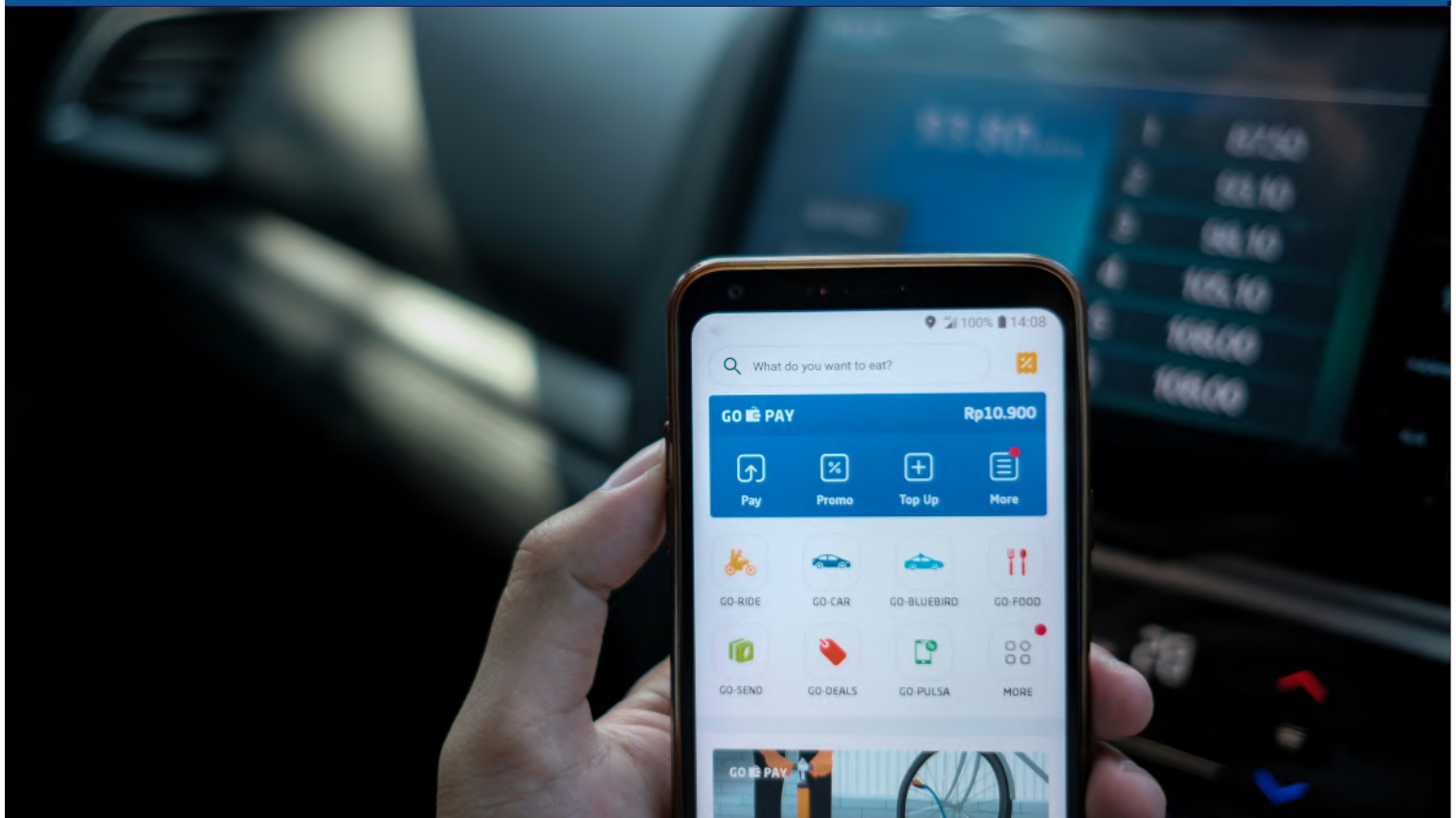


# Open Banking drives consolidation

## Client Briefing Note

September 2020



# API payments are brought into the spotlight

- 2020 is fast becoming the year of consolidation for Open Banking API providers
- EU's PSD2 is fundamentally rewiring the payments landscape
- Networks are finding themselves in defense from early success of Payment Initiation (PI)
- Covid-19 has supercharged UK Open Banking Payments as PI volumes increase 8x
- Drawing lessons from India's Unified Payments Interface (UPI)
- Total funding for API fintechs has increased significantly since the launch of PSD2
- Anatomy of an API winner – How Tink is using M&A to drive growth

