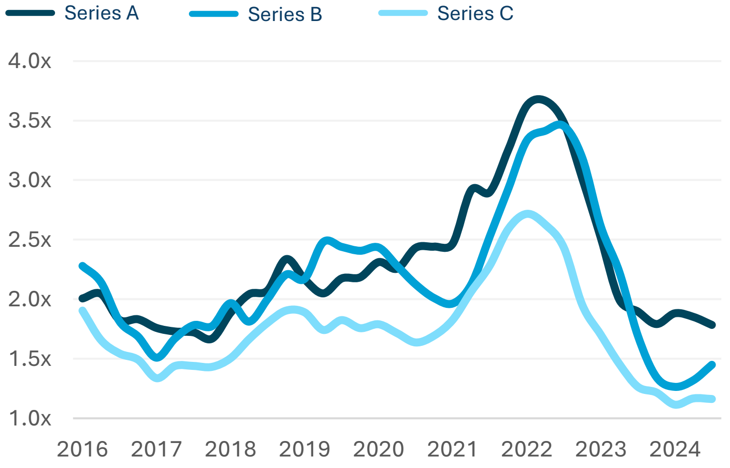
Fewer Mega-Deals, as VC Falls to 6-Yr Low

Fintech VC Deals and Dollars, Fintech Mega-Deals Capital as a Percentage of VC-Backed Fintech Deals[1]



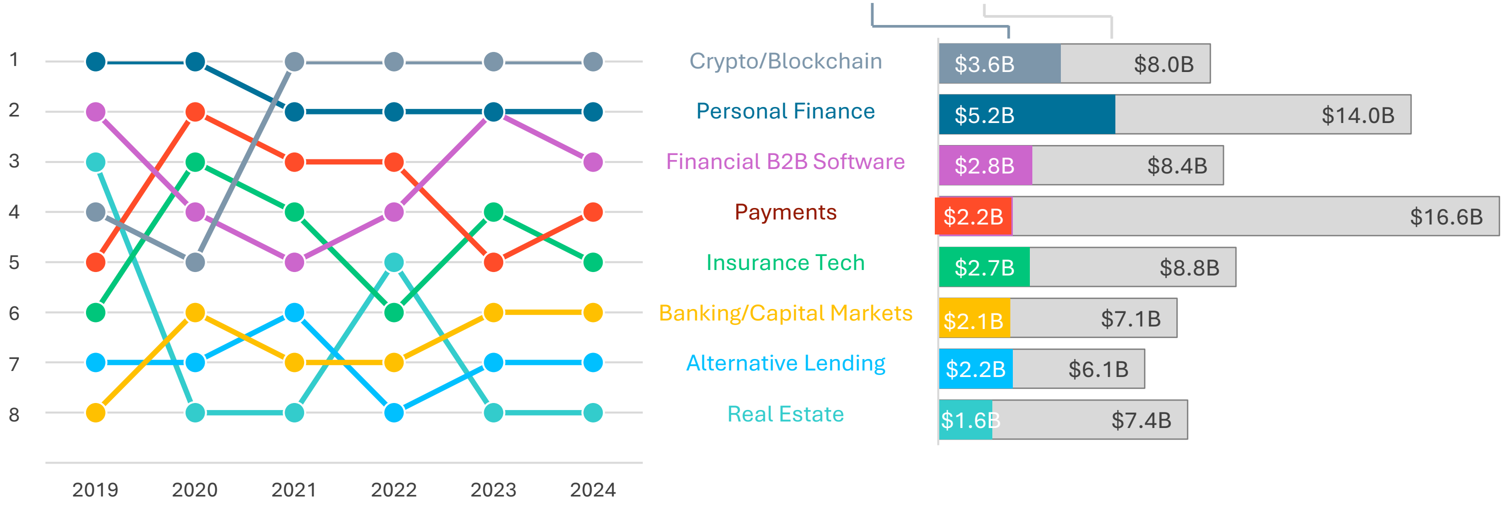
A Step-Back for Step-Ups

Median Valuation Step-Ups for US Fintech Companies by Series



Deal Activity for Fintechs by Subsector

Rank in US VC Deal Count by Fintech Subsector and Total VC Invested in 2024[2] vs. 2021



Notes: 1) Data as of 10/17/2024. Dotted line shows projected 2024 values. 2) Extrapolated year-end totals.
Sources: PitchBook Data Inc. and SVB analysis.

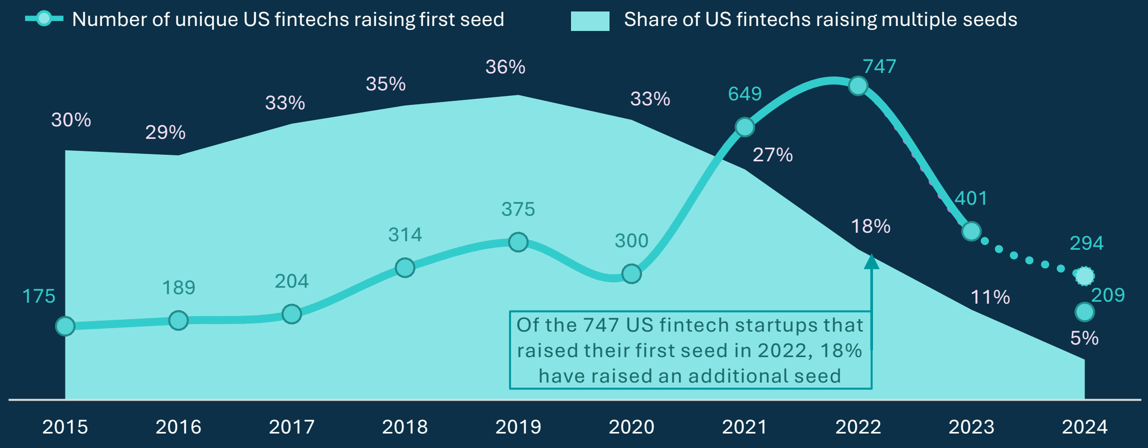
Seedpocalypse? Series A Crunch? Or Both?

