

FinTech Innovation

Empowering Consumers, Businesses
and the Future Economy



FinTech is now a necessity, no longer a nice-to-have

Financial technology continues to evolve, [alongside the demise of cash](#). Recent [data](#) revealed that the fintech market is projected to grow 25% annually, surpassing \$308 billion in market revenue by 2022. In tandem, fintech startups are growing and innovating faster than ever. In the first half of 2021, U.S. fintech startups raised a record-breaking [\\$39 billion](#) in venture capital, nearly double than the same period in 2020.

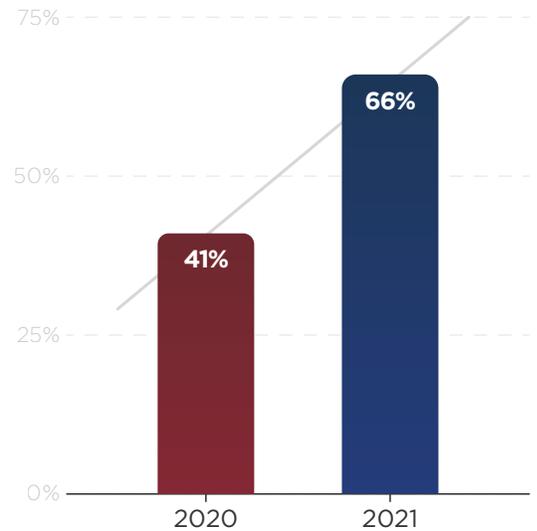
In our fourth annual fintech survey, we set out to understand how the continued growth and subsequent adoption of fintech has impacted U.S. consumers' financial well-being and overall perceptions of the technology.

The data is clear: as fintech adoption continues to rise, it is not only becoming an essential part of consumers' lifestyle, but it is positively impacting their overall financial well-being and, perhaps most significantly, is democratizing access to financial services for traditionally underserved communities.

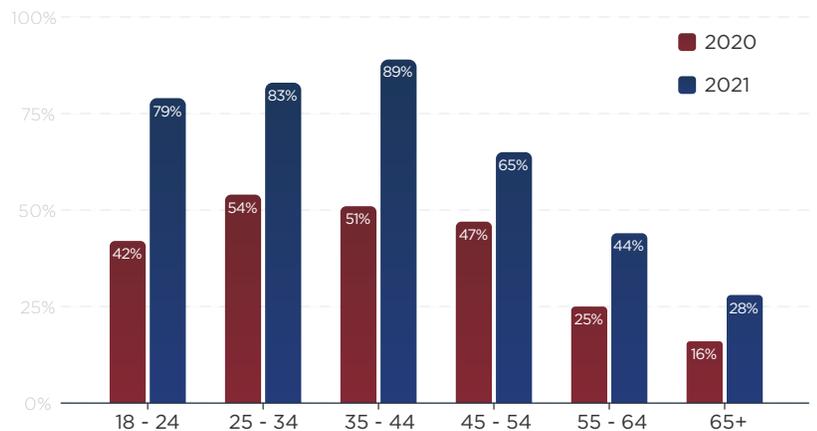
Our findings reveal that consumers across all age groups have moved past the research and adoption phase of fintech and are more comfortable than ever trying new solutions. Why? Digital solutions not only make personal banking more seamless and convenient, but they are an indispensable part of everyday life. This was true before the COVID-19 lockdowns but is even more definitive now.

Mandated lockdowns and the subsequent transition to remote work catalyzed the rapid migration to digital financial technologies.

A majority of consumers now agree that fintech solutions are a necessity for personal finance, not just a nice-to-have.



All age groups reported an increased necessity for fintech solutions.



Now, the majority of consumers agree that managing daily finances is easier than it was before the COVID-19 lockdowns.

While the general perception of fintech is overwhelmingly positive, the data shows that there is still a desire for human interaction in personal finance. This is something businesses – both emerging and established – must consider moving forward. With support from artificial intelligence (AI) and automation, individuals working in financial services can move beyond time-intensive manual tasks, and focus on high-value tasks and increase productivity.

Frequency and usage of FinTech is reaching mass adoption

Fintechs rose to the challenges posed by COVID-19 lockdowns by delivering digital services to expand access, convenience and efficiency. Fintech startups have fundamentally changed how financial services are structured, delivered and consumed. As a result, consumers' daily usage of fintech has increased year-over-year.

14.2 million U.S. citizens are using digital banking as their only form of financial management. However, not all digital activities are created equal.