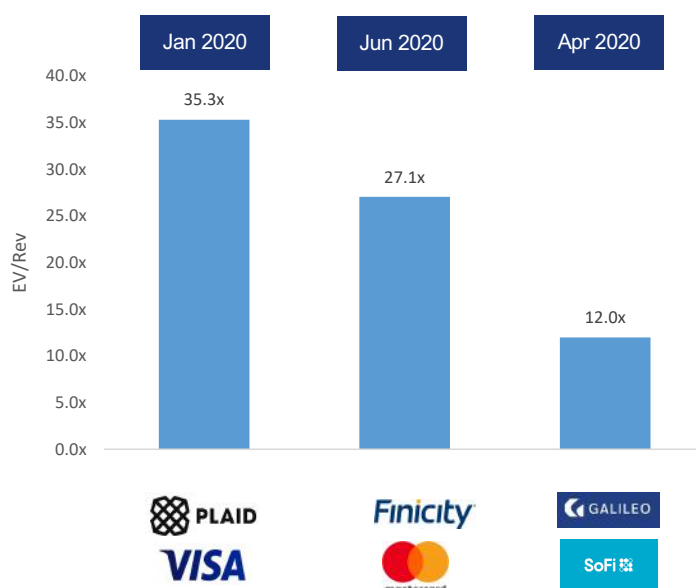
## 2020 is the year of consolidation for Open Banking API businesses

When Visa first announced the acquisition of a little known fintech company called Plaid for an eye popping \$5.3bn in January 2020, the deal attracted significant investor and strategic interest. Since then we have seen multiple acquisitions in the API space, including Galileo which was acquired for \$1.2bn by SoFi in April. Mastercard, reeling from missing out on the acquisition of Plaid to Visa, went on to acquire another API provider Finicity for \$860m (\$985m including earn-outs) in June. Swedish API provider Tink raised €90m in January this year at a post-money valuation of €415m and boasted several well-known investors including PayPal. Since then, Tink has gone on to acquire three companies including financial API provider OpenWrks (Sep 2020) in the UK, which accounts for one third of the country's account aggregation volume (See page 8 for more details) .

## Transaction multiples remain punchy despite macro conditions

2020 has been a blockbuster year for M&A in financial services API, with disclosed multiples in the double digits for acquisition prices relative to revenues. Visa's acquisition of Plaid at 35x EV/Rev saw its valuation double from its previous funding round, which had closed in late 2018. One of the key reasons driving valuations higher was significant element of scarcity and competitive tension. Mastercard, also a strategic investor in Plaid before its acquisition, also considered acquiring the business given its market leading position as a data aggregator, before later acquiring Finicity.

