
FINE INVESTMENT ACADEMY

CONTENT OF THE FINTECH MODULE OF THE FINE INVESTMENT ELEARNING.

WELCOME PAGE:

Welcome to the Investing Course of the FINE Investor Academy. The Investor Academy was developed as part of the European FINE project. FINE standing for The Fintech Investor Network and Ecosystem. FINE's aim is to build stronger connections between investors both locally and internationally. This course is designed for those ready to take charge of their financial future and start investing. Whether you're a complete beginner or already have some knowledge, this course will equip you with everything you need to build a sustainable investment strategy that suits your personal goals and lifestyle.

After completing the introductory course there is a special module about investing into Fintech. Fintech companies are companies that rely primarily on technology and cloud services—and less so on physical locations—to provide financial services to customers. They can be a very interesting investment opportunity as their growth rate is high.

As a starting or young investor investing into fintech companies can seem like a big step to take. It requires research and careful selection of the right companies to fit your investment goals and your portfolio. After having concluded this investing eLearning and after making a couple of first investments, Fintech can be an interesting option to add to your portfolio as it is fast developing and becoming more and more important. This module will give you more information about the fintech market and companies and an approach to select your own Fintech investments.

WHAT IS FINTECH AND WHY SHOULD YOU INVEST IN IT

When you have started on your investment journey you will come across a lot of different companies that you could invest in. One special category of companies that can offer interesting investment opportunities are the so-called Fintech companies. They are new, high-tech, fast-developing companies that carry potential high returns but also come with specific risks.

Investing into fintech is investing into the future but it requires good research and company selection and preferably experienced investors to coinvest with.

WHAT EXACTLY IS A FINTECH COMPANY?

Fintech – short for Financial Technology – is an emerging class of companies that use technology to automate and improve financial services for businesses and consumers, making them more user-friendly and accessible to a broader audience. Fintech fuses two of the richest sectors of the economy, Finance and technology.

Fintech is used to help companies, business owners, and consumers better manage their financial operations, processes, and lives. It is composed of specialized software and algorithms that are used on computers and smartphones.

There has been a growing global demand for digital banking services for a number of reasons, for example, convenience, accessibility, cost-effectiveness and enhanced security. This has meant fast development and growth in the fintech sector. Over the past decade fintech companies have revolutionized how we all do transactions, regarding payments, insurance, ordering consumer goods etc.

The overall goal of fintech companies is to try and provide more efficient, cost-effective and accessible financial services to both individuals and businesses.

A good example of a fintech company are mobile banking apps. The apps combine technology and finance so that we can pay and do transactions with our phone or laptop. To make the payments they use other Fintech companies who provide online payment platforms. Paypal for example was one of the first payment platforms. Another example is Adyen. Adyen started in 2006 and has created one platform to accept payments, protect revenue, and control finances. It is a market leader now but started out as a fintech start-up. Fintech usually operates in new markets or digitalize existing markets. This means it is difficult to evaluate the opportunities and risks of an investment in a fintech.

With FinTech companies redefining the way consumers, businesses and governments access financial services, we are witnessing a reinvention of how those services are being delivered. FinTech companies also have another goal and use. They can help financial parties like banks manage their risks and create new revenue streams. Many FinTech companies are delivering services that can be used to provide services to customers at lower costs than existing offerings. For example, budget control tools or tools to estimate future spending and earnings.

BLOCK 2

THE FINTECH MARKET IN MORE DETAIL:

While Fintech is developing into an industry, investing into Fin Tech has become increasingly popular. Investment into fintech companies can create promising opportunities for profit, and it helps to improve the area of modern financial services.

Investors have taken notice of FinTech's potential, pouring billions of dollars into startups across all segments of the industry. This has led to some impressive growth rates, with global FinTech investment now reaching tens of billions of dollars.

