2023 FINTECH MARKET

FIAT GROWTH FIAT VENTURES

Trends Report

FEBRUARY 2023

OVERVIEW

FIAT GROWTH

Fiat Growth is the Fintech market's leading growth consultancy and operating firm. We have provided holistic growth services across paid growth, partnerships, go-to-market (GTM) strategy, revenue operations, MarTech stack implementation, lifecycle automation and other services for 100+ clients.

Our clients range from early-stage companies (**StellarFi**, **Copper**) to large market leading firms (**Chime**, **Sundae**) to publicly traded organizations (**Lemonade**, **WeWork**, **Redfin**). As operators-turned-advisors, and from our work actively advising these firms, we can identify emerging and evolving market trends in the Fintech industry.

FIAT VENTURES

Fiat Ventures is a venture capital firm focused on investing in early-stage startups across the financial technology, or FinTech, space and emerging adjacent verticals. **We recently announced our inaugural $25m fund** and have backed 25+ founding teams over the past two years. A large portion of these startups are clients of our consulting business prior to making an investment. Working closely with these companies on the growth marketing side first, allows our team to execute the best due diligence in the industry and to establish a deep, meaningful relationship with founding teams.

We work with many promising companies across both sides of our business. These insights enable us to better predict the next waves of innovation based on the problems we witness and solutions we help build alongside these teams.

Fintech is a space that has largely been impacted by the recent economic correction. Publicly traded companies have seen their revenue multiples lower significantly, and late stage private valuations are also seeing large corrections. While these market corrections aren't unique to Fintech, they have created a "buzz" that the wave is largely behind us.

WE COULDN'T DISAGREE MORE.

Across both Fiat Growth and Fiat Ventures, we continue to witness emerging verticals that are ripe for digitization and disruption at the core of finance and across adjacent verticals. We also witness that most Fintech companies, because of their inherent financial nature, are able to drive revenue from day zero. While other industries build networks and then try to figure out how to monetize customers, Fintech companies build revenue driving mechanisms into their platforms from the start. This provides a quicker path to profitability and more sustainable growth.

Similarly, we believe financial technology is a powerful tool in providing financial mobility and access to underrepresented populations. Today, there are more than **65 million American adults who are underbanked,** of which **63% are from underrepresented minority households.** We see this as an incredible opportunity for the next wave of entrepreneurs who deeply understand these challenges and are building companies to address these opportunities.

In short, doing good and performing well aren't mutually exclusive.

Working with founders that share our values isn't just the right thing to do, it also presents new opportunities that have been largely ignored by financial service firms to date. Customers in these underserved markets will be an important consumer base over the next decade, and these macro trends provide new opportunities to serve them. We walk the talk as well with about 50% of the Fiat Ventures portfolio backing founders of underrepresented backgrounds.

This market trends report highlights different businesses, investment trends, and new entrants that we see across the space. We're honored to be able to work alongside some of the industry's top founders and operators, and to be able to share these trends with you, our ecosystem. Enjoy!

MACRO

Market Trends

Throughout 2022 and into early 2023 the public market continued to experience a broad correction. **Like we shared last year,** we remain focused on advising and investing in startups that have business models that are sustainable in a changing market and can accelerate out of it in the coming years. Key indications that we look for include business models that create multiple lines of revenue, that build recurring subscription models, and that are less capital intensive. Some of the best tech companies of the last decade emerged in the downturn of 2007-2010 providing incredible returns to investors who didn't shy away from backing visionary founders. In that same vein, we're committed to continue to invest in teams who know how to build and accelerate through these downturns.

Fintech, while changing, is an industry that is still in its infancy and on a collision course with most every other industry. The following report highlights some of the emerging trends and companies who are leading that wave.

To this end, we continue to spend a lot of time advising companies we work with in our consultancy and who we've invested in from the fund. Alex Harris, Co-Founding Partner of Fiat Growth and GP at Fiat Ventures, discusses more insights on how we're advising founders in our network in this ***Guide for Startups During the Economic Pullback.***

Before diving into the more granular sub-verticals, we want to highlight a series of macro trends we're seeing within the industry including:

Fintech+: The expansion into adjacent verticals

At Fiat, we're big believers that **Fintech will be a core part of every major business across most every other industry.** This is a trend we refer to as "Fintech+", or simply put, the collision of financial technology with the next wave of industries yet to be digitized. This in turn provides an incredible opportunity for entrepreneurs who see opportunities to improve inefficiencies in these adjacent verticals.

