Fintech in 2023

The Macro Story

‘09 – ‘21

Low rates and COVID fiscal stimulus-induced bubble; a decade of easily accessible capital, liquidity, spending and investment.

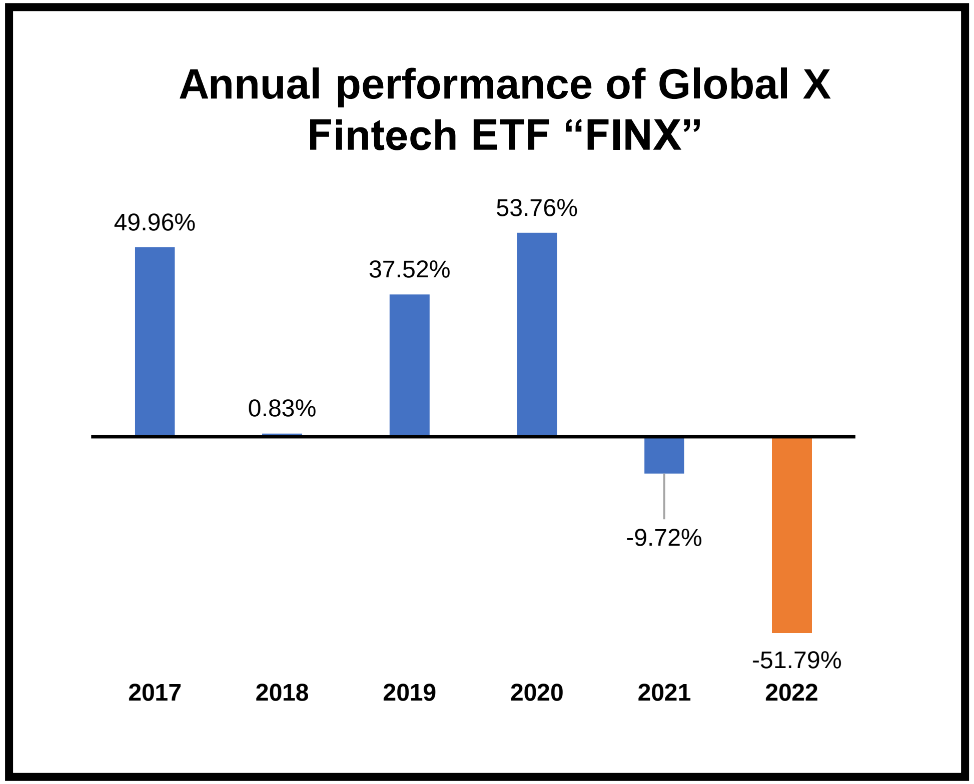
- **“Growth at all costs”**
- “The consumer”: B2C and strong consumer spending in discretionary categories
- 2022 high inflation, driven by supply-induced constraints and Russia-Ukraine conflict
- Large T&E rebound following reopening
- Acceleration of pre-COVID trends leading to massive fintech, telemedicine, gaming/chip-related fundraises or acquisitions