In 2023 more than €10 billion was invested into fintech. Major hubs are London, Berlin, Stockholm, Amsterdam

A recent McKinsey report (<https://www.mckinsey.com/industries/financial-services/our-insights/fintechs-a-new-paradigm-of-growth>) highlighted that revenues in the fintech industry are expected to grow almost three times faster than those in the traditional banking sector between 2023 and 2028. The FinTech sector still has further to develop and there are many opportunities for investors to get in on the action.

The Regulatory Environment of the fintech sector is strong: Fintech falls under banking regulations (including so called PSD2). Several countries have a so-called regulatory sandbox for

the fintech sector, The UK, Switzerland and The Netherlands. A regulatory sandbox is a tool allowing businesses to explore and experiment with new and innovative products, services or businesses under a regulator's supervision. This means fintech companies in these countries have more room to experiment which can lead to higher growth, but this can be riskier as it can be outside of the usual regulation. A factor to take into account when looking for a company to invest in.

OPPORTUNITIES AND RISKS

An analysis of “our.crowd” (<https://www.ourcrowd.com/investment-themes/fintech>) lists the following main reasons why the fintech sector will keep developing at a high speed:

The increasing demand for digital financial services – There is a growing demand for digital financial services as consumers and businesses move away from traditional banking products and services. The rapid adoption of mobile devices, the growth of online banking, and the rise of FinTech startups that are offering innovative products and services are helping to drive this.

The need to improve efficiency and reduce costs – Financial institutions are under pressure to improve efficiency and reduce costs to remain competitive. FinTech can help them achieve this by automating processes, streamlining operations, and providing cost-effective solutions.

The need for better customer experience – Banks have long been criticized for their poor customer service. FinTech companies have emerged with a fresh perspective on how to provide a better customer experience through innovative technologies such as artificial intelligence (AI) and machine learning.

The need for better risk management – Financial institutions are also under pressure to improve their risk management capabilities to meet the increasing demands of regulators and investors. Through the provision of innovative solutions for fraud detection, credit scoring, and other risk-related tasks, FinTech can help them achieve this.

High chances to develop quickly – FinTech businesses often have fewer employees, smaller balance sheets, and fewer physical assets than traditional financial institutions. What’s more, they usually don’t struggle with such rigorous regulatory requirements. For this reason, FinTech startups can evolve and develop faster than incumbents and design and apply innovative.

Improving inclusivity, Fintech has the ability to expand the consumer base, particularly by reaching younger populations and marginalized communities. With just a phone and internet connection, these individuals can access financial services that were previously unavailable to them. This is exemplified by platforms like M-Pesa and Alipay, which have revolutionized financial inclusion, especially in the Global South. From a global perspective, fintech transcends the traditional boundaries of the Global North, offering an alternative to conventional banking that helps bridge gaps in financial access.

Moreover, fintech has the potential to reduce biases in traditional credit scoring systems. By leveraging alternative data sources and AI-driven models, fintech platforms can provide more accurate and inclusive credit assessments, enabling people who may have been overlooked by traditional banks to access loans and other financial services.”

Here are some examples of specific products that are still being developed further in the fintech sector.

