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2030 and Beyond

An Unconventional Look at the Future of Fintech

AUTHORS:

Rakefet Russak Aminoach
Managing Partner,
Team8

Ronen Assia
Managing Partner,
Team8

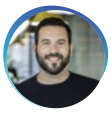
Liran Amrany
Partner,
Team8

Galia Beer-Gabel
Partner,
Team8

Hadar Siterman-Norris
Partner,
Team8

Special thanks to the following founders for their contributions to the report:

Alon Huri
Co-founder,
NEXT Insurance



Ben Borodach
Co-founder & CEO,
April

Eyal Moldovan
Co-founder & CEO,
40Seas

Gilles Gade
Founder & CEO,
Cross River

Itai Damti
Co-founder & CEO,
Unit

Jack Zhang
Founder & CEO,
Airwallex

Jordan Wright
Co-founder & CEO,
Atomic

Noam Izhaki
Co-founder & CEO,
Ballerine

Noam Mills
Co-founder & CEO,
Panax

Raz Ronen
Co-founder & CEO,
Wisor

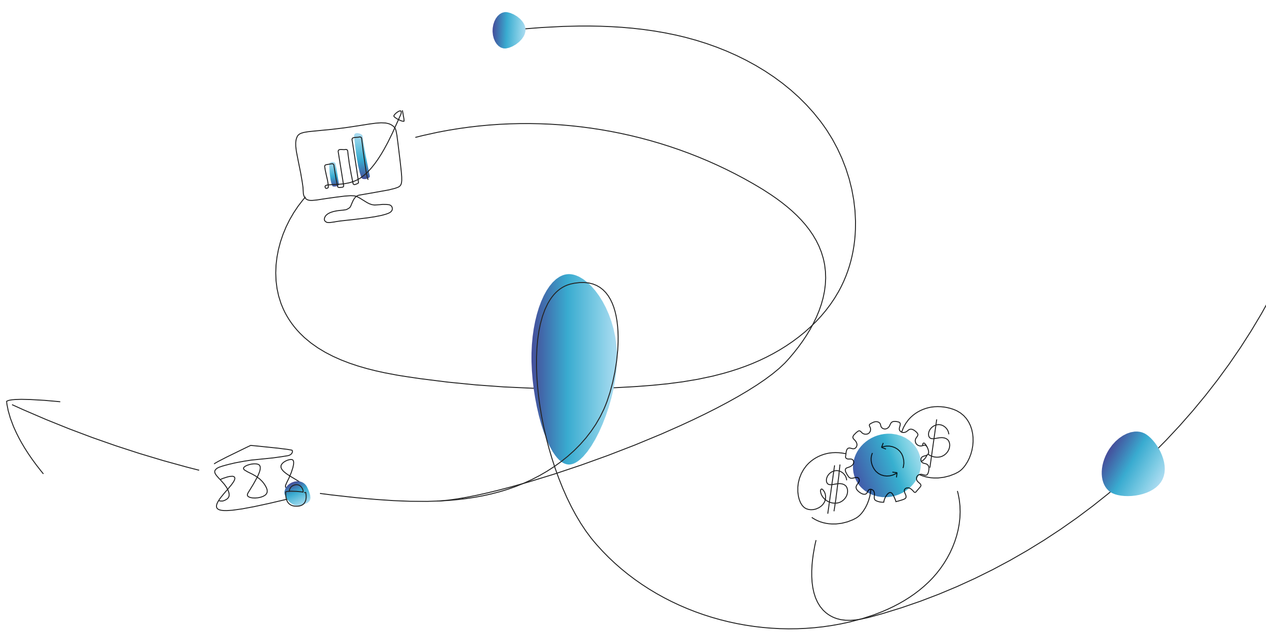
Stephany Kirkpatrick
Founder & CEO,
Orum

Team8 is a global Venture-Creation and Venture Capital Fund that creates and invests in companies focusing on Cybersecurity, Data & AI, Fintech, and Digital Health. Team8's signature Venture-Creation model is designed to identify meaningful problems, create theses on potential solutions, and build and invest in innovative companies that tackle these challenges.

Team8 leverages an in-house multi-disciplinary team of more than 80 company-builders, together with a dedicated community of global C-level executives and thought leaders. Team8 partners with world-class founders and works with them to increase the probability of success via a disciplined, repeatable process from inception through product-market fit, growth, and beyond. Team8's unique platform brings together specialized expertise across technology, go-to-market, HR, and strategy.

Team8's fintech practice is led by Managing Partners Rakefet Russak Aminoach (former CEO of Bank Leumi) and Ronen Assia (co-founder of eToro), and Partners Galia Beer Gabel (ex-PayPal), Liran Amrany (ex-JPMorgan), and Hadar Siterman-Norris (ex-Mastercard). The leadership team has extensive experience in a range of domains, including banking, insurance, credit, payments, e-Commerce, cross-border trade, capital markets, digital assets, and wealth management.

To learn more about collaborating with Team8 as a fintech founder, or to join our growing network of industry partners, please email us at info@team8.vc



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Introduction

What will fintech look like in 2030?

This is the central question that will guide Team8's decisions, on both a strategic level (for example, which sectors within financial services are most ripe for disruption?) and on a more tactical level (for example, which segments of banks in the U.S. will be most likely to invest heavily in embedded finance within the next 5 years?)

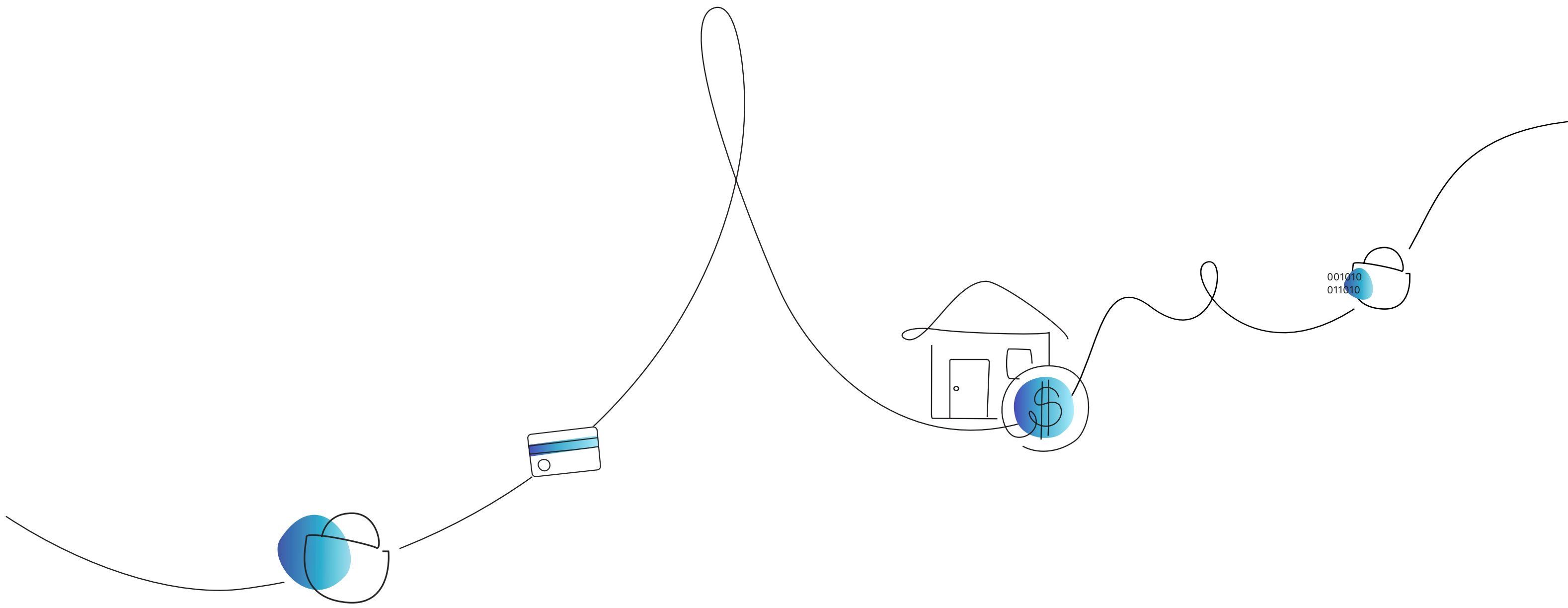
Our view into this question will be shaped by the answers to three specific questions:

1. What won't change? What do we believe are the 'immutable physical laws of the financial services universe'? And how do we think those laws will shape fintech moving forward?

2. What (likely) will change? What trends in fintech seem likely to continue or even accelerate? What opportunities will come out of those trends?

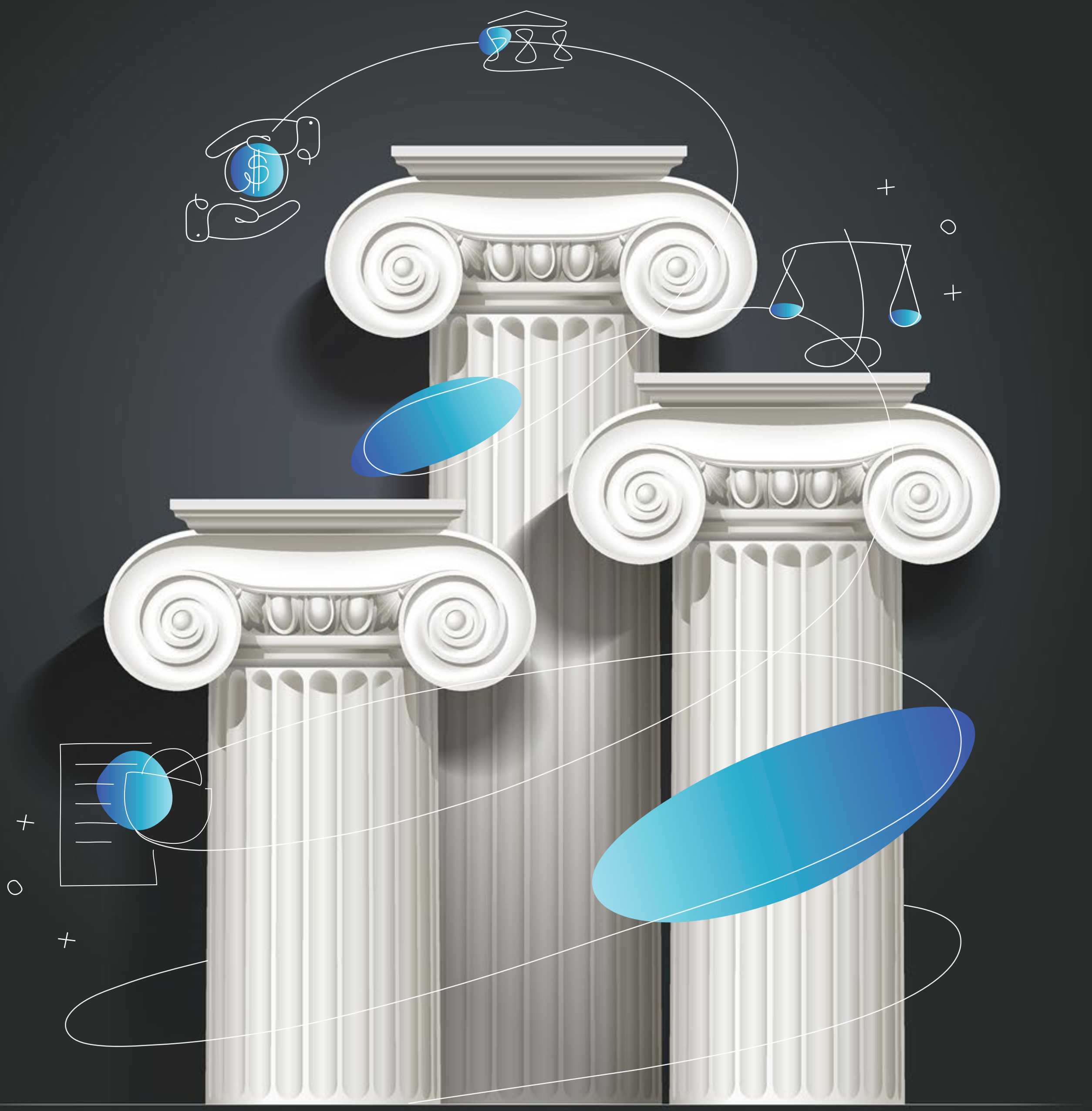
3. What could change everything? Where might we be wrong? What long-shot predictions for the future of fintech, if they came true, might change everything?