When most people hear "Fintech" they think NeoBanks, Investment Apps, Credit Products (e.g. BNPL) and other traditional verticals. While these are certainly included in the first waves of financial innovation, most of these markets are largely over-saturated. Increased competition drives customer acquisition costs up creating a "race to the bottom".

Entrepreneurs are building solutions beyond the bigger traditional sub-verticals and moving into adjacent markets like Healthcare, Climate, Future of Work, Web 3 and eCommerce. "Fintech+" is quickly expanding in the next wave of emerging startups and will be a key driver of opportunities over the next decade.

Take the intersection of eCommerce and Fintech, where **Sleek** is building a one-click checkout solution for any store on the internet via a web browser extension.

Another example is **Sunfish**, who is providing better loans and guidance for families exploring fertility treatments.

Artificial Intelligence (AI) also continues to make waves into the forefront of society with the emergence of ChatGPT from **OpenAI.** Companies, like **Haloo**, are finding ways to better use this technology for financial applications, while others like **Alison.ai** are helping automate creative content using data and consumer trends. This is a space we're actively spending time on and plan to share more insights in the coming months.

A Focus on Embedded Solutions

88%
of Americans have adopted Fintech products.

Plaid's 2021 Fintech trends report revealed the adoption of Fintech products by Americans has grown from 58% to over 88% over the previous two years. This gave rise to an army of Fintech companies serving previous consumers directly (B2C), and as a result, it has created a crowded market with little differentiation.

The next wave of Fintech innovation will be led by companies that are building embedded solutions with a business-to-business (B2B) and enterprise focus. This trend is spurred by the continued emergence of Fintech into adjacent verticals (e.g. Fintech+) where non-finance companies strive to offer best in class Fintech products. This also includes companies within the financial industry with processes and operations that have historically been highly manual with lots of human intervention.

For example, **Sunlight** has built a card-on-file API allowing any company to make their own card top of wallet more seamlessly. Regardless of your brand or industry, this is a key revenue driving feature in making sure cards remain top of mind.

A second example is **Lunch** who has built an automated payments tool for school districts and their network of thousands of vendors. This embedded solution serves both sides of their marketplace by digitizing a previously manually intensive process and reduces payback periods from 120 days to just minutes.

Lastly, **Trellis** is an embedded solution that allows Fintechs, Financial Institutions and Insurers to better pre-fill insurance data via an easy to implement API. This allows companies to significantly improve their online sales throughput, and in turn, generate more revenue for their own products.

Companies who focus on building enterprise solutions also have another key advantage to consumer focused Fintechs; recurring revenue. As the market continues to correct, investors are less focused on businesses who drive "growth at all costs" and more so on sustainable companies focusing on revenue and profitability.

B2B companies are able to generate recurring revenues through subscription fees which tend to be larger in size and with less churn. In comparison, consumer focused Fintechs often drive transaction based revenues like interchange fees and servicing fees that are dependent on transaction volumes.

A New Kind of Ownership

One of the fastest emerging trends across financial technology is the shift of ownership of assets, goods and value. This goes beyond a generational shift in wealth from parent to children, it encompasses a fundamental way in which we view ownership.

For example, companies like **Here** and **Vint** utilize updated SEC regulations to provide access to assets like wine and spirits and vacation rental properties for as little as $100/share. This provides retail consumers with access to previously expensive and illiquid assets, and at a fraction of the cost.

Similarly, the latest crypto wave (and subsequent fall) was largely spurred by the emergence of non-fungible tokens, or NFTs, that allow individuals to own digital assets like artwork, collectibles and rewards. While there was a lot of mania around certain collections, NFTs did prove that it's possible to drive interest in a finite amount of a digital good.