- **BLOCKCHAIN TECHNOLOGY** – Blockchain is a distributed database that allows for secure, transparent and tamper-proof transactions. This technology has the potential to revolutionize the financial sector by making it easier and faster to process transactions. It uses fintech as its base and is expected to develop further.
- **PEER-TO-PEER LENDING** – Peer-to-peer lending allows borrowers to connect with individual lenders directly, bypassing traditional financial institutions such as banks or credit unions. Peer to peer lending has existed for a long time but fintech is giving this market a huge boost, making contact, investment and managing of the portfolio much easier and accessible to more people. It also means that investing is possible with smaller amounts. It also means that companies looking for investment can potentially in future borrow at lower interest rates and better terms than they would receive from a bank loan.
- **ROBO-ADVISORS** – Robo-advisors are digital platforms that provide automated investment advice to customers. This technology can help investors save money on fees and commissions while also providing them with personalized recommendations for their portfolios.
- **BIG DATA AND ANALYTICS** – Big data and analytics are technologies that allow businesses to collect, process and analyze large amounts of data to identify trends and patterns. Financial institutions can use these to improve their risk management practices, as well as develop new products and services for their customers.
- **CYBERSECURITY ENHANCEMENTS** – Cybersecurity is a big issue nowadays, as hackers discover more and more vulnerabilities in various platforms and applications, either trying to steal money or sensitive information (or sometimes both). For this reason, innovative FinTech solutions are of the highest importance, as they allow financial companies and their customers to feel more secure and avoid leakages that could cause catastrophic harm.
- **CLOUD COMPUTING** – In numerous financial organizations, cloud service models (especially hybrid cloud architectures) are a must nowadays. FinTech solutions help them to meet specific user requirements and avoid issues with non-core operations, such as IT infrastructure and data centers.
- **GAMIFICATION** – In more and more financial applications and platforms, gamification has started to play a huge role, changing the specifics of consumer or retail banking, insurance, commercial banking, and more. Thanks to FinTech innovations, it is possible to enrich financial services with various games or challenges, allowing users to collect points and earn rewards.
- **SOFTWARE AS A SERVICE (SAAS)** – This solution allows organizations to avoid investing in expensive resources by using dedicated software instead. For instance, in this way, they don't have to operate their own servers, which is both time-saving and budget-friendly. Businesses don't have to spend their funds on application codes, new updates, and other expenses, but they can use a free code provided thanks to FinTech solutions.

- **REGTECH** – Thanks to this innovation, financial organizations can easily monitor their compliance with all legal requirements. With technologies that can manage huge amounts of data, monitoring and reporting on complying with ever-changing rules is much easier and more effective.

BLOCK 3

WHY WOULD YOU WANT TO INVEST INTO FINTECH

There are several reasons why fintech can be an interesting investment. In short:

The Rapid Growth – Fintech is growing rapidly, empowering those in both emerging economies but also in developed countries. And is used in more and more processes and tools for everyone.

The High demand – there is a huge customer demand for Fintech, we all like the accessibility of services and require the cybersecurity to keep all our transactions safe. That is why the demand for fintech will remain very high.

Its Highly Profitable – Fintech companies are able to offer financial profits at a fraction of the cost of traditional banks. As mentioned the expected growth of revenue in the fintech market can be as much as three times higher than the expected revenue growth in the traditional finance sector for the coming years..

Its Innovation – Fintech Apps offer quick, secure and convenient alternatives to traditional cash and card transactions and there is still a large potential for further development in this area.

But there are also some specific risks when investing into fintech, among others:

- **LACK OF STANDARDIZATION OF REGULATION** – There is no standardized set of rules or regulations governing the FinTech industry. This can make it difficult for companies to operate in multiple jurisdictions and raises the risk that new entrants will face regulatory hurdles.
- **LACK OF STANDARDISATION** of companies and markets- it can be difficult to evaluate fintech companies. As they are often active in new, or specific niche, markets and the market is in such a developmental stage it is difficult to evaluate the chance of success of the company and to evaluate the companies worth.
- **HISTORICAL PERFORMANCE:** For start-ups there is no or limited past performance to determine values or appropriate investment size.
- **LIMITED ACCESS TO CAPITAL** – Many FinTech startups struggle to secure funding due to their lack of track record and collateralized assets. This limits their ability to scale up quickly and compete with larger players in the market. This means they have to gather large investments to be able to realize the rate of growth to keep up with the market.
- **FRAGMENTED CUSTOMER BASE** – The customer base for FinTech products is highly fragmented, making it difficult for companies to build a large user base quickly or achieve economies of scale.
- **LACK OF TRUST AND TRANSPARENCY** – The FinTech sector is often associated with a lack of trust and transparency due to the prevalence of scams and fraudulent activities.

This can make it difficult for companies to attract new customers and build long-term relationships. This also makes research into potential investment opportunities lengthy and more difficult.

