Friday
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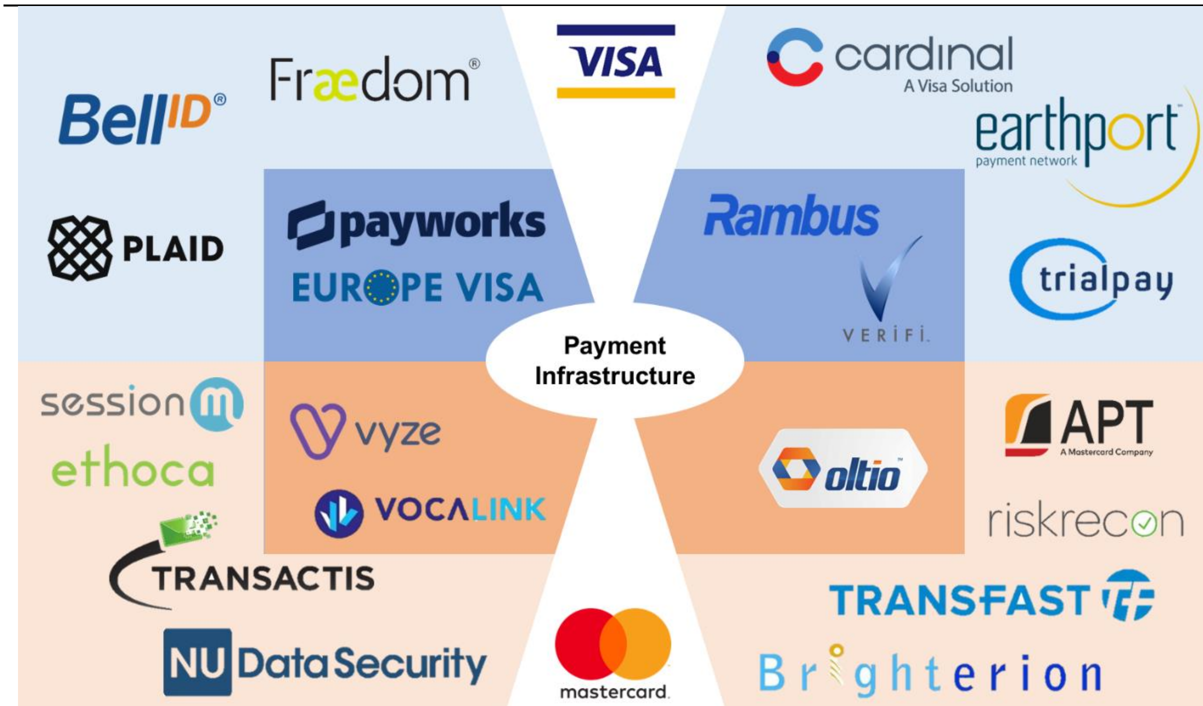
Global FinTech Biweekly vol.17

Highlight of this issue – The Re-rating of Fintech Infrastructure

Figure 1: Companies acquired by Visa/Mastercard in recent years – most of them are fintech infrastructure



Source: Company disclosure, AMTD Research

Valuations of fintech infrastructure companies soared

Fintech infrastructure companies have been popular M&A targets during the recent years, with their valuations rising exponentially. Sofi acquired digital payments solutions provider Galileo in April at US$1.2bn, giving Galileo's investors a 4x return in six months; Plaid, an open banking data exchange platform, was acquired by Visa in January for US$5.3bn, doubling its valuation in Dec 2018 funding round. Of the 21 companies Visa and Mastercard acquired during 2015-2019, 16 are fintech infrastructure companies. We believe valuations of fintech infrastructure companies are likely to continue re-rating, and active players such as Visa and Mastercard may benefit from it.

Fintech industry consolidation may boost demand for fintech infrastructure companies

As consolidation in the fintech sector picks up, fintech infrastructure companies are becoming increasingly valuable – driven by a surge in demands for fintech infrastructure. The reasons come from three main aspects:

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(1) Global fintech funding fell and investors prefer mega deals. It means there are fewer funding opportunities for early stage startups. Fintech firms have to scale up and be more competitive through M&A – in 2019, the global fintech VC funding fell by 15% YoY to US$34.5bn; the number of deals dropped by 7% YoY to 1,913; early-stage deals dropped to a 5-year low, while late-stage deals hit a 5-year high.
(2) In the post-Covid world, traditional financial institutions accelerate their digital transformation – they are caught off guard during the pandemic. As customers' preference for digital financial solutions become a long-term theme, institutions turn to fintech infrastructures instead of in-house solutions to develop fintech solutions more rapidly. According to DBS, in 1Q 2020, its volume of cashless transactions nearly doubled compared with the same period last year; 100,000 customers started online spending for the first time, and about 30% of these customers are above the age of 50. This demonstrates a significant change in consumer behaviors, and it is imperative that financial institutions move fast.
(3) Tech companies are tapping into fintech services. Fintech infrastructure can help them accelerate this process. After Apple successfully launched its Apple Card, Google is planning a debit card - Google Card, which will be co-branded with several bank partners in the U.S.. In April, Facebook invested US$5.7bn in India's top telecom operator Jio and became its largest minority shareholder, likely to embed Facebook's WhatsApp Pay in its e-commerce initiatives in India. Smartphone giants in China are also launching fintech business in India and Southeast Asia.

Acquiring fintech infrastructure companies is of strategic importance for fintech firms
The acquisition of fintech infrastructure companies is of strategic importance for fintech firms. Fintech infrastructure companies usually connects with many financial institutions and corporates, so established firms enjoy first-mover advantages and network effects. As a result, large companies could choose to acquire well-developed industry leaders, rather than building their own fintech infrastructure. Meanwhile, the global network and large number of high-quality customers of fintech infrastructure companies could be leveraged by fintech firms to further expand their business. For example, before acquired by Visa, Plaid has connected with over 11,000 financial institutions and more than 2,600 fintech developers, including Chime, Acorns and Venmo.

Six categories of fintech infrastructure companies
Fintech infrastructure companies can be divided into six categories: Payment Infrastructure, providing payment gateway, cross-border remittance and other services, such as WorldPay, PayMate, etc.; Banking as a Service/BaaS, which provides online banking solutions for new digital banks, such as Bankable, solarisBank, Mambu; Bank Connector, tools to help fintech firms access aggregated financial data, such as Plaid and Tink; Lending as a Service/LaaS, providing end-to-end lending solutions, such as Amount, Finastra, Turnkey lenders; Card Issuing, enabling fintech companies to instantly issue and process cards, such as Marqueta, Galileo; Brokerage Infrastructure, which helps fintech companies offer stock trading and brokerage services, e.g. Drive Wealth.

Payment Infrastructure is the hottest area; digital currency will breed new opportunities
Payment Infrastructure is one of the main pillar for fintech: of the 13 fintech infrastructure companies acquired by Visa and Mastercard in recent years, more than half are Payment Infrastructure providers. Digital assets are still in the early stage of development, and infrastructure related to virtual currency custody, pledge and other services are fast evolving. The PBOC Digital Currency (DCEP), which started pilots in April, is the infrastructure of the digital economy and a brand new payment tool. The fintech infrastructure built on the Digital Currency could be the next hot spot.

Largest infrastructure players: Visa, Mastercard, PayPal and Alibaba
2020 is an inflection point for fintech industry. Customers' rigid demands for fintech amid the pandemic is forcing the traditional financial industry to upgrade. The valuation of fintech infrastructure companies is likely to re-rate. Global giants such as Visa, Mastercard, PayPal and Alibaba are likely to benefit most from their extensive layout in fintech infrastructure.

News of the week

4 May 2020

Payment

Silver Lake/Facebook

Silver Lake followed Facebook's bet on Indian telecom firm Jio

Silver Lake Partners will invest about US$753mn in the digital unit of Jio, India's largest tech and telecom firm under Reliance Industries. It comes after Facebook's US$5.7bn deal, which made Facebook become Jio's largest minority shareholder with a stake of 10%; Facebook aims to promote its WhatsApp Pay in India. In less than four years, Jio has brought more than 388 million people online. Chairman Ambani planned to cut net debt of Reliance, and is in negotiations to sell an estimated US$15bn stake in Reliance Industries' oil-and-chemicals division to Saudi Arabian Oil Co. (Source: Yahoo)

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4 May 2020

Trading

Robinhood

Robinhood raises US$280mn at US$8.3bn valuation

Robinhood has closed a $280 million Series F funding round led by Sequoia Capital that values the stocktrading app at $8.3 billion. NEA, Ribbit Capital, 9Yards Capital, and Unusual Ventures joined the round, which was widely trailed and follows a $323 million raise last July. The firm has added 3 million funded accounts just this year and in recent weeks it has seen record revenue growth, while its daily trading volume for March was three times higher than its fourth quarter average. (Source: Fortune)