Johnny Appleseed would be proud of the growth at the seed stage. Investors and founders? Maybe not so much. ZIRP ushered in a new era of seed investing, catapulting a budding investment type into an established asset class. Not content just to grow and improve, investors sought yield at the seed stage, hoping to cash in and provide perceived winners with more options in the follow-on rounds. Additionally, investors new to the asset class employed a “hit and hope” strategy that prioritized deal activity over targeted bets. Mix in the emergence of dedicated seed funds and the rise in company formations and you have what we call the “seedpocalypse.”

Some skeptics will point to startups raising multiple seed rounds — often called Series A-, seed-plus or seed extensions — driving the activity. That may be true, given that 30% to 36% of US fintechs that raised their initial seed between 2015 and 2020 went on to raise another seed round. But that’s not the main culprit. Even with the glut of seed rounds, US fintech seed rounds are on pace to fall 24% YoY in 2024, and ~55% relative to the peak in 2022. Those numbers deteriorate another ~5% for startups raising their first seed round. Despite the drop off, the backlog of seeds will take years to shake out and continue to have lasting impacts on Series A. Startups opting to raise multiple seed rounds in lieu of a Series A or delaying a Series A as they struggle to grow into a once promising valuation have depressed graduation rates and pushed the ratio of seed deals per Series A deals to new heights.

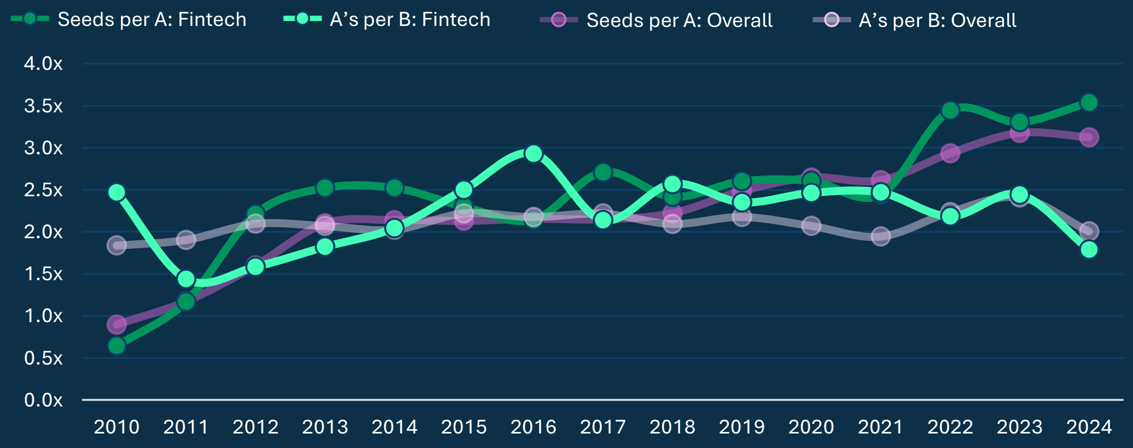
Seed Plus or Series A-?

Share of US Fintech Startups Raising Multiple Seeds and Unique Companies Raising First Seed[1]



Seeds Continue To Explode Post-Pandemic

US Deal Count Ratio by Series by Sector[1]



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Notes: 1) Fintech defined using SVB proprietary taxonomy.
Source: SVB proprietary taxonomy, PitchBook Data, Inc. and SVB analysis.

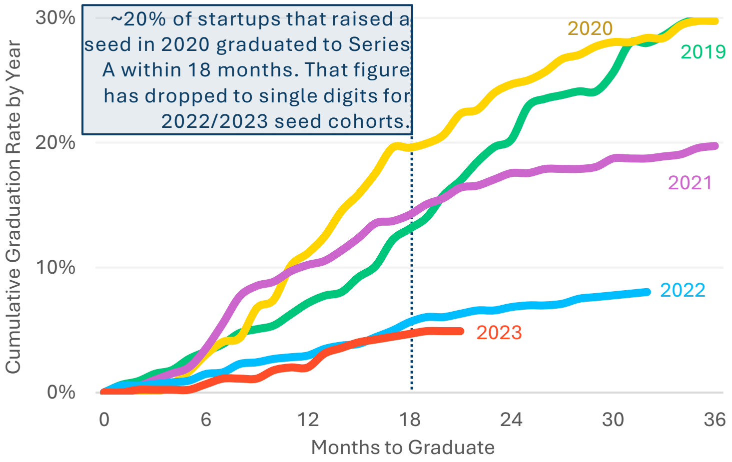
Fintechs Fail To Graduate

The boom times following the onset of the pandemic brought capital excess — and lofty expectations. But yesterday's market is not today's market. Fintech startups, now pegged with higher-than-justified valuations, need to clear a higher bar to move on to the next round. Capital is no longer a commodity, and activity has declined, forcing many startups to cut costs at the expense of growth (a key metric for Series A investors). Add in startups opting to raise another seed round and you have the Series A crunch, which has led to drastically falling graduation rates. For US fintechs that raised their seed round in 2019 or 2021, nearly 15% had graduated to Series A within 18 months. That figure for 2022 and 2023? Barely 5%.

However, change may be on the horizon. In our conversations with investors, there is a growing sense that the gap between seed and Series A valuations has narrowed. This changes the risk/reward calculation, making Series A more attractive. Some argue that the difference in an outcome between seed and Series A is marginal. Where graduation rates end up is anyone's guess. It will likely take some time for the oversupply of seed companies to either fail or meet the necessary metrics for a Series A round. Until then, graduation rates may stay on the current path.