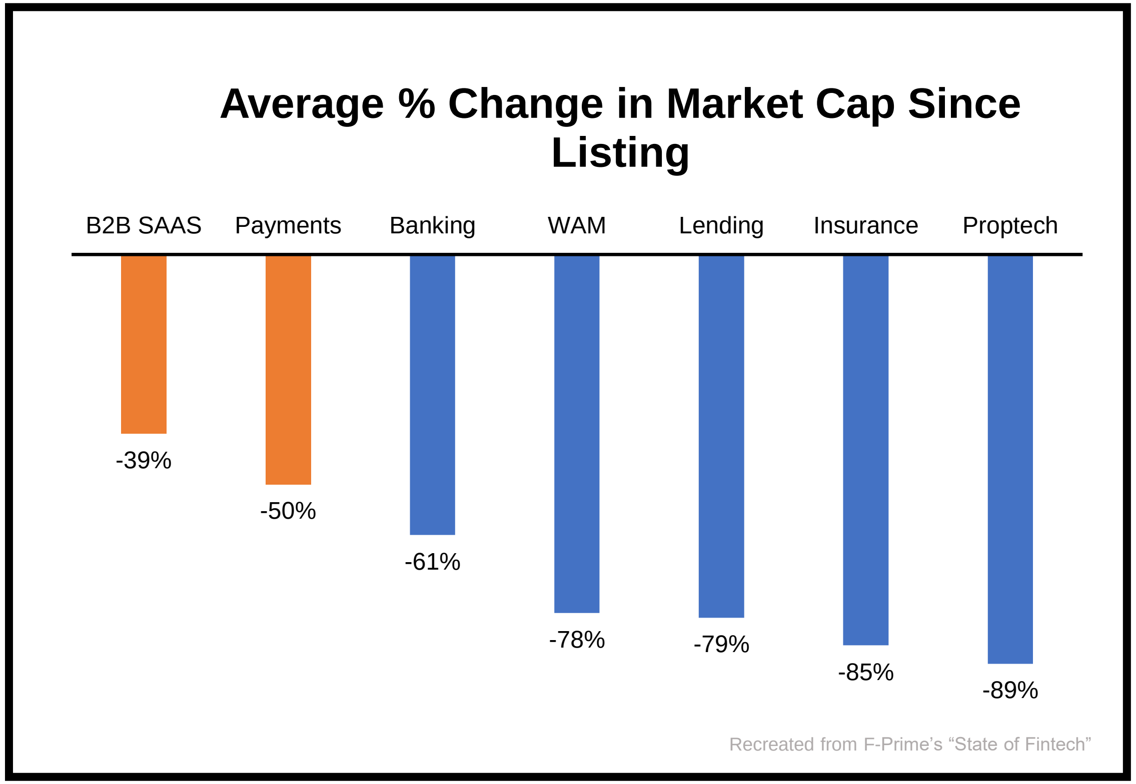
‘22 – onwards

Fiscal tightening and moving into the late stage of the business cycle; a new regime of margin contraction, cost-control and economic slowdown.

- **“Driving down inflation at all costs”**
- B2B as more recession resilient and less cyclical (but different across SMB vs enterprise)
- Slowdown in consumer spending, dwindling household savings/disposable income
- Deterioration of credit, credit outstanding, increased delinquencies/bad-debt
- Recalibration to pre-COVID growth rates
- Interest rates leading to liquidity constraints (Silvergate, SVB, First Republic, etc.)

Fintech Performance





With current LT revenue multiples for publicly traded fintech at all-time lows, **private valuations have further room to fall**.
i.e. - Stripe's recent $6.5 billion fundraise has now lowered their internal valuation from a peak of $95 billion to $50 billion.

Fintech Trends

- Reducing **payment/transaction/customer acquisition costs,** preserving **take rates** whilst optimizing **click-through rates/retention**.

- Emergence of mature and disciplined players within the space, who have to focus on **balance sheet risk management** with **smaller cash runways**. (first real change in paradigm, post-GFC) *whether through asset-liability management, treasury, counterparty risk, hedging, etc.

- Emphasis on **infrastructure players** and **API/enablement-focused** fintech (whether through AI/ML applications, AP/AR automation, KYC/anti-fraud, etc.) – improving and increasing speed for merchant onboarding/consumer experiences/underwriting, etc. *ultimately on the B2B side of things.

- Whether through M&A, bundling, etc., continual shifts towards **full-stack/multi-rail solutions** (easier to gain traction on newer offerings on core customer base).

- **Regulations** continually shaping the future of crypto/Web3, open banking, etc. (such as PSD2, Dodd-Frank, etc.) *at the same time, the rolling out/integration of relevant technologies like instant payments in the form of Fednow, etc.

Hot Topics in Fintech

Open/Embedded Finance, Climate Fintech, Neobanks

Open & Embedded Finance

Open Finance-adjacent Players – a global $43 billion TAM by 2026 at a 24% CAGR (Allied Market Research)

Data Aggregators/Data Access Network

PLAID, akoya, MX, Finicity (mastercard), flinks, TOKEN, TRUELAYER

Open Banking, RTP/Instant Payments

Link Money, DWOLLA, tink (A Visa Solution), SALTEDGE, moneyhub

Note: different players within the space focus on building push (RTP) vs pull payments (ACH)

Key Pain Points Solved:

- Enabling the creation of financial applications for account verification, payment initiation, etc., whilst focusing on security/compliance and proper usage of consumer information (i.e. PSD2, SOC2, PCI DSS).
- Helps reduce interchange fees, of which are passed on to consumers.
- Allows merchants and consumers to be in more control of their financial data: to pay, get paid, access credit, etc., without borrowers/lenders having to compile manually bank statements, paystubs.

