start path

The Rise of Fintech Intermediaries 2021

Start Path Quarterly Report
Latest Trends in Fintech

In association with

KOREFUSION

About this report

Each quarter we bring you insights and updates on trends in the Fintech landscape that impact financial services and support the creation of value. Mastercard Start Path has partnered with KoreFusion to dig into these trends and illustrate how they are unfolding across the globe.

In this report, we provide an update on global Fintech funding and a deep dive into the emerging and growing role of Fintech 'intermediaries' within the ecosystem.

Insights on investment in the Fintech sector

In Q1 2021, Fintech companies globally raised a record US$22.8B in venture capital across 614 deals. This is more than double the previous quarter and surpassed the previous record high of US$22.3B in Q2 2018.

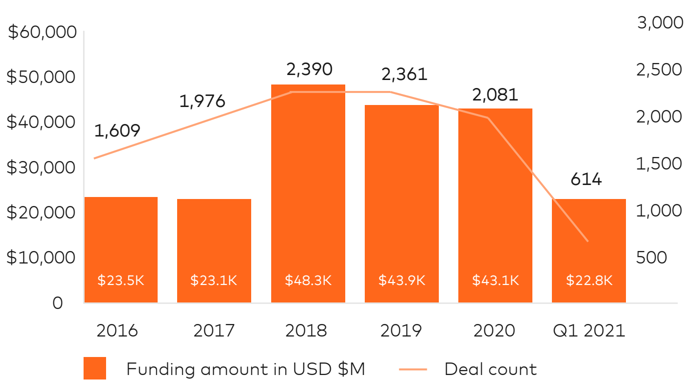
Riding on the trends set during the pandemic, digital payments, investing and insurance continued to be a large proportion of the deal value. Some of the large deals were secured by investing app Robinhood, payments firm Stripe, buy now pay later Fintech Klarna and China based financial security firm Paradigm, aggregating to almost US$5.7B. Propelled by the strong cryptocurrency market, digital assets companies raised a record US$2.0B during the quarter backed by BlockFi's US$350M Series D and Blockchain.com's US$300M Series C.

Fintech companies continued to raise capital later in their growth stages, as evidenced by the 59 mega rounds (US$100M+), which accounted for 69% of the total funding during this period. As a result, average deal size nearly doubled vs. Q4 2020, from US$19.3M to US$37M.

The uptick was felt across all regions with European Fintech companies attracting US$5.04B in the quarter, a 180% rise over the previous quarter while US and Asia nearly doubled to US$12.8B and US$3.6B respectively.

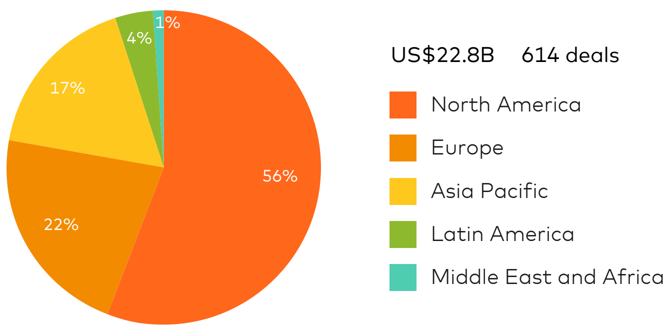
Among sub-sectors of Fintech, payments, digital lending, small and medium businesses and wealth management grew the fastest in terms of funding they received, while banking, capital markets and insurance saw investments slow down compared to the previous quarter.

Figure 1.1:
Update on global Fintech funding Q1 2021



Sources: CBInsights, Pitchbook, Crunchbase, Deloitte

Figure 1.2:
Update on destination of global Fintech funding Q1 2021



Sources: CBInsights, Pitchbook, Crunchbase, Deloitte

Quarterly spotlight: Fintech intermediaries

For the purposes of this report, we classify a Fintech intermediary as any company that uses new technology, tools, and innovation to offer modular financial capabilities to brands and enterprises, in order to embed financial services in their customer offerings. Fintech intermediaries are often referred to as Banking-as-a-Service players and credited as powering the Embedded Finance trend which is expected to become a US$7T opportunity by 2030[1]. Investment in Fintech intermediaries to June 2021, is up 90 percent over all of 2020, amassing US$2.66B[2].