Rally Road, for example, has built a marketplace that proves that we will assign as much value to a digital collectible as we do a signed jersey from a Hall of Fame athlete or rare piece or art, but this time in digital form.

The next wave of innovation will continue to provide new forms of ownership forward for both consumers and larger organizations. For example, in the not so distant future, you'll be able to be a part owner of your favorite sports team or share in the royalties from your favorite artist.

We'll spend time in this report highlighting a few sub-verticals including the continued expansion of fractional ownership, Web 3 driven rewards, and emerging trends of ownership of organizations and media.

FINTECH

Market Trends

These macro trends have created an environment of innovation expanding both downward into new sub-verticals (embedded finance) and horizontally into existing parallel verticals (Fintech+).

The following are some of the key trends we see in the emerging Fintech market, as well as some of the companies that are leading the way. Some of these trends are new while others provide updates from previous trends reports. All of them, however, reflect the state of where the market is heading.

Several are market-leading companies we've invested in, others we work alongside, others we advise, while others are close partners in our ecosystem. Regardless of the relationship, these are some of the broader market trends that we believe in and where we're placing investments of time and capital today and over the coming year.

SOME OF THE TOP MARKET TRENDS WE'RE WITNESSING INCLUDE:

1. A Changing Ownership Landscape
2. A New Kind of Reward
3. Acceleration of Embedded Finance
4. Creator Economy and the Future of Work
5. Blending of Healthcare and Fintech
6. The Continued Rise of PropTech
7. Rebuilding of Credit
8. Affinity-Focused Fintechs
9. The Next Wave of Web 3 Innovation

A Changing Ownership Landscape

There continues to be a surge of startups focused on providing retail investors with access to previously unobtainable assets. The trend was sparked by **Reg A+ and Reg D** regulations from the SEC allowing unaccredited retail investors to gain access to investments that had previously been deemed too risky. This has since opened up a large wave of startups that are providing their customers access to these previously unobtainable assets.

Companies leading innovation in this space include **Here,** where you can invest in vacation rentals for as little as $1 per share; **Doorvest** where you can take a similar approach to rental properties; or **Vint**, which allows you to invest in rare collections of fine wine and spirits. This market was further validated in the last few months by **the acquisition of Otis by Public.com,** helping accelerate the availability of fractional ownership to their platform.

The next wave of startups aren't just focused on hard to reach assets, but on providing ownership into areas that previously didn't exist all together.

For example, **Finlete** is building a platform that allows retail investors to invest in and share the contractual upside for some of their favorite athletes. Similarly, companies like **Songvest** and **Mission Road Sound** are allowing consumers to invest into and share in royalties over time with musical artists. While these newer platforms are still in their infancy, we do anticipate that they continue to grow and develop in the coming years expanding into TV, movie and programming royalties.

Similarly, **decentralized autonomous organizations (DAOs)** are creating new structures for individuals to share ownership like never before. For example, **SportsDAO** is an early stage DAO that is focusing on allowing individuals the ability to own and govern professional sports organizations. Another called **LinksDAO** plans to purchase golf courses that members will have access to and share in profits from.

We anticipate that a larger group of companies will surface in the coming year, followed by consolidation from traditional players eager to enter this budding space. Caitlin Keep, Vice President at Fiat Ventures, shares more about how these company and fractional ownership is changing the financial system **in this blog post.**

A New Kind of Reward

Customer incentives aren't new. Since the early days of commerce, entrepreneurs and business owners have introduced creative structures to entice users to better engage with a brand or to buy a product. We've seen wave after wave of gamification strategies to hook users into their ecosystem.

While rewards aren't new, the landscape is rapidly shifting. The next wave can be largely divided into two categories; rewards and incentives. **Rewards** are celebratory milestones throughout a customer journey that mark an objective that's been reached. **Incentives,** while similar, are smaller benefits that push users in a particular direction. While both strategies are meant to promote engagement, Fintechs use each of these techniques to nudge users forward and to set larger milestones of achievement.

Traditionally companies use these types of incentives through badges or in app tokens. Moving forward, more and more Fintechs are making it easier to provide real world financial benefits to their users for certain behaviors.

