

PART 1

OF A FOUR-PART SERIES

STRATEGIC INVESTMENT IN FINTECH INNOVATION

SPONSORED BY: **FinNovate Partners**

The rise of innovation investing among financial institutions

For the past decade, the financial services sector has experienced explosive innovation, particularly in technology and tech-enabled services. Financial institutions have been adopting innovative technologies in response to growing consumer demand for digital offerings as well as a critical need to limit costs, improve security, and expand access to capital.

Innovation is also creating value as innovative companies scale and mature, enticing more financial organizations to get involved not just as users of technology, but also as investors. Yet for many in the field, particularly small- and medium-sized organizations, the desire to invest in FinTech innovation poses challenges.

Organizations oriented toward traditional banking and finance are grappling with demands outside their core skill set, such as investment due diligence, often with mixed results. Some systems with significant scale, resources, expertise, and experience may be able to pursue FinTech innovation on their own. However, organizations that don't fit that category can still participate by partnering with specialists, enabling them to help advance innovation in the field while also potentially benefiting their organizations.

In this four-part article series, the Financial Services Association (FSA) and FinNovate Partners, a FinTech-focused investment firm, delve into the fast-paced world of FinTech innovation investing. We discuss the channels organizations are using to invest in innovation, the roles of professional investors, and what it takes to achieve success as an organization. In this first article, we look at the factors driving innovation and the approaches organizations are taking to capitalize on the opportunity.

What's driving the innovation imperative?

Powerful forces are driving digital innovation in FinTech. Pressure is coming in part from customers who demand more effective and user-friendly engagement, as well as the broader market, which is growing steadily due to global connectivity and the need for more efficient transactions. Consumers and businesses expect to interact with the sector in more bespoke and digital ways, as they do with airlines, retail, and other modern enterprises. The financial sector is now focused on catching up.

Cost is another major force driving innovation. The global financial system spends vast sums on traditional infrastructure and legacy systems. Bending the cost curve while ensuring security and increasing access is an imperative, and technology offers hope.

Over the longer term, models such as decentralized finance and open banking may help reduce costs and improve outcomes. This, too, is driving innovation, because these models require actionable data and seamless connectivity. Fortunately, over the past decade, regulatory changes have fueled the creation of a comprehensive digital infrastructure. This is enabling innovation in digital analytics, peer-to-peer lending, and virtual banking, all of which support efficiency and a more inclusive financial system. Meanwhile, rapid advances in machine learning and artificial intelligence are unlocking new ways to take advantage of data.

Finally, a vast array of disruptors — ranging from startups to tech giants like Amazon, Google, and Apple — are aggressively trying to modernize finance, rein in costs, and capture a piece of the approximately \$26 trillion global financial field. Many established financial institutions are feeling the pressure from these new entrants.