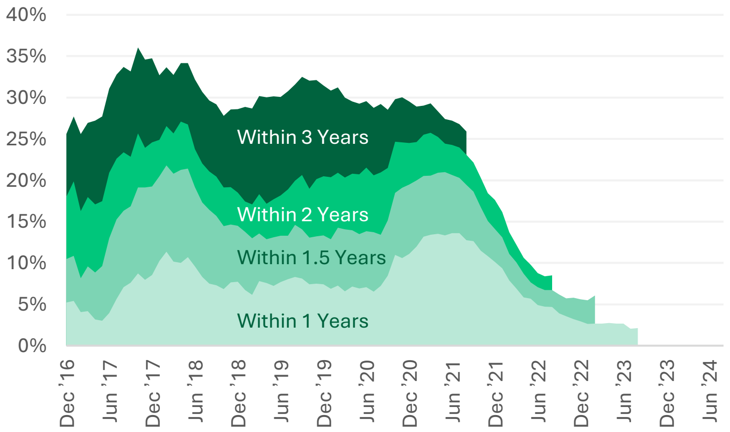
Graduation Rates Struggling Since 2021

Share of US Fintech Startups Graduating to Series A by Year[1]



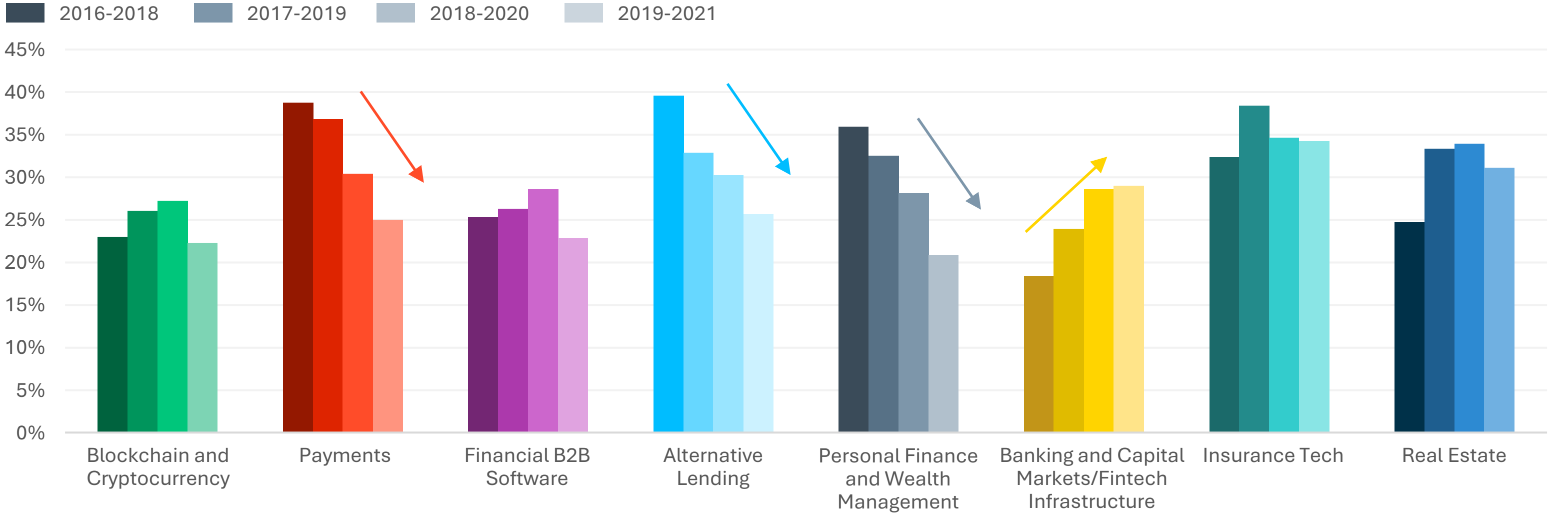
Fintech Graduation Rates Falling

Share of US Fintech Startups Graduating to Series A on a Trailing 12 Month Basis Within Given Timeframe[1]



Payments, Lending and Personal Finance Graduation Rates Suffer While Rest Remain Steady

Share of US Fintech Startups Graduating to Series A Within 3 Years by Time Series and Subsector Bucket[1]



Notes: 1) Fintech defined using SVB proprietary taxonomy.
Sources: SVB proprietary taxonomy, PitchBook Data, Inc. and SVB analysis.

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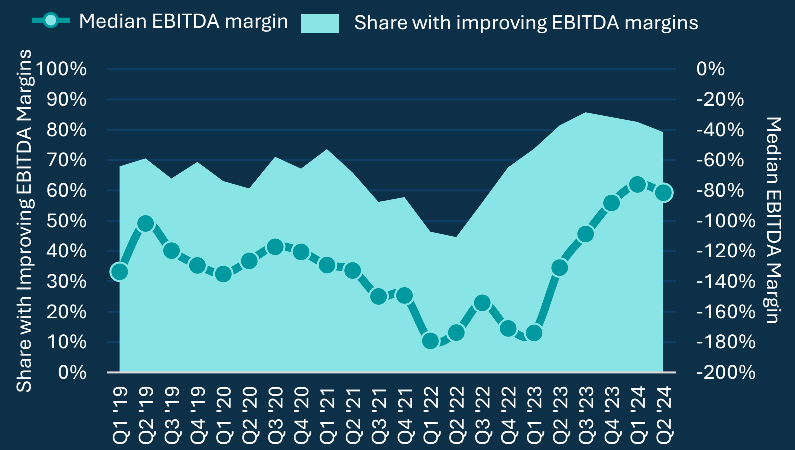
Efficiency Still in Focus

Companies may not be able to raise new funding rounds, but they're not sitting idly by. Founders are diligently improving the bottom line through efficiencies. Nearly 80% of fintech companies have improving earnings before interest, taxes, depreciation and amortization (EBITDA) margins YoY, a vast improvement from the low in Q2 2022. Burn rates, a key measure of efficient growth, are also improving. While the median burn rate for US fintechs matches last year's rate of 3.7x, burn rates for startups in the top quartile have fallen 41% since last year and over 50% since 2022, when the market shift began.

