

BANKING

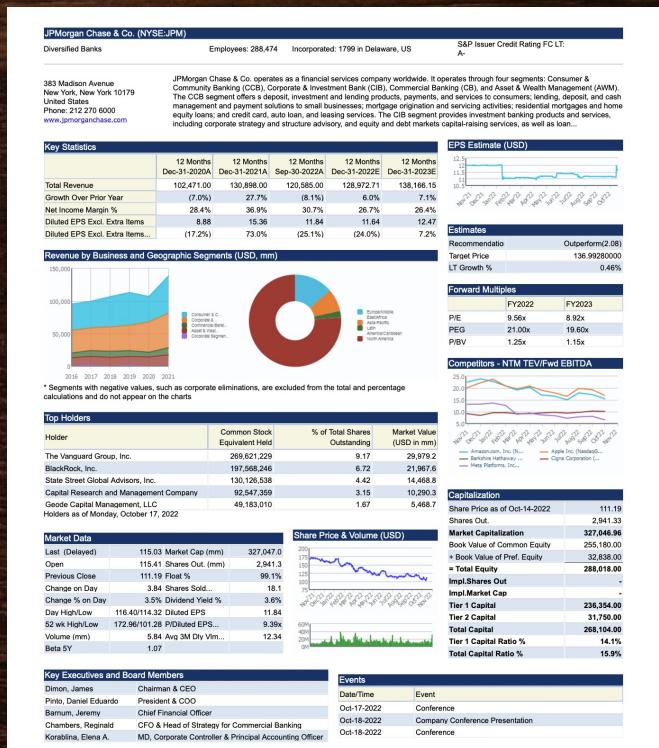
FINTECH 520

SEPTEMBER 27, 2022

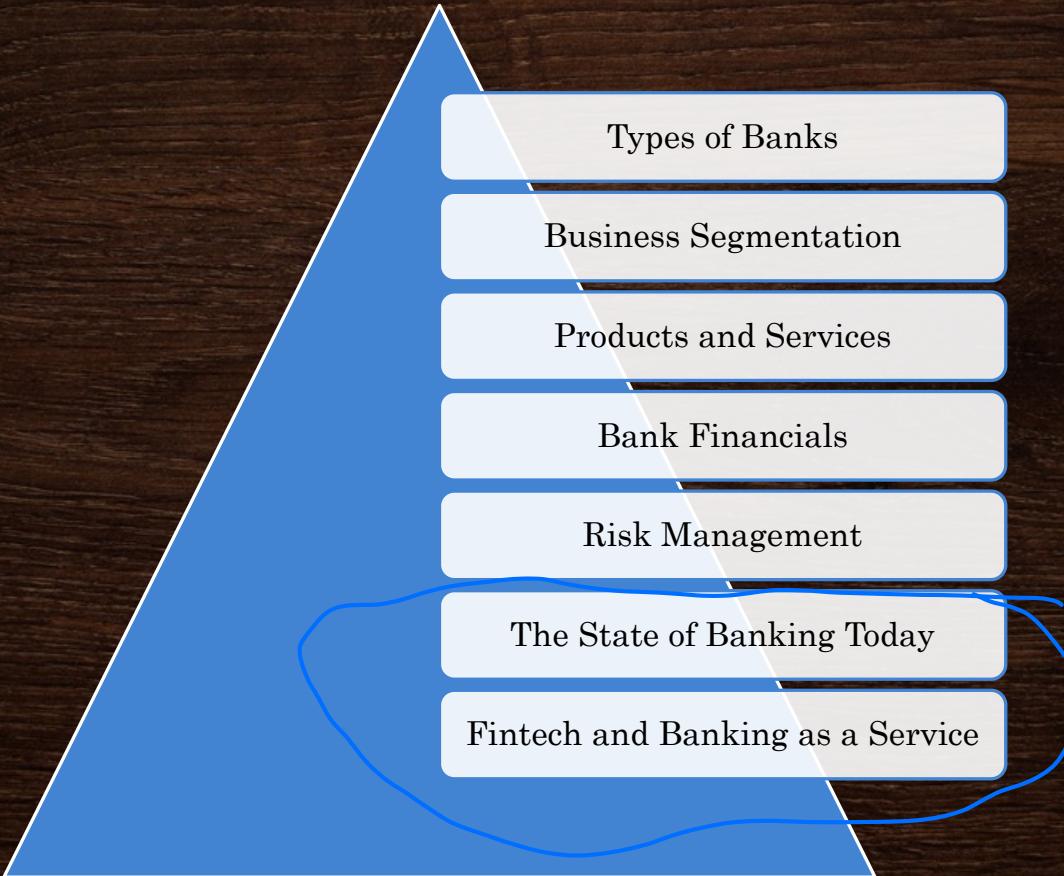
OCTOBER 4, 18, 2022

Assignment 2

- Create a Fact Sheet for **any** publicly traded Financial Services company (except JPMorgan Chase).
- Research and choose your own template. The one shown here is to illustrate my expectations.
- The point of this assignment is for you to:
 1. Access financial databases that are part of the Duke Library system (hint ... focus on the Ford Library),
 2. Research and learn about a company of interest to you, and
 3. Create a visually appealing and informative document.
- You will be graded on design and content.
- Please refer to additional instructions in Sakai
- Due date end of day Oct 25



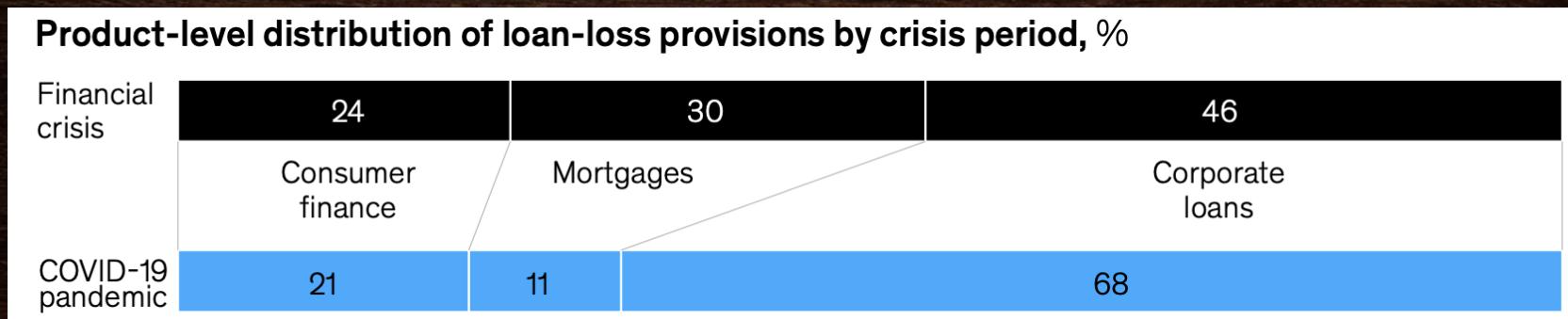
Topics



The background of the image is a dark, rich wood-grain texture, possibly mahogany or walnut, with prominent grain patterns and some knots. It covers the entire frame.

THE STATE OF BANKING TODAY

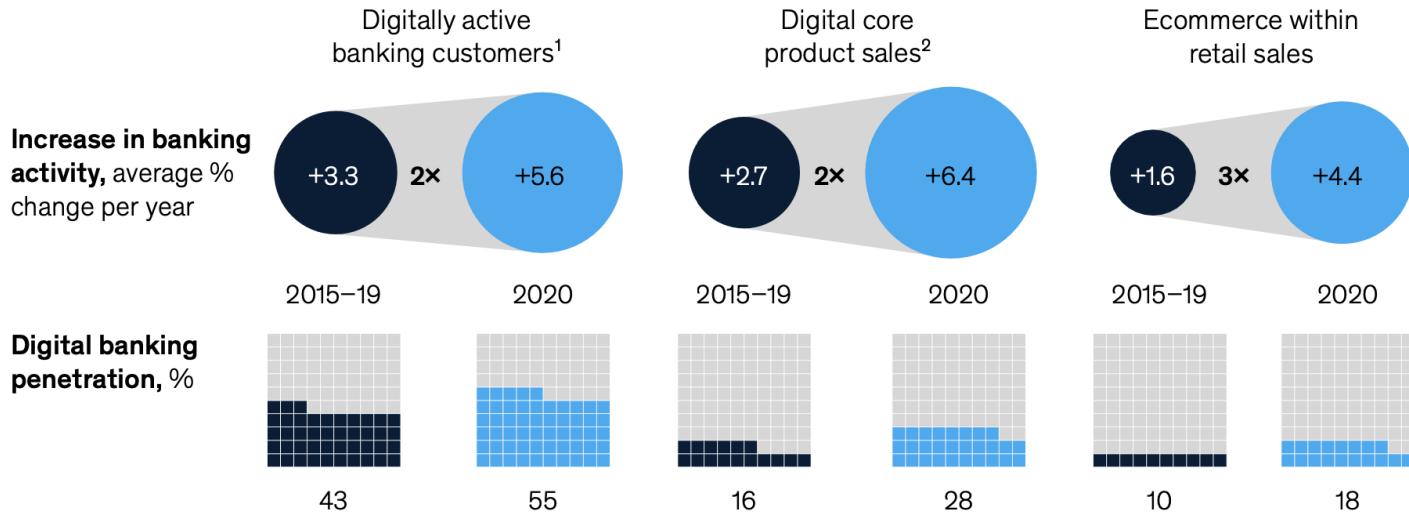
Bank Loan Loss Provision – COVID versus 2008



Digital Proliferation

The rate of digital banking adoption has doubled during the pandemic.

Comparison of digital banking metrics from 2015–19 and 2020



¹Day active digital (online plus mobile) users over total active customers.

²Digital product sales over total product sales. Sales data reflect product units.

Source: Finalta; Statista

Returns on Equity

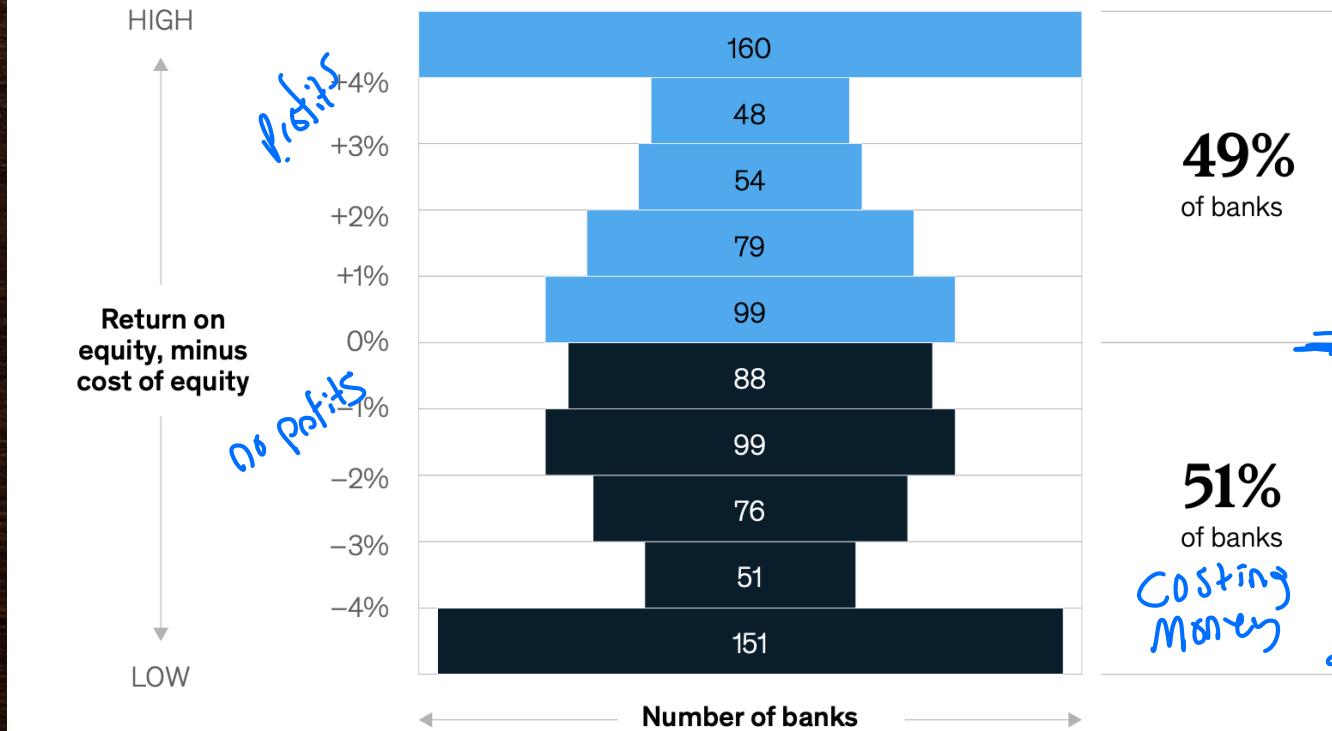
* important * Capital

equation n =

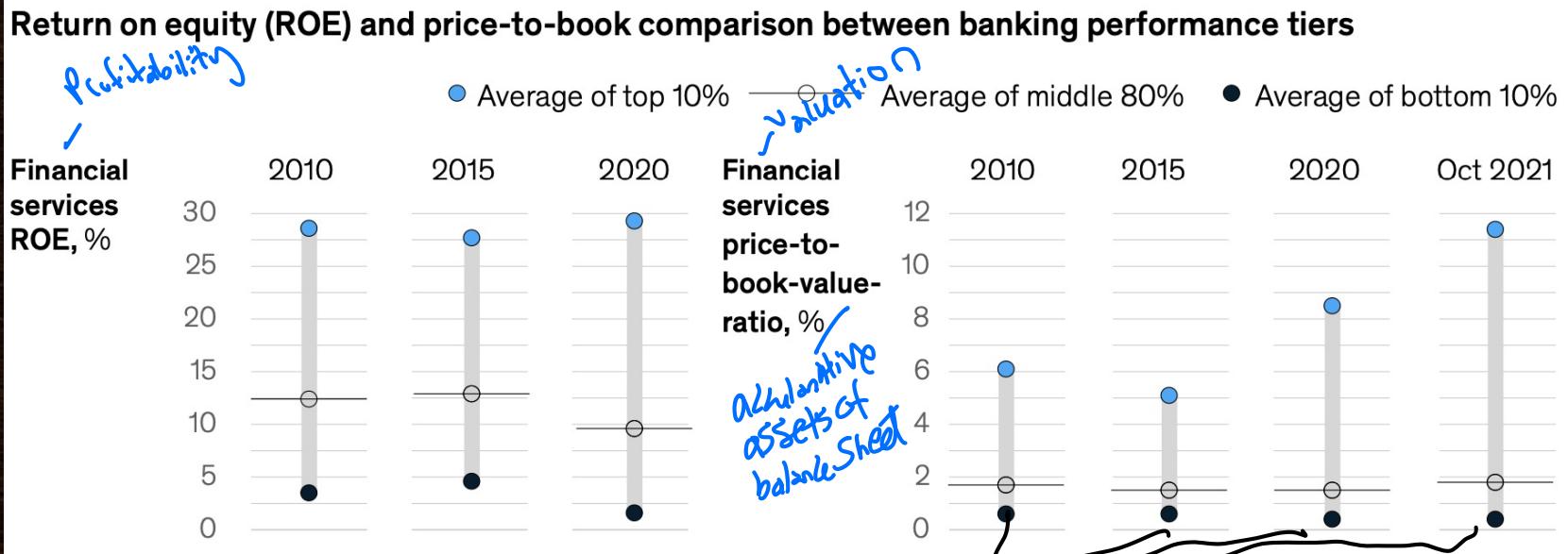
Half of banks generate returns on equity below the cost of ~~equity~~.