This report seeks to answer these questions and provide a window into our thinking on the past, current, and future evolution of the fintech industry.



What **Won't** Change?

A look at the immutable laws
of the financial services universe



Venture investing and startup building are long-term endeavors. Doing them well requires conviction. And conviction is difficult to cultivate when you spend 100% of your time speculating on what might change in the future.

It is much easier to cultivate conviction, the conviction to make big bets, when you start from an understanding of what won't change in the future, as Jeff Bezos explains:

I very frequently get the question: "What's going to change in the next 10 years?" And that is a very interesting question; it's a very common one. I almost never get the question: "What's not going to change in the next 10 years?" And I submit to you that that second question is actually the more important of the two – because you can build a business strategy around the things that are stable in time. ... In our retail business, we know that customers want low prices, and I know that's going to be true 10 years from now. They want fast delivery; they want vast selection.

It's impossible to imagine a future 10 years from now where a customer comes up and says, "Jeff, I love Amazon; I just wish the prices were a little higher." "I love Amazon; I just wish you'd deliver a little more slowly." Impossible.

And so the effort we put into those things, spinning those things up, we know the energy we put into it today will still be paying off dividends for our customers 10 years from now. When you have something that you know is true, even over the long term, you can afford to put a lot of energy into it."

Jeff Bezos, Founder and former CEO of Amazon

amazon

We believe that a similar exercise is an essential first step for anyone looking to invest or build in fintech.

In 2030, we believe that the following statements will still be true:

01. Convenience Always Wins

Much of the evolution in financial services over the last 50 years can be explained by this simple axiom – customers always choose the most convenient experience.

From the emergence of universal banking in the U.S., following the Interstate Banking Act in 1994, to the shift in market share to digital-only financial services providers in the 2010s and 2020s, the winners in modern financial services history are those that provide the most convenient experiences to customers.

We don't see this changing.

Why is this important?

Financial products are enablers. Customers don't get auto loans or savings accounts simply for the pleasure of having them. They get them in order to facilitate access to the things that they actually want (a new car, a pot of money to use on a vacation, etc.)

Therefore, the shortest path to a financial product will always be the path that most customers choose to go down, regardless of the risks or the preferences of market incumbents.

Startups and other market disruptors that build more convenient experiences for customers will always have an advantage.

02. You Can't Fight City Hall

There's a reason it's called regulatory arbitrage. The opportunities to exploit loopholes in laws and regulations are always temporary. Regulation moves slowly and is often focused on fighting the last war rather than preparing for the next one. However, it always comes (eventually).

And when it does, it can send shockwaves throughout an entire sector, as the crypto ecosystem has been discovering since 2021.

Why is this important?

The purpose of regulation in financial services is to foster trust. Innovation that undermines trust will always, eventually, be adversely impacted by regulation. Therefore, regulatory arbitrage as a long-term business model or product strategy is always a bad bet.

03. Cycles Always Turn

The financial services industry is defined by macroeconomic cycles. These cycles can take years to turn, but they always do. Sometimes violently, as the sharp increase in interest rates over the last couple of years has demonstrated.

The events that precipitate changes in these macroeconomic cycles are incredibly hard to predict.

Why is this important?

Startups are often built to exploit the specific conditions of the markets they are born into. This generally makes sense, but it can be catastrophically risky in financial services if the company is exploiting a market condition that we know is cyclical, regardless of the duration of the cycle.

Investors and founders have gotten rich by building companies to optimize against specific and temporary market conditions and exiting before those conditions change, but lucky timing isn't a smart or reliable strategy.

04. Financial Services Are Local

It would be incredibly efficient if, theoretically, we had a single, global financial system that allowed anyone anywhere to easily and inexpensively transact with anyone else. We have the technology to build such a system.

What we lack is the cultural, political, and economic alignment necessary to get the governments of every country on Earth on board with this idea. We see this lack of alignment worsening, not improving, in the years to come.

Why is this important?

Many of the challenges and opportunities in financial services stem from the fractured and highly divergent global financial infrastructure that we have today. We do not expect this to change anytime soon.

05. Incumbents Aren't Going Anywhere

Fintech has and will continue to present a significant competitive threat to market incumbents.

However, incumbency in financial services is different from less regulated industries. It's stickier, harder to displace, and significantly more profitable - largely because financial institutions enjoy economies of scale and consumer trust.

Why is this important?

Taking market share from incumbents in financial services requires a very specific set of conditions (low interest rates, constraining regulations for incumbents, etc.), which we just experienced over the previous decade.

This was a historical aberration. And yet, the incumbents are still stronger than ever.

More commonly, the opportunities to partner with and sell to incumbents vastly outstrip the opportunities to replace them wholesale. We expect fintech to increasingly pursue these collaborative opportunities in the years to come.

06. Fraud is Omnipresent in Financial Services

Wherever there is money being exchanged, there will be fraudsters attempting to steal it. This is as close to a universal maxim as there is in financial services.

Fraud is best thought of as a business, which means that fraudsters are always going to attempt to optimize their ROI. They are most likely to go after softer targets - primarily fintech companies that are focused on reducing friction for growth or who allocate smaller budgets to fighting fraud. It also means that fraudsters will always be early adopters of any technology that can give them an edge over businesses and consumers.

Why is this important?

Fraud will never not be a threat to any company that chooses to provide financial services to businesses or consumers. This is especially true for startups, which fraudsters rightly see as more vulnerable prey.

However, this also means that the market for solutions to prevent or mitigate the impact of fraud will always be massive. Additionally, because fraud attack vectors are always evolving and adapting, the need for new solutions will always be urgent.

What (Likely) Will Change?

An exploration of the trends that are most likely to accelerate in the near term

With our foundation now firmly established, we can turn our attention to the areas within financial services that seem likely to change between now and 2030.

What we look for are trends where the available evidence, in 2023, is sufficient to give us confidence, but not so overwhelmingly obvious as to commoditize the opportunity.

01. Bank Tech Gets an Upgrade

Large fintech companies won't be the only beneficiaries of this wave of rebundling and consolidation.

Banks will benefit enormously from the infusion of fintech-quality technology into their existing products and channels.

This infusion will happen through a few different mechanisms:

BANK-FINTECH PARTNERSHIPS

While not a new concept, the ability for banks and fintech companies to build productive, mutually beneficial partnerships and for banks to directly procure technology solutions from fintech infrastructure companies has massively improved thanks to banks' investment in specialized VC funds and startup accelerators. Through these mechanisms, banks have been able to source new fintech relationships, and fintech companies have been able to learn how to partner with and sell to banks.

BANK ACQUISITIONS

Often an outgrowth of fintech partnerships, bank acquisitions of fintech companies are becoming increasingly common as banks' boards and executive teams become accustomed to forward-looking tech valuations and as fintech companies become more desperate for exits.

BANK TECH VENDOR ACQUISITIONS

The legacy vendors that provide products and services to banks will, at the right price point, view fintech acquisitions as a cost-effective way to upgrade their technology, preserve competitive advantages, or, at the very least, import new talent into their organizations. We are already starting to see such acquisitions among the core banking system vendors and the card networks.

The Opportunity

A similar orchestration opportunity will present itself within banking, as banks work to solve the integration challenges caused by fintech partnerships and acquisitions.

Additionally, we see a massive opportunity for embedded fintech – customer-facing fintech products and experiences that are designed to be embedded within banks' existing products and distribution channels.

CASE STUDY

The Embedded Tax Opportunity

An opportunity that we're excited about, within the world of embedded fintech, is tax planning and filing. April, a Team8 portfolio company, has built a tax engine that automates the tax filing process, optimizes tax refunds, and provides users with personalized, actionable tax insights to help them make smarter financial decisions all year round. It can be embedded into any third-party platform to help fintech companies and financial institutions broaden their offerings to include tax-as-a-service.

Incumbents have long tried to boil the ocean, expanding into new verticals without actually solving for customers' unique needs. Personalization is increasingly becoming the key differentiator. Tax is uniquely integrated into the financial lives of American households - embedding intelligent tax software in existing banking apps unlocks their ability to tailor experiences that improve financial decision-making for customers year-round. The branch is no longer the moat; leveraging personal finance data will enable today's financial apps to understand their customer better than any banker at a branch ever could."

Ben Borodach,
Co-founder & CEO of april

april

02. Embedded Finance Spreads Out

Speaking of distribution opportunities, we continue to see embedded finance – the placement of financial services within non-financial apps, products, and experiences – as a major growth opportunity.

Obviously, the concept of embedded finance isn't new. Indeed, it has become a bit of a cliched term in fintech circles. Everyone knows that the airlines, automobile dealerships, and Starbucks are all really banks in disguise.

However, we believe that the full potential for embedded finance is still misunderstood.

As we said at the top – Convenience Always Wins – and embedded finance represents the platonic ideal for how distributing a financial product or services should work (highly personalized and delivered in exactly the right place and at the right time).

The Opportunity

The initial land rush in embedded finance has happened in the areas where it is easiest to do the embedding – vertical software companies (think of companies like Toast, Mindbody, and Shopify).

However, the value of embedded finance doesn't stop where the easy integrations end, and, in fact, much of the value left to be unlocked in embedded finance rests in the less-easy-to-get-to corners of the market, such as brick-and-mortar small businesses, non-profits, and local government.