Efficiency is not only about improving your unit economics, which should please investors, but also extending your cash runway in hopes of surviving the current recalibration period and potentially raising another round or to potentially exit at a more favorable price. Still, margins are still negative and are eating at runway for those that haven't raised more funding. Nearly 30% of US fintechs now have 6-12 months of runway left, up from 20% last year. The trend skews lower for companies with less revenue. Those with under $10M in revenue now have a median of 10 months of runway, down from 12 months last year. Some of these companies have a path to future rounds, but others are the walking dead, with no real path to profitability or exit.

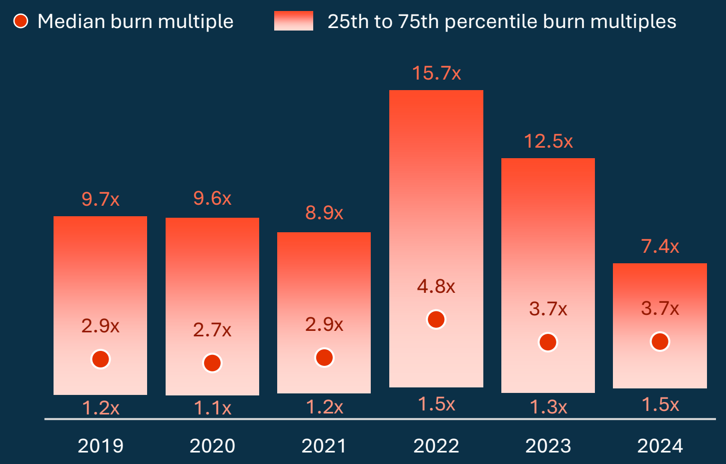
Margins Improve as Startups Cut Costs

US Fintech Median EBITDA Margin and Share of Companies With Improving EBITDA Margins YoY[1]



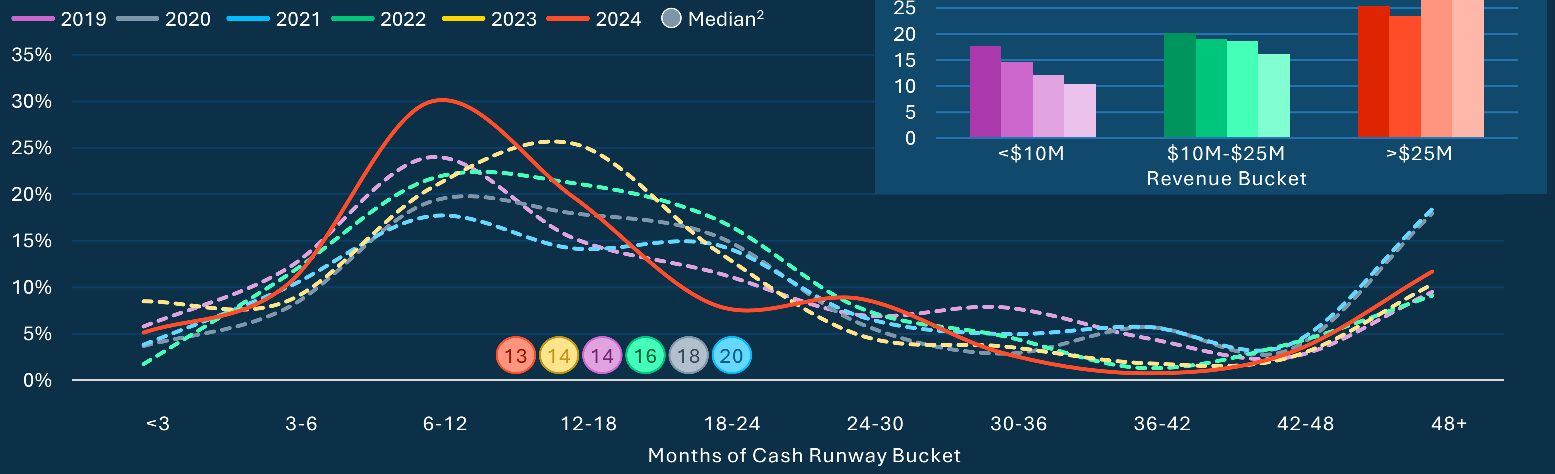
Burn Multiples Trickle Down

Median and Interquartile Range of US Fintech Burn Multiples[1]



2024 Runway Skewing Smaller

US Fintech Cash Runway Distribution by Year[1]



Notes: 1) Fintech defined using SVB proprietary taxonomy. 2) Median as of Q4 of respective year.
Sources: PitchBook Data, Inc., SVB proprietary data and SVB analysis.