For example, **Debbie** is a Fintech app that rewards users who hit certain milestones with monetary incentives. They offer this directly to consumers and through a B2B offering with Credit Unions that are looking for a better way to engage with their existing customer base.

Similarly, **Arro** is an app that is part credit card and part financial coach with in-app activities that earn more credit that can be used instantly. **Accrue Savings** provides a "Save Now, Buy Later" solution that rewards savings and reduces unnecessary credit lines for major purchases.

3mint is a B2B focused Fintech company providing the ability for Web 2 companies to build Web 3 rewards like token gating or NFT minting within their applications. This provides the ability for Fintech's to build rewards and incentives without requiring any prior Web 3 knowledge or capabilities.

Others, like **KashKick,** provide a rewards platform to help underserved and financially conscious consumers earn or save money by presenting them with various products and services that can address their needs.

Lastly, **Prizeout** is a B2B focused company that allows their customer's customer a wider variety of ways to withdraw their money to their favorite brands. This is an example of different ways that Fintechs can provide their customers access to in-app rewards in a real world environment.

Acceleration of Embedded Finance






In our last **Market Trends Report** we shared some examples of companies that are making it easier for both Fintechs and non-Fintechs to provide digital financial solutions to their customers. At the forefront of this innovation are two types of companies:

> ***Embedded Native*** - These platforms are focused on building embedded services from day one. They include Banking-as-a-Service platforms like **Rize** and **Unit**, Lending-as-a-Service solutions like **Spinwheel**, **Sparrow**, or **Sunlight** for a Card-on-File API.
>
> ***Consumer Turned Embedded*** – These companies start by building a direct-to-consumer product. Over time, they offer those same services as embedded solutions to others. Examples include **Simplist** in the mortgage lending space, **Bestow** in the life insurance space, and **Breeze** in the disability insurance space.

As we continue to see **every company becoming a Fintech,** these embedded services will serve as gateways for all companies to offer unique services to their customers.

In financial services, "all roads lead to lending." Which, historically, is why large incumbent banks are willing to lose money on deposit products in the hopes their customers take out a home mortgage or auto loan with them. And, in turn, expand their customer lifetime values (CLV).

Today, we see the same trend with both Fintechs and Non-Fintechs who are starting with a particular audience and expanding service offerings over time. Embedded tools and services help companies capture larger swaths of revenue more quickly and without as heavy a technical lift.

Creator Economy and the Future of Work

The evolution of the "gig economy" gave way to a new platform for individuals to drive income. Work that was once considered passive has become a way for users to not only earn on a full-time basis, but also excel professionally.

This is further spurred by the emergence and hyper growth of influencer (TikTok, Instagram) and collectible (StockX, Rarible) markets. Now, as Gen-Z, dubbed the "side hustle generation," enters the working world, we see an increasing focus from Fintechs looking to support their growth and financial wellbeing in this new economy.

Caitlin Keep, Vice President at Fiat Ventures, highlights how some of our portfolio companies are stepping up to serve this growing demographic **in this blog post.**

A Fintech company that's currently providing a multitude of tools for freelancers is **Lili Bank.** Through a single platform, consumers can bank, save, plan, and protect their businesses.

Similarly, **Copper Banking** provides teenagers with tools to be able to better manage these different forms of income with controls that allow parents the transparency they need.

Other platforms like **Boost** are building "Quickbooks for the side-hustle generation" and a variety of other reimagined services originally built for W2 employees.

Moving forward, we anticipate seeing leading companies in this space developing financial based solutions utilizing UI/UX that mimics our favorite social media apps like TikTok or Instagram. The underlying information will be the same, but the content will be delivered in a more visual and digestive format.

Blending of Healthcare and Fintech

One of the fastest growing Fintech+ verticals is at the intersection of financial technology and the Healthcare market

Disruption in the Healthcare space is largely driven by the digitization of an industry that historically was slow to change because of regulation and data protection laws. Over the past decade an increasing number of carriers and healthcare providers have updated their systems, introducing new forms of underwriting and embedded financial solutions.

For instance, **Sunfish** is a startup focused on providing better lending solutions and guidance for families seeking fertility treatments. This market is poised to continue to grow as young professionals continue to wait longer before starting families and as social norms change making individuals more comfortable speaking about these types of fertility treatments.