> *The last 10 years in fintech were about "pure play" fintech companies, like Chime and Lending Club. The next 10 years will be very different: thousands of software companies - small and large - are starting to offer embedded financial services. We're seeing this with Shopify and online sellers, Toast and restaurants, GlossGenius and beauty salons or ZenBusiness and newly formed small businesses. With the availability of lending and banking infrastructure that makes it simpler to launch, this trend will only accelerate.*

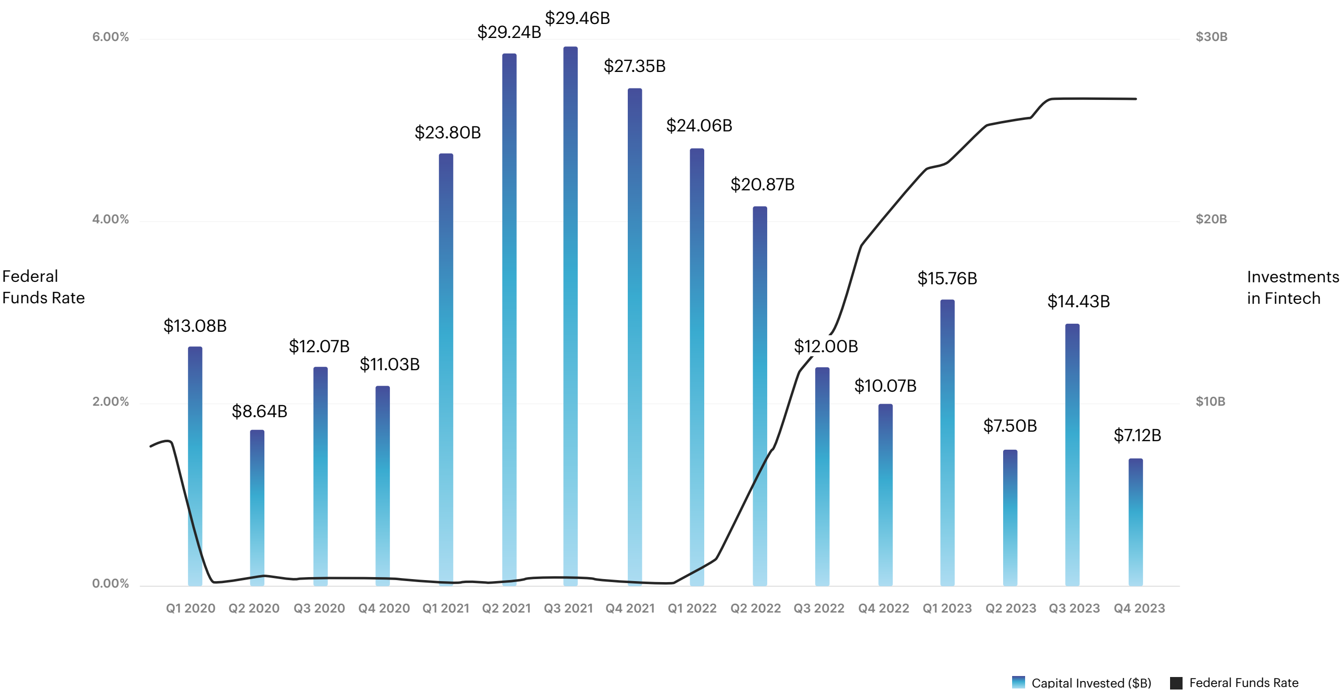
Itai Damti, Co-founder & CEO of Unit

03. Rebundling & Orchestration

After experiencing record levels of funding in 2019, 2020, and 2021, the fintech industry has cooled down.

An unprecedented increase in interest rates and crashing tech valuations (public and private) have led to a significant slowdown in venture capital deployment.

Federal Funds Rate vs. Capital Invested in Fintech 2020-2023



The impact of this slowdown has been a renewed focus on two fronts:

1. **Profitability.** The previous fintech era prioritized growth over everything. This led to a wave of unbundling, as startups built wedge products to attack every bank business line. The current era of fintech – which started well before 2022, but has accelerated significantly since then – is prioritizing strong unit economics and a quick path to profitability, prompting a shift back to rebundling and cross-selling.

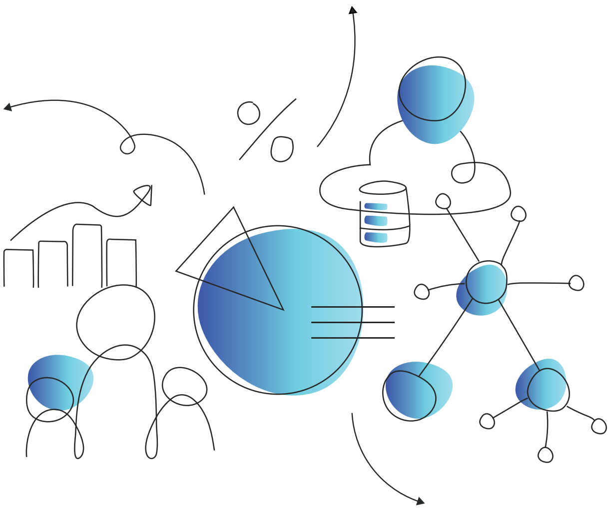
2. **Cash Management.** Interest rates have risen dramatically and become more volatile over the past two years, and even large banks have been susceptible to failure. Today, one wrong decision or unforeseen event could risk the entire viability of a company due to issues completely unrelated to its core business. However, when managed properly, corporate treasuries can extend a company's runway and boost their profitability. In this new macro environment, how you manage your treasury can no longer be an afterthought for startup founders.

The Opportunity

There has been a proliferation of point solutions to address both of these issues. Rebundling financial products can require new integrations with bank partners, issuer processors, trading platforms, payment processors, and lending platforms, not to mention various fraud, kyc/kyb, and data tools. To help companies manage treasury, we've seen new solutions that offer spend management, cash management, accounts payable and/or receivable tools, investment optimization, financing, dynamic hedging, and more.

The engineering work associated with bundling together multiple products (including those sourced from third-party partners) and integrating newly acquired products into a company's technology stack is not insignificant. In fact, it is often prohibitive.

We believe there will be a significant opportunity for orchestration platforms that abstract away the technical complexities and custom engineering work required to build such integrations, representing a valuable category of infrastructure investment.



CASE STUDY

The Liquidity Abstraction Layer Opportunity

Panax is a cutting-edge treasury platform for finance teams. At its base, Panax provides customers with complete cash flow management abilities, including full visibility across all types of accounts and the ability to seamlessly connect diverse financial data sources, without requiring multiple integrations. Panax's longer term vision is to go beyond cash flow management to become an "abstraction layer" for all things related to a business' liquidity - bringing together visibility, automated insights, forecasting, reporting, and the ability to take actions across all types of accounts and financial products. The goal is not just to solve the problem of increased complexity that finance teams are facing due to the proliferation of point solutions, but to truly create additional value from the integration of multiple products used by modern finance teams, in a way in which the sum is greater than its parts.

The sharp increase in the number of financial products used by finance teams creates an immense need for a solution that enables companies to gain a holistic view of cash, make informed decisions that optimize capital efficiency, and execute these decisions easily. Our goal is to enable finance teams to enjoy the best-of-breed financial product offerings that are out there without the complexity of managing dozens of "cash pockets."

Noam Mills, Co-founder & CEO of Panax

panax

04. Interoperability Across Countries

While we believe that our earlier statement – Financial Services Are Local – is true and will remain true for the foreseeable future, we do not believe that this reduces the need for global financial services infrastructure. Quite the opposite!

In an increasingly interconnected world, the fractured and highly manual nature of global payments represents a big opportunity. Today, no global payments rail has 100% coverage, and the existing infrastructure to facilitate cross-border payments (the Society for Worldwide Interbank Financial Telecommunication or SWIFT) is cumbersome and expensive.

This is beginning to change thanks to the combination of new infrastructure (payments facilitation, regulatory compliance, fraud prevention, etc.) specifically geared to cross-border use cases and global software solutions that can unify processes and workflows for users across countries and provide an intuitive place to embed payments and other financial services.

The recent integration of India and Singapore's digital payments systems, UPI and PayNow, to enable instant and low-cost cross-border fund transfers (which today total more than $1 billion a year) is an excellent example of how advances in infrastructure will unlock new value creation opportunities.

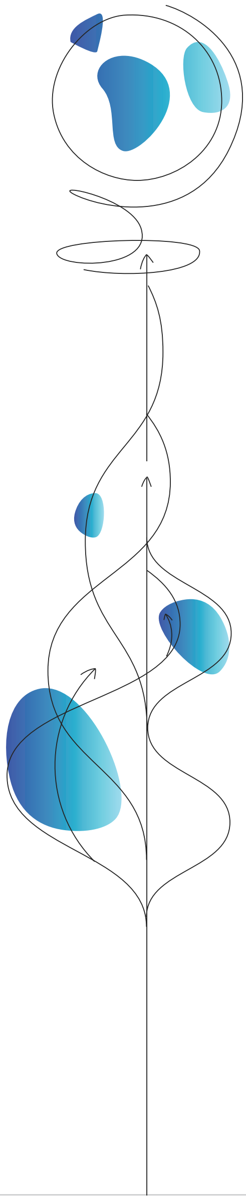
The Opportunity

As businesses (even startups) become global by default and international migration continues to grow, the need for more interoperability in financial services between countries will continue to grow as well.

We believe that the most interesting opportunities in this space will come from a combination of cross-border software products (both vertical and horizontal) and modern payments, compliance, and risk management infrastructure.

In an era where businesses are going global first and both fintech and non-fintech enterprises alike are prioritizing the development of cutting-edge AI-driven solutions over building extensive financial infrastructure, the demand for a robust fintech partner with extensive regulatory coverage and adaptable technology has never been greater. We recognize the critical importance of delivering operational efficiency through both our own capabilities and partnerships that can tackle today's challenges and tomorrow's demands.

Jack Zhang, Co-founder and CEO of Airwallex



05. New Infrastructure to Build Upon

A great deal of value in financial services has been created by building products and services to make legacy infrastructure work better.

Take payments as an example. Much of the payment infrastructure in the U.S. and around the world was built decades ago. It's incredibly robust (handling trillions of dollars in transactions a day), but it's also slow. In order to make it faster, companies will take on a great deal of risk, crediting funds ahead of settlement and dealing with fraudsters. These companies get paid for the risk they take on.