Survey participants ranked the following as the top 5 personal finance activities with the best user experience through a fintech solution:

1. Basic checking
2. Paying friends
3. Budgeting and saving
4. Paying taxes
5. Refinancing a loan

As a generation, Gen Zers are hungry to learn about financial literacy and reducing debt. However, the problem is that they aren't learning about financial management in school and money is often a difficult subject at home. Additionally, younger demographics prefer digital payment methods and are turning away from traditional banking, cash and checks. The pandemic furthered dampened those interactions with the rapid infusion of contactless payments.

*Benjamin Nachman
Founder, President & CEO, Jassby, Inc.*

Jassby

For example, millennials cited credit score improvement and investing as offering more positive experiences, compared to other generations. Fintech is especially attractive to millennials because it is built on transparency, ease and flexibility. It enables them to manage their finances largely independently. According to a recent McKinsey report, millennials and Gen-Zers have more fintech accounts than any other generation.

When it comes to more complex financial dealings such as preparing for and paying taxes or refinancing a loan, consumers across all generations may need more hands on support in certain areas. For this reason, fintech startups must broaden their definition of customer experience to include all interactions, including the human element. Consumer expectations for digital solutions continue to rise and it's more critical than ever for businesses to get it right.

Trends Impacting SMBs

There's a massive opportunity to disrupt the SMB financing market, especially given the fact that there are 30 million SMBs in the country, and that number increases everyday. Many companies in recent years have cropped up to address the challenges in this sector, yet the SMB sector as a whole continues to lag in digital adoption, especially when compared to consumer financing.

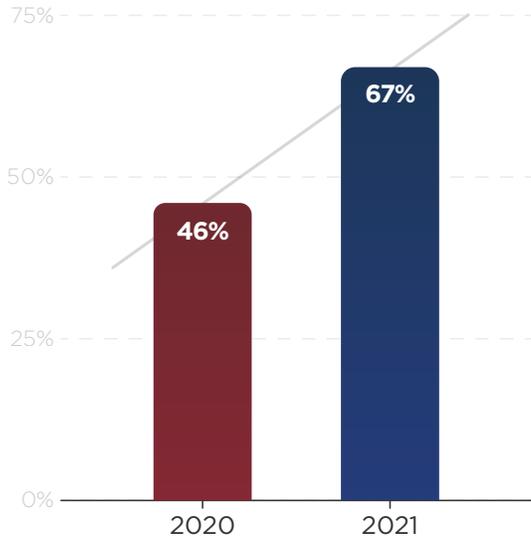
Offering a superior customer experience is fundamental to driving adoption. No entrepreneur wants to spend their day on hold with customer service or technical support at the expense of growing the business. In fact, SMB owners often equate superior customer service to be indicative of how much a vendor cares about their business.

*Prashant Fuloria
Chief Executive Officer, Fundbox*

Fundbox

The balance between tech and touch

A majority of consumers now believe the days of going into a physical financial institution are coming to an end.



Noting the rapid acceleration of fintech, brick & mortar is no longer the primary choice for everyday personal finance. In fact, a majority of consumers (67%) believe the days of going into a physical financial institution are coming to an end, up from 46% in 2020.



Nevertheless, 74% of consumers say that when it comes to managing their financial and personal information accurately and securely, they still have more confidence in human employees at banks and stores.

This juxtaposition demonstrates that while consumers want autonomy over their finances, they also want the flexibility to choose when to bring in the human touch.

Personal finance is just that — personal — and the majority of consumers are still looking for a degree of personalization and authenticity in their financial journey. To be successful, fintech startups must recognize the benefits and the limits of technology. There is an emotional aspect to some types of financial transactions, so it's crucial that entrepreneurs augment experience-enhancing technology with experienced human support.

The number of people who prefer to handle their financial dealings online



The number of people who believe traditional financial institutions do not evolve fast enough



This is especially true when it comes to artificial intelligence. While AI is a powerful tool to analyze data and make real-time decisions, it can't replace the human touch. Instead, it should augment individual potential and success by taking over the most mundane, time consuming and administrative financial tasks. AI has the power to scale beyond human capabilities that helps improve business and overall experiences.

Free access is a bigger driver for FinTech adoption than security

Survey participants ranked the following as their top three motivators when adopting a fintech solution:

1. Free
2. Secure
3. Easy to use

Consumers are more likely to adopt a fintech solution if it's free. This ranks above other factors such as security.



The majority of consumers are willing to share more personal information with a financial services provider in return for savings.

While this aligns with the larger trend of some fintech companies transitioning towards a data exchange model — wherein consumers “pay” by sharing personal data — it raises questions around privacy.