Sheer Health is another company in its infancy that strives at improving the financial relationship between individuals and the complex Healthcare system. The fact that GoFundMe is the largest Healthcare fundraising platform is a key indicator that this market is ripe for a new entrant.

Lastly, **Dani** is at the intersection of media, Healthcare and Insurtech allowing it's users free access to Dental coverage in exchange for watching content while brushing your teeth. With over 100M+ individuals in the US going uncovered, Dani provides a unique solution that is both profitable and mission driven.

Another company at the intersection of Healthcare and Fintech is **Parachute,** which provides individuals an improved experience when donating plasma. Not only do they provide a higher end facility to donate in, but they also have a dedicated debit card that pays out on the spot while offering unique rewards for multi-donation users.

Fintech solutions will continue to drive innovation in the broader Healthcare market over the next few years and we plan to continue to work with and invest in the founders leading the way.

The Continued Rise of PropTech

Real estate technology, otherwise known as PropTech (property technology), was one of the earliest categories in the Fintech market with companies like AirBnB, Lending Home and Vacasa as first movers.

Over the past couple of years have witnessed the second generation of innovation in the broader PropTech space being led by founders and entrepreneurs from PropTech incumbents. Momentum is further propelled by enhancements in underwriting, reporting, marketplace data and internet-of-things (IoT) connectivity.

One such company at the forefront is **Splitero**, who is allowing consumers to tap into equity in their homes without taking on more debt or monthly payments. With interest rates on the rise, their business is set to accelerate in a correcting market as consumers remain equity rich and cash poor and utilizing an improved underwriting technique to traditional incumbents.

Another notable company is **Sundae.** Which allows consumers to sell their homes at market rates without making any needed repairs.

Other companies like **Simplist** are focused on providing better lending solutions both for retail consumers and brokers who embed their service into their onboarding processes.

An additional example is **Divvy Homes** that provides a new generation of "rent-to-own" options for younger consumers who aren't financially ready to buy a home but want their monthly rent to be applied toward a down payment.

Innovation isn't just withheld to the US market either with solutions suiting unique international challenges and regulations. For example, **Flat.mx** is building a solution in Mexico that improves the home buying journey for brokers, agents and home owners that are unique to local laws and regulations.

Though the industry isn't new, PropTech solutions are still evolving and expanding as consumer needs change.

Rebuilding of Credit

Another major trend that we're witnessing across the Fintech sector is allowing consumers to better manage and improve their credit through non-traditional means. Companies like Credit Karma were early unicorns, who allowed consumers to view their credit but with no opportunity to improve it. Today's Fintech's provide both visibility to credit scores and are taking an active role in helping users improve their scores.

StellarFi is a company focused on helping build credit for underrepresented communities. They allow you to connect weekly bills like rent, utilities, Netflix and Spotify, and report the payments to the three credit bureaus. This can help raise credit scores and provide competitive product offerings over time.

Upside is a startup that focuses on turning debt into savings through their "self-collateralized debt" product, a first in the market. Not only can consumers refinance their existing debt to reduce total interest payments, but they build a savings account over time as they set aside capital with each payment. Over time, you can use the growing savings as collateral against the loan, further reducing interest rates for the payment.

Grain Technologies allows consumers to access credit through their existing debit cards. By tapping into debt facilities in community and regional banks, Grain is helping underserved groups not only access credit, but build a better score.

This provides a large advantage to underrepresented populations who traditionally haven't had access to credit or the means to pull themselves out of debt.

Affinity-Focused Fintechs

The first wave of Fintech brought along the Chimes and SoFis, who serve large audiences with diverse sets of products. Today's market makes it difficult for emerging Fintechs to compete with these first wave leaders. Especially given increasingly rising customer acquisition costs (CAC).

To overcome these barriers to entry, Fintechs are focusing more on creating "for us, by us" businesses. These are geared to serve a specific demographic who have largely been underrepresented in the past. This strategy provides the ability to attract new customers at reduced CACs, build a stronger affinity toward their brands, and cross-sell services in the future to increase revenues over time.