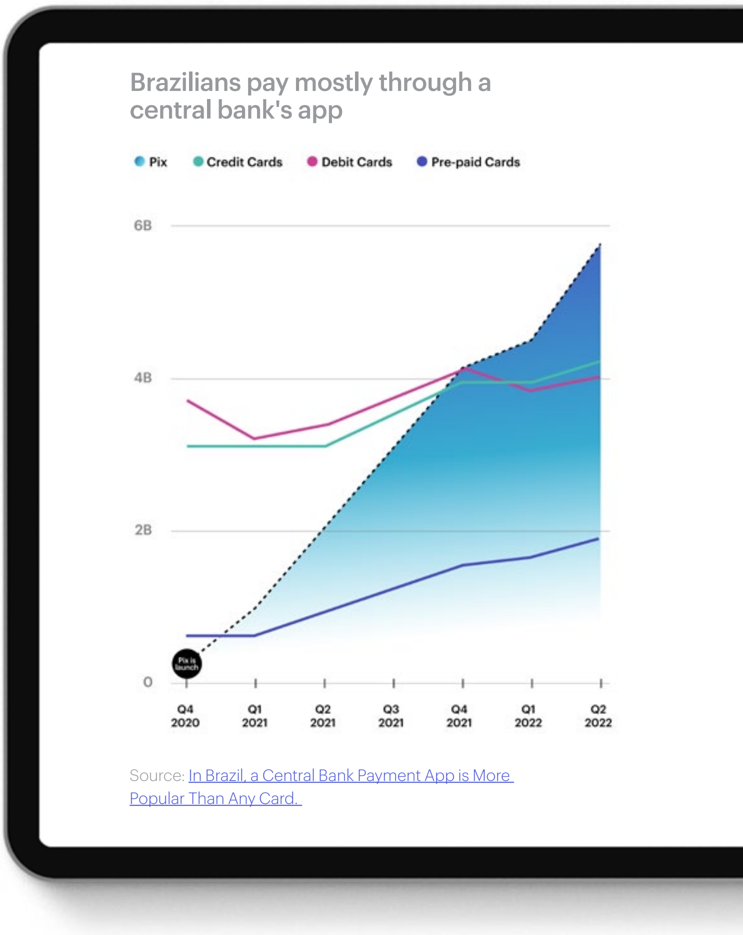
We believe that much of the value that has been wrapped around legacy payments infrastructure will disappear by 2030, thanks to the development and adoption of new payment rails.

Two specific areas stand out:

1. **Faster Payments.** The U.S. is finally poised to move to real-time payments thanks to the introduction of FedNow, the first new payments infrastructure created by the Federal Reserve in the last 50 years. Unlike the ACH network, FedNow is being designed, from the start, to be a platform for third-party developers, which means that we should see rapid growth in the products, services, and experiences that get built on top of FedNow once it reaches ubiquity.
2. **Stablecoins.** Dollar-backed stablecoins represent a fast, interoperable, and programmable alternative to the legacy payments systems that currently dominate use cases like cross-border payments, B2B payments, and supply-chain finance. Large and sophisticated market incumbents like JPMorgan Chase, Visa, and PayPal are currently experimenting with various stablecoins for these use cases, which gives us confidence in their long-term viability.

The Opportunity

New infrastructure creates "gradually, then suddenly" opportunities for market disruptors that are ready to pounce when that infrastructure reaches ubiquity. The rapid growth of Pix, an instant payments system created by the Central Bank of Brazil, is a good example:



Source: [In Brazil, a Central Bank Payment App is More Popular Than Any Card.]

Within the next seven years, we see both real-time payments networks like FedNow and stablecoins reaching sufficient levels of adoption (at least within specific customer segments) to unlock significant new B2C and B2B opportunities.

Time to money needs to advance from the magnetic tapes age – the 1970s when ACH was born – to the modern age. FedNow presents a massive opportunity to enable that leap, so consumers and businesses don't have to wait hours or days to move and access their own money. Real-time payment and instant access will speed up how workers get wages and salaries, businesses operate, bills are paid, money is invested, and what we all pay for banking services. It will not be overnight, but hopefully we achieve faster, frictionless, and fraud-free payments for as many people as possible, as soon as possible."

Stephany Kirkpatrick,
Founder & CEO of Orum

06. Fintech Finally Comes to B2B

Innovation starts with consumers and, over time, ripples backward into the business ecosystem as employees demand that their employers adopt the technology that they have become accustomed to in their personal lives.

This is why, for example, we have seen significantly more fintech innovation in the B2C payments space ($52 trillion global TAM) than in the B2B payments space ($125 trillion global TAM). Case in point, approximately 50% of non-cash B2B payments are still made with checks compared to less than 10% for B2C.

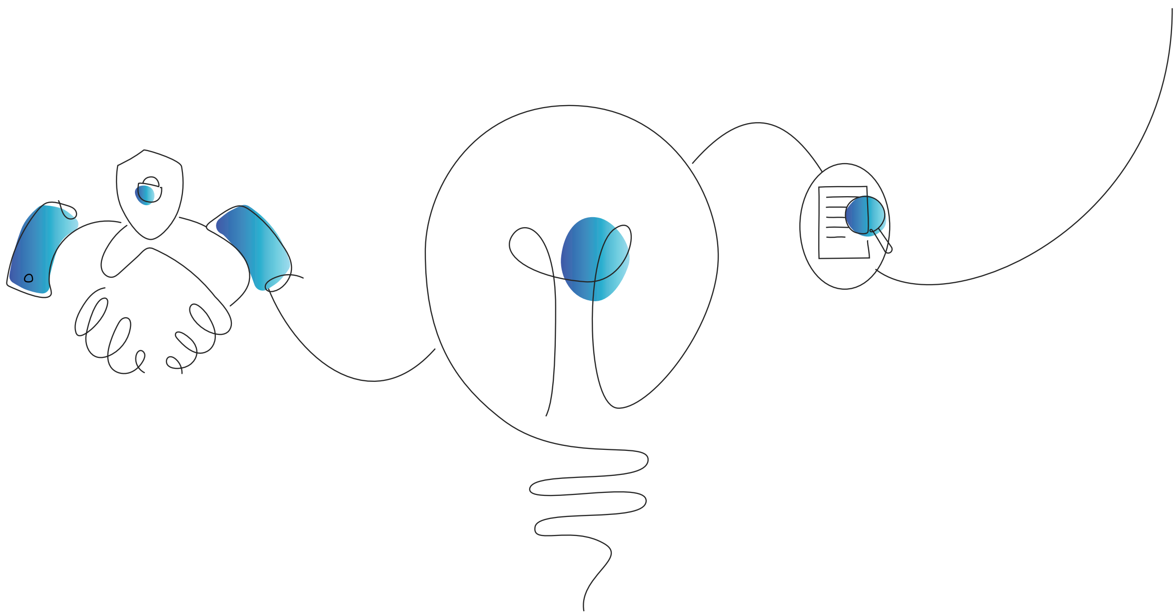
Today, we are finally starting to see fintech rippling back into B2B, solving problems across four different value drivers:

1. **Speed.** Cash flow is central to the health of any business, and the speed at which payments are collected, loans are disbursed, and insurance claims are paid out have an enormous impact on the amount of money that a business has at any one time.
2. **Certainty.** The strategic importance of accounting and forecasting is to give businesses a clear understanding of their financial situation and the confidence to make resource allocation decisions based on that understanding.
3. **Cost.** Companies have a number of different infrastructure options to choose from, and those choices can strengthen or weaken a company's unit economics. Take payments as an example. It can cost anywhere from $4 to $20 to process a check, compared to a range of <$1 to $10 per ACH transaction, and anywhere from 1% to 3% of the transaction amount to accept a credit card.
4. **Return on Assets.** By optimally leveraging all financial assets (invoices, recurring revenue streams, payment terms, etc.), companies can drive additional revenue.

The Opportunity

Nowhere are the value drivers above more impactful than in the world of cross-border trade. The global supply chain is rife with slow payments, uncertain timelines, expensive foreign exchange, and difficulty underwriting trade partners located in different jurisdictions leading to even more limited working capital finance options. Small and medium businesses are especially affected, as they don't have the resources or access to some of the financial tools that are readily available to large enterprises.

As global trade continues to grow, the need for B2B solutions in this space will only increase. Global trade represents a huge market where fintech has been so far slow to innovate. We think this will change in a big way, with room for multiple new cross-border fintech companies to build large, enduring businesses solving these problems.



CASE STUDY

The Mid-market B2B Global Supply Chain Opportunities

40Seas, a Team8 portfolio company, provides a useful example of how verticalized fintech platforms are being deployed for SMBs engaged in cross-border trade. Importers and exporters that operate in separate countries must overcome a number of pain points - including payment friction and capital constraints - in order to profitably engage in global commerce. 40Seas offers a digital B2B payment portal that can be seamlessly integrated or embedded into checkout flows, and a data-driven, trade-financing platform that makes it faster, easier, and cheaper for supply chain companies to access working capital, improve cash flow, and achieve better forecasting capabilities.

When it comes to facilitating cross-border transactions and trade financing for SMEs, legacy finance institutions don't have the bandwidth to analyze companies at a granular level, leaving SMEs at a significant disadvantage. By rapidly analyzing vast volumes of financial data, AI can be put to work to scalably verify creditworthiness, assess risk, and process financing much more efficiently than traditional banks. Over the next five years, the global trade ecosystem will benefit greatly from more sophisticated and robust cross-border payment and trade financing tools. We may see further integration of smart contracts and CBDCs (Central Bank Digital Currencies) within the cross-border payment space to reduce cross-border payment friction and alleviate global supply chain fragmentation."

Eyal Moldovan, Co-founder & CEO of 40Seas

CASE STUDY

The Mid-market B2B Global Supply Chain Opportunities

Wisor, another Team8 portfolio company operating at the intersection of fintech and the global supply chain, is leveraging AI to modernize the freight industry. Their platform automates the process of quoting and booking shipments by aggregating pricing data from global suppliers and continuously optimizing shipping routes and prices - even after bookings have been placed. By making the entire process much quicker and more efficient, Wisor allows freight forwarders to accelerate lead times and do more business, while simultaneously improving their margins. The digitization of routing, pricing, and quoting presents an opportunity to offer further fintech innovation by offering value-added financial services, such as payments, financing and insurance, directly on the digital platform.

The intricate supply chain encompasses a myriad of factors and suppliers, posing challenges both on the operational side and on the financial side. Wisor is focused on both streamlining freight operations, with its next-gen quoting and booking solution, and on streamlining accessibility to financial solutions (payments, collections, transfers, etc) within a unified platform, seamlessly integrating them into the shipping process."