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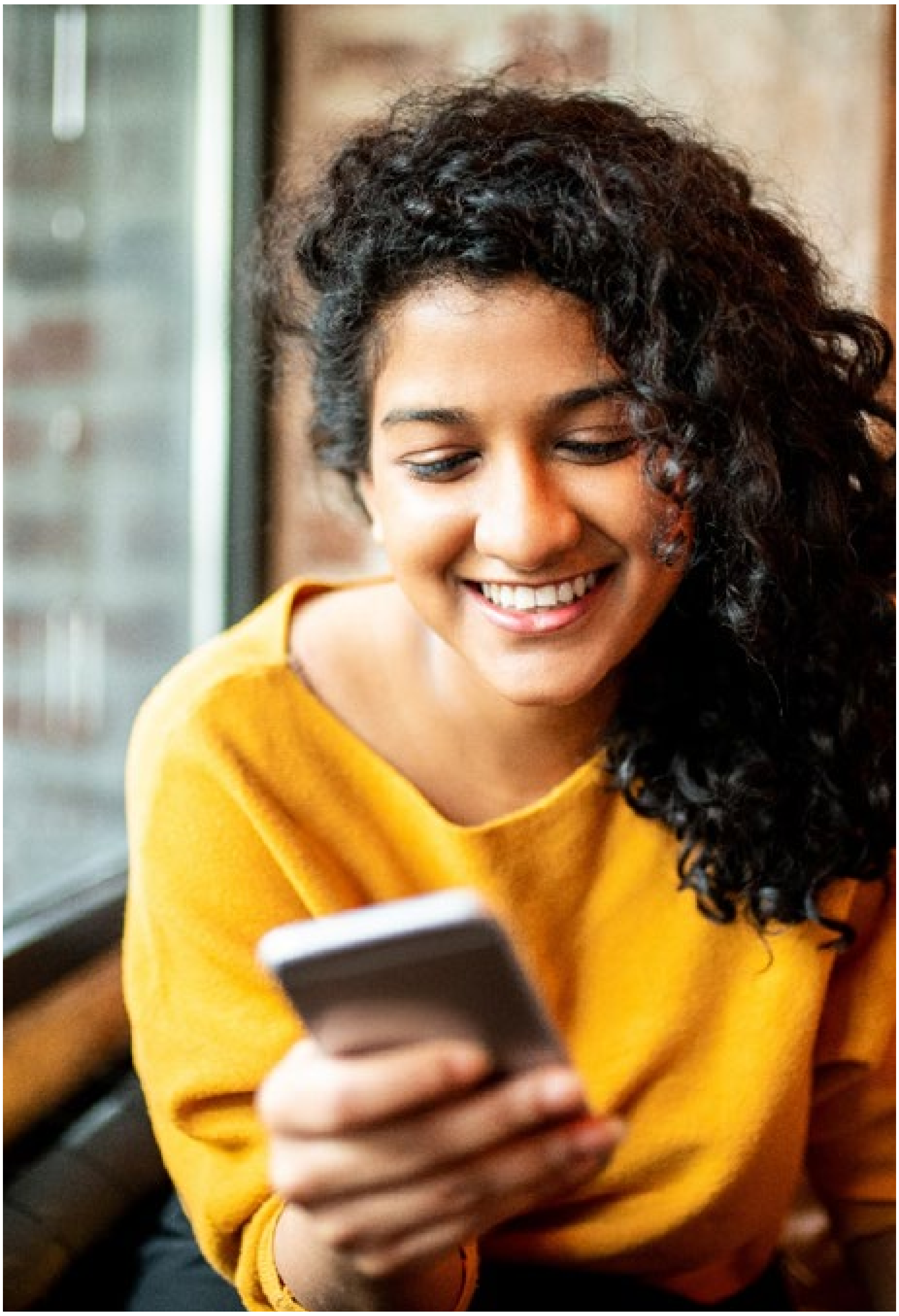


[1] Simon Torrance, Matt Harris Bain Capital Ventures
[2] CBInsights, Pitchbook, Crunchbase, Deloitte

The benefits of Fintech intermediaries

Fintech intermediaries are built on platform business models, and platform business models are described as guiding two-thirds of Fintech Unicorns[3]. By leveraging a platform business model that takes advantage of cloud-computing, APIs, and open-source banking protocols, Fintech intermediaries can generate five times revenue at half the cost of non-platform business models[4]. This benefits the valuation of not only the provider, but also the recipient. Acquiring the ability to build and offer financial products that scale at one-tenth the cost of an incumbent financial provider is a driver behind Softbank-backed Grab's record $40B SPAC valuation. In January 2021, the Singapore-based ride-hailing and delivery startup chalked out ambitious plans to extend its financial services business and raised US$300 M from investors to that end. Three months later, it is set to be the highest ever valued SPAC after announcing plans to merge with Altimeter Growth Corp. and raising US$4B from investors[5].