cost of capital

Average return on equity—cost of equity spread 2011–20, number of banks (n = 905¹)



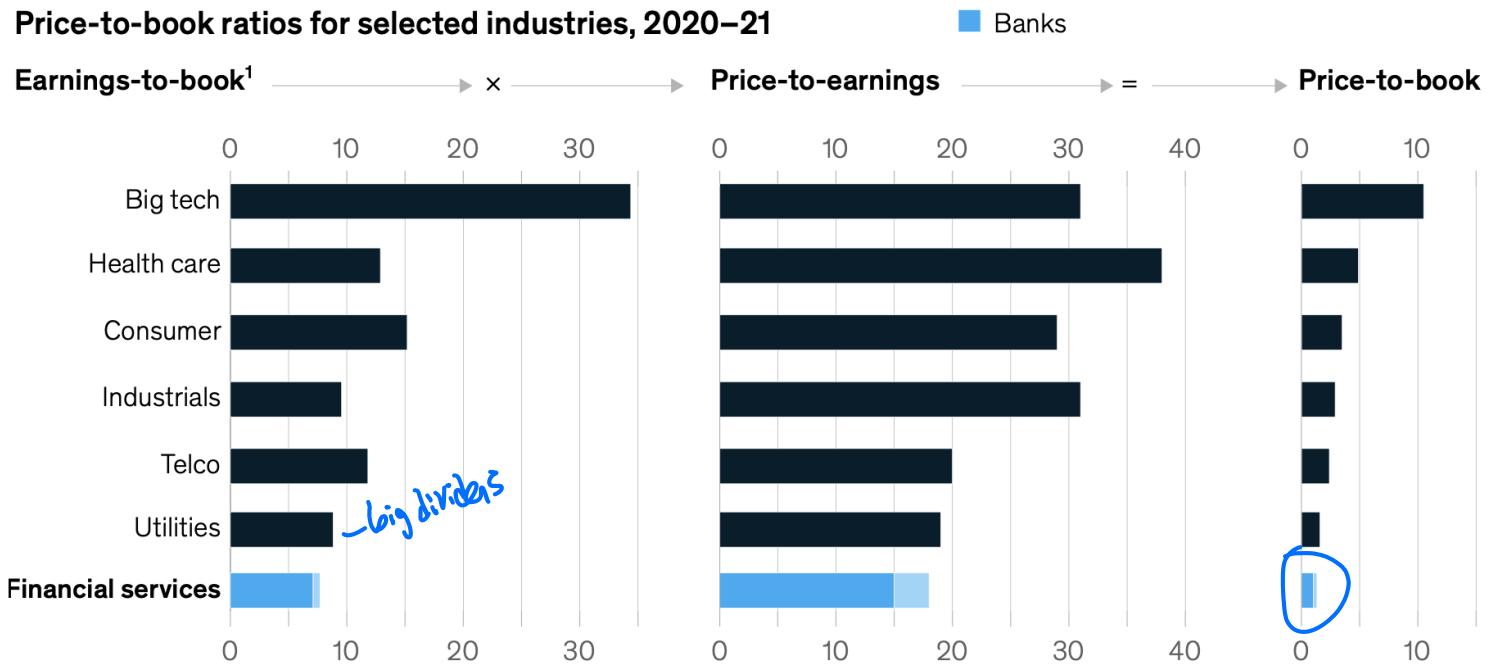
Returns on Equity



- Trading close to liquidation Value
- Should just liquidate

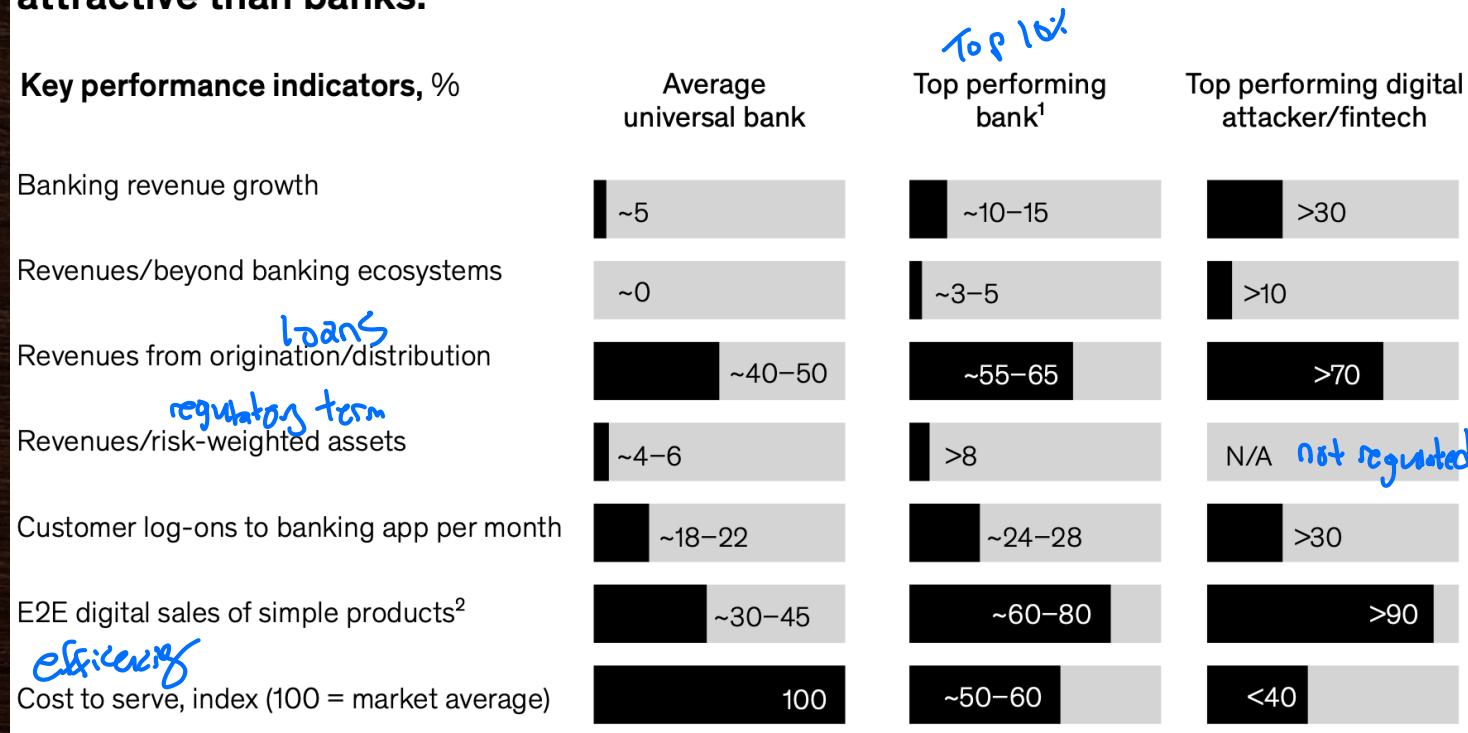
Market Valuations versus Other Sectors

Market expectations for growth and profitability of banking remain low.



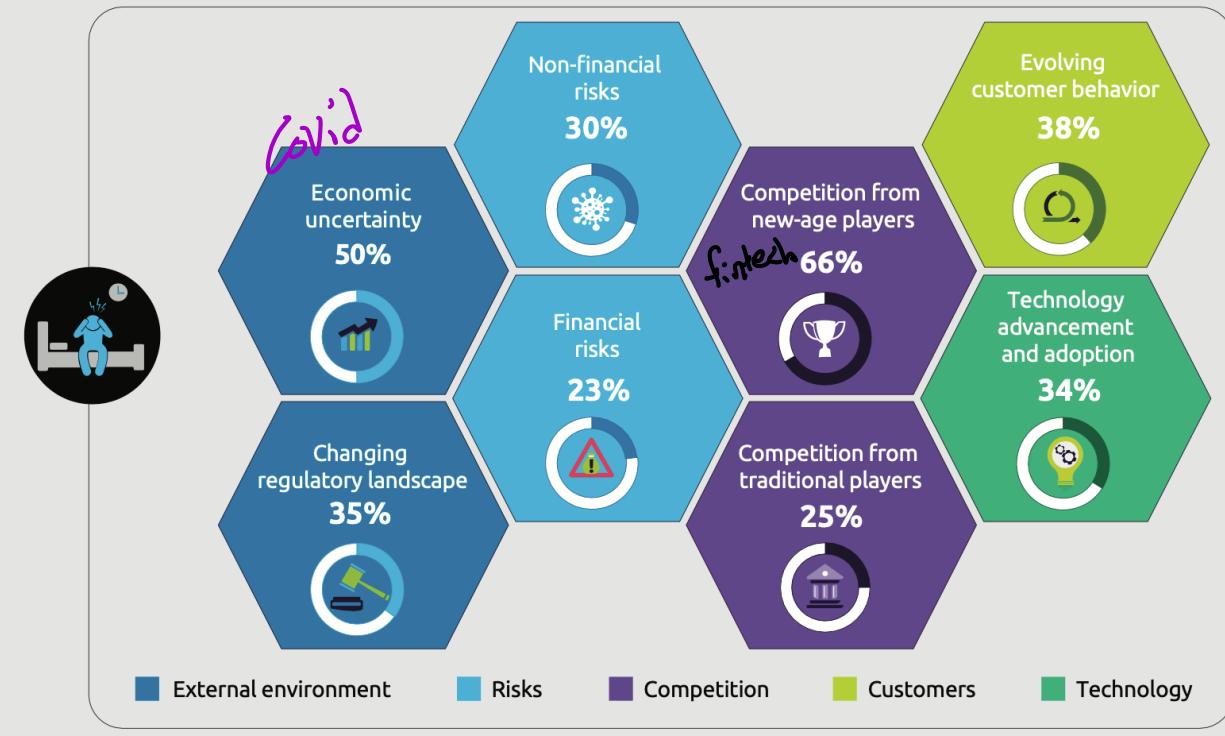
Bank Comparisons with Fintech

Economic model of top-performing digital attackers and fintechs more attractive than banks.



Challenges

Figure 1. What's making retail banking executives lose sleep?