PART 2

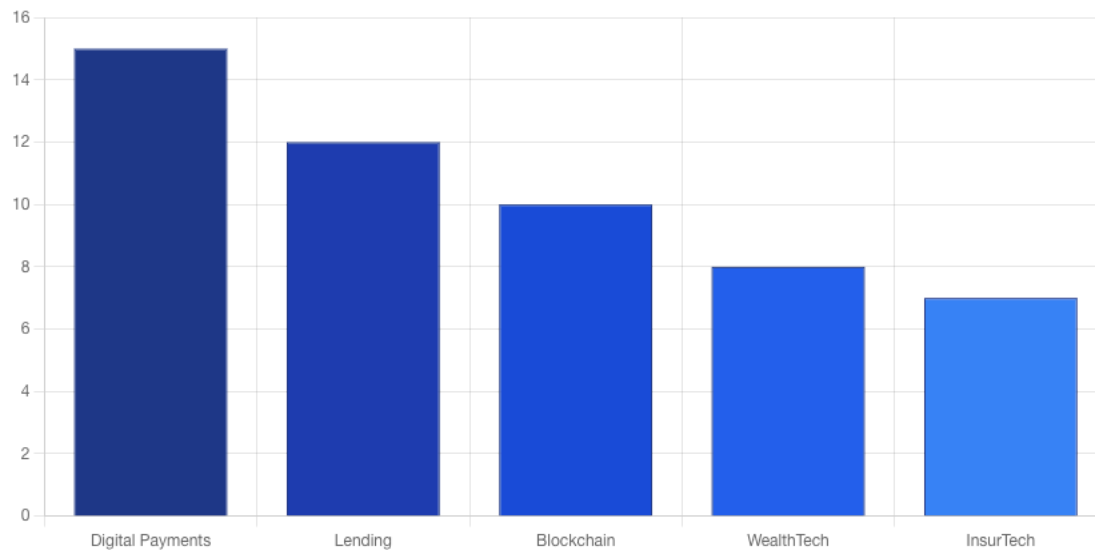
KEY TRENDS IN FINTECH INVESTMENT

UNDERSTANDING THE LANDSCAPE

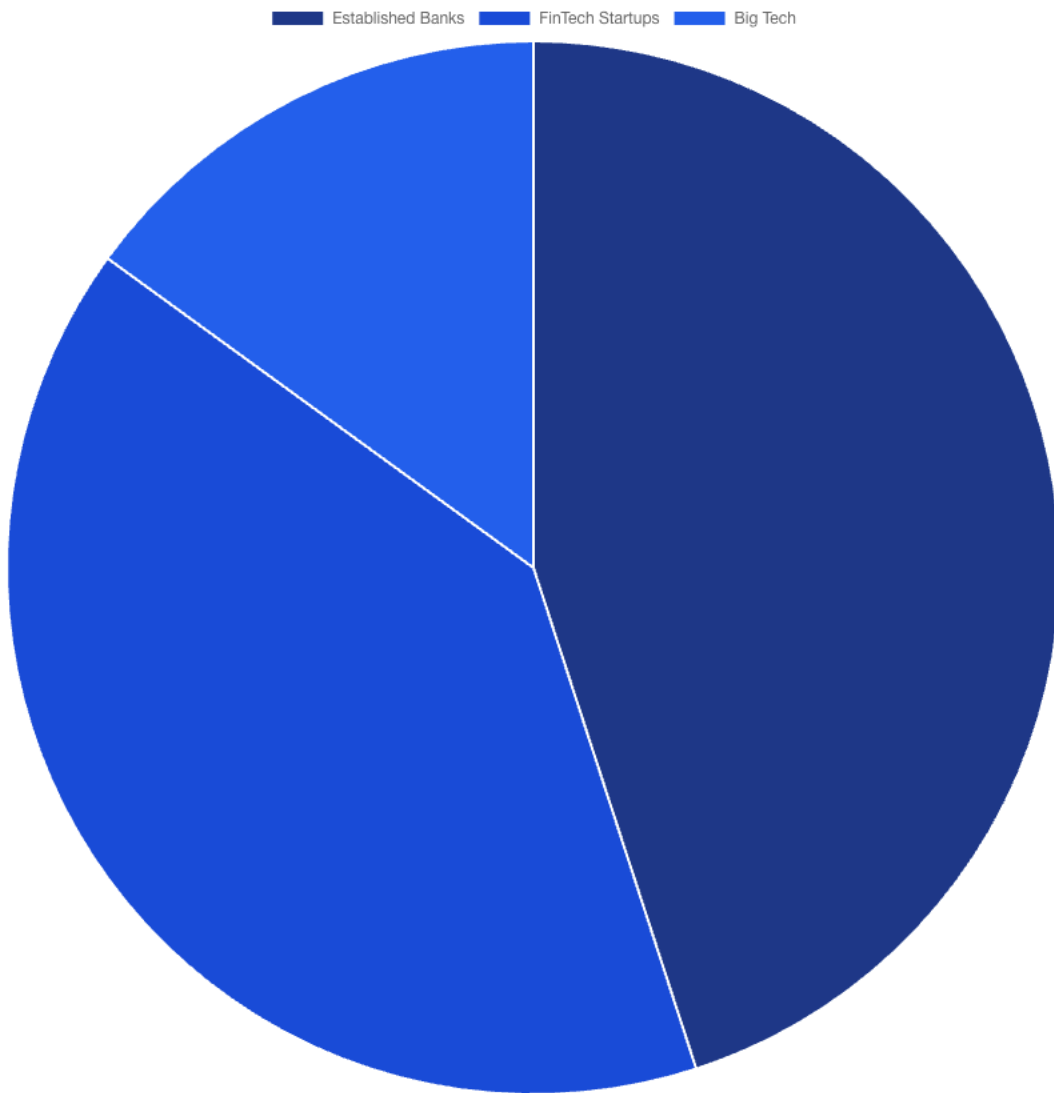
The FinTech landscape is constantly evolving, with new sectors attracting significant investment. Understanding where capital is flowing is crucial for any organization looking to make strategic investments. The following visualizations provide a glimpse into recent trends in the market.