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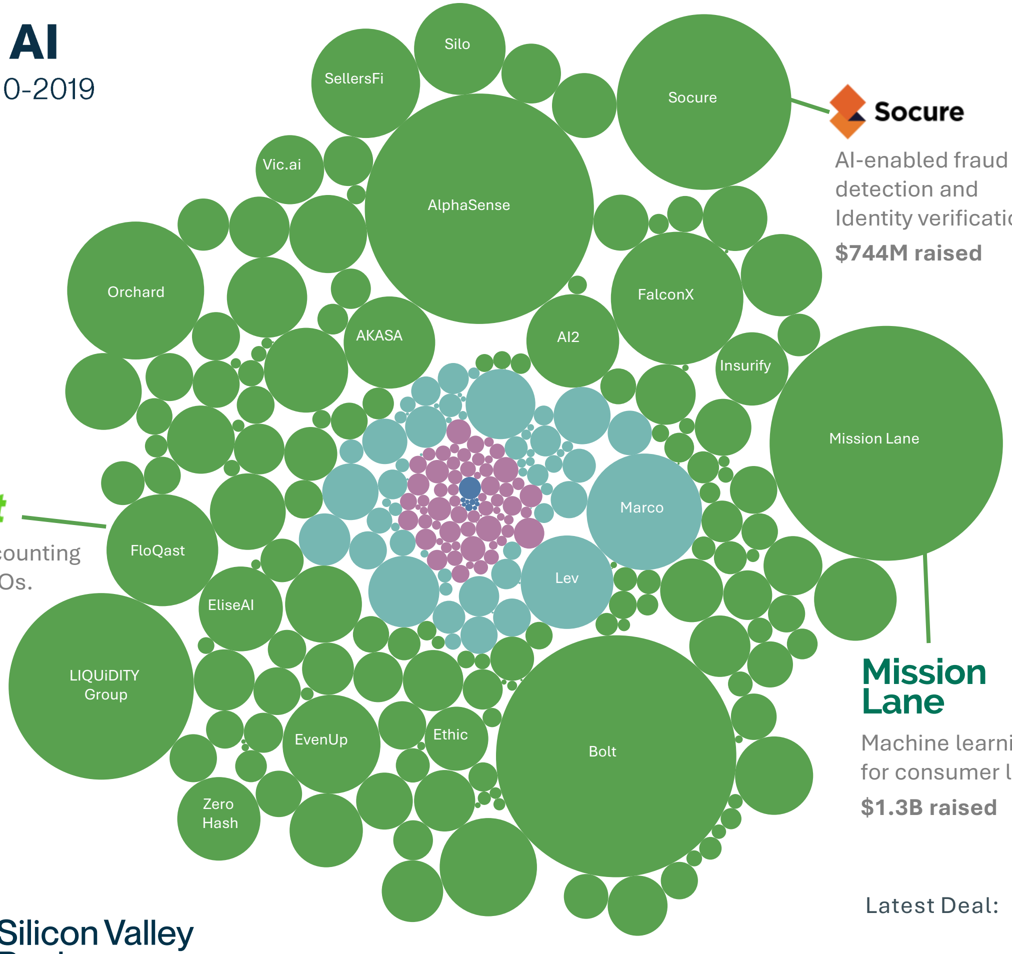
Fintech's AI Generation Is Just Getting Started

US VC Deals for AI Companies by Stage and Cohort

ChatGPT was such a leap forward in GenAI that its release formed a chasm between two generations of AI-enabled companies: those that came before (and adapted to it) and those that came after (and built natively with it). While innovation is taking place on both sides of this divide, AI-native companies have a clear advantage in their adaptability by incorporating AI tooling into the earliest iterations of their products. AI fintechs founded since 2020 are pioneering developments in compliance tooling, insurance claims processing and capital markets intelligence, among others. This group is generating more value per dollar raised than the legacy cohort — a sign that leaner growth may be a feature of this new generation of fintech.

Legacy AI

Founded 2010-2019



Socure

AI-enabled fraud detection and Identity verification.

$744M raised

FloQast

AI-powered accounting platform for CFOs.

$303M raised

Mission Lane

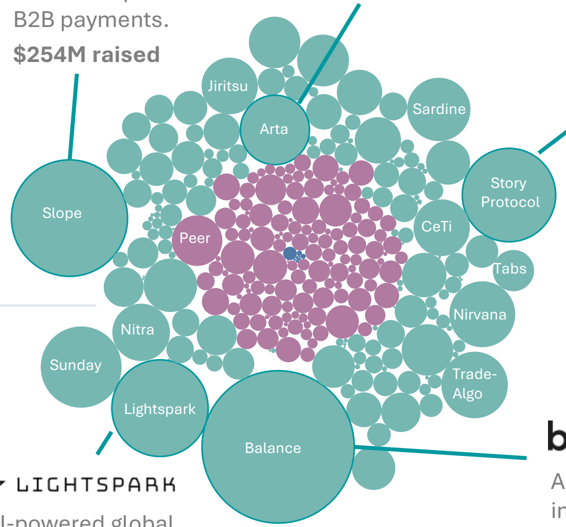
Machine learning models for consumer loans.

$1.3B raised

Native AI

Founded 2020-24

Native AI fintech companies in the US have **raised at least $3.6B** and are collectively **valued over $9B.** That's before a single late stage deal.



Slope

Uses AI to process B2B payments.

$254M raised

arta finance

AI copilot for personal wealth management.

$90M raised

STORY PROTOCOL

A blockchain-based platform that use AI to help creators manage their IP.

$164M raised

LIGHTSPARK

AI-powered global payments network.

balance

AI for authentication in online payments

$437M raised

Latest Deal: Angel Seed Early VC Later VC Total Raised

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Notes: 1) Includes pre-exit fintech companies according to SVB taxonomy with an AI/ML tech vertical, according to PitchBook Data Inc. Visual excludes Stripe, which has raised $8.7B.
Sources: PitchBook Data Inc. and SVB analysis.

A Road Map for Self-Driving Finance

Use of AI in fintech can be broadly bucketed into horizontal applications that benefit many sectors, including fintech, and vertical applications that benefit fintech specifically. Promising vertical applications include tools for regulatory compliance, such as AI-enabled call monitoring to audit customer service, insurance claims review, and other tedious tasks that are seen as more efficiently handled by a machine. Certain tasks are more acceptable to automate right now than others, said Matt Harris, Partner at Bain Capital Ventures. "We think that self-driving is inevitable in lots of different fields, but you have nuance to it," he said. "Some activities are less sensitive and some are more sensitive. Reviewing insurance claims is less sensitive than underwriting, for example."

For legacy fintech companies, embracing AI largely means cutting costs by lowering the expense of human capital. In a recent regulatory filing, Swedish fintech Klarna, which provides "buy now, pay later" services, said its chatbot does the work of 700 human workers, and has reduced the time of customer inquiry resolutions from 11 minutes to two minutes. The company has already cut 1,000 jobs and plans to cut 2,000 more. They are not alone. Many companies are using AI as a cost-cutting measure. Corporate earnings call mentions of AI have increased 4x since 2021, according to CB Insights.