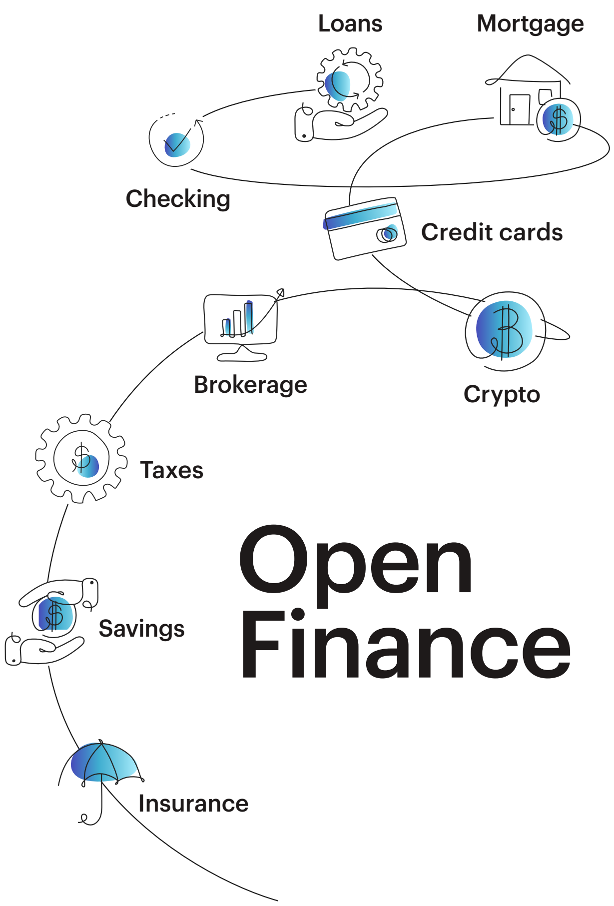
Raz Ronen, Co-founder & CEO of Wisor

07. Power to the Customer

Open finance – the ability for consumers to share their financial data in order to unlock better products, pricing, and experiences – is a trend that has been slowly building in the U.S. for the last couple of decades.

This slow build, which has been accomplished through the work of private data aggregators like Plaid and MX, has been a blessing for the fintech industry. It has allowed data aggregators and fintech companies to test out a wide range of different use cases, across a multitude of different product and data types.

By contrast, most other countries that have moved towards an open financial ecosystem have done so via regulation, which has the benefits of standardization and ubiquity (everyone, including banks, is required to play by the same set of rules), but also a significant downside – a narrow scope (usually just covering deposit data and payments).



The U.S. market's more expansive definition of open finance is about to be codified into regulation, as the CFPB has finally proposed its rules for data sharing via Section 1033 of the Dodd-Frank Act. These rules, which will start with a narrow focus and expand over time, will significantly improve the reliability and general performance of financial data sharing between banks and non-banks.

The Opportunity

A fully actualized open financial ecosystem will lead to a dramatic increase in competition for the best customers, as new services (direct deposit switching, automated loan refinance, etc.) are built to help those customers automatically find and acquire the best products.

Powering this new era of competition will be an entirely new open finance data and technology stack, which will compete with and eventually replace much of the legacy bank data and technology stack.

And given that the legacy bank data and technology stack is made up of enormous and highly profitable incumbents like Equifax, Experian, and FICO, we believe this new infrastructure opportunity will be significant.

As we embrace open finance in the US, it's about creating a simpler, more connected financial experience. At Atomic, we're excited to be a leader in this evolution, enhancing paycheck access and streamlining subscriptions. With the CFPB shaping new data sharing rules, we're moving towards a financial ecosystem that's more open, competitive, and centered on the customer. This shift is not just changing how we interact with financial data; it's a significant chance for Atomic and others to develop a new open finance data and technology stack, driving innovation and empowering customers beyond traditional systems."

Jordan Wright, Co-founder & CEO of Atomic

atomic

08. B2C Fintech Pivots Toward Lending

It is extremely difficult to make money in financial services without lending. And yet, this is, for the most part, what B2C fintech companies have been trying to do for the last 10-15 years.

Why?

Lending is operationally complex, especially when there aren't a lot of partner banks that are familiar with how to support a third-party origination model. It's a minefield of fraud and compliance risks. And it generally takes a long time to pay off.

For fintech companies in 2019, it was probably more of a hassle than it was worth.

Fast forward to 2023 (and beyond), and it's an absolutely essential ingredient to a sustainable B2C business model, which is why we are beginning to see the largest neobanks and other non-lending B2C fintech giants like Cash App start to dip their toes into lending.

The Opportunity

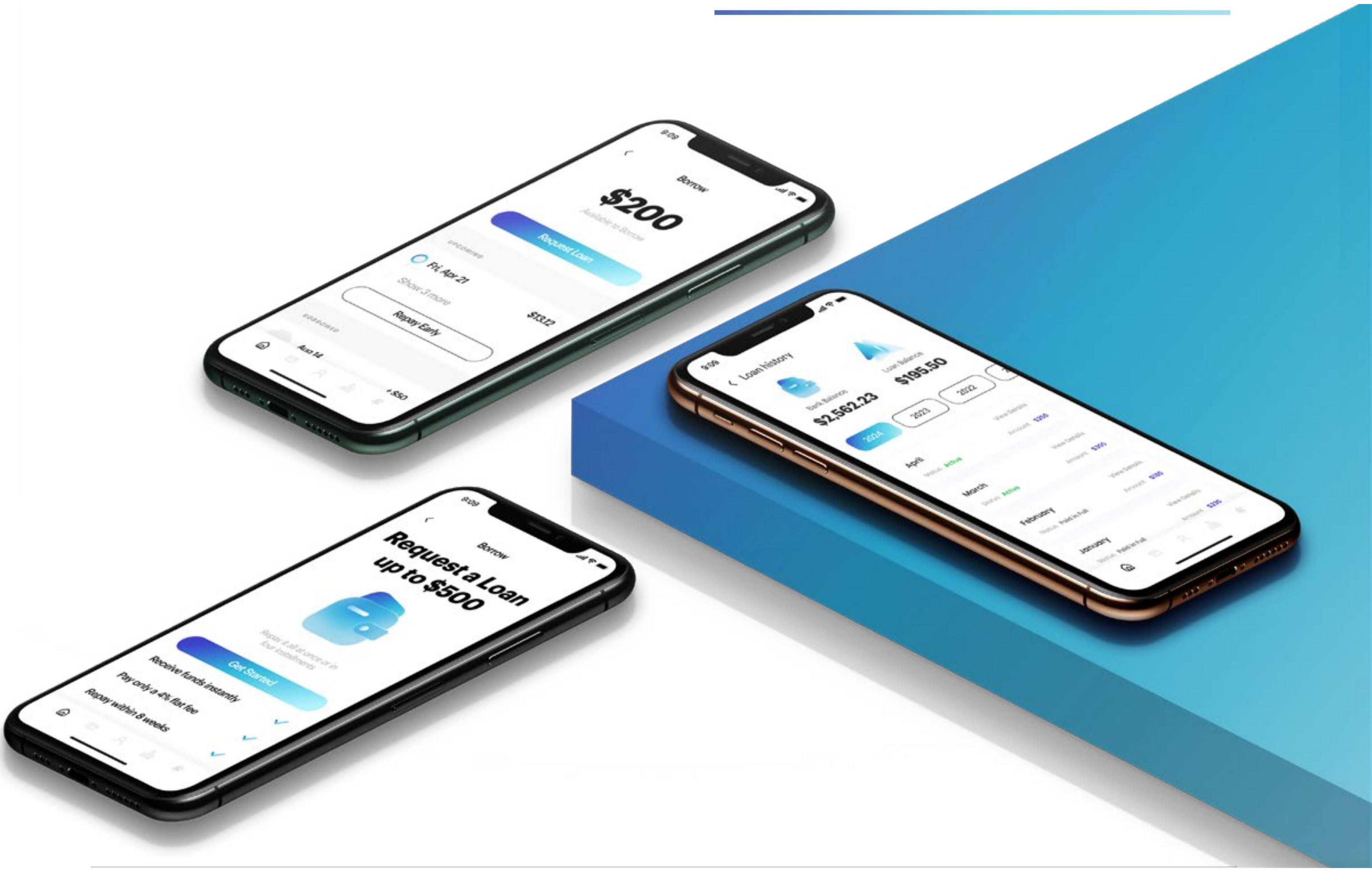
As B2C fintech companies take their first meaningful steps into the lending space, the opportunities to help them succeed will be immense.

Lending-as-a-Service providers (both partner banks and middleware platforms) will become more popular with smaller, less experienced fintech companies that are looking for a fast time to market. More sophisticated fintech companies will turn to new infrastructure providers for help building out their stacks in important-but-boring areas like loan servicing, collections & recovery, and debt capital management.

The lending landscape has fundamentally changed—technology companies and merchants can now tap into a full suite of services from origination to capital markets solutions all in one place. Companies with rigorous regulatory compliance and risk management practices are well positioned to own the entire loan lifecycle and lead the market into the next wave of banking."

Gilles Gade, Founder & CEO of Cross River

cross river



09. Big Tech Barges In

For the last couple of decades, most innovation in financial services has been characterized by an emphasis on manufacturing – building better products for consumers and businesses.

However, we believe that the next wave of innovation in financial services will be centered on the distribution side.

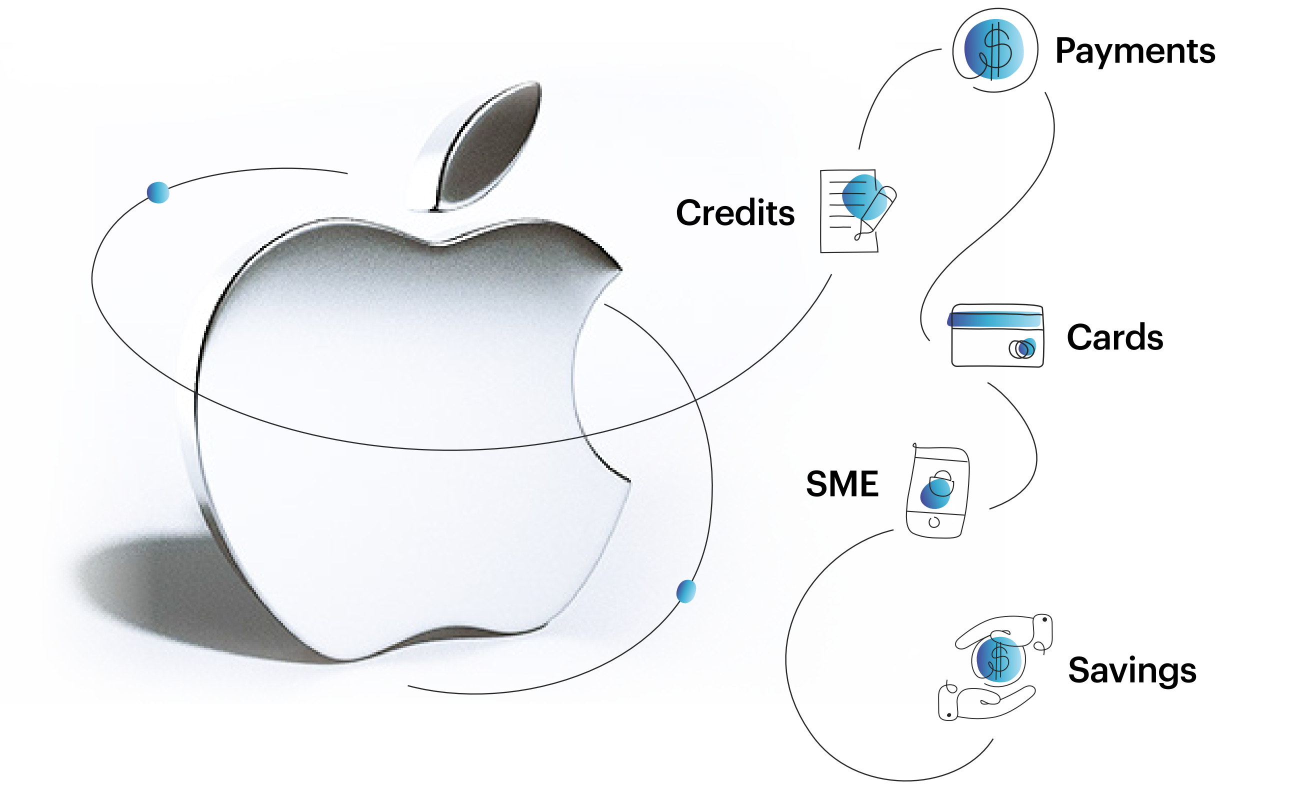
This is already beginning to manifest itself in a few different ways. One of the more visible ways is the intrusion of big tech companies (Apple, Google, Amazon, etc.) into the financial services industry. These companies possess massive scale and view financial services as both an opportunity to strengthen their core businesses (advertising, selling hardware, etc.) and to create a meaningful source of supplementary revenue.