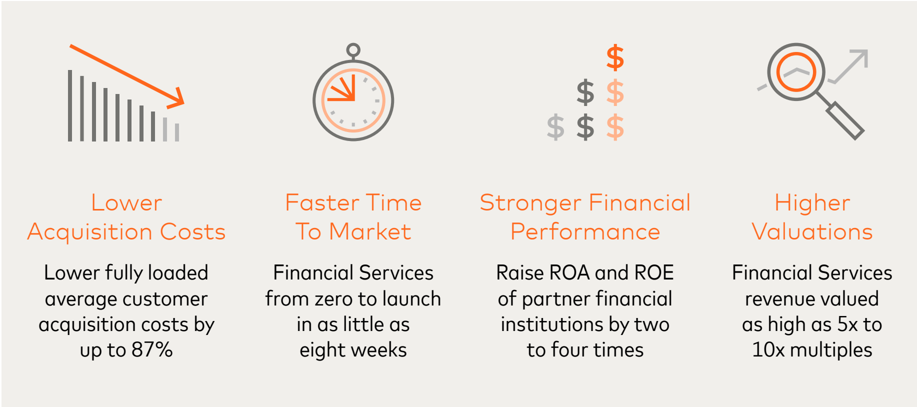
Enabling digital brands and merchants to quickly offer financial services to 5.5 billion adults is an enormous opportunity. However, relying on a self-built integration with financial partners to seamlessly offer financial services is costly and risky to tackle single-handedly. This creates an opportunity for Fintech intermediaries. The landscape is starting to be populated by players such as Marqeta, Synapse, Galileo, Bond, and Railsbank.

As of early 2021 however, there are still no Fintech intermediaries with both truly global coverage and a deep service stack—most are country specific suppliers or operate across only a couple of countries in a region. With supply-side constraints, digital merchants and brands wanting to offer Embedded Financial services in multiple markets are likely managing a patchwork of suppliers instead of waiting for a single provider.

The opportunity to get in front of global brands early in the game can be a strong shot in the arm for both large and small players.

Announcing a partnership with GrabPay made Altimeter's (NASDAQ:AGC) stock rise 27 percent the week of the press release. The same association with Grab in 2019, helped global card issuer processor, Tutuka, attract a majority investment from Apis Growth Fund II. In April 2021, Apis agreed to sell its share in Tutuka, to Salt Pay Co.[6]. Opportunities such as these are bolstering early investment in local and regional Fintech intermediaries substitutes who can fill the latent demand of their local ecosystem and serve as a corner-stone connector into local financial services.

Figure 2: How Fintech intermediaries create value: Four KPIs to measure



Sources: KoreFusion Analysis based on: Oliver Wyman, 11:FS, Tutuka, Andreesen Horowitz via iBanknet, Mckinsey, MIT Sloan, Rainmaking

Fintech intermediaries can generate five times revenue at half the cost of non-platform business models.

[3] MIT Sloan, [4] Oliver Wyman, McKinsey, MIT Sloan, 11:FS,
[5] Reuters, CNBC, [6] Africa Global Funds, APIS, MarketWatch

The rise of Fintech intermediaries in 2021

To put 2021's strong performance into context, 36 Fintech intermediaries have collected US$2.66B with valuations ranging from 5x to 20x of funding[7].

Just over US$655M was in Seed to Series C funding, and Asia Pacific, and Latin America obtained US $129M of this.

The Middle East & Africa's saw a fresh batch of Seed rounds, collecting US$25M, nearly six times the value seen in 2020. These investments were evenly split between Nigeria and Bahrain.

In contrast, 2021 Seed funding in Europe is down by 85 percent over 2020, although the region compensated with strong Series Ds, and exits to Private Equity and Strategics, for just under US$1B.

Activity in North America shows robust appreciation on both ends of the spectrum. Total funding is up 75 percent over all of 2020, while Seed to Series C funding is at 83 percent of last year's total.