- **LIQUIDITY.** As a lot of the companies are new, they are often not publicly listed which means their stocks or bonds are not necessarily publicly tradable. If you need to raise cash or want to change your investment, it may not be easy to sell the stock or bonds.
- **MARKET RISKS-** in such a fast-developing market success can be fast but so can failure. If a company or its products can't keep up with developments, it will lose market share quickly and demand for its products will stop. By that time selling your shares or bonds may be too late.
- **REGULATORY FRAGMENTATION,** as different countries have different regulations this can be a complication for Fin Tech who operate cross borders.

It is important to understand these risks and know how they relate to possible investments you may be considering because it will help you with the following:

Safeguarding Investments:

Identifying and managing risks ensures the protection of your capital. Without a thorough understanding of potential pitfalls, investors may face unexpected losses due to unforeseen challenges like regulatory fines or technology failures.

Enhancing Decision-Making:

Risk assessment equips you with the knowledge to make informed decisions. It helps you balance potential rewards against possible downsides, improving the overall quality of investment choices.

Navigating a Complex Ecosystem:

Fintech operates in a highly dynamic and competitive environment. Factors like cross-border regulations, data protection laws (e.g., GDPR), and the pace of innovation require investors to stay ahead of evolving risks.

Building Resilient Portfolios:

By understanding the risks, you can diversify your fintech portfolios to minimise exposure to any single threat, such as sector-wide downturns or cybersecurity breaches.

For new investors, recognising and addressing risks in fintech is not just a safeguard but a competitive edge. With the fintech landscape continually evolving, staying informed about potential threats and mitigation strategies enables investors to spot red flags early in due diligence and evaluate startups' resilience and readiness to face challenges.

As fintech continues to disrupt traditional finance, mastering the art of risk identification and mitigation ensures that investors can reap the rewards of this transformation while protecting themselves from its uncertainties.

To mitigate the risks there are some things you can do, a number of which have been mentioned in the general part of the e-learning. For example:

Diversification:	Spread investments across different Fintech subsectors (e.g., payments, lending, blockchain) to reduce risk exposure
Due Diligence:	Conduct thorough research on the company's financial health, business model, technology, and regulatory compliance
Regulatory Awareness:	Stay updated on regulatory trends affecting the Fintech sector
Focus on Profitability:	Favour companies with a clear path to profitability rather than speculative growth
Assess Technology:	Evaluate the robustness and scalability of a company's technology platform and its ability to innovate
Monitor Cybersecurity Measures:	Look for companies with strong cybersecurity protocols and a track record of protecting customer data.

To conclude: the fintech market has huge potential for successful investments. However, it is important to do your research before investing in any specific company or segment of the industry. As with all high-growth sectors, there are also risks worth considering before you invest in FinTech startups.

BLOCK 4

WHAT CAN YOUR INVESTMENT LOOK LIKE

Investments into Fin Tech companies are done in different forms ranging from pure equity to convertible bonds to pure debt and all options in between. Some of the Fin Tech companies will give out voting shares to large investors but many will not. The form of investment that is most suited depends on the growth phase the company is in.

There are different growth phases for the Fintech company:

The Idea stage, the product is still just an idea. It's mostly the owners own money and time that fund this phase

The Seed or proof of concept phase, during the seed stage, the entrepreneur generally requires relatively small amounts of financing to conduct business feasibility studies, develop prototypes,

evaluate market potential, protect intellectual property, and investigate other aspects of the business idea.

Series A phase, divided into

Pre-launch Financing Phase

The pre-launch phase occurs after the decision has been made to move forward with the creation of a business. In this phase, the foundation for the business is created. This phase usually requires substantially more funding than the seed state.

Start-up Financing Phase

During the start-up phase, also known as the launch phase, production is initiated, and sales occur. It is characterized by hiring employees and establishing the products in the marketplace. Financing for the start-up phase involves bridge financing from the time the pre-launch phase is funded until operations commence, sufficient working capital for the smooth operation of the business, funding of any losses during the start-up phase and contingency funds in case of an unexpected interruption in the start-up process. Funding for the pre-launch stage and the start-up phase may occur at the same time.