As the charts illustrate, investment activity remains high, driven by advancements in areas like blockchain, mobile payments, and AI-driven analytics. Established firms and startups alike are competing for market share, creating both opportunities and challenges for investors.

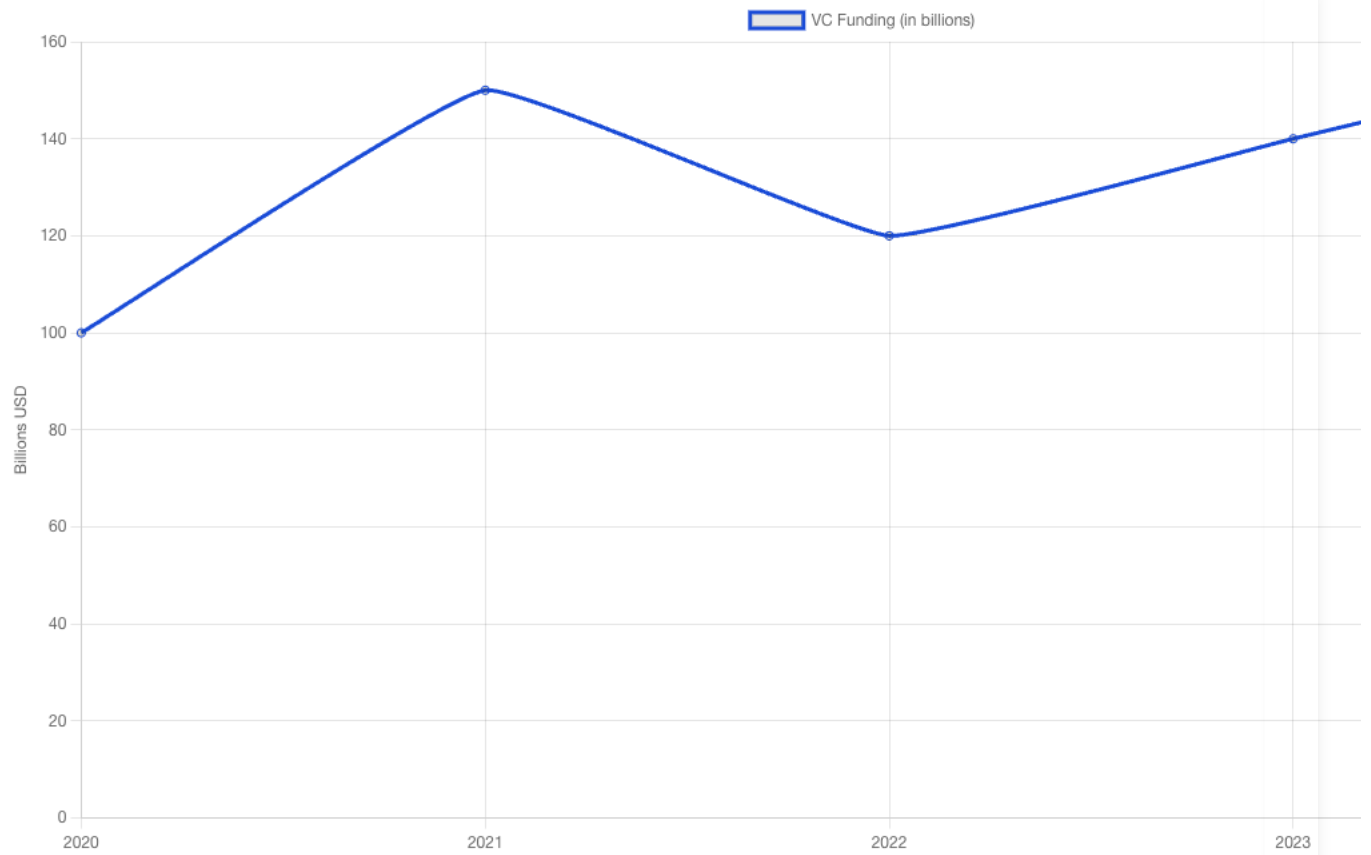
Investment by FinTech Sector (Q1 2024)



FinTech Market Share



FinTech VC Funding Over Time



General Disclosures: This material is provided for educational purposes only and should not be construed as investment advice or an offer or solicitation to buy or sell securities. Private equity investments are speculative, highly illiquid, involve a high degree of risk, have fees and expenses that could meaningfully reduce returns, and subject to the possibility of partial or total loss of fund capital; they are, therefore, intended for experienced and sophisticated long-term investors who can accept such risks.