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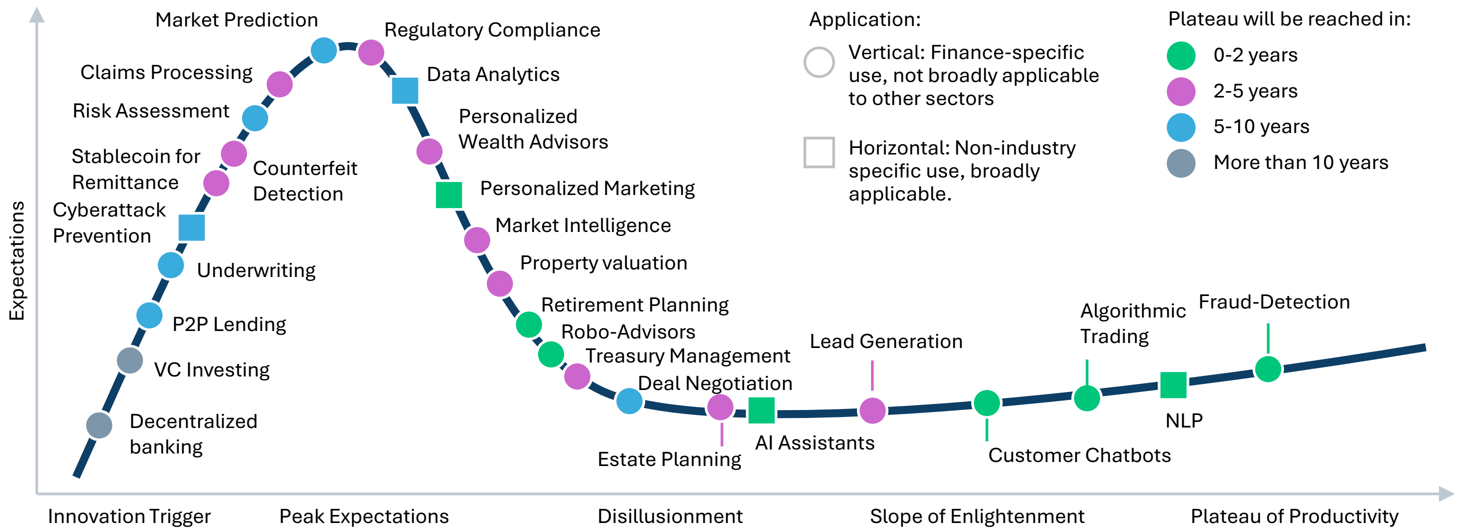
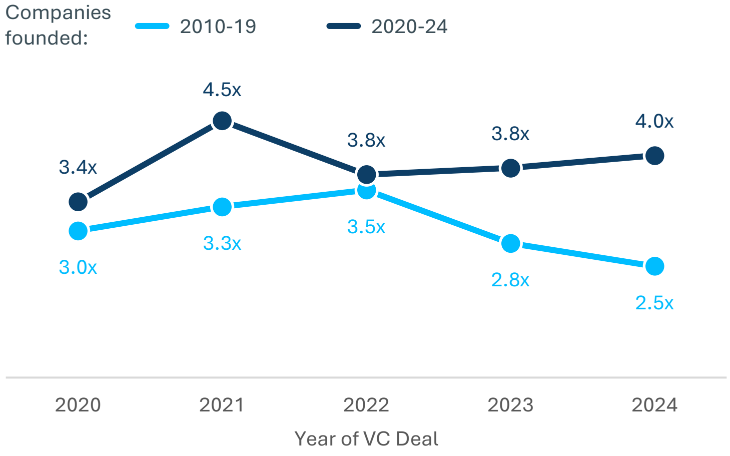
Fintech's AI Innovation Hype Curve



Native AI Companies Outpace Legacies

Median Value Created per Dollar Invested in US Fintech AI[1]



Companies Inventing the Future of Fintech

Notable Early-Stage US Fintech Companies Leveraging AI[2]

Company	Raised	Valuation	Automates...
Ledgebrook	$50M	$295M	Risk assessment for insurers
Sixfold	$22M	N/A	Insurance underwriting
era	$9M	$25M	Money management
Helix by HL	$6M	$26M	Benchmarking for private markets
DealDriver	>$3M	$33M	Price negotiation

Notes: 1) Total dollars raised divided by post-money valuation for fintech companies with AI as a vertical. 2) Total amount raised and latest valuation.
Sources: PitchBook Data, Inc. and SVB analysis.

Exits

Aging unicorns grow restless in the stable.

True North for False Unicorns

What's a fintech unicorn to do? In the funding bonanza of 2021–22, achieving unicorn status became a rite of passage more than a measurement of value for many companies. Nearly 80 US fintech companies achieved a valuation of $1B or higher during the VC boom, with about 65% of these companies just squeaking over the line with a valuation under $1.5B. In total, 114 fintech unicorn companies are now active in the US, with a cumulative last known value approaching $440B, equivalent to the annual GDP of Minnesota. But with revenue growth slowing and valuation multiples on the decline, most fintech unicorns are likely worth far less than their last valued round. Since 2021, formerly public fintechs have seen significant declines in revenue multiples, with financial business process software falling from an average of 25x in October 2021 to 4x in October 2024.

Only about a quarter of current aggregated unicorn value has been tested in a deal within the last two years. Now, those inflated valuations are weighing down many companies eyeing an exit. "Billion-dollar buyers are scarce, and for those that are interested in acquisitions, there is a wide spread between the bid and the ask," said Emily Man, Partner at Primary VC. That leaves only one viable path for false unicorns. "At the end of the day, if I raised at the peak, I probably still have a couple years of runway. Why would I take a big hit on valuation when I could keep growing and see if I can grow into it?"