The Opportunity

Big tech companies represent a particularly dangerous threat to incumbents that have already achieved a significant distribution advantage through their scale. Think of the big banks and the card networks.

As these behemoths battle it out (and attract intense regulatory scrutiny in the process), opportunities are created for smaller players and startups to counterposition against them. For example, as Apple moves further into the world of digital identity and ID verification, there will be a compelling case that can be made for a more decentralized digital identity management solution, which can be sold to banks and regulators as a necessary hedge against Apple's monopolistic tendencies.

Right or wrong, big tech is an effective punching bag. Clever fintech founders will see this as an opportunity.



10. Compliance Becomes a Competitive Differentiator

Building upon our conviction – You Can't Fight City Hall – we see a meaningful shift coming in the ways in which regulators engage with fintech. In a direct sense, this looks like the Consumer Financial Protection Bureau (CFPB) ramping up its supervision and enforcement of nonbank service providers that it deems risky. In an indirect sense, this looks more like prudential bank regulators (Federal Reserve, Office of the Comptroller of the Currency, etc.) modernizing their approaches for regulating banks' third-party relationships, including and especially the novel relationships that they have with fintech companies.

The effects of this shift will be profound. Compliance is transforming from a check-the-box exercise to a strategic imperative. For banks that provide banking-as-a-service capabilities, robust regulatory compliance is now a must-have if they hope to land quality fintech partners. For fintech companies themselves, there is a growing recognition (especially among experienced founders) that it's simply less expensive to invest in compliance from the start rather than waiting for the inevitable axe to fall and doing it (and the associated remediation work) after.

The Opportunity

As fintech companies and the banks that they work with (community banks, primarily) begin to see compliance as a competitive differentiator, their tolerance for investing money in their compliance programs will go up. Some of this investment will go into staffing (the next 5-10 years will be a great time to be a Chief Compliance Officer who is conversant in fintech), but a lot of it will go into technology.

We see a big opportunity in the compliance and regtech infrastructure space, running the gamut from first-line detection and case management to third-line testing and assurance.

We also see an intriguing opportunity for fintech infrastructure to help government agencies and regulators directly, by upgrading their tech stacks and enabling them to keep pace with the companies under their jurisdictions.

CASE STUDY

The Compliance Infrastructure Opportunity

An excellent example of the opportunity to help solve compliance and risk challenges for any company with a financial service integrated into their value chain is Ballerine, a Team8 portfolio company that has built a global risk and compliance orchestration platform for banks, fintech companies, and other providers who are looking to service small and medium-sized businesses (SMBs) at scale. Ballerine's founding team – who worked together at a digital bank and gained first-hand knowledge about the many challenges of building in-house risk systems – built a solution that provides developers and risk managers with maximum control over compliance infrastructure for onboarding, verifying and monitoring customers with a single integration, allowing them to pick and choose risk "building blocks" from a marketplace of vendors on the Ballerine platform, ensuring they meet global AML regulations and card scheme compliance.

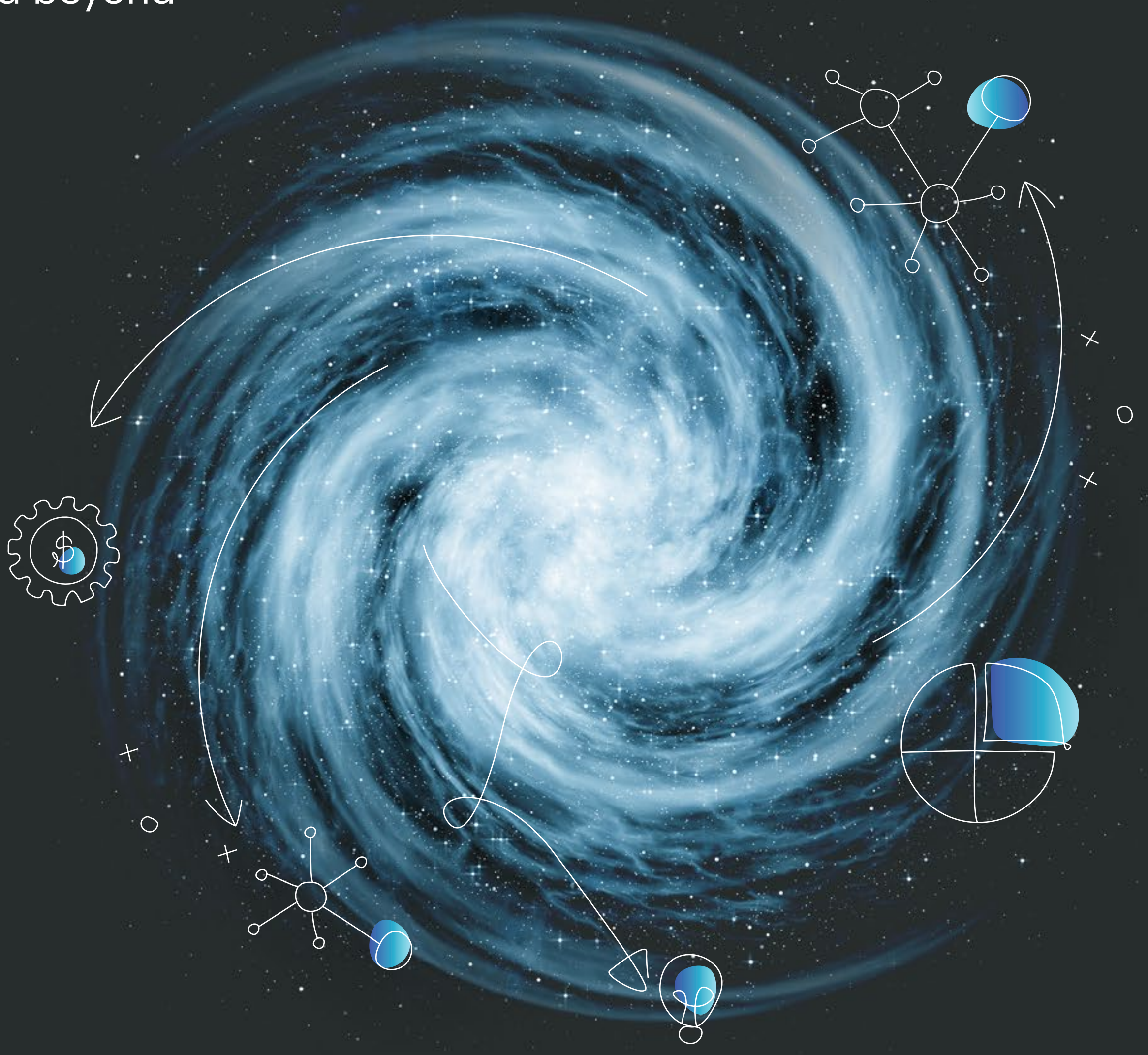
Understanding and managing risk and compliance is a critical cornerstone for the financial services and fintech industry, as it ensures not only the stability and reliability of these sectors but also builds trust with customers and regulators. This is why we are passionate about assisting payment companies, fintechs, banks, and marketplaces by orchestrating their risk and compliance needs into a modular platform that can be customized for any geographical and specific use case. We are proud to partner with our clients, helping them to serve their SMB customers at scale in both developed and emerging markets across the globe."

Noam Izhaki, Co-founder & CEO of Ballerine

Ballerine

What Could Change **Everything?**

Our long shot predictions for 2030 and beyond



While we seek to ground all of our decisions in a realistic understanding of what won't change and what is likely to change within the next 5-7 years, we would be remiss if we didn't spend a little time considering a few predictions for the future that, while unlikely, would have the potential to dramatically alter the financial services landscape if they did occur between now and 2030.

We find the exercise of thinking through these 'long shot' predictions to be a useful hedge against complacency and a way to challenge our own thinking on what will and won't happen in an increasingly unpredictable world.

01. Climate Concerns Reset Incentives in Financial Services

PREDICTION

Consumers' concerns regarding climate change and the environment lead to a significant realignment in incentives for businesses and financial services providers.

How We Could Plausibly Get There

While it seems increasingly likely that the worst possible outcomes from climate change – global temperatures rising 4 – 5 degrees Celsius above preindustrial levels by the end of this century – are unlikely to occur, thanks to the rapid adoption of clean energy technology and falling carbon emissions in the U.S. and Europe, it is likely that global temperatures will increase at least 1.5 – 2 degrees Celsius above preindustrial levels during that time span, which would still lead to severe consequences for people around the world (which we are already starting to see take place).

This crisis has motivated significant action in both the U.S. (the 2022 Inflation Reduction Act represented the largest investment in clean energy in U.S. history) and around the World (The Paris Agreement set aggressive carbon reduction goals for almost all nations on Earth). It has also driven increasing awareness of the problem among consumers and motivated them to take more meaningful action to combat it.

The implications for financial services providers could be significant.

For example, according to a survey from Cornerstone Advisors, at least one-third of all U.S. consumers are very interested in checking accounts with the following features:

- Rewards for purchases made from environmentally-friendly brands.
- Debit cards made from renewable or upcycled materials.
- Policies that prevent deposits from funding fossil fuel exploration or production.
- An option to plant a tree with every roundup.

What It Would Mean

Today, climate impact is not a metric on which most consumers and businesses evaluate their financial services providers. Indeed, even measuring a company or person's climate impact is seen, today, as an inexact science, at best.

As such, the investments that banks and fintech companies do make in climate change (and other ESG priorities) are driven primarily by concerns over brand positioning and PR. And core business decisions – like which types of loans to make using customer deposits – are entirely free from any climate-focused considerations.