Inherent Challenges

1. Conflicting Priorities *of time to migrate systems*

80% of banks indicated that IT staff spends most of their time on day-to-day tasks

2. IT Complexity

36% say that complex systems are a top challenge

3. New Technologies

Only 5% would consider their IT framework to be cutting-edge

4. Budget Constraints

57% agreed that a lack of budget is a concern for innovation

5. Lack of Talent

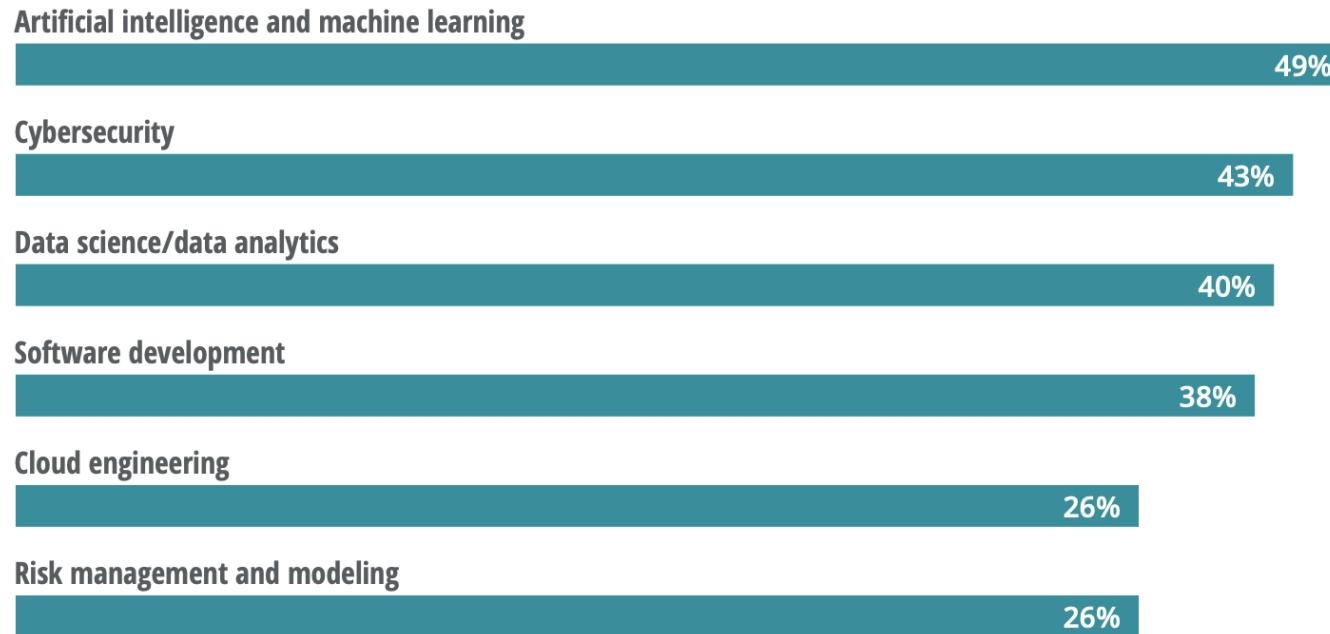
40% indicated that no one on their boards of directors had IT experience in their careers

Legacy Systems

- Mainframe based
- Systems are highly customized
- The *NEWEST* ones are over 20 years old
- The cost of maintaining these systems is increasing
- The number of people with the skills to maintain these systems are declining
- The cost and complexity of core system migration is extremely high

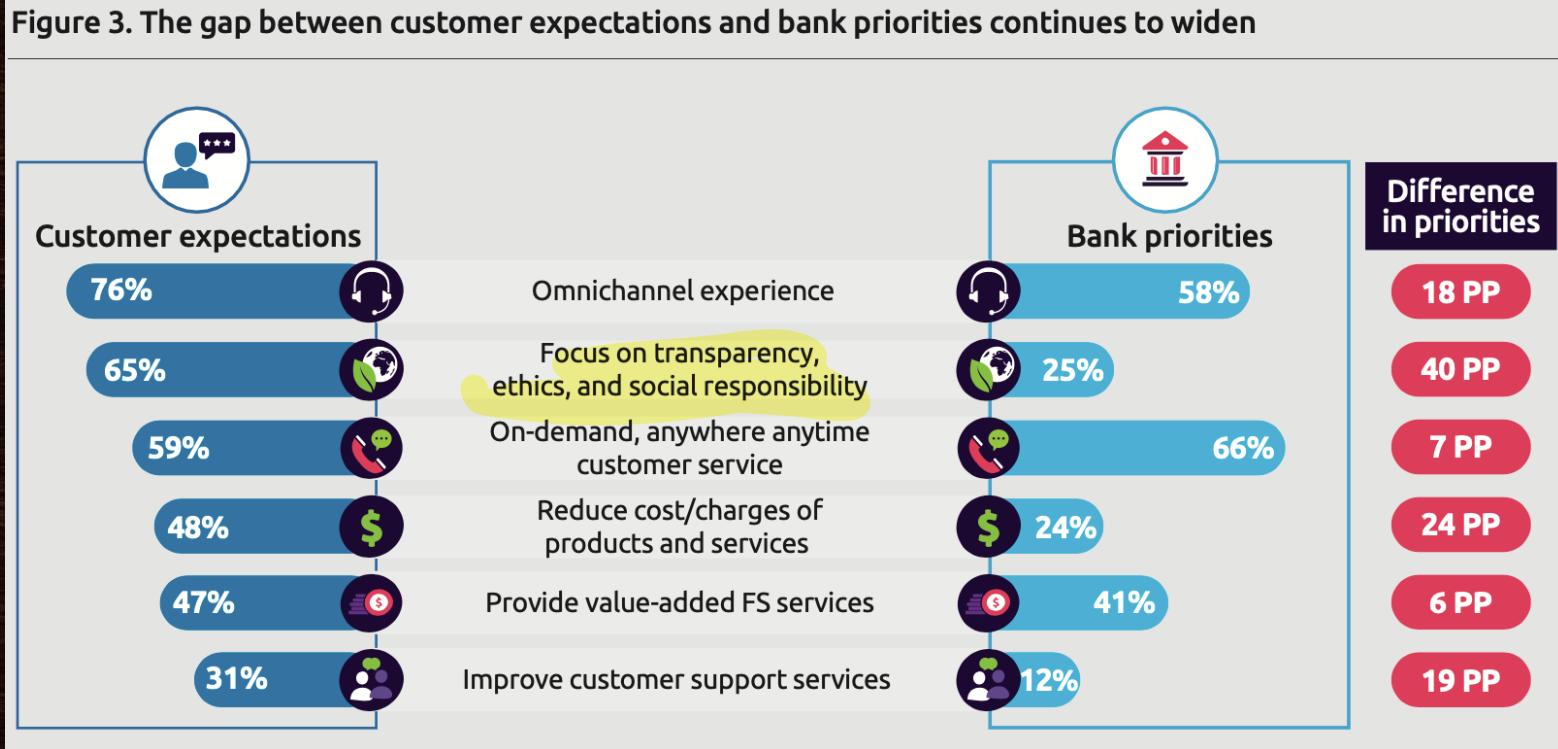
Skill Sets in Short Supply *VS*

Most difficult capabilities to acquire



Source: The Deloitte Center for Financial Services Global Outlook Survey 2021.