Verticals, such as Embedded Payments within Global Gaming – a potential $500 billion TAM by 2030 at a 10% CAGR (Grandview research, Finextra)

Coda-Payments

Headquartered in Singapore, $715mm raised to date

CODA PAYMENTS

Customers

KRAFTON, RIOT GAMES, ACTIVISION BLIZZARD

Xsolla

Headquartered in California, $100mm revenue (2021)

Customers

Gaijin entertainment, NetEase Games, UBISOFT, AZUR GAMES

Key Pain Points Solved:

- Allows offloading of internal payments, without having to understand compliance of local governmental/tax legislations
- More efficiently track and sort out reconciliation-related issues.
- Friendly fraud, card-testing attacks, phishing attempts, account takeovers, etc. (generally through anti-fraud ML, 24/7 transaction reviews and blacklisting cross-games for serial fraudsters).

Although not definitively “new”, open and embedded finance represent the opportunities within multi-rail payments and API-heavy SaaS enablers.

The Future of the Planet…

Quite literally – climate fintech/payments

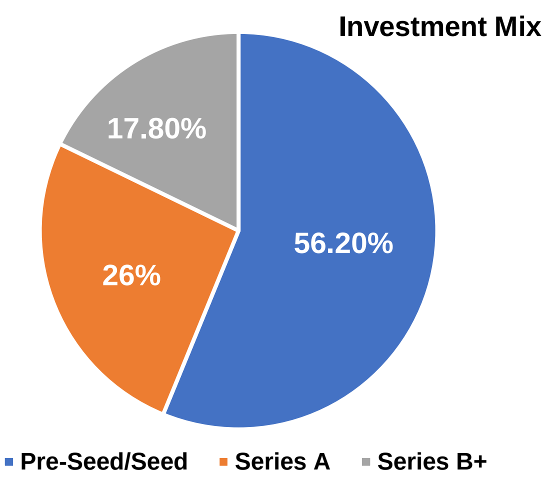
- Total investments of $2.9bn in 2022
- Climate finance TAM of $600bn could 5-8x within the next 30 years

Climate fintech solutions can help provide capital to the building of **new green infrastructure** (debt, large-scale project financing, etc.), **aid in better risk management** (creating extended applications in insurtech, grid management, the undertaking of projects, etc., oftentimes with AI/ML technologies), develop essential infrastructure to **green trading practices** (carbon credits, offsets, etc.),

As emissions are also produced nonproportional to wealth/exposure, many lower-income or vulnerable populations also are in rapid need of new technologies/innovation. Insurtech companies such as **Pula** have insured a total of $1.65bn and 9.18mn farmers across areas in Africa, South America and Southeast Asia – to protect farmers from unexpected financial losses due to adverse weather events.

Within the US, climate action initiatives and climate-tech has generally lagged European peers but consumer spending applications have picked up relative speed; for individuals, this means gaining more transparency on their personal climate contributions and supply chain analytics through production/transportation. For businesses, the options to combat climate risk or reduce carbon emissions is very much accessible, whether through the monitoring of scope 1, 2 or 3 emissions (increasingly a focus on analytics for the 3rd), credit trading in compliance/voluntary markets (VCM, ETS), etc. Purchasing of offsets has generally been to reach corporate sustainability targets/commitments, but on the project-taking front, more "corporate contributors" are now in play where they invest in carbon dioxide removal projects/reforestation/renewable energy developments (BiCRS, mCDR, etc.).

On the policy side, the US still has significant space to cover and ESG reporting remains an area of large discrepancy. The area of impact investing has seen significant inflows over the past couple of years (such as through JPM's acquisition of OpenInvest) but is still yet to fully pick up. As such, there are a good number of crypto/Web3 focused carbon tokenization initiatives including Toucan, Senken, KlimaDAO, etc.; initiatives like such (and adjacent to open banking) are especially useful in the capturing, validation and sharing of climate/project data.



Recreated from a report via CommerzVentures

Info referenced from Asian Development Blog, Commerz Ventures, New Energy Nexus, Dealroom, Barclays Rise, Tenity, Accion

Climate fintech constitutes a potentially outsized opportunity as a subset of "fintech" but having an entire ecosystem of products, offerings, and issues.

A Note on Neobanks

- $300bn US size
- <5% have profit breakeven
- <10% of consumers use as primary account

Reducing investment inflows into the space… Why?

The business model operates primarily on interchange. Within debit, this is as low as 0.7%-1.5%, whereas a neobank take rate would merely be bps of the pie.