Imagine a world in which climate impact is both easily measured and widely used as a metric for selecting financial services providers and evaluating their ongoing performance.

02. Generative AI Radically Transforms Cost Structures for Financial Institutions

PREDICTION

Large language models and the applications built on top of them create extraordinary productivity gains and cost savings for banks and insurance companies.

How We Could Plausibly Get There

Humans are the single most expensive line item for banks.

JPMorgan Chase employs nearly 300,000 of them. It doesn't do so out of sympathy or sentimentality. Many business processes are just better performed by humans.

There are three reasons for this, as Simon Taylor, author of the Fintech Brainfood newsletter, outlines:

1. *The process is impossible to change. (e.g. the process exists around dependencies like legacy IT infrastructure, regulation, or third parties that cannot be changed).*
2. *The process is highly variable and thus nearly impossible for software to automate (e.g. providing a comprehensive risk assessment of a business).*
3. *Humans significantly outperformed software in the tasks for quality and cost (e.g. recognizing the context of a family photo of a young child vs. child exploitation for social media giants).*

The large language models (LLMs) that power Generative AI tools and applications have the potential to drive significant efficiency gains in all of the back-office business processes that financial institution employees are responsible for today.

These gains could be realized both in back-office tasks where humans are replaced by AI (document processing, internal knowledge management, etc.) and in back-office tasks where AI is able to augment humans to make them significantly faster and more capable (drafting marketing copy, monitoring the dark web for new fraud attacks, etc.).

In addition to the processes, financial institutions are often slow to innovate because of the difficulty in building new technology on top of legacy core systems. In some cases, banks are still employing large teams of Cobalt engineers because it is so difficult to modernize these cores. Generative AI could also help bank engineering teams migrate cores, build middleware, and integrate new technology, all in a fraction of the time and money it takes today.

What It Would Mean

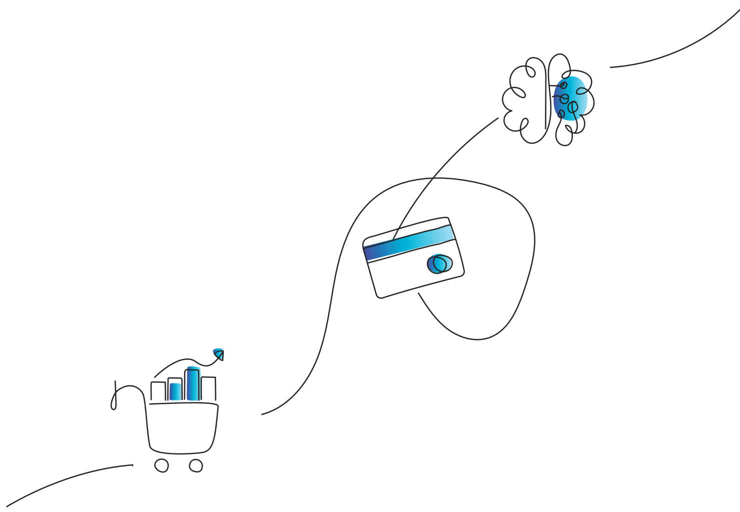
A major advantage that fintech companies have over banks is efficiency. Banks are handcuffed to legacy systems, business processes, and regulatory requirements that weren't designed with digital technology or data-driven automation in mind. Fintech companies, by contrast, have had the luxury to operate in a lightly regulated state and to design their systems and business processes from scratch, taking advantage of modern technology in order to minimize the number of humans that need to be involved.

What this has meant, practically speaking, is that fintech companies have been able to move much faster than banks and have been able to undertake initiatives (new products, new distribution partners, etc.) that simply wouldn't be feasible for banks, given their cost structure. The same is true in insurance as well.

Imagine a world in which the largest incumbents in financial services – with all of their traditional advantages – were also able to move as fast and build as cheaply as the leanest early-stage startup.

The potential for Generative AI to revolutionize cost structures in insurtech through automation and augmentation is tremendous. Imagine AI insurance agents capable of providing personalized advice and policy recommendations akin to human agents. Envision more accurate underwriting and claims processing through AI's ability to analyze vast datasets. By driving efficiencies, enhancing customer experience, and optimizing risk management, generative AI is poised to reshape the insurtech industry for the next generation of solutions."

Alon Huri, Co-founder of NEXT Insurance



03. Financial Services Becomes Fully Immersive

PREDICTION

Financial services becomes fully integrated within the increasingly immersive environments that consumers spend their time in, leading to more convenient and personalized experiences.

How We Could Plausibly Get There

'The Metaverse' is a term that became hopelessly entangled in the ZIRP-fueled mania of 2020 and 2021, culminating in Facebook rebranding itself as Meta in October 2021.

This is unfortunate because the underlying shift in technology that got Mark Zuckerberg so excited in the first place is real and hugely consequential for every industry, including financial services.

As technology analyst Ben Thompson notes, the destiny of the internet is to become more immersive over time:

> *The Metaverse is the set of experiences that are completely online … which is to say that the Metaverse is already here. Sure, today's experience is largely denominated by text and 2D, but video is already a major medium, first in the form of entertainment and now a vital tool for work. This is a trajectory that, in my estimation, inexorably leads to virtual reality: if all that matters is digital, why wouldn't you want the most immersive experience possible?*

And thanks to recent breakthroughs in technology from Meta, Apple, Google, Microsoft, OpenAI, and others, the necessary hardware and analytics needed to create immersive virtual reality (VR) and augmented reality (AR) experiences are becoming commercially viable.

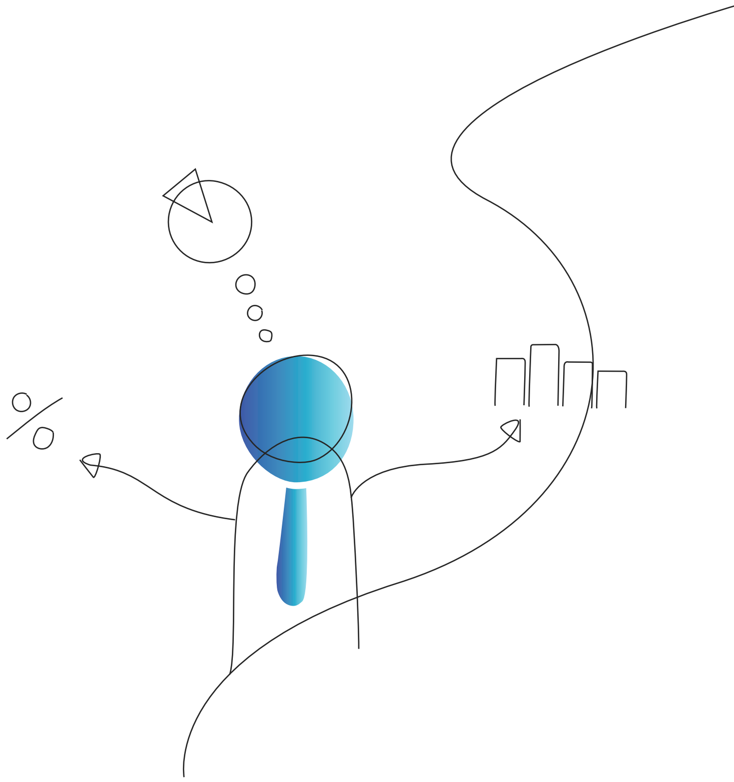
What It Would Mean

There's a reason why banks are still building physical branches and paying large sums of money to employ experienced, smooth-talking relationship bankers.

All else being equal, humans prefer interacting with other humans.

Financial services is not immune to this basic truth, and advances in VR, AR, ambient computing, and Generative AI have the potential to remove many of the costs and inconveniences that have pushed consumers away from human-to-human channels in the last couple of decades.

Imagine a world in which the personalized, contextually aware, idiosyncratic nature of human-to-human interactions can be delivered, in real-time and at incredibly low costs, to financial services consumers through the ambient digital interfaces that they are constantly interacting with.



04. Consumers, Businesses, and Governments Adopt Digital Identity

PREDICTION

dentity credentials become digital by default, empowering consumers to transact more seamlessly and to more effectively protect themselves against fraudsters.

How We Could Plausibly Get There

Digital identity – the ability to electronically identify yourself based on irrevocable, immutable, and unique information that you maintain custody of – is already starting to sprout up in specific markets and in support of specific use cases:

- Clear provides consumers with biometrically verified digital identity credentials for streamlining access to secure locations like airports and stadiums.
- Apple and Google have started to offer users the ability to store verified digital copies of their driver's licenses and other identity documents in their smartphones in order to make it easier for consumers to verify specific identity characteristics such as age.
- In Belgium, which issues a single national ID card to each citizen, millions of consumers are now leveraging Belgian Mobile ID (also known as 'itsme') – a digital identity scheme co-created by banks and telecom providers to allow easy digital identity verification and signing use cases. itsme provides a mobile application to citizens requiring users to perform a one-time registration before users can start using the service. Users can either onboard in the itsme application either through a bank account or derive the identity directly from the Belgian National Identity Card.

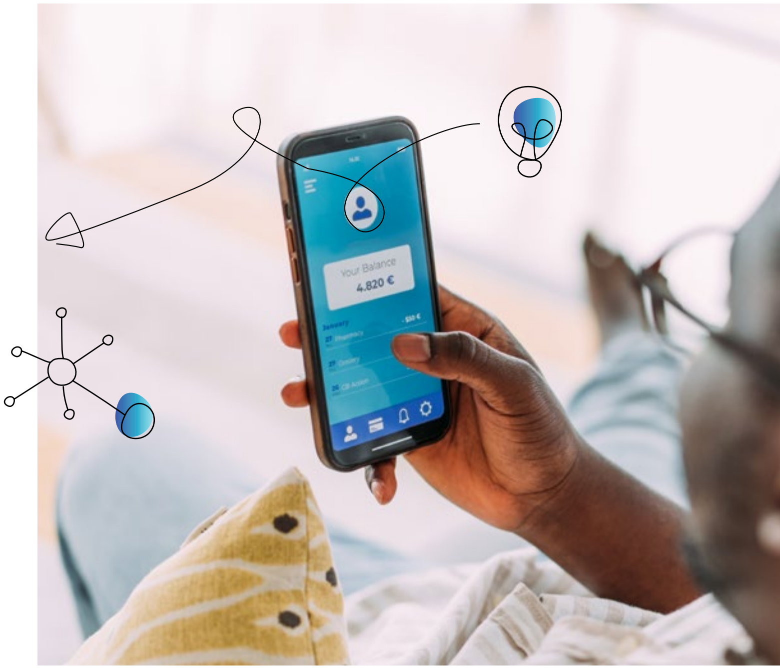
The vision, long-term, is that these digital identity 'seeds', planted by private companies and governments around the world, could eventually grow into a ubiquitous and interoperable digital identity system

What It Would Mean

Much of the friction in financial services revolves around identity. Consumers work to keep their personal information private and secure. Banks and other financial services providers work to verify their customers' identities and prevent fraudsters and money launderers from doing bad things. Governments work to prevent money laundering and enforce economic sanctions.