Figure 3.1: Value and destination of total Fintech intermediary funding YTD 05/2021

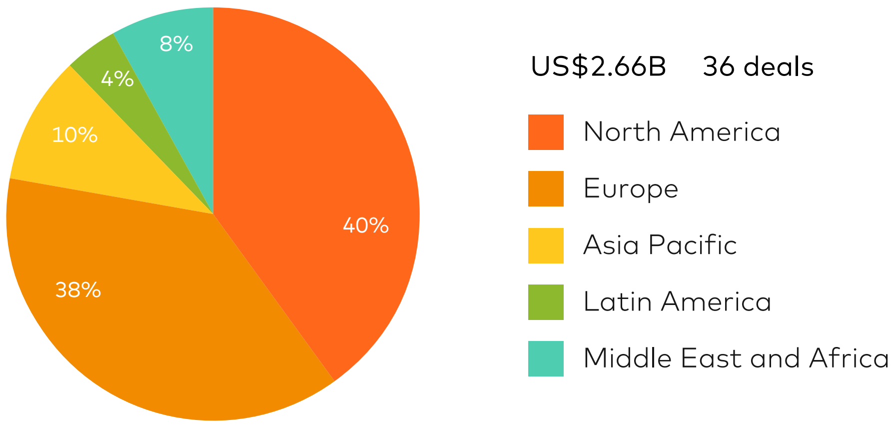


Figure 3.2: Seed to Series C funding of Fintech intermediaries by region YTD 05/2021

Region	Value of deals (US$M)	Number of deals
North America	418	4
Europe	83	10
Asia Pacific	23	2
Latin America	106	6
Middle East and Africa	25	5
Total	**655**	**27**

Sources: CBInsights, Pitchbook, Crunchbase, FTPartners, KoreFusion

[7] CBInsights, Pitchbook, Crunchbase, FTPartners, KoreFusion

Fintech intermediaries in the United States

The United States harbors over 10,000 Fintechs[8] and is home to Apple, Amazon, Uber, and Google, all of whom are steadily moving into financial services. In addition to this rich Fintech ecosystem there are over four-thousand financial banks[9]. The sheer number and types of players is fertile territory for Fintech intermediaries.

The US market accounted for 46 percent of all Fintech intermediary funding in 2020 and continues to take the lion's share in 2021 at 40 percent. Galileo (exit to SoFi for US$1.2B), Plaid, Synapse, and Marqeta (pending IPO at the time of writing)[10] four well-known Fintech intermediaries, had a combined valuation exceeding US$14B in 2020, and pushed past US$30B in 2021.

An early driver to accelerated and high valuations was Apple and Google moving into Embedded Payments. These movements are (currently) mostly limited to card payments, but the loud headlines highlighted two valuable factors.

First, it was non-financial players who took the initiative, and second, there was plenty of open space where Fintech intermediaries could step in place of incumbent institutions and serve as a rapid launchpad for financial services. Case in point are Chime and Varo—once two upstart digital banks in 2015—who catapulted to the forefront of US online banking in large part due to relying on a Fintech intermediary[11]. Today, these two digital banks are the primary bank for eight percent of US consumers[12].

Fintech intermediaries are also helping a host of mostly smaller banks cross-over into the Fintech space. For example, San Francisco headquartered, Bond—whose CEO is particularly mindful of addressing financial inclusion for minorities—partnered with Evolve Bank, to help neobanks, brands, and Fintechs accelerate card issuance.[13] Helping Fintechs and lenders that "aren't banks but need banking services" is something that TabaPay addresses via push-based card solutions that enable real-time collections and disbursements[14]. Often, a Fintech intermediary's value is to serve as an orchestrator that integrates with numerous third-party vendors to enable Fintechs and SMBs to embed financial services. Hydrogen does this with no-code and low-code configurations.

tabapay

Tabapay was founded in 2017 and has processed over US$15 B to date. Despite its average transaction being US$75, TabaPay can disburse up to US$100,000 in real time. Recently ranked a top debit processor by Nilson Reports the company enables over 2,100 clients and is estimated to have 24 employees.

[8] BCG, [9] FDIC, [10] Barron's, [11] Galileo, [12] Cornerstone Advisors, [13] Forbes, [14] Pymnts.com

Fintech intermediaries in Asia Pacific

Approaches vary significantly within the region due to different takes on data portability and payments. For instance, Australia and India, have top-down regulatory approaches, Singapore operates a market driven approach, and Indonesia is consolidating open banking and unified payments under one model. Fintech intermediaries in some countries flourish but in others, basic functions such as card issuance remain challenging. Announced Seed investments in Fintech intermediaries in 2021 is US$23.1M[15]. This is five times more than 2020 and concentrated in India and Indonesia.