## EV/Revenue multiples remain in the double digits for API transactions



## Legislation driving Open Banking uptake

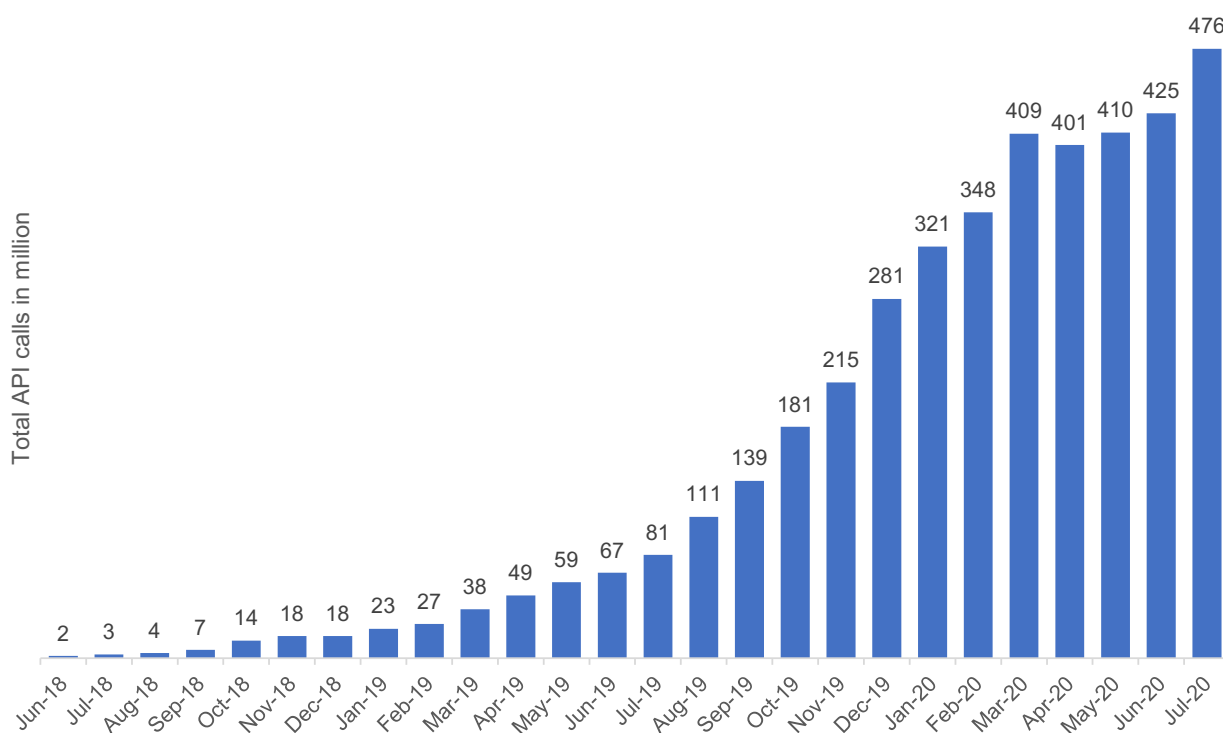
### EU's PSD2 is fundamentally rewiring the payments landscape:

European Union's vision to homogenize payments infrastructure across Europe with the aim of optimizing cross-border payments saw it introduce its first Payment Services Directive (PSD1) in 2007. Following the success of the first directive, PSD2 came into law in early 2018 widening its scope by encompassing new services and players (third-party providers or TPPs) as well as extending the scope of existing services.

Part of the updated regulation mandated financial institutions and banks across Europe to allow any other financial institution including TPPs to access, at the request of customers, all their financial information through APIs. More importantly from a payment perspective, PSD2 also allows any financial institution including registered TPPs to initiate payments from bank accounts at the behest of customers.

Given the nature of direct bank-to-bank transfers between consumers and businesses, benefits of Payment Initiations (PI's) are obvious — transactions are more secure (96% less fraud), fees are significantly lower (0.1% for PIs vs 1% to 4% for debit and credit cards) and processing times are reduced from days to hours (average 15 minutes according to TrueLayer).

### Total monthly API calls in the UK have increased 568% in the last year



## Covid-19 boosts PI volumes

### Covid-19 has supercharged UK Open Banking Payments uptake

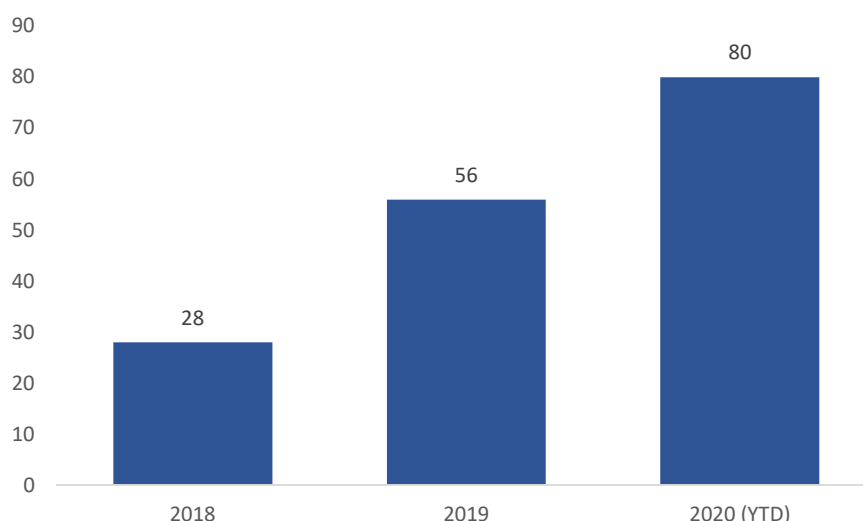
In February 2020, according to Fintechfutures there were around 100K PIS payments versus 217m online card transactions in UK. Even before the pandemic, TrueLayer was reporting a 43% MoM growth in PI volumes. The onset of the pandemic and the ensuing lockdown saw volumes increase by 460% in March and in total PI volumes have increased by 832% between March and July this year.