All of this work is made more expensive, time-consuming, and inconvenient because the identity credentials that everyone relies on are these little paper books (passports) and plastic cards (driver's licenses and national ID cards).

Imagine a world in which the primary token that consumers use to interact with businesses and governments becomes infinitely faster, easier, and cheaper to issue, manage, and exchange.



05. Consumers Choose Self-Custody Over Centralization

PREDICTION

Consumers begin to choose privacy and censorship resistance over convenience and take a much more active role in managing their data and their money.

How We Could Plausibly Get There

In 2017, Adam Ludwin, co-founder and CEO of blockchain startup Chain, wrote a response to JPMorgan Chase CEO Jamie Dimon's criticisms of crypto. In the piece, Mr. Ludwin admits that the only advantage of decentralized applications, enabled by cryptocurrencies, over traditional centralized applications is censorship resistance (i.e. access to decentralized applications is open and unfettered), and thus the appeal of decentralized apps in the future will be more a function of developments in society than the progress of technology:

> *Given how different they are from the app models we know and love, will anyone ever really use decentralized applications? Will they become a critical part of the economy? It's hard to predict because it depends in part on the technology's evolution but far more on society's reaction to it.*
>
> *For example: until relatively recently, encrypted messaging was only used by hackers, spies, and paranoids. That didn't seem to be changing. Until it did. Post-Snowden and post-Trump, everyone from Silicon Valley to the Acela corridor seems to be on either Signal or Telegram. WhatsApp is end-to-end encrypted. The press solicit tips through SecureDrop. Yes, the technology got a little better and easier to use. But it is mainly changes in society that are driving adoption.*

This is the argument for how we could, eventually, wind up in a world in which a majority of consumers take a much more active role (relative to centralized organizations like banks and governments) in managing their data (identity, history, reputation) and money (assets, liabilities, transactions).

Banks and/or the government misuse or overregulate consumers' personal data or interfere with their ability to manage and transact with their money. Consumers react negatively and choose to adopt decentralized alternatives for data management, identity verification, money storage, and payments. Decentralization becomes an essential product feature.

What It Would Mean

Outside of the government, banks play the single most important role of any company in the storage, validation, and transmission of consumers' data and money. As data and money become increasingly digitized (something we view as an inevitability), the potential for them to be misused in a way that creates significant harm to consumers increases significantly.

If such misuse leads to a backlash against centralization and the embrace of decentralized alternatives, powered exclusively by the smart contracts and economic incentives inherent to crypto, the importance of banks in the financial services ecosystem (and the economy, more broadly) would be greatly diminished.

Imagine a world in which new fintech apps, rather than being built on the cumbersome, highly regulated infrastructure provided by banks (banking-as-a-service), were built exclusively on top of decentralized global ledgers.

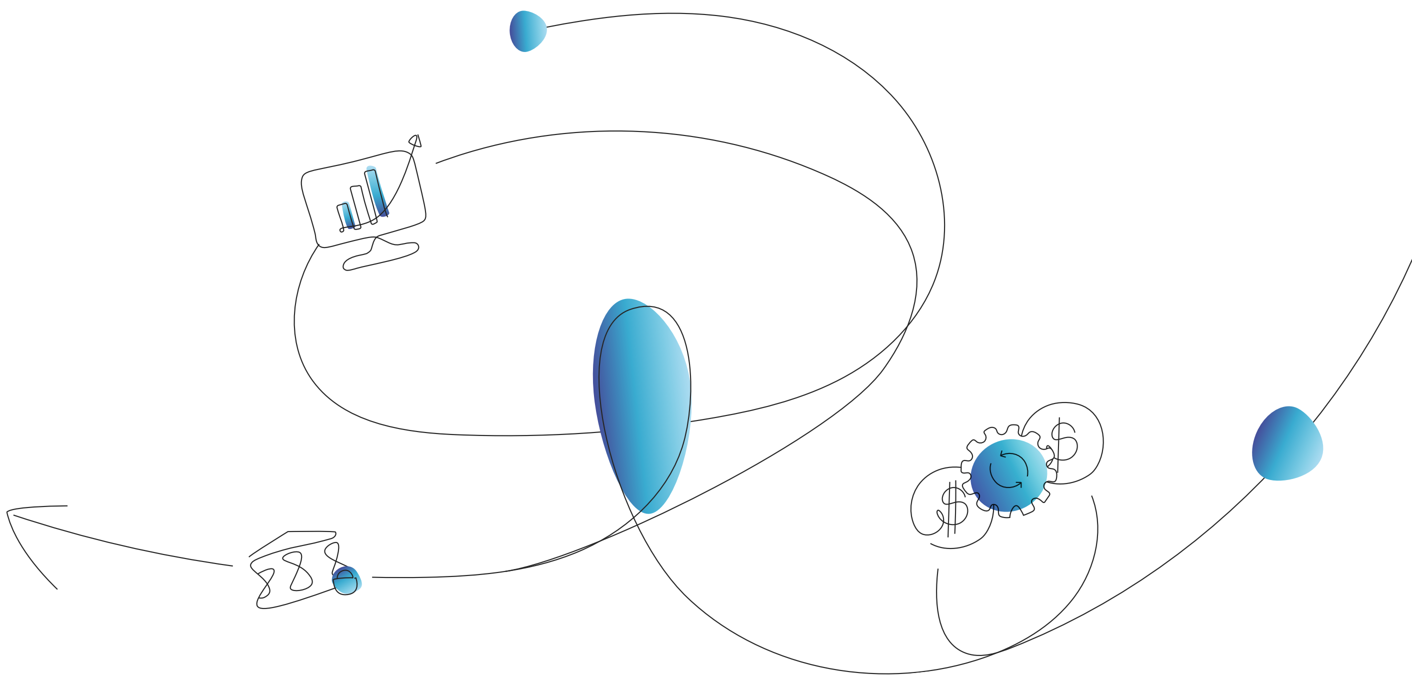
Conclusion

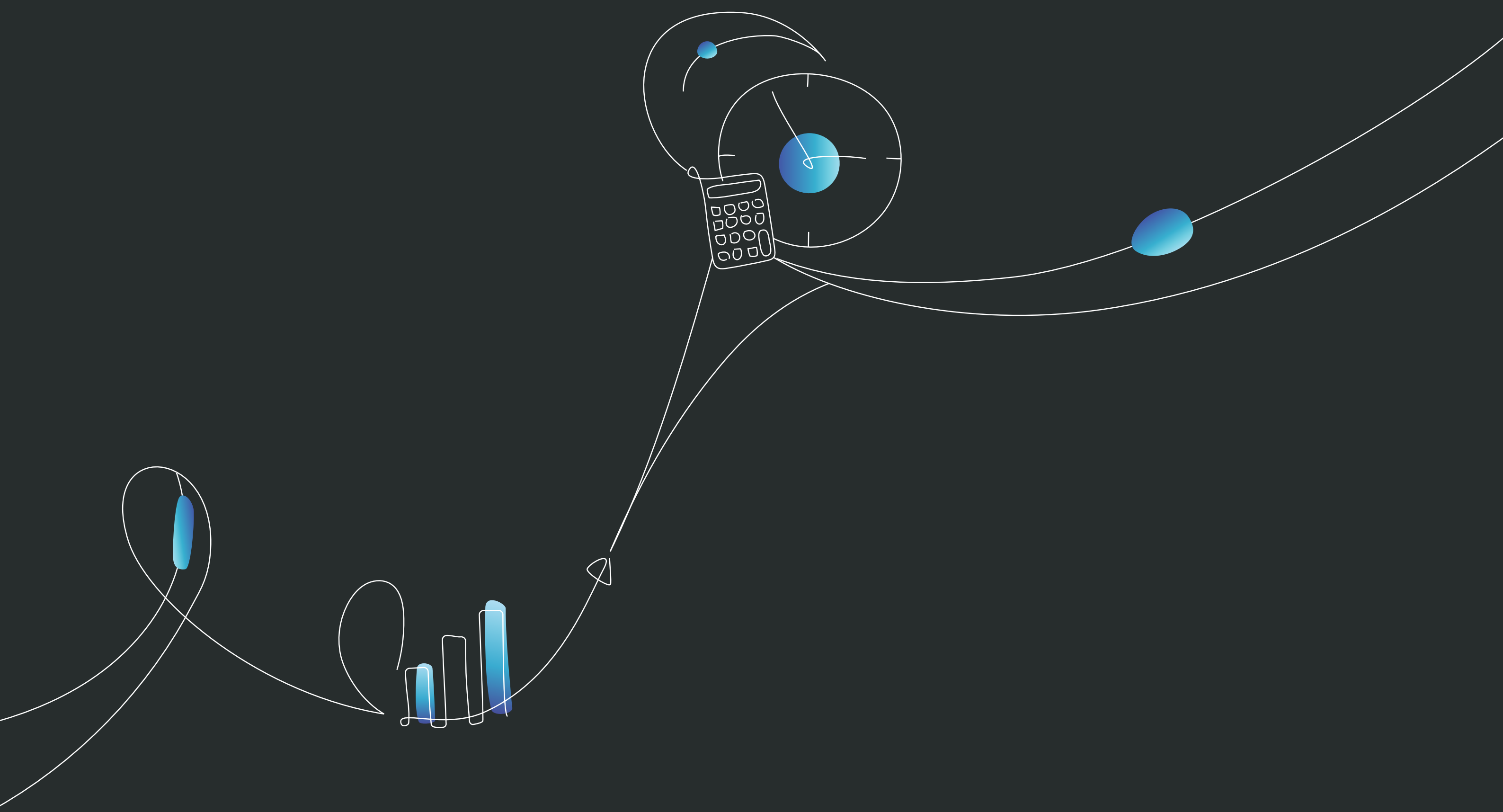
While overall investment in fintech is down significantly, we believe that now is still a great time to start a fintech company. The opportunities are plentiful, regardless of whether you're leveraging technology to address something that won't change, something that is likely to change, or something that could change everything.

A whole new cohort of generational fintech startups will emerge in the coming years to take advantage of some of the scenarios highlighted in the preceding pages, and potentially others as well. These companies will be grounded in an understanding of the immutable features of financial services and yet propelled forward by the technological, regulatory, and behavioral changes that fintech has already unleashed.

At Team8 we believe that capital is not enough to build great companies. This is why we invest not just money, but significant amounts of time, sweat, and domain expertise into the companies that we help founders build. This approach requires us to take bigger, more focused swings at a fewer number of opportunities – the ones in which we have a deep level of conviction.

Writing this report has helped us focus our efforts on areas in which the next big opportunity might arise. We hope it also provides value to those who read it and serves as inspiration for your next startup, investment, water-cooler discussion, or simply provides food for thought on your commute. We'd be happy to receive your feedback in any case.





For more information
Contact us at: info@team8.vc | www.team8.vc