India's "India Stack" approach drives public and private sector digitization in payments. This led to early direct connections between licensed financial service providers and downstream companies, such as Uber, who partnered directly with State Bank of India[16]. The Pan-India Umbrella Entity (NUE) retail payments initiative and mandated bank APIs are public-private effort that are bearing fruit for Fintech intermediaries. This is driving demand for B2B Fintech intermediaries, something confirmed by a recent Mastercard study that identified over 30 B2B digital marketplaces pursuing embedded finance solutions. Belief in the growing potential of this opportunity helped Yap raise a Series B this year—its second round in less than a year[17]. Interest is not limited to early round startups, as evidenced by Zeta who secured a Series D round for US$250M, vaulting it into India's Unicorn club[18].

In Indonesia, where GoJek is contributing a halo effect with its declared interest in embedded finance solutions, 2021 saw the funding of Bricks and Finantier.

Singapore's small market and high banking penetration challenges local start-ups but offers foreign Fintech intermediaries an interesting toehold in the region. One example is, Tazapay who launched a regional escrow solution for cross border trade on top of regulated accounts and services provided by Rapyd. Australia is also seeing the arrival of foreign Fintech intermediaries. In 2020 Marqeta completed its first Australian transaction[19], and UK based Railsbank recently announced a partnership with the country's first neobank, Volt[20].

YAP

M2P Solutions, operating under the brand name Yap, was founded in India in 2014. The company was bootstrapped until 2020. In the past 17 months it raised US$14.5M. More than 200 Fintechs use Yap to enable a range of financial services that include API based payments, lending and banking capabilities. The company recently announced that they are opening an office in Abu Dhabi and doubling the size of its team.

[15] CBInsights, Pitchbook, Crunchbase, FTPartners, KoreFusion,
[16] Uber, [17] Mint, [18] Zeta, [19] Marqeta, [20] Railsbank

Fintech intermediaries in Latin America

Mexico and Brazil have regulatory clarity regarding Open Banking and are mandating phased adoption of APIs. Most countries are in a "wait and see" posture, so it is not surprising that the region accounts for one percent of all global Fintech Intermediary funding. However, when compared solely at early funding, the picture improves.

Five Fintech intermediaries were funded across 2020 and 2021, for US$154M[21]. Over US$106M of this was contributed in 2021 representing 16 percent of early-stage global venture funding year-to-date. Considering this was across six deals, 2021 appears to be on a stronger foot. Latin America has 69 local Fintech intermediaries since 2017, however the average funding per start-up is US$700,000[22]. There are some early leaders. One example is Mexican Cacao PayCard Solutions who is underpinning card issuance for many Fintech companies.