For example, **Sigo Seguros** is an Insurtech providing auto insurance to Latinx consumers on an all-Spanish platform through an easy-to-use mobile interface.

Possible Finance is providing better services to the deep sub-prime market that typically doesn't have access to credit and is targeted by predatory payday lenders. Their products don't just help users get out of debt but to build dedicated services to keep them from getting back in it.

Some incumbents might argue that these markets are small (TAM) but may miss the value that comes from strong loyalty and a higher willingness to take on additional products. This becomes increasingly easier to offer as embedded solutions become more abundant.

Affinity Fintech's aren't just focused on customer segments. They span causes, age groups and lifestyles.

Neon Money Club is combining traditional wealth management services designed for "the culture," showcasing how important branding is becoming in Fintech as more products enter the market.

Lastly, companies like **EarlyBird** provide wealth building solutions for new parents and their communities who want to support them.

Fiat Ventures VP, Caitlin Keep, shares more on how Fintechs utilize an affinity-focus to build a differentiation **via this blog post.**

The Next Wave of Web 3 Innovation

It's no secret that in 2022 brought a handful of challenges to the Web 3. Many of these issues were driven primarily by the management of FTX and it's downstream impact to it's customers, partners and a broader investor base. Similar to the boom and bust of 2017 driven by the ICO craze, NFTs also brought a lot of excitement and then a bit of mania to space over the past year.

Many people have declared **Bitcoin and other digital assets to be dead** in the past but were surprised when the next waves of innovation came to the forefront. In fact, these corrective markets provide an opportunity for founders to focus less on token prices and get back to a focus on building.

While both token prices and NFT collections have decreased, we're believers that innovation in the digital asset space is far from over. We're not exactly sure if the next wave will be spurred by a new model for ownership (NFTs, DAOs) or other breakthrough trends (Metaverse, AI), but one thing is for sure; there will be another wave.

Instead of investing time and capital into tokens, our team focuses on two areas of Web 3; companies that are building embedded Fintech solutions, and those that are building at the intersection of Web 2.0 and Web 3.

For example, companies like **Brydge** are building a solution that provides the ability to accept any token, from any blockchain, in seconds, with a snippet of code. Think of Brydge as "Stripe for the Web 3 economy." This easily solves one of the long-standing hurdles for Web 3; interoperability. This is the ability to seamlessly transfer value from one token on a specific blockchain to another token on a different chain.

Another example is **3mint** that makes it easy for any brand to engage with their community via Web 3 rewards. They offer an embedded solution to issue and manage Web 3 loyalty programs through automated rewards mechanisms when customers hit predetermined milestones.

Companies like **Artizen** have created ways for artists and non-profits to better apply for grants through their digitized platform. Over time, they intent to use decentralized structures to better fund projects at the frontier of art, tech, science and design.

Lastly, as mentioned in the macro trend on ownership, **decentralized autonomous organizations (DAOs)** are creating new structures for individuals to share ownership like never before. Examples like **SportsDAO** and **LinksDAO** are just two examples of companies that are providing a new kind of ownership between fans, athletes, teams and organizations.

Fiat Ventures Managing Partner, Marcos Fernandez, shares his predictions for the Web 3 space, and some of the companies leading the way, **in this blog post**.

Thank You

Innovation within the Fintech space isn't just limited to these nine defined categories. Scores of entrepreneurs work tirelessly to continue to create efficiencies to many outdated systems, business models, and services.

Over time, those improvements will open up new opportunities for both startup teams and investors while providing better access to underserved and underrepresented populations. We're honored to be able to work at the intersection of innovation in this field. And we look forward to providing future updates highlighting the latest trends that we see developing.

We want to give a BIG thank you to the many entrepreneurs, mentors, and investors in our network who provide us with the ability to see across so many new trends. If it wasn't for you, we wouldn't have these insights into emerging trends.

Please also keep in touch. As we see new forms of innovation in the Fintech space, we want to know what you're seeing, too.

Keep in touch with emerging trends via our monthly newsletter by **subscribing using this link.**

-The Fiat Growth & Fiat Ventures Team

FIAT GROWTH FIAT VENTURES