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4 May 2020

Personal finance

Go Bear/AsiaKredit

GoBear moves into consumer lending with acquisition of AsiaKredit

Singaporean financial comparison site GoBear is extending its regional influence and business remit with the acquisition of consumer lending platform Asiakredit, which has processed over 1 million loan applications in the Phillippines. GoBear says it will use the AsiaKredit platform to provide its 100 banking and insurance partners with a lending-as-a-service facility for underserved consumers in South East Asia and Hong Kong. GoBear has served over 40 million users to date, with revenue from its consumer finance products increasing by over 100% last year. (Source: Tech in Asia)

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4 May 2020

Digital insurance

Zhongan/Fubon

ZhongAn's JV receives Hong Kong's online insurance license

ZA International announced that its joint venture with Fubon Life Insurance, ZA Life, has obtained a digital-only insurer license from the Hong Kong Insurance Authority under the latter's Fast Track pilot scheme, became the fourth virtual insurer in Hong Kong. ZA Life, operating under the trade name ZA Insure, will eliminate intermediaries through a digital-only 24/7 insurance platform that fulfills quotations, underwriting and claims. ZA Insure will launch its services in the near future, with products including life insurance and critical illness insurance to cover different needs. (Source: AsiaInsurance)

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1 May 2020

Personal finance

Tencent/Afterpay

Tencent buys stake in Aussie buy-now-pay-later outfit Afterpay

Tencent has bought a 5% stake, worth around A$390mn, in Australian buy-now-pay-later firm Afterpay. Tencent built up its stake over the course of around a month, before hitting the 5% disclosure threshold on 30 April. Afterpay lets customers pay for products in interest-free installments. As of Q3 fiscal year 2020, Afterpay's number of American customers jumped to 4.4 million; 90% of its GMV originating from repeat customers throughout the globe. (Source: Pymnts)

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1 May 2020

Payment

Finablr

Finablr uncovers £1.3 billion in hidden debt

Troubled foreign exchange and payments business Finablr has uncovered a hidden debt pile of £1.3bn. The company had its share suspendend in March amid "material uncertainty" about its ability to continue as a going concern. This followed the discovery of $100m of cheques that had not previously been disclosed, and the departure of its chief executive. Finablr has brought in forensic investigators from Houlihan Lokey and Kroll to comb through its books in an attempt to get to grips with its actual levels of indebtedness. (Source: Finextra)

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30 Apr 2020

Digital insurance

Citi

Citi introduces virtual meetings for Hong Kong insurance business

Citibank is the first financial services company in Hong Kong to introduce a virtual meeting room to provide a video remote insurance application service starting in April. Local Citigold Private Client and Citigold customers can have video meetings with their relationship manager online while staying at home. Customers can then complete the insurance application process by providing an electronic signature. The number of new insurance policies sold via digital channels recorded a growth of 13% YoY in 2019. (Source: BusinessInsider)

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28 Apr 2020

Cryptocurrency

Checkout/Facebook

Checkout.com joins the Libra association

Checkout.com is the first payments firm to join the Libra Association since Visa, Mastercard and Stripe pulled out over regulatory concerns. In recent weeks, other firms have said they will back Libra, including e-commerce giant Shopify, non-profit organization Heifer International and cryptocurrency brokerage Tagomi. Libra recently overhauled its plans, proposing several currency-backed stablecoins, including USD, EUR, GBP and SGD, and a single multi-currency token. (Source: CNBC)

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24 Apr 2020

Cryptocurrency

PBOC

China digital currency started pilots with 19 businesses incl. Starbucks

The PBOC launched a pilot program to trial its new digital currency yuan with 19 local businesses, including Cainiao, Starbucks and McDonald's. The digital currency trial is being held in Xiong'an New Area. The digital yuan is structured using a central bank-issued central bank digital currency (CBDC) for commercial banks and a commercial bank-issued CBDC focused on the public. The digital currency is expected to launch later this year or in early 2021, but no specific time frame has been announced. Further tests will be done in Shenzhen, Suzhou and Chengdu. (Source: Pymnts)

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24 Apr 2020

Cloud

NASDAQ

Nasdaq launches cloud data service

Nasdaq has launched Nasdaq Cloud Data Service (NCDS), which will give entrepreneurs and firms access to real-time exchange, index, and fund data. NCDS will run on Amazon Web Services (AWS), making Nasdaq's data available through a suite of highly scalable, cloud-based APIs. The cloud solution will allow the integration of data from disparate sources and eliminate the need for hardware procurement, proprietary protocols, file formats, and leased lines. (Source: BusinessInsider)

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