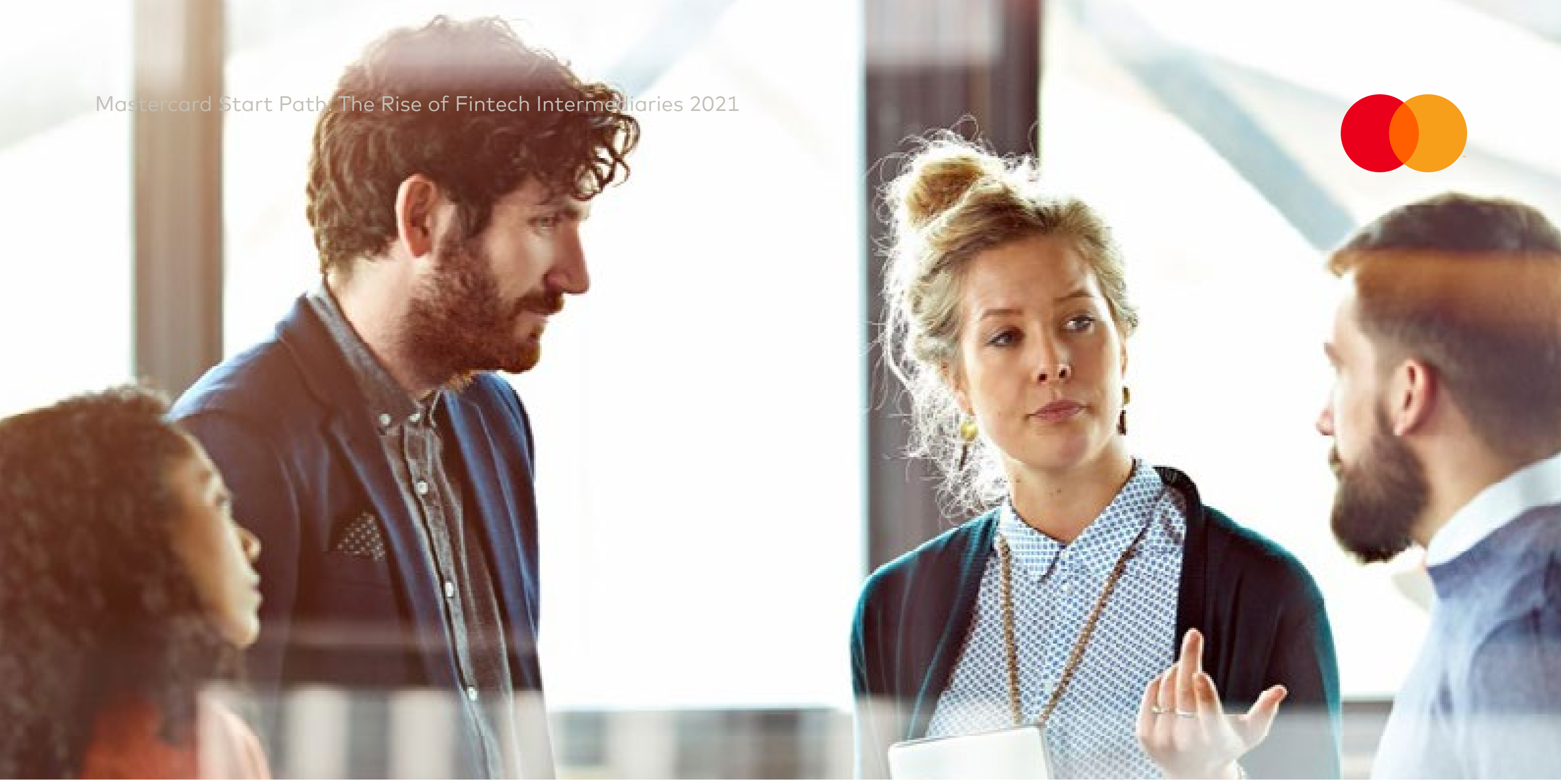
Regulators in Mexico and Brazil are pushing forward, and multiple regulatory licenses are expected to soon be granted. Belvo, who raised an estimated US$13M in 2020 and US$43M this June[23], is now in both markets, and other countries are seeing fresh investments. Uruguayan start-up Prometeo raised an undisclosed early tranche this year. A strong demand signal comes from food-delivery Unicorn, Rappi, who is reported to be pursuing US$4B valuation on the coattails of a late 2020 funding round associated with the enablement of embedded financial services. Reinforcing the notion of pent-up demand, 28 foreign Fintech intermediaries already have, or are in the process of establishing operations in the region[24]. US-based Galileo who is in Mexico since early 2020, describes the region as "starting its first chapter in Fintech enablement services"[25].

Where larger recent venture rounds occurred, they usually had a financial institution's direct backing as an investor or commercial partner. In Colombia, Minka, was able to secure its Series A after working with the country's largest clearing house which is owned by leading banks. In perhaps the most telling investment of the last twelve months, Brazil's two largest banks, Banco Itaú Unibanco, and Banco Bradesco joined forces to co-invest US$15M in the startup Quanto.

cacao | paycard solutions

CacaoPayCard is recognized as one of Mexico's largest native Fintech-as-a-Service intermediaries. Founded in 2017 with an undisclosed round from G2 Momentum Capital, the company reports enabling over 80 clients ranging from neobanks to payroll companies and gig economy leaders. The company provides financial services in Mexico including the issuance of nearly two million cards and is estimated to have nearly 100 employees.

[21] CBInsights, Pitchbook, Crunchbase, Deloitte
[22] KoreFusion, [23] Belvo, [24] KoreFusion, [25] Galileo



Closing thoughts

A global scan of Fintech intermediaries reveals strong activity coming into 2021. The year is already a record for funding in Fintech intermediaries and coming after the events of 2020, it can be considered a breakout moment for the sector. Amidst all this activity, two early signals are already emerging:

Well recognized brands continue to build momentum in their home markets while making legitimate forays beyond their starting base. The time between initial funding, and exits and outsized valuations, is decreasing.

The global landscape is far from homogeneous, and there is strong investor belief in local players. 2021 is the strongest year for Fintech intermediary funding outside of the United States and Europe.

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Minka · Railsbank · zeta · XFORMATIVE · Meeco · HYDROGEN · trunomi · Thought Machine · modo · Konsentus

Start Path is in partnership with select Fintech intermediaries that are shaping the future of commerce. If you'd like to get connected and know more, please reach out to us: **start_path@mastercard.com**