First-Stage Financing Phase

First-stage financing, also known as the ramp-up phase, is the final phase in early stage financing. It is characterized by ramping up production and sales. Ramping up the business by increasing sales is an indication of success because the company's business model is being validated.

Expansion Stage Financing

This financing follows first-stage financing and provides working capital for the initial expansion of a business. Although the company has made progress, there are instances in which it may not yet be profitable.

Third-Stage or Mezzanine Financing Phase:

This is provided for major expansion of a company that has an increasing sales volume and is profitable. These funds are used for further expansion, marketing, working capital, or developing an improved product.

A Fintech start-up looking for funding is usually in the seed or series A phase. In this phase the company is looking for investment by a VC or (a group of) business angels, usually in the form of equity or convertible bonds.

In the first stage and onwards companies will start to need larger amounts of money so they may go public or approach crowds and larger groups of investors.

SO WHAT INVESTMENT PRODUCT WILL YOU USE?

As said before there are different forms of investment that can be used if you invest in fintech startups. Most of these have been covered in the general investment part of this e-learning.

As a relatively new investor the best way to invest into fintech is to invest through a platform or fund or join a group of experienced business angels. A platform will check out the fintech start-up for you and a fund (or ETF) will spread the risk over more companies.

If you are investing in a Fin Tech start up directly it will probably be through an equity investment.

In the case of a direct Equity investment the following considerations are relevant.

1. Make sure there is a balance between the size of your investment and the risk you are willing to take.
2. Make sure there are clear rules about the possible dilution of your equity if other shareholders join and invest.
3. Make sure your voting rights match the involvement you want in the company.
4. Make sure there are clear rules about exit possibilities. If the company goes public (through an IPO, Initial public offering), if the company is bought by another company, or possibilities of secondary sale of your shares to other parties.

BLOCK 5.

HOW TO EVALUATE A FINTECH COMPANY

If you have decided to invest into fintech and you have maybe found an interesting firm to invest in, the next question is how to evaluate this company. Several factors are interesting to evaluate when looking at a company.

A very important factor is the founders' team of the company. Do the founders have a background in finance? Have they previously worked in another fintech company and achieved success? Were they former bankers or did they work in related financial fields such as insurance?

Their reputation in the market is also important. Founders need a supportive market to start their business. The local financial ecosystem, comprising banks and regulatory authorities, plays a critical role in their success.

Here is a list of some other important factors you should look at:

- The Market Growth Potential of the company
- Do they have an Innovative Business Model
- Do they have a strong Technology Backbone
- Is there Regulatory Compliance & Adaptability
- Is there Scalability & Growth
- What is the revenue Model & Profitability

- What are their strategic Partnerships
- Are they using Customer-Centric Solutions
- Is there a resilience to Market Volatility
- Who are other (equity) partners or investors

The company should also have the following:

A reasonable and well-thought-out strategy – A FinTech company may attract an investor with their innovative technology and quick product development, but it is also crucial that they have a feasible strategy. In this way, they have a chance to stand out from the competition and overcome difficulties

The ability to address customer problems – Even if a product is based on impressive technology and works really great, it needs to have a clearly stated purpose. Its creators should be able to identify the problems their audience is experiencing and explain how their solution can help them. In this way, the probability of customers switching to such a product is higher

The potential for customer adoption – A promising FinTech startup should have a reliable customer acquisition strategy so that it can acquire and retain as many customers as possible, increasing the chances of success and profitability.

The ability to survive without collapsing under pressure – It is crucial for a FinTech business to combine judgment and strategy properly to increase its chances of scaling up successfully. The most significant aspects here are intellectual property and collaborations. Namely, trademarks, patents, and proprietary technology have a huge impact on competitiveness and potential for innovation. Strategic partnerships are similarly important as they can provide the resources necessary to develop and achieve sustained success.

Market Disruption Potential: Determine if the new company has the power to disrupt the market. Finqware, for instance, entered the open banking sector by forming strategic partnerships with Banca Transylvania (market leader in Romania), and National Bank of Romania, while securing investments from entities like RBI through Elevator Ventures.