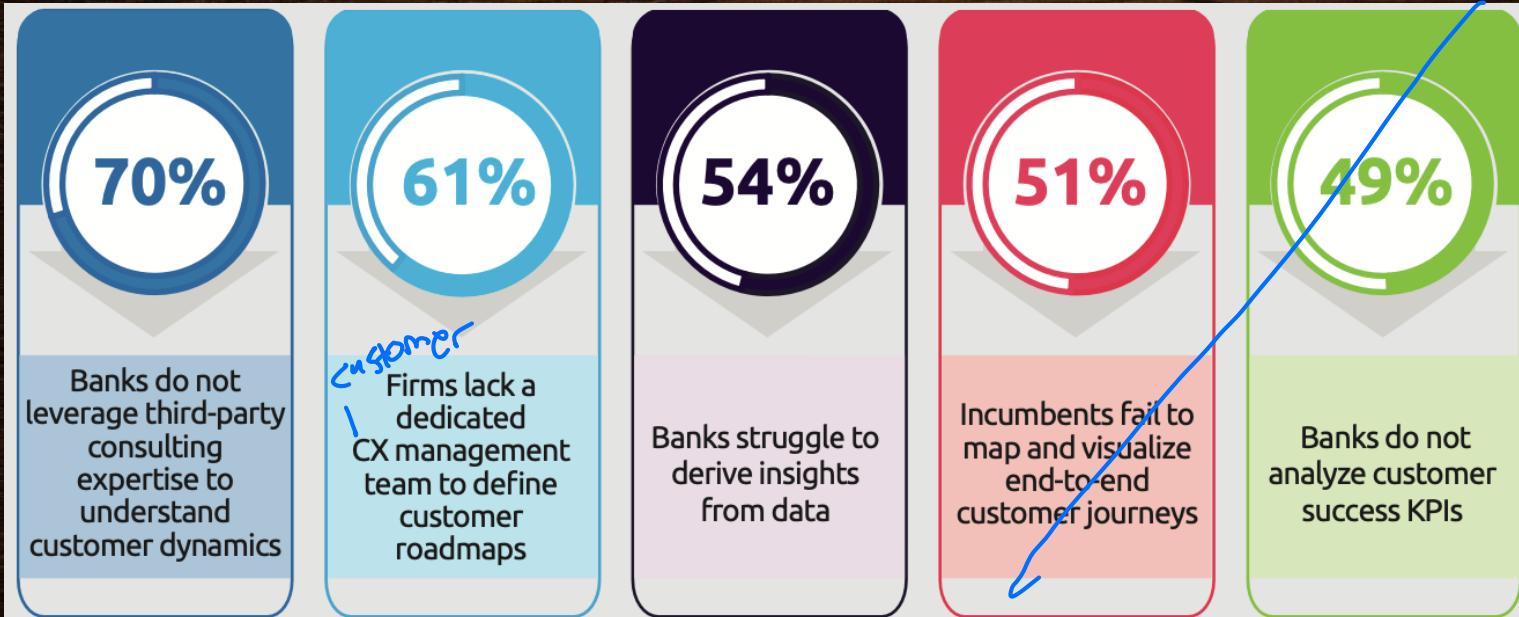
Expectations Gap



Do Banks Understand their Customers? *No*

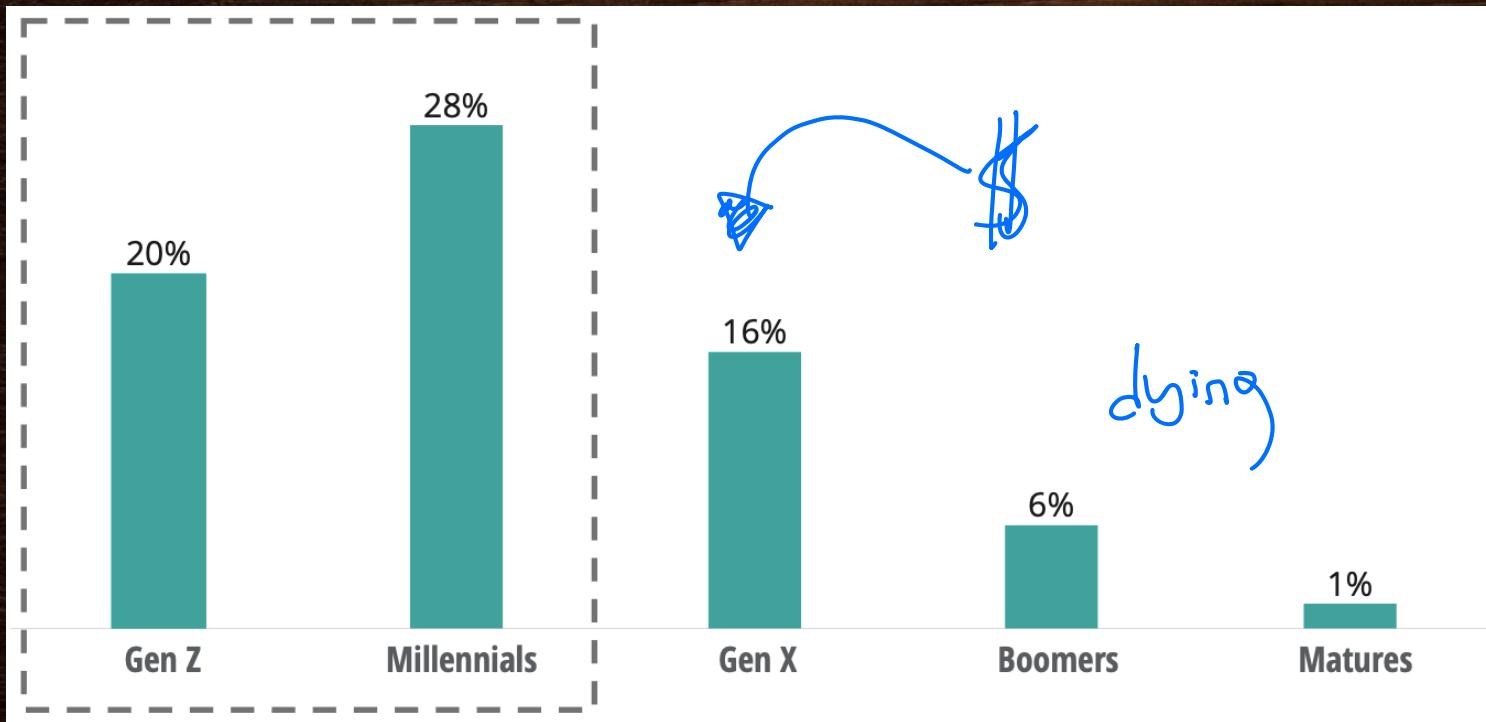
Context

Customer experience

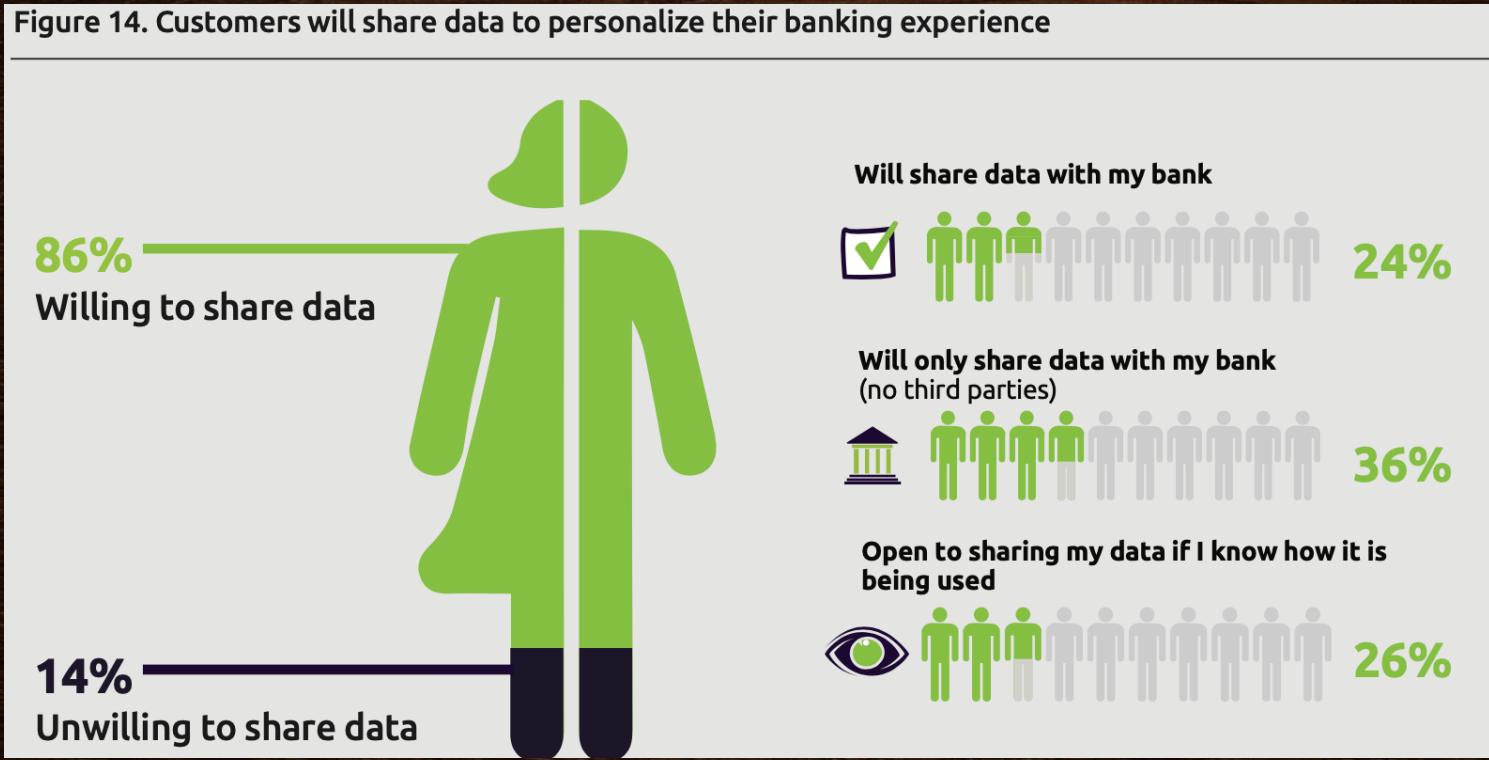


Same thing

Challenges – Likelihood to Switch

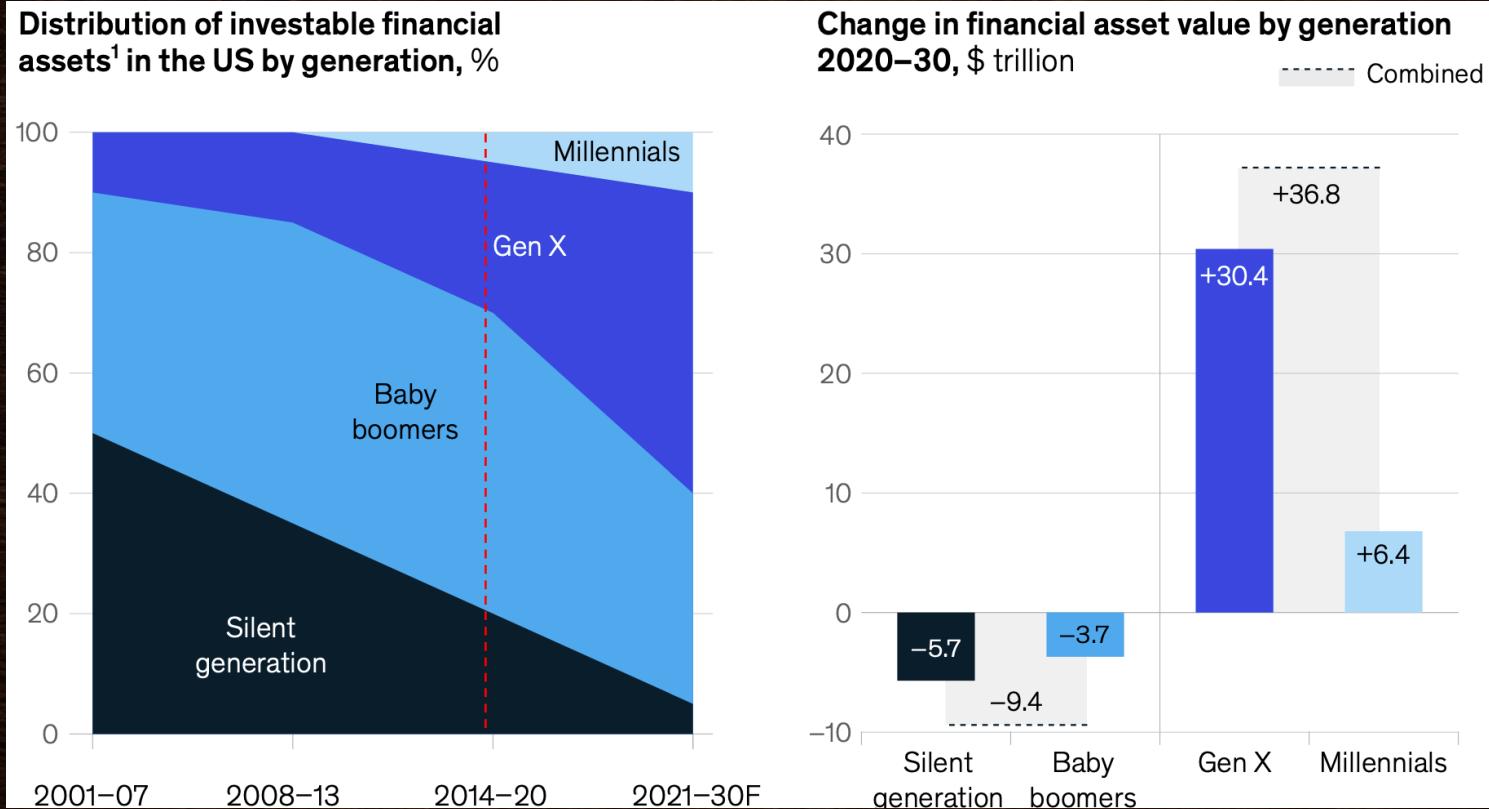


Customers are Willing to Share Data



Generational Wealth Shift

*to those willing to change
but banks are NOT*

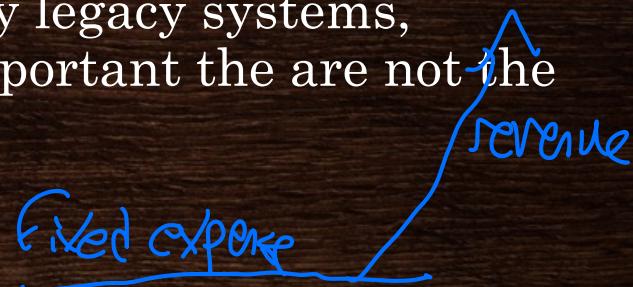


FINTECH

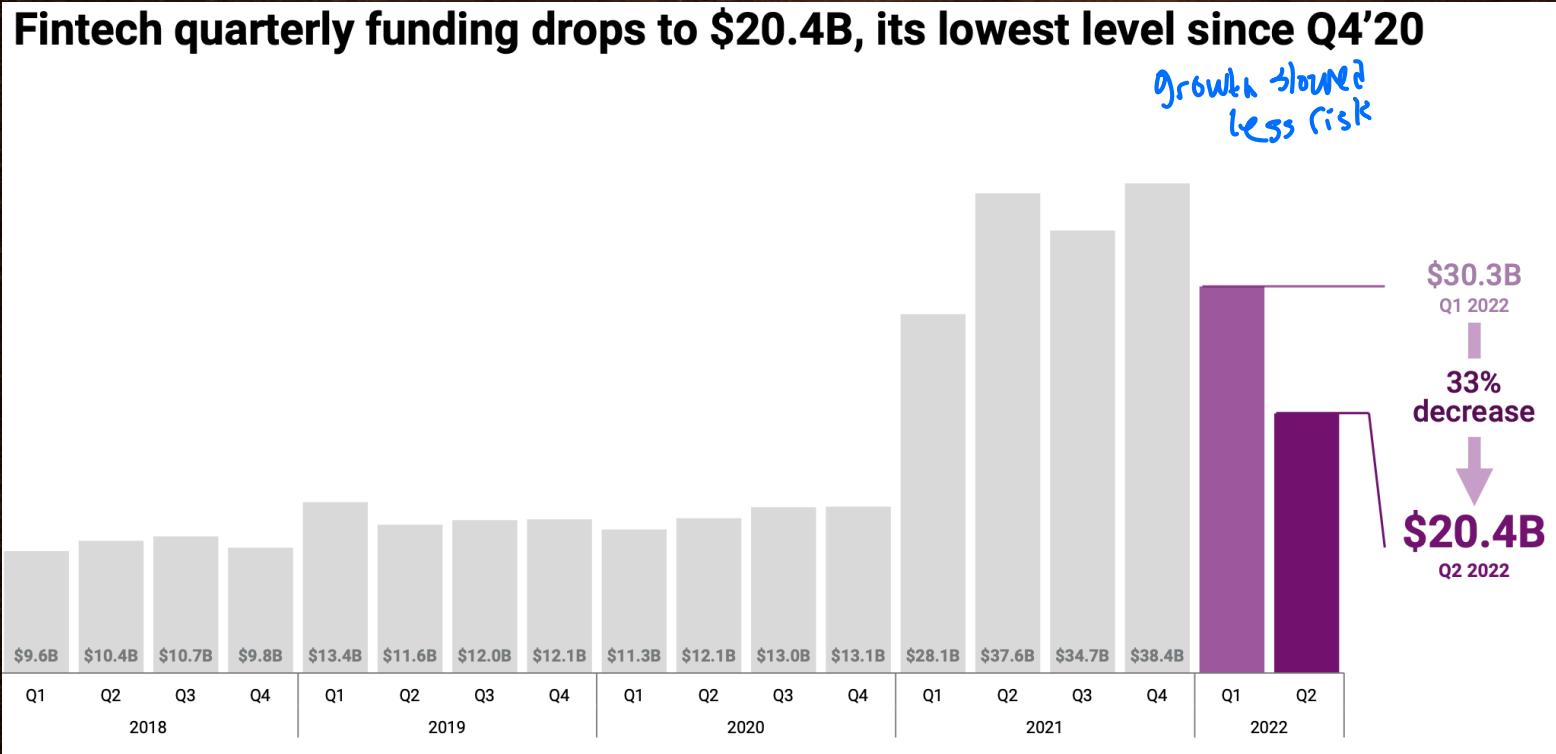
The Value of Fintech

tech enables economies of scale

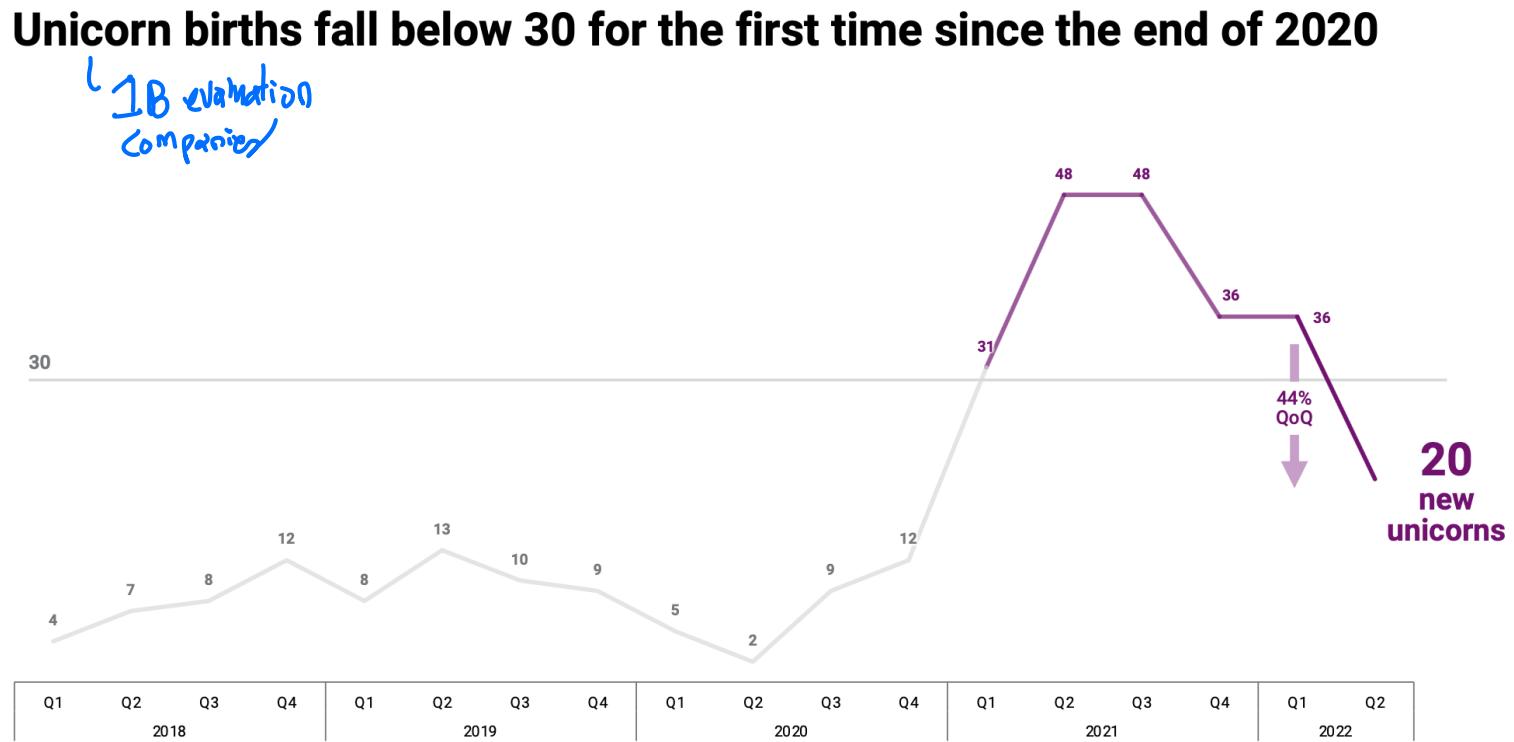
- Technology has enabled services perceived to be tailored for individual consumers *mass customization*
- Services and products are scaled due to technology-enabled processes *efficiency*
- In most cases little or no physical locations implies lower overhead costs
- Newer companies are not constrained by legacy systems, processes, and portfolios ... but most important they are not the victims of legacy thinking