- Interchange fluctuates largely within market downturns given it as a % of TPV
- Disruptors may slowly take share from traditional payment rails/networks
- Usually split on volume or on 70/30 (depends on agreement with sponsor bank)
- Caveat -> Durbin exempt smaller banks might also generate higher interchange fees

Generally, neobanks acquire consumers ($5-15 vs $150-350) with success, given their attractive UX, customer service, ability to reach underbanked populations, and "zero-fee" model, but revenue streams remain relatively limited. Costs to service an account including all the operational overhead can range from $10-60… i.e. poor unit economics.

Other issues include:
- Low "net interest margins" (given attractive rates of return offered)
- High charge offs (esp. as consumer credit continues to slow and consumer base tends to be sub-prime)

Statistics from PYMNTS x Treasury Prime, Simon Kucher, Bain *Ideas here have also been extensively discussed by Simon Taylor

Saving grace?

- Partner with traditional lenders for cheaper capital, to become front end originators and loan servicers, capture more revenue share.
- Like Revolut, move into crypto/investments/lending/BNPL, etc., or other areas like cross border/remittance (benefits of FX and less penetrated consumer bases)
- Improving conversion into premium accounts (fee-based subscriptions) through continual adoption/popularity of neobanks.

^ Remittance, for example, has on average a 7% take rate

Given aforementioned issues, it may make sense to reevaluate/reassess risks involved with portfolios with extensive Neobank exposure.

Supplemental Materials

“Publicly-Traded” Market Map

The Networks

VISA
DISCOVER
AMERICAN EXPRESS

Buy Now Pay Later

afterpay
sezzle

B2B Payments

bill.com
FLEETCOR
wex
avidxchange

Digital Lending

SoFi
ROCKET Loans
loanDepot
Upstart
LendingClub
lendingtree
ally
synchrony

Merchant Acquirers (including POS, PSP, etc.)

adyen
FIS
fiserv.
globalpayments
Square
PayPal
SHIFT4
nuvei
lightspeed
toast
Zettle by PayPal
clover

Note: companies like FIS, FISV, also sit under the traditional core banking bracket with Jack Henry, Temenos, etc.

Money Transfer/Remittance

Payoneer
Remitly
Western Union
intermex INTERNATIONAL MONEY EXPRESS
WISE

Miscellaneous (including fintech adjacent)

Lemonade
riskified
trupanion Medical insurance for the life of your pet.
Opendoor
Hippo Simpler, smarter home insurance
Dave

And the list goes on….

“The Privates” Market Map

Consumer / Investing / Wealth Management

Truebill, Betterment, uprise, CLEO, EV ELLEVEST

vino vest, GreenLight, acorns, gohenry, ALTO, Republic

^ Latest YC batches include a few startups that (Constant, Berilium, Feather, Alphawatch AI, etc.) focus on providing access to private credit and institutional level research.

Fraud / Risk

Signifyd, sardine, DARKTRACE, ALLOY, Unit21, Hadrius.

sift, enigma, onfido, persona, trunomi, argyle

Embedded Finance (Payments, Lending, Payroll, etc.)

SYNAPSEFI, BOND, salsa, cambr, NIUM

BXW, Liberis, Resolve, wisetack, Rapyd

YOULEND, Parafin, method, ZEAL, Trellis, unit

Equity/Fund Management

Juniper Square, carta, Pulley

Prop-tech / Insurtech

naborly, up&up, metromile

Non-Dilutive Financing

pipe, capchase, arc

Earned Wage Access

Rain, ZayZoon, dailypay.

Lending / BNPL / Neo-banks

AVANT, marco, Klarna., brigit, Happy Money., ondeck

chime, Kabbage, tranch, Self., SETTLE, Current

B2B Payments / AP-AR / CRM-Accounting / Compensation

stripe, airbase, Brex, ramp, melio, highradius

tipalti, silverfin, Routable, Revolut, FRAGMENT, pave, Slope

AI-focused

ZEST AI, N26, clinc, JUSTT

Ocrolus, planful, Kasisto

Merlon.ai, datrics, Digital Reasoning

Banking / Core Banking

MERCURY, FINASTRA

Thought Machine, synctera, column

AMOUNT, deserve, TREASURY PRIME

E-Comm Payments

Bolt, checkout.com

Skrill, Catch, recharge

Restaurant / POS

TouchBistro, orderbird, skeps

presto, ziosk, Spoiler Alert

sumup, tappit, SALIDO

Fintech-Enabling

moov, FINIX, Pinwheel

Note: companies such as Truebill, ondeck have been acquired.