Security is also an important aspect of fintech and should be an area that requires consumer attention. There is a hacker attack every [39 seconds](#) and [45% of Americans](#) have had their personal information compromised by a data breach in the last five years.

The continuous growth in our digital economy and fintech overall has created an exciting and complex ecosystem. To produce long term success you have to consider not only user adoption, but also customer lifetime value, reputational risk, fraud prevention, and regulatory compliance. Both the consumer and the service provider benefit most by adopting strategies that maximize security, privacy, and user-experience.

Zac Cohen, Chief Operating Officer, Trulioo

Trulioo

For fintech entrepreneurs, it's a matter of trust. Although consumers rank “free” as the most important factor, many consumers will be more cautious about using the service following a data compromise.

Democratizing access to FinTech empowers individuals & grows the economy

According to survey results, the proliferation of fintech services is having a positive impact on individuals and the economy at large. Although the pandemic lockdowns and resulting economic downturn created challenges, growing access to key economic services has contributed to financial stability for many.

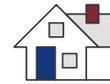
INDIVIDUAL BENEFITS



1 in 4 consumers feel better prepared for saving for retirement this year versus last year



Nearly one third of millennials feel better prepared for paying off credit card debt this year versus last year



22% of millennials feel better prepared for buying a house this year versus last year

ECONOMIC IMPACTS



80% of consumers agree that the latest financial technology will help many more Americans be better off financially by making financial transactions (e.g. payments, e-commerce, investments, insurance) easier and/or less expensive



79% of consumers agree that traditionally financially underserved people (e.g. those with low FICO scores, insufficient employment history, non-U.S. citizens) **need access to credit from banks and non-bank lenders**

Consumer perception of using and trusting technology to manage their finances has changed over the last year. Increased usage across all demographics is having a positive effect throughout the economy.

Commonly underserved segments have been left behind by traditional options or left with low-quality, high-cost and hard to understand methods to finance their purchases. We believe that consumers will continue to look for, prefer and be loyal to ways to pay that provide transparency, flexibility and support for their financial wellbeing.

Derek Medlin, Chief Operating Officer, Katapult



Looking Forward

These consumer findings paint a picture of transition and growth for the fintech ecosystem of entrepreneurs, investors, and financial institutions. It is a great time to build new companies and solutions that provide economic, secure and convenient applications. We anticipate that early stage VC investments in fintech will experience continued growth as startups disrupt traditional financial services.

These insights also reinforce the cross-industry impact of innovation in fintech. Despite a challenging economic environment, fintech providers not only survived, but stepped up as a foundational tool across industries, empowering consumers, businesses and markets to be more resilient. This is, at least in part, due to the industry's ability to onboard new customers with relative ease. That isn't to suggest that there aren't potential roadblocks. Consumers' preference for free options versus secure options is a red flag, highlighting the need for greater consumer education in cybersecurity. Fintech providers who balance best-in-class security without sacrificing UX and price-point competitiveness stand to capture the greatest market share.

While we are witnessing the demise of cash and the decline of in-person banking, the need to strike a balance in technology and human support in financial services is clear. The future of financial services is hybrid. From seamless technological integration to deeply human experiences, consumers can expect the best of both worlds..

Another hot topic in data security is blockchain. In 2020, blockchain hackers stole nearly \$3.78 billion in 122 attacks. Innovation in blockchain as an infrastructure tool will also contribute to increased focus on security. The application of blockchain technology has moved well beyond its best-known use in cryptocurrency and has broadened to address secure financial transactions of all kinds. Blockchain is real, meaningful and it is going to have an impact for decades across a variety of verticals.

For the latest news, insights and happenings in fintech, visit <https://blumbergcapital.com/news-insights/fintech-venture-capital/>

About Blumberg Capital

Blumberg Capital is an early-stage venture capital firm that partners with visionary entrepreneurs to build successful technology companies that empower individuals, businesses and society through the innovative use of AI, big data and other transformative technologies. We are passionate about finding and nurturing B2B technology companies from Seed stage through their growth journey, as active board members and hands-on advisors. We were among the first investors in industry leaders including Addepar, Braze, Credorax, DoubleVerify, Fundbox, HootSuite, Katapult, Nutanix, Trulioo and Yotpo. Find us in San Francisco, Tel Aviv, Miami and New York or at blumbergcapital.com.



Blumberg Capital conducted a series of consumer surveys via Dynata, each targeting 1,000 adults across the United States, age 18+ in August 2021. Figures for age, gender, education, income, employment and region were weighted to bring them into line with their actual proportions in the population. Because the sample is based on those who agreed to participate, no estimates of sampling error can be calculated.