Funding Trends

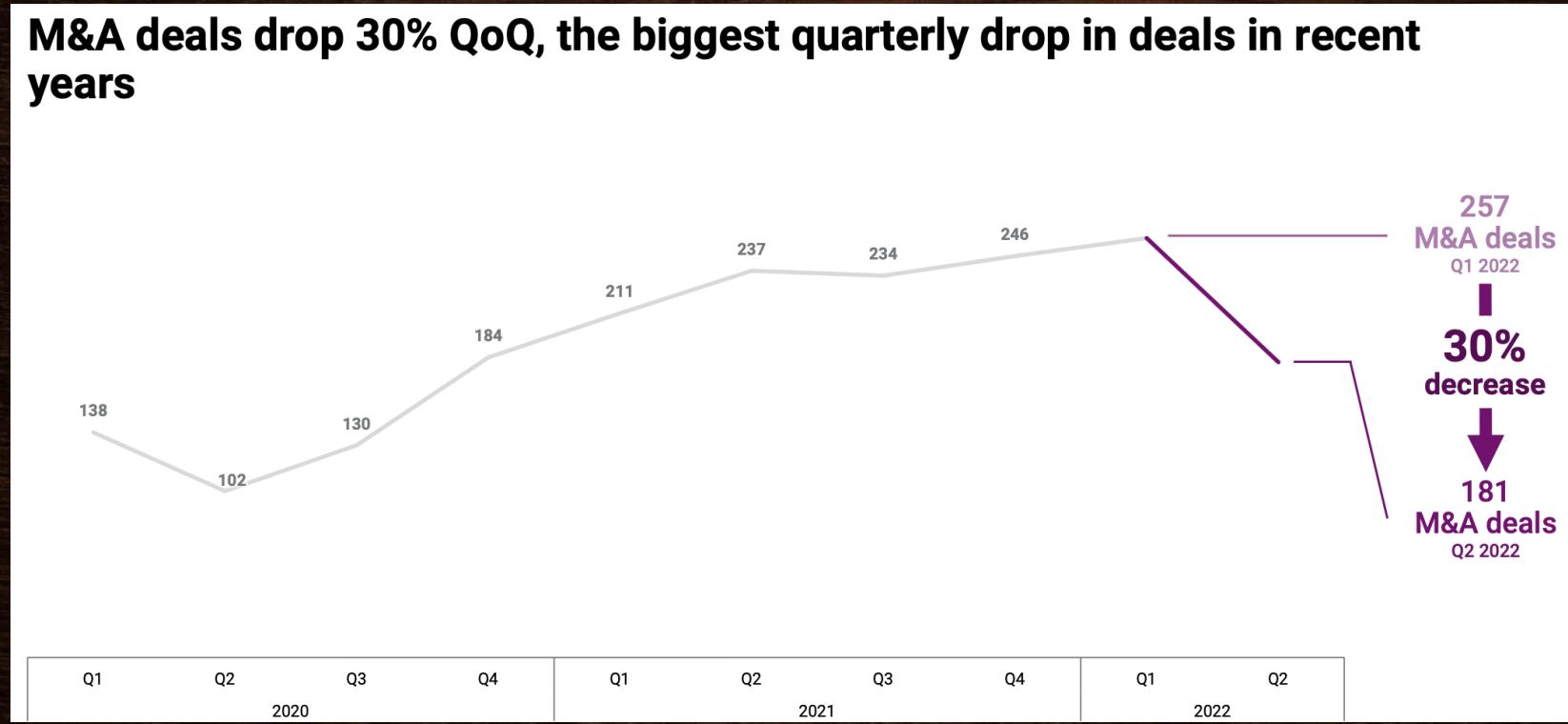


Funding Trends

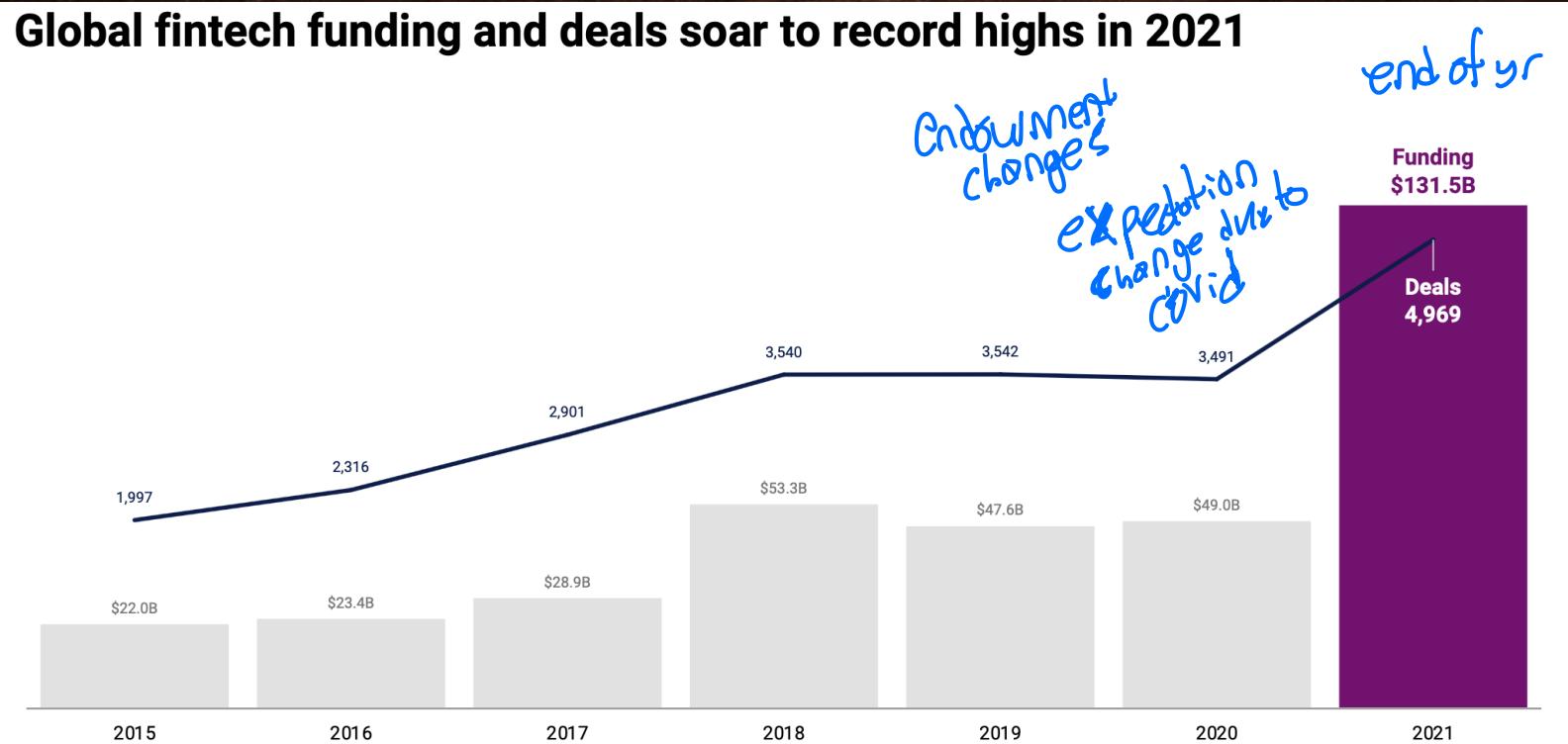


Funding Trends

M&A deals drop 30% QoQ, the biggest quarterly drop in deals in recent years

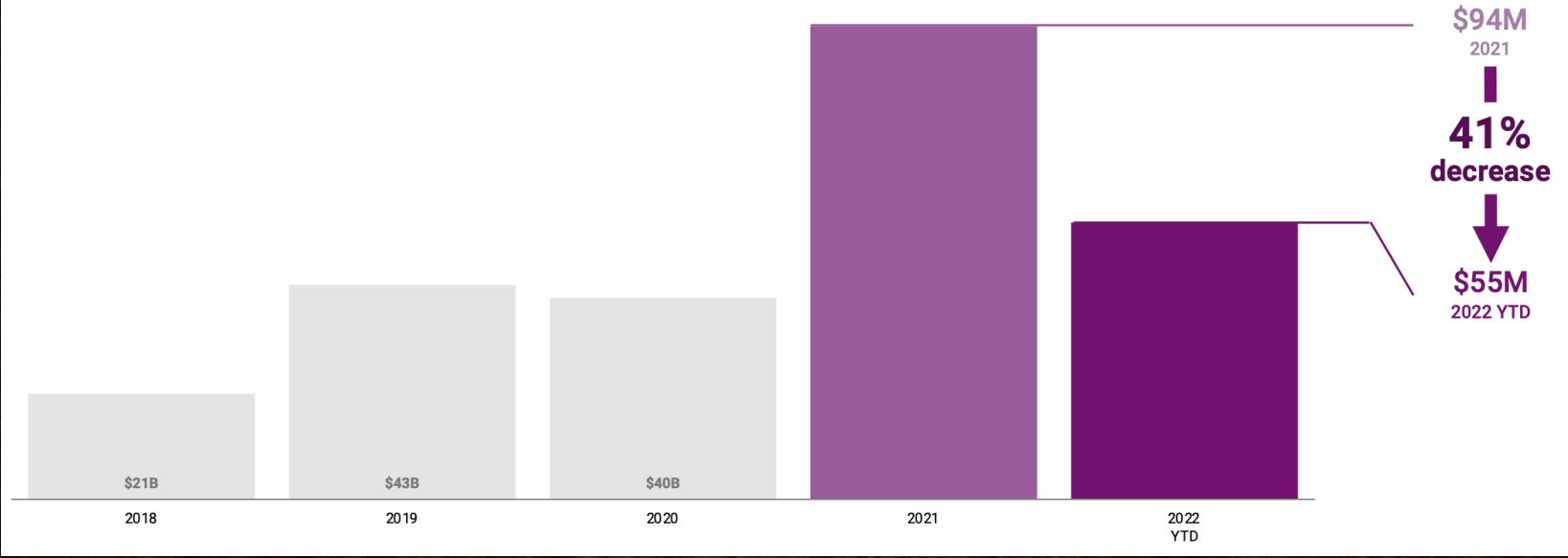


Funding Trends



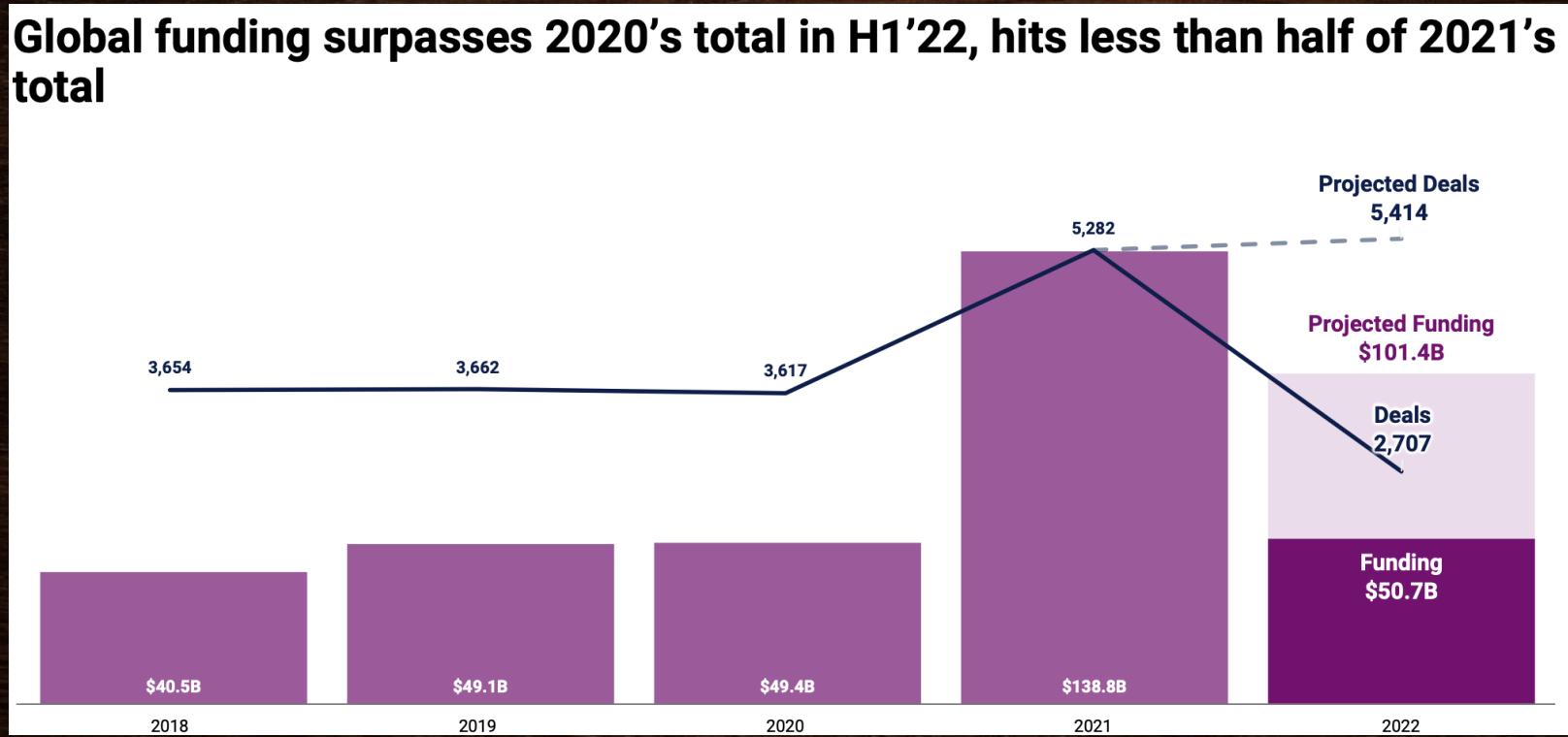
Funding Trends

Late-stage median deal size has decreased 41% in 2022 YTD



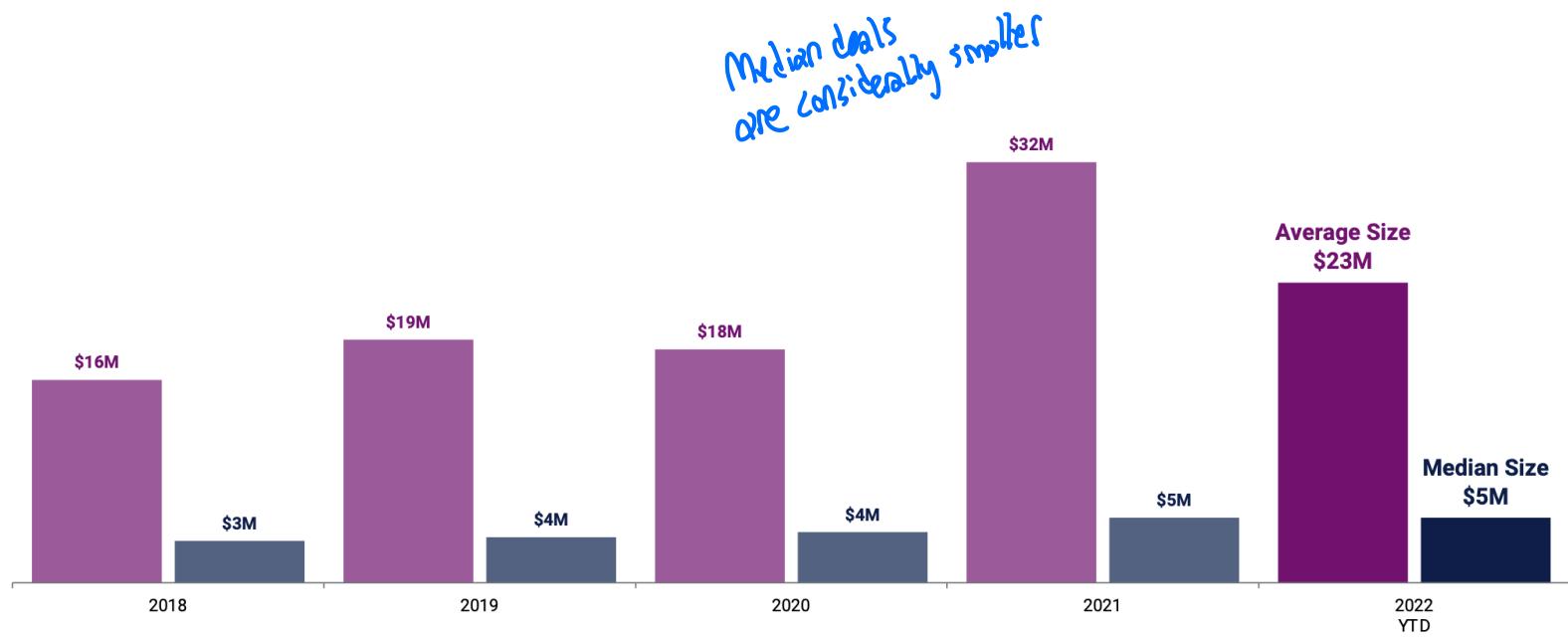
Funding Trends

Global funding surpasses 2020's total in H1'22, hits less than half of 2021's total



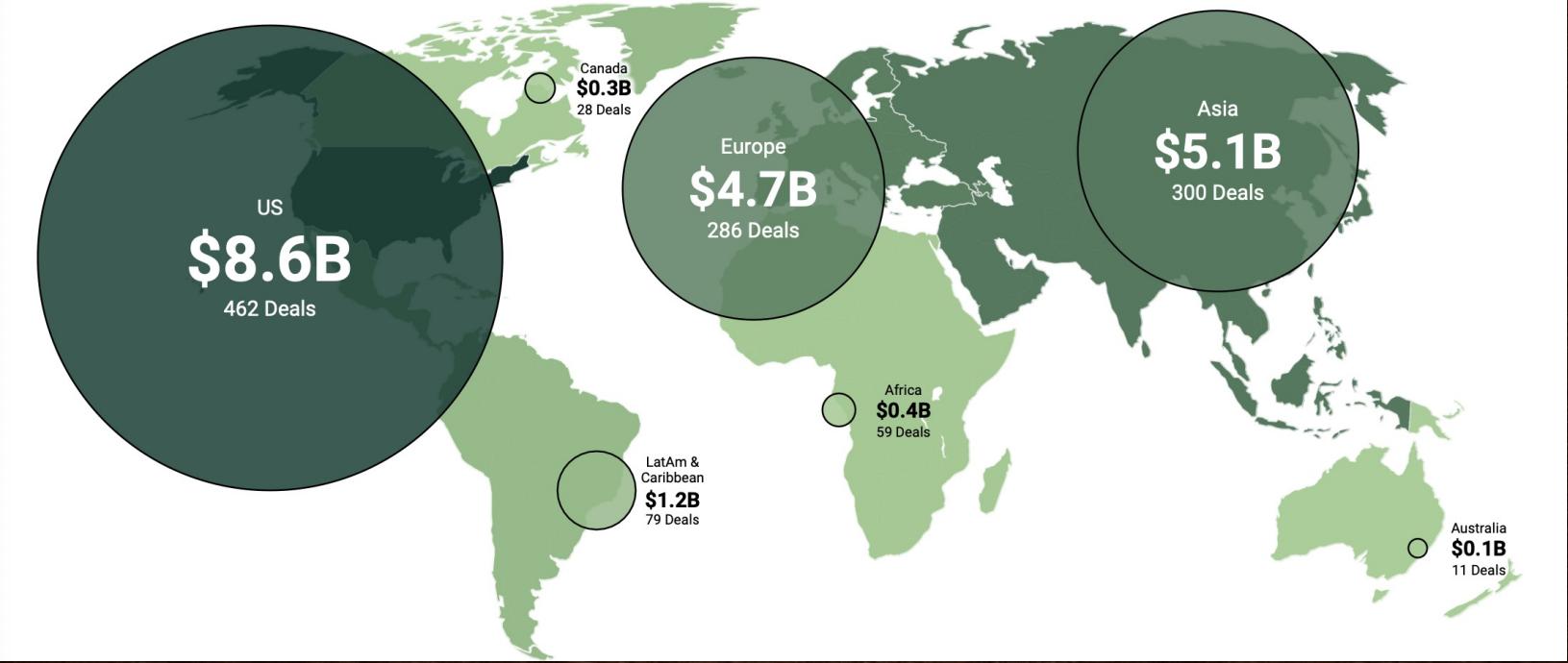