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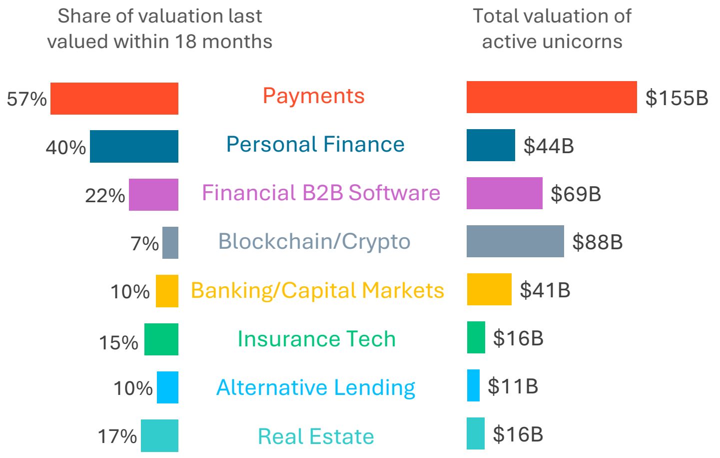
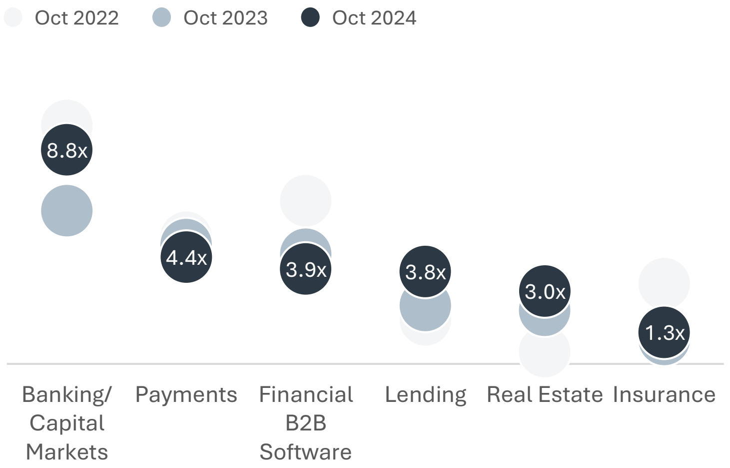
Payments: The Lion's Share of Unicorn Value

Share of Current US Fintech Unicorns by Subsector[1]

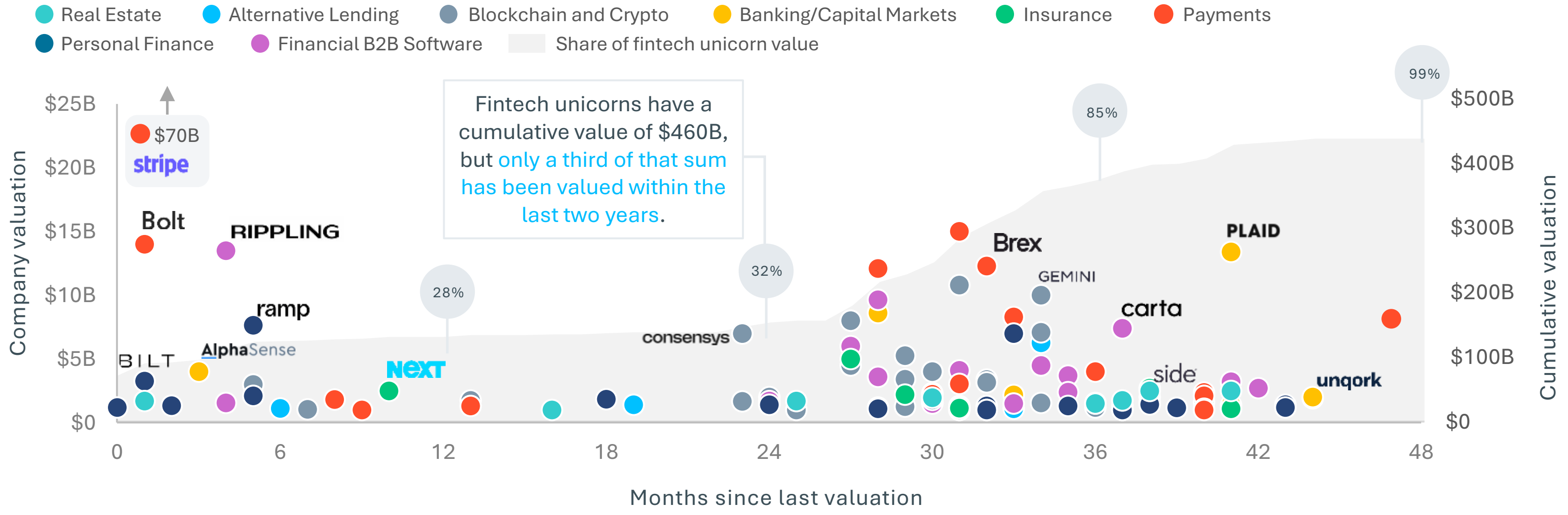


Mixed Results for Public Comps

TEV/NTM Revenue Multiple for US VC-Backed Public Fintechs[2]



US Fintech Unicorns by Valuation and Months Since Last Valuation[3]



Notes: 1) Fintech subsectors based on SVB taxonomy. 2) Latest financials through Q2 2024 from 35 formerly VC-backed public fintechs. 3) Includes unicorns formed through 9/26/2024.

Sources: PitchBook Data Inc. and SVB analysis.