The probability of successful exit strategies – When you analyze a potential FinTech investment, always remember to take into account the exit strategies, including acquisitions, mergers, or initial public offerings.

BLOCK 6

CROSS BORDER FINTECH INVESTMENTS

Fintech companies usually operate internationally. As an investor you may also have to look across borders to find the best investment opportunity.

This means you will be influenced by international differences in culture, company profiles, markets and most importantly regulation.

It is vital to understand how dependent the company is on regulation in the country where it is located.

Regulatory Risk Analysis:

It is useful to do a regulatory risk analysis. Consider if the central bank or other regulatory bodies might require the company to be authorized. Note that an investor holding more than 10% of shares is considered a significant shareholder under European legislation and will be subject to extensive due diligence. This has implications for investors as the company's authorization process can reveal insights into its governance.

Local investors and market

Even if a company operates internationally, it is useful to assess its home market. How are the relationships with its local competitors and other stakeholders?

Crucial is the opinion and position of local investors. Local investors know the market, its players and the rules. Ideally a local investor is part of your investment round or has already invested as he or she can bring the local knowledge to the table. The FINE network and tools that are being developed can help you in finding this local information and investors. This will be explained in the next course part.

BLOCK 7

JOIN THE FINE NETWORK TO FIND SUITABLE FINTECH INVESTMENTS

This e-learning is a part of the FINE Investor Academy, one of the services developed in the European Fine project. The FINE (Fintech Investor Network and Ecosystem) aim is to build stronger connections among fintech networks, both locally and internationally. Its goal is to encourage investors to collaborate and invest together in fintech startups.

The Fintech Investor Network and Ecosystem builds stronger connections among fintech networks, both locally and internationally.

Finding a suitable fintech investment requires extensive research and ideally fellow investors with knowledge of the sector. Fintech startups themselves need to connect with investors from all over Europe. To encourage investors to collaborate and invest together in fintech start-ups all over Europe the Fine ecosystem and network has been created.

In the Fine project some tools have been created to help investors to find other investors and investment opportunities. And to learn more about fintech ecosystems in other European countries. The aim of FINE is to create a more vibrant investment environment, fostering European-wide innovation, and helping companies grow across borders.

The FINE project has developed the following tools:

ACTIVE COMMUNITY BUILDING

FINE actively engages investors and local networks through various means such as matchmaking, events, workshops and webinars.

This community building approach helps us create a dynamic environment, foster collaboration and knowledge exchange among investors and industry experts.

The FINE Matchmaking Network is a dynamic hub connecting investors with diverse and promising ventures across the European continent. Whether you're seasoned investor seeking new opportunities or a start-up in search of financial backing, FINE facilitates the perfect match.

EXPERT INVESTMENT GUIDANCE

The FINE Ambassador Network is composed by a group of 18 knowledgeable experts, to provide key insights to both local and foreign investors, supporting international investments and strengthening the fintech community.

Seasoned investors benefit from the FINE Network visibility and interconnectivity at the EU level, besides the participation in internal events and the promotion of the Ambassador network through online communication channels and the FINE website.

Ambassadors are invited to engage with the Network through valuable knowledge-sharing with new and experienced investors.

EMPOWERING DIVERSE INVESTORS

FINE Investor Academy is an online resource hub catering to diverse investor groups – newcomers, young investors, women and minorities. This initiative will provide comprehensive knowledge about fintech investments, fostering inclusivity and equal opportunities.

The Ecosystem Map provides a broad overview of the fintech landscape in European countries with general trends and targeted key players. And the Investors Map lists players in various European countries to create a full overview of the investment ecosystem and its most important companies and investment types.

We hope you will join us as new investors and become a part of the FINE network. You can find the FINE tools, through the following links:

Link to investor map: <https://fintechnetwork.eu/investor-map/>

Link to ecosystem map: <https://fintechnetwork.eu/ecosystem-map/>