Funding Trends

Average deal size is down 28% from 2021, median deal size stays flat

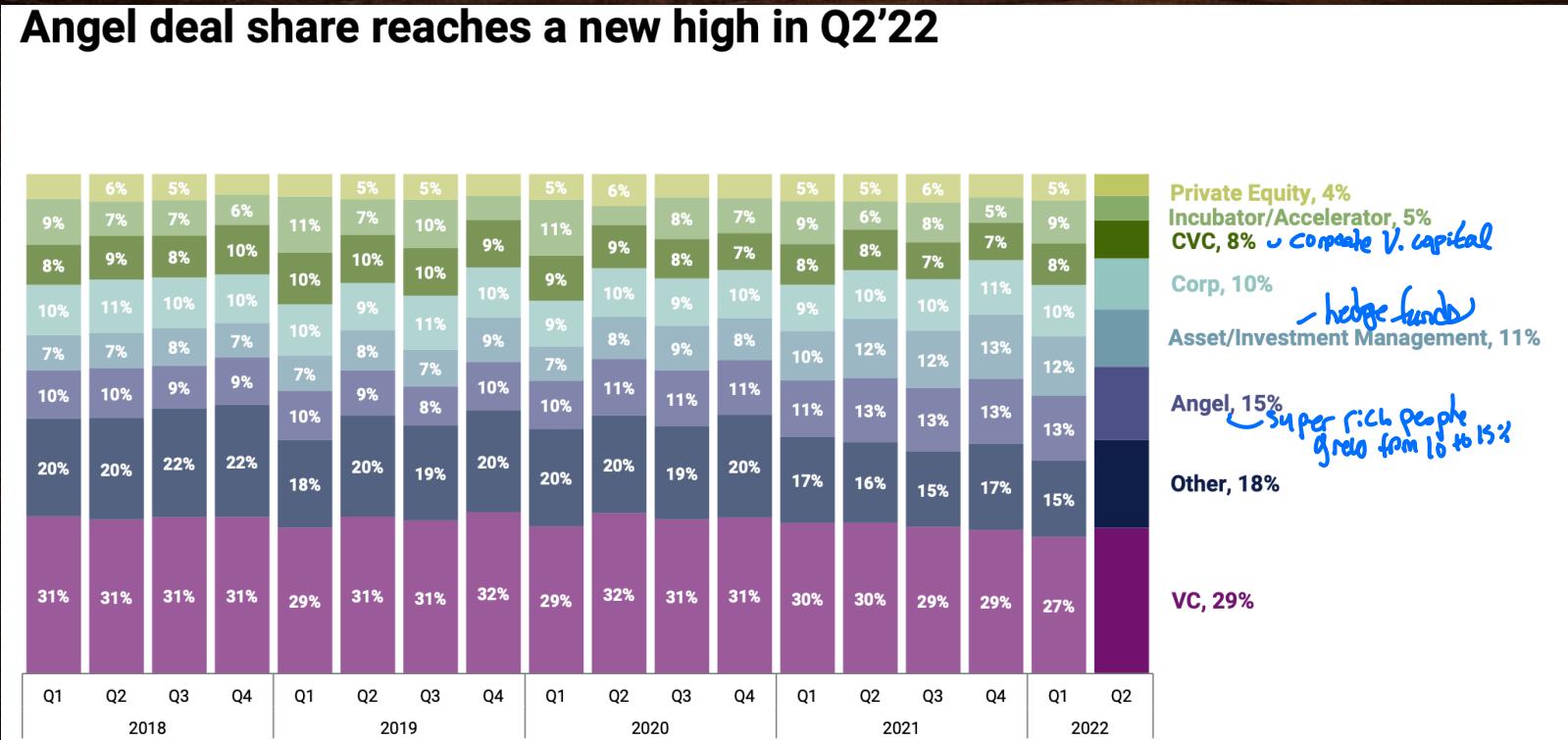


Funding Trends

The US leads in funding and deals in Q2'22, Asia comes in second



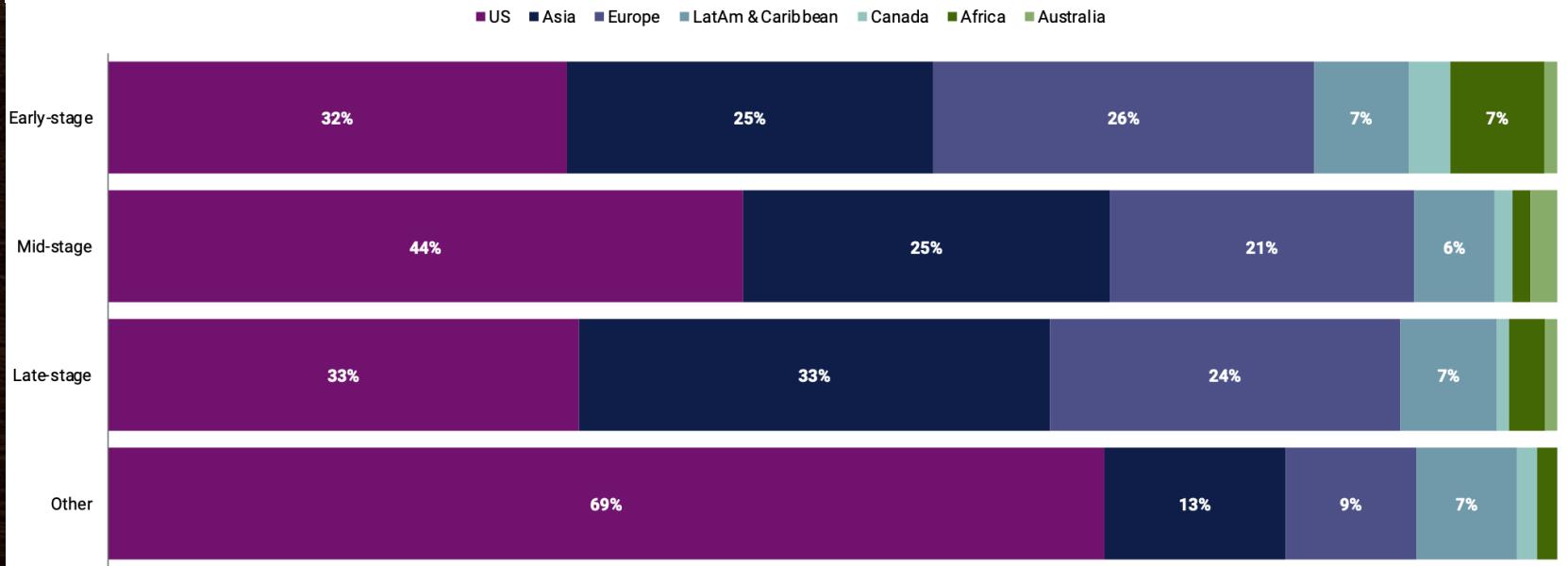
Investor Types and Fintech Deal Share



Geographic Deal Share

State of Fintech | Global Trends | Investment Trends

The US and Asia tie in late-stage deal share, the US leads all other stages





largest part of fintech
in acquiring bank space
Payment, fee, acquiring bank space