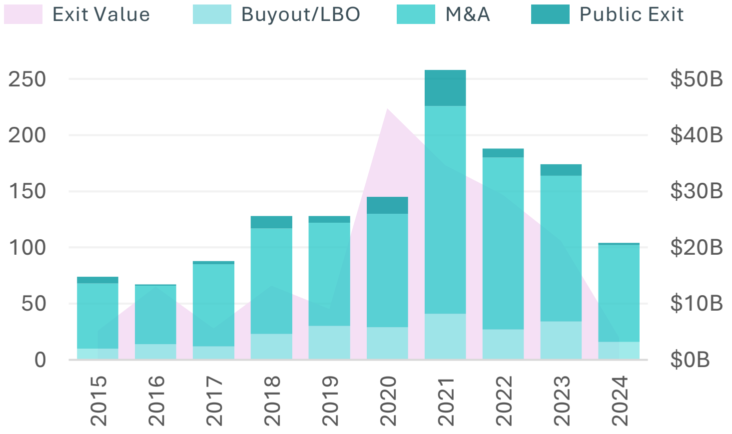
M&A: Cloudy With a Chance for Buyout

A hot streak of acquisitions last year may have been a flash in the pan as the exit market has turned colder this year. Exits are down 15% from 2023. The deals that are happening tend to carry signs of distress. Only 15% of M&A deals have disclosed amounts, down from 27% in 2021, a sign that deal terms tend to favor buyers rather than sellers or investors. Exits are growing scarce relative to later-stage deals. There are just 2.7 exits per 10 late-stage deals this year, down from 3.9 exits per 10 late-stage deals in 2021. Additionally, buyouts grew as a share of exits in 2023 but have now receded, a further sign of reduced liquidity in this risk-off environment.

The gap between the best performing companies and the rest is widening, in some cases giving rise to conflicts of interest between those on the cap table. “Some funders and founders are open to restructuring cap tables while others are holding on tightly to their liquidation preferences.” said Victoria Zuo, principal at QED Investors. In one positive sign, Ibotta, a consumer fintech that delivers digital promotions to consumers, completed an IPO in April, raising $200M. The company slashed expenses last year in preparation to go public. Such a performance might make way for other future exits.

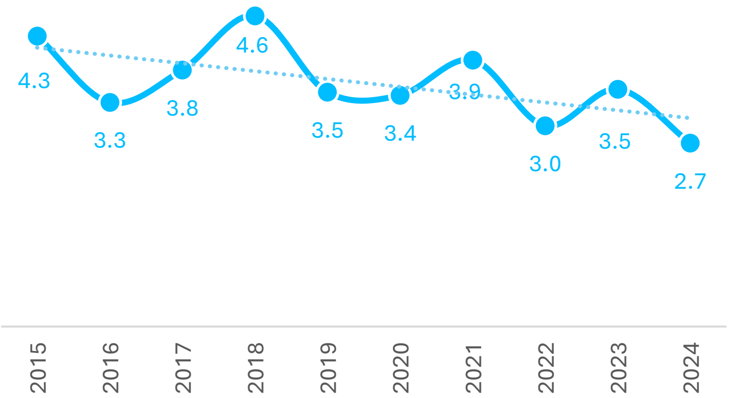
Exits Recede (From What We Can See!)

US VC-Backed Exit Value and Exits Deals by Type[1]



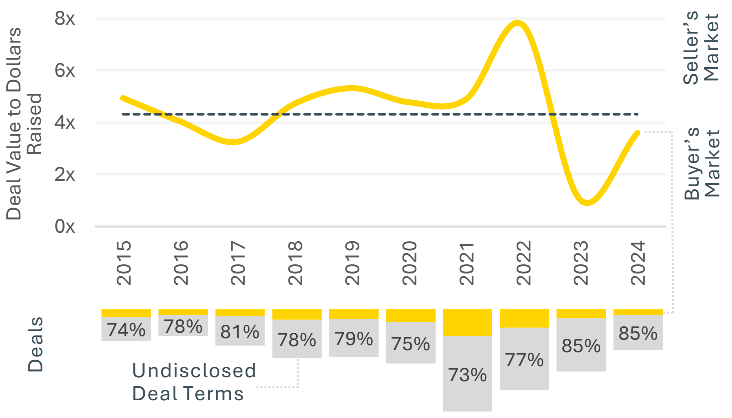
More Likely To Raise Than Exit at Late Stage

Number of US VC-Backed Fintech Exits per 10 Late Stage Deals



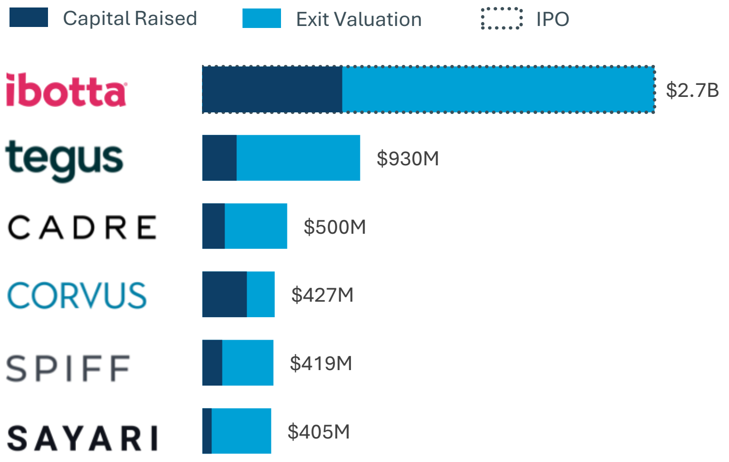
M&A Values Rebalance (If You Find a Buyer)

Median Ratio: M&A Deal Value to Dollars Raised for US Fintechs[2]



One Unicorn IPO. Will Others Follow?

Notable Fintech Exits in 2024



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Notes: 1) Data through 9/30/2024. Buyout/LBO deals are not disclosed. 2) Deal values for disclosed deals only. The majority of M&A deals are not disclosed.
Sources: PitchBook Data, Inc. and SVB analysis.

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