The Biggest of the Big Fintechs

Payment, fee, acquiring bank space

Global: Top unicorns by valuation in Q2'22

dominated by payment space

Company	Latest Valuation	Country
1 Stripe	\$95.0B	United States
2 Klarna	\$45.6B	Sweden
3 Checkout.com	\$40.0B	United Kingdom
4 Revolut	\$33.0B	United Kingdom
5 FTX	\$32.0B	Bahamas
6 Chime	\$25.0B	United States
7 Ripple	\$15.0B	United States
8 Blockchain.com	\$14.0B	United Kingdom
9 Plaid	\$13.5B	United States
10 OpenSea	\$13.3B	United States

In short term - Stock price may not directly reflect company's business

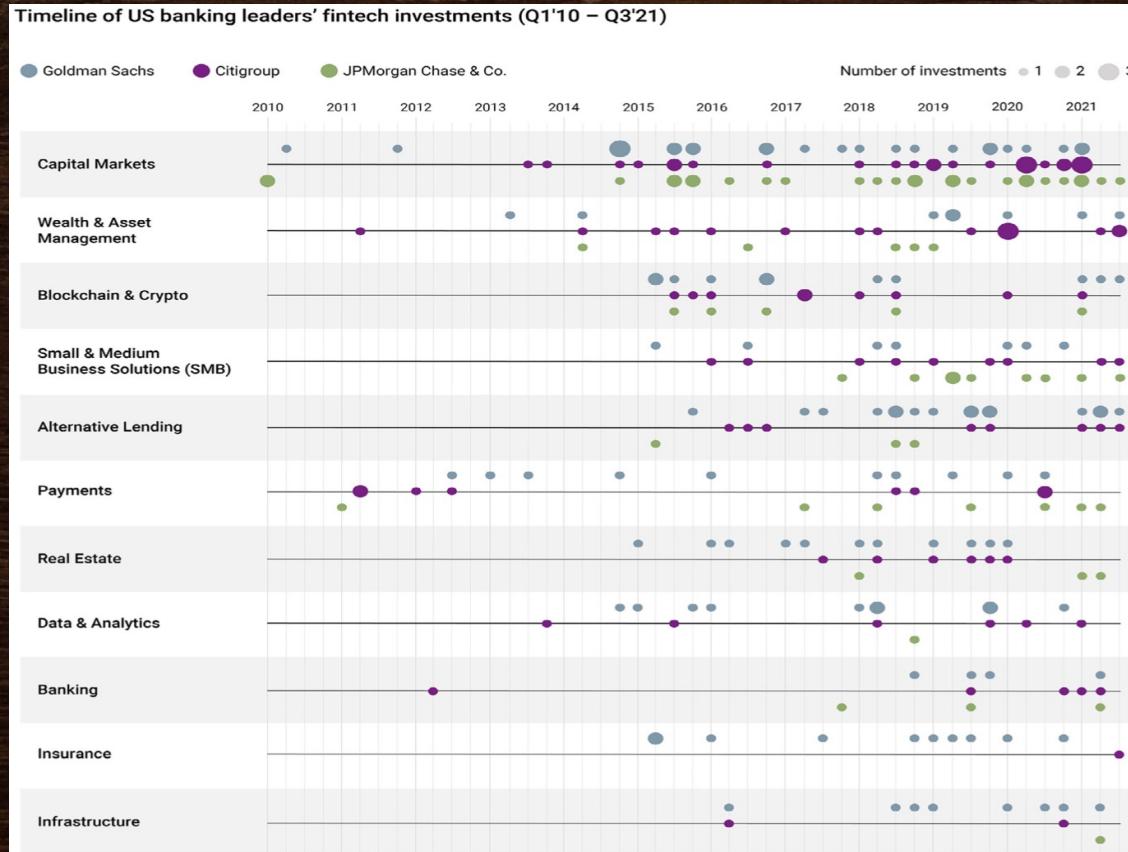
Top Investors in Fintech



Global: Top investors by company count in Q2'22

Investor	Company Count	Investor Group	Country
1 Global Founders Capital	24	VC	Germany
2 Tiger Global Management	22	Asset/Investment Management	United States
3 Andreessen Horowitz	17	VC	United States
4 Gaingels	16	Angel	United States
5 Coinbase Ventures	15	CVC <i>Corporate VC</i>	United States
6 Soma Capital	13	VC	United States
7 Accel	10	VC	United States
7 Index Ventures	10	VC	United Kingdom
7 Jump Crypto	10	Corp	United States
10 Insight Partners	9	VC	United States
10 Pantera Capital	9	VC	United States
10 QED Investors	9	VC	United States

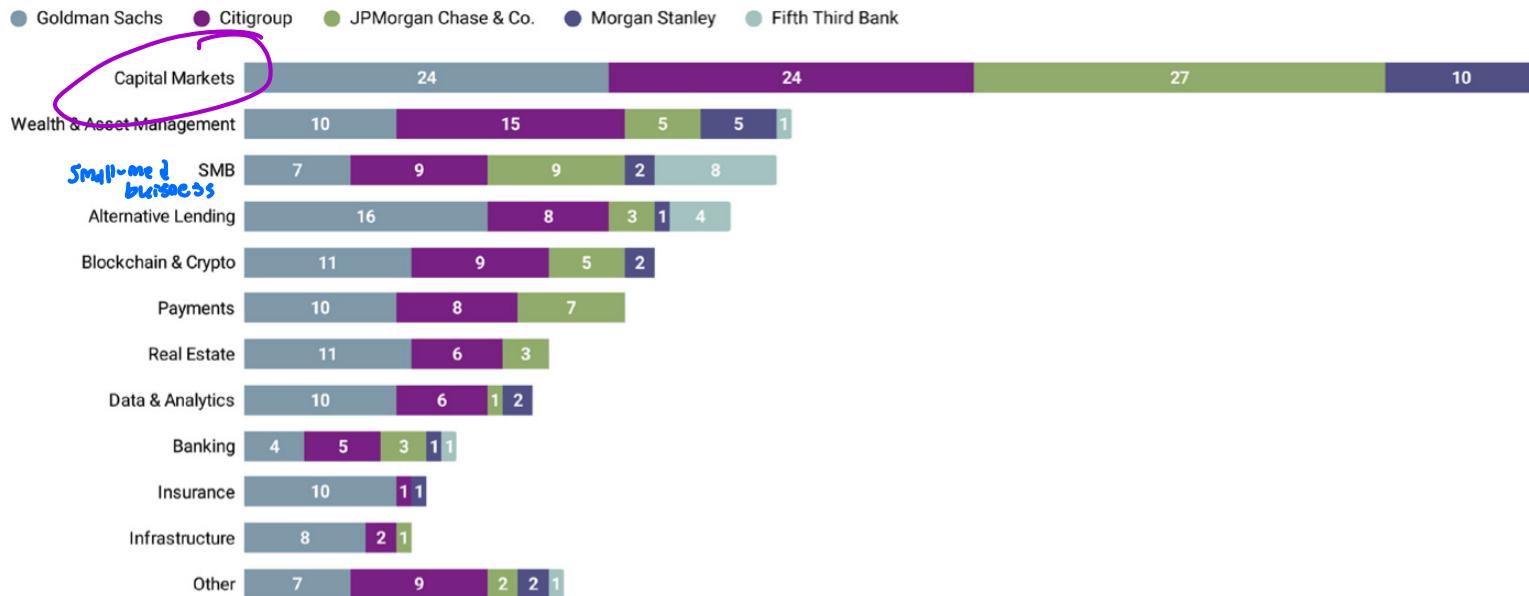
Bank Investments in Fintech



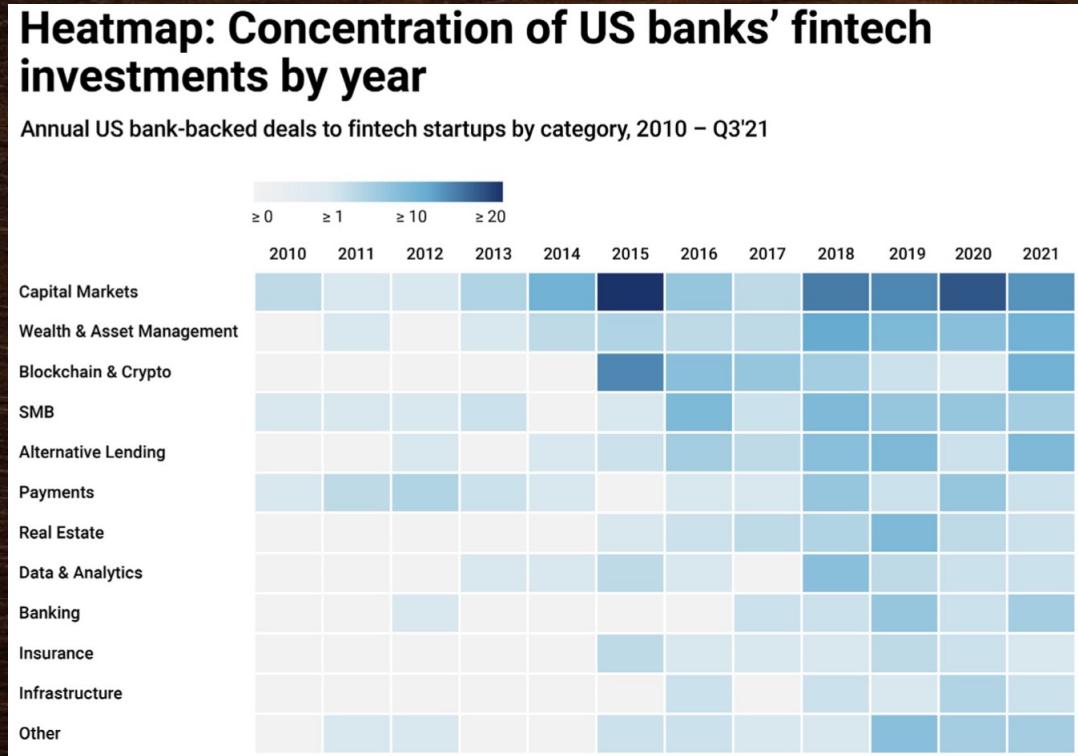
Bank Investments in Fintech

Where the top 5 banks are focused in fintech

Number of fintech startup investments made by category, 2010 – Q3'21



Bank Investments in Fintech



Where We Have Been ...

BANKING 1.0



Traditional banking dominated by vertically integrated banks, fully producing and distributing all products.

BANKING 2.0



Heavily regulated banking post-sub-prime crisis resulting in healthy capitalization levels and stability. Banks are focused on digitization and digital banking.

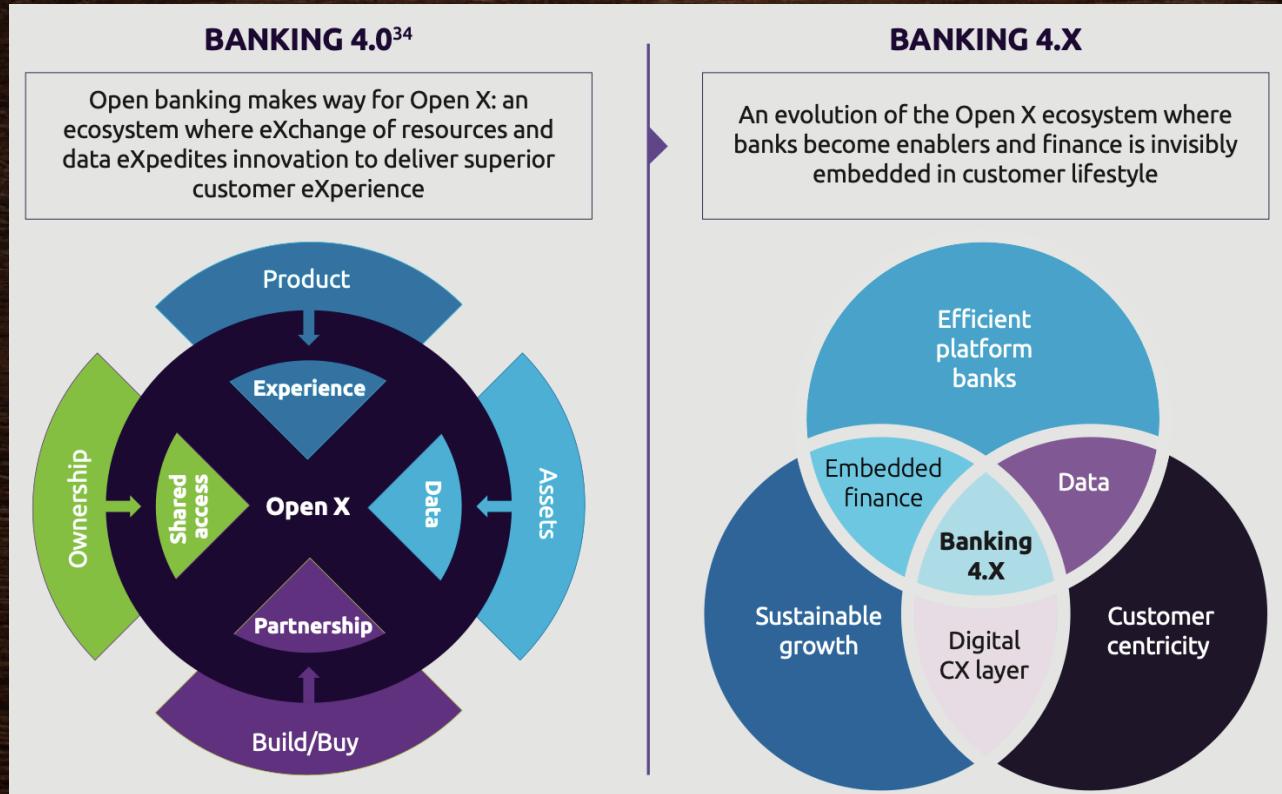
BANKING 3.0



Regulators initiated a new era of open banking where banks share their data with third parties to rejuvenate the FS sector. Competition increases as new-age players emerge.

- Open banking
- Open data

... And Where We're Going



Open Banking

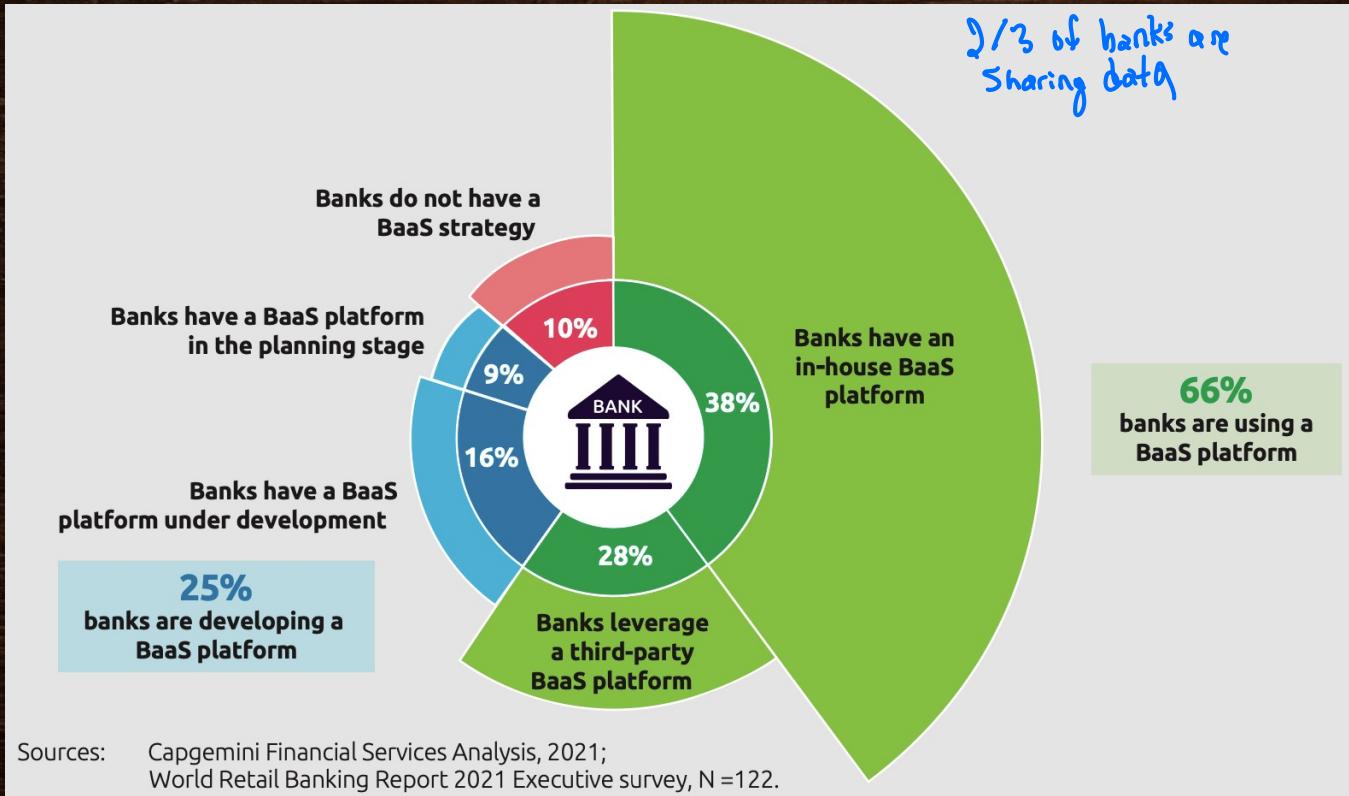
Definition: *The process of using APIs to “open up” consumers’ financial data to third parties*

- Allows third parties to design, build and distribute their own financial products
- It is the data they harvest and contain that endows them with value
data put to use more efficiently

The Revised Payment Service Providers Directive (PSD2)

PSD2 is a European Union regulation for electronic payment services that requires large banks to share financial information with third parties. PSD2 is evidence of the increasing importance Application Program Interfaces (APIs) are acquiring in different financial sectors.

Open Banking Has Led to Banking-as-a-Service



Banking-as-a-Service (BaaS)

- Banking as a Service (BaaS) is the *provision of banking products and services through third-party distributors*
- By *integrating non-banking businesses with regulated financial infrastructure*, BaaS offerings are enabling new, specialized propositions and bringing them to market faster
- *These new propositions, built on specificity and agility are displacing existing offerings, and disaggregating many profitable elements of the traditional banking value chain in the process*
- While smaller banks and FinTechs initially dominated the market, *incumbent banks are now beginning to wake up its potential* with recent entrants including BBVA and Goldman Sachs

BaaS Use Cases

BaaS is enabled by the seamless **integration of financial services** and products into other kinds of customer activities, typically on **non-financial digital platforms**

Example 1

Someone taking out a small loan when they pay for a holiday on a travel site
↳ Payments on purchases

Example 2

The instant calculation and sale of micro-insurance for newly purchased jewelry
↳ Insurance on high value items

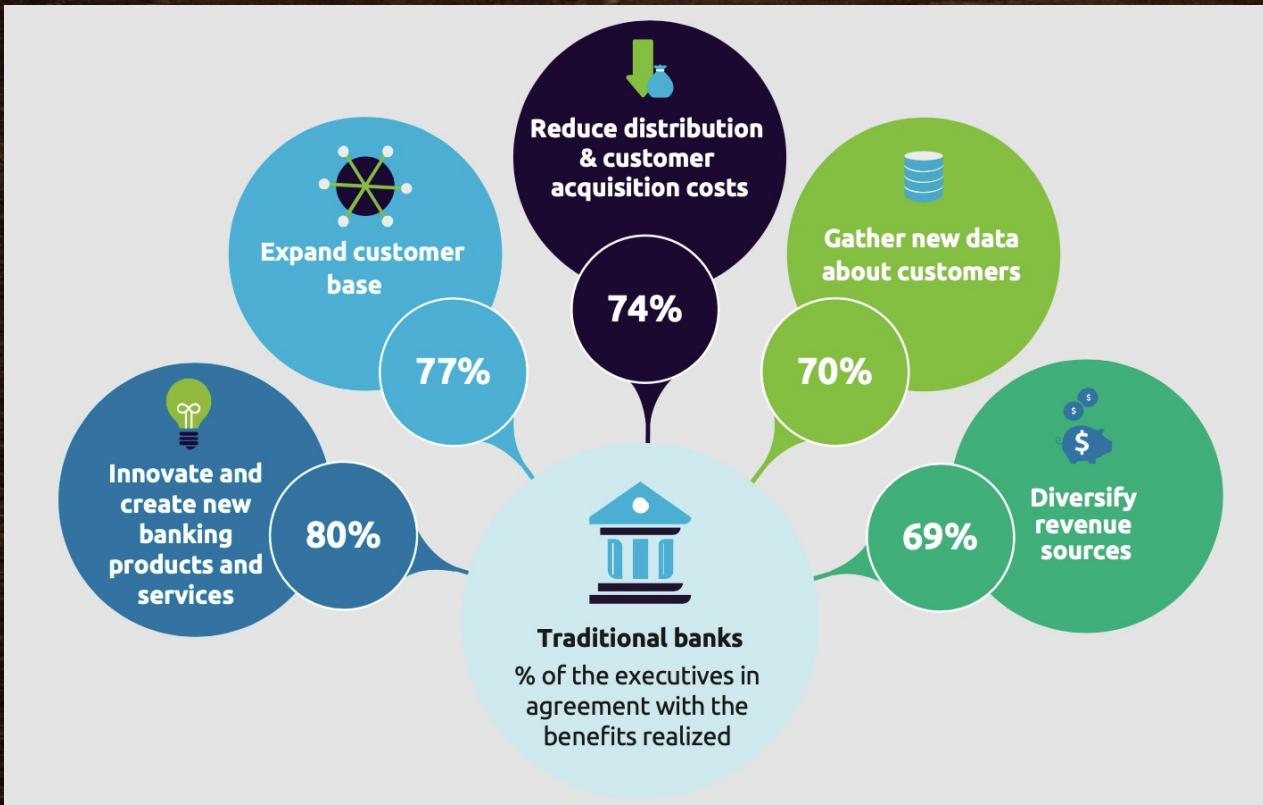
Example 3

New apartment lease includes renter's insurance provided by a bank partner of the property management company
↳ Renter's insurance

Example 4

Customers obtain credit for purchases in-store, during the checkout process
↳ Car salesman pulls credit

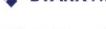
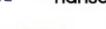
Benefits of BaaS to Incumbents



Digital banking

Revolut  GreenLIGHT  tonik
C6BANK  Current
monzo  Starling Bank
Lydia  agi  Varo
chime  Klar 

Cryptocurrency

 MoonPay  Prime Trust  Blockchain.com
FALCONX  CONSENSYS  KUCOIN 
 BLOCKDAEMON  Fireblocks 
 PAXOS  Binance 
T A L O S  STARKWARE  TRM
 GEMINI  CoinDCX 

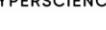
Accounting & finance

pilot  Chargebee  amaka
#FloQast  Khatabook
 tipalti

Investing & trading infrastructure

DRIVEWEALTH
#upvest  Alpaca

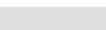
Financial services automation

 SHANNON.AI 
unqork  HYPERSCIENCE


Payments processing & networks

 xendit FOODICS  GOCARDLESS 
 MODERN TREASURY stripe  checkout.com
 teamapt EBANX  Thunes. 
 sumup*  cedar  SpotOn  Razorpay 
 PayCargo  SaltPay  ba/ance  Airwallex 
Modulr  ripple  pine labs  innoviti 
Volante  BharatPe  FINIX 

Payroll & benefits

deel.   bob
 CaptivateIQ
 PayFit
 Pinwheel
 papayaglobal
 atomic
 guideline

Asset management

CAIS  ADDEPAR

Corporate cards & expense management

 airbase
 tide  SPENDSK
 MESH ramp 
Payhawk  JUNI Qonto

BNPL & credit cards

Petal 
Klarna 
uplift 
AVANT 

Capital markets

 CAPITOLIS Digital Asset
Trumid  Genesis LIQUIDITY OPEN GAMMA iCapital

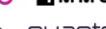
Consumer lending

WeLab  kueski.
Happy Money 
TALA  CRED

Business lending

 Yubi OakNorth
Fundbox  wayflyer
biz2credit Konfio pipe

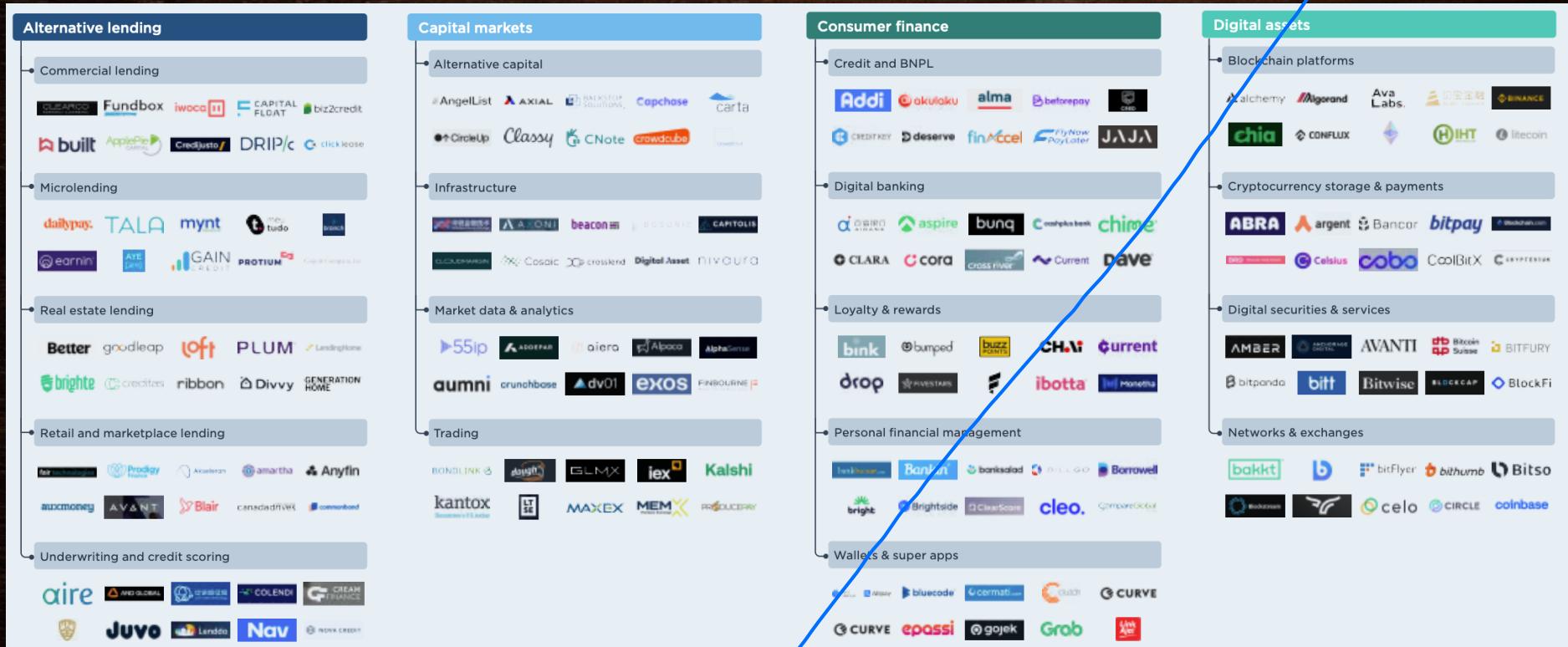
Fraud prevention & compliance

 feedzai 
 UNICO 
 Secure 
 veriff 

Retail investing & wealth management

 Republic Bettermen
ALTO  Pluang 
warren  Yieldstreet  StockGro
Moonfare  scalable  etoro

Fintech Market Maps



Fintech Market Maps

Pitchbook - Ford Library Lite