Another key takeaway post Covid-19 is perhaps PI's broader adoption during the pandemic. 88% of growth in PI volumes was attributed to accounts held at highstreet banks such as Lloyds, Barclays and HSBC, with the rest stemming from digital banks such as Monzo and Revolut.

TrueLayer which launched its PIS beta in early 2019 is expected to account for more than half of Payment Initiations market in the UK, according to the fintech. The company has not seen growth in adoption tapering off after the easing of restrictions, suggesting that those using PI's have continued to do so as part of a new norm.

Another indicator of explosive early adoption in PIs' is the number of FCA registered Payment Initiation Service Provider's (PISPs) which have increased significantly since its launch in 2018, growing at almost a 100% CAGR.

### # of FCA registered PISP's have increased at 100% CAGR since 2018



## Drawing lessons from India

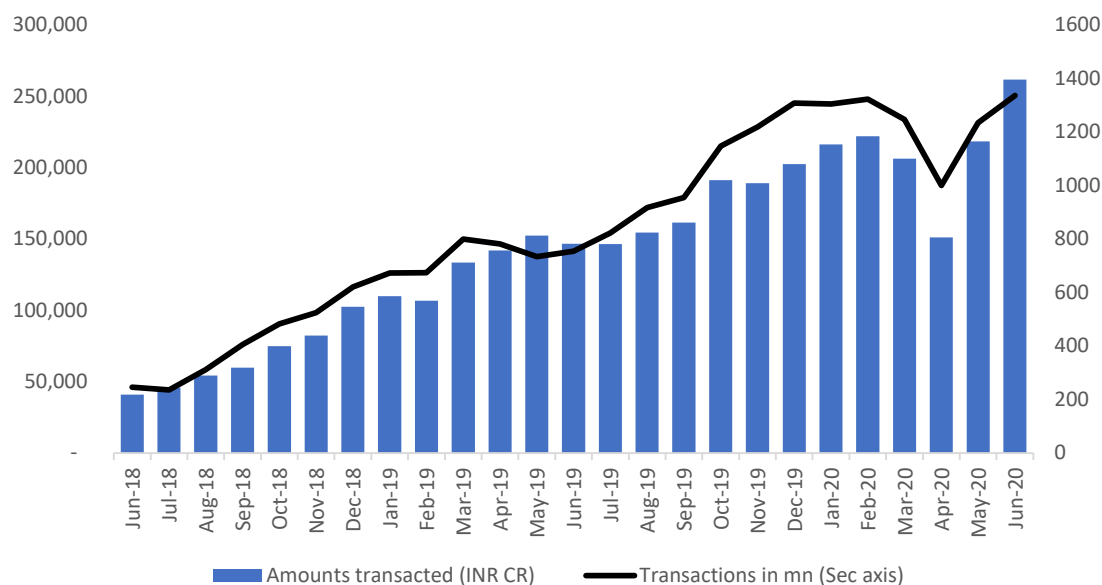
### A success story in Open Banking payments

In a telling letter Google scribed to the US Federal Reserve in Dec 2019, the tech giant underscored the importance of drawing lessons from the extremely successful implementation of UPI-based digital payments in India. The letter was aimed at making sure that the Fed learns important lessons when it came to building its own FedNow interbank real-time gross settlement services (RTGS).

UPI is a bank-to-bank real-time payment system with 140 bank members (up from nine at launch in 2015). Designed as an open-ended system, UPI allows technology companies to build applications for customers to make payments directly to merchants. UPI's success stems from its interoperability between different platforms i.e. from bank-to-bank and social media to social media, propelling it to become the most promising real-time payments system globally.

Growth of UPI has been impressive since its launch in 2015 as monthly volumes increased from 100K to 1.15bn in the first four years. In 2019, after just three years of launch, the annual run rate for UPI transactions accounted for 10% of India's GDP, with 800m monthly transactions valued at \$19bn. Since June 2019, UPI volumes have increased by almost 77% YoY to June 2020. The future looks promising for Unified Payments, with digital payments in India forecasted by Assocham-PWC to grow at a CAGR of 20% in the next 3 years.

### Value of UPI transactions has increased @157% CAGR over the past two years



## Payment giants engage in defensive M&A

### Networks find themselves on the backfoot from early success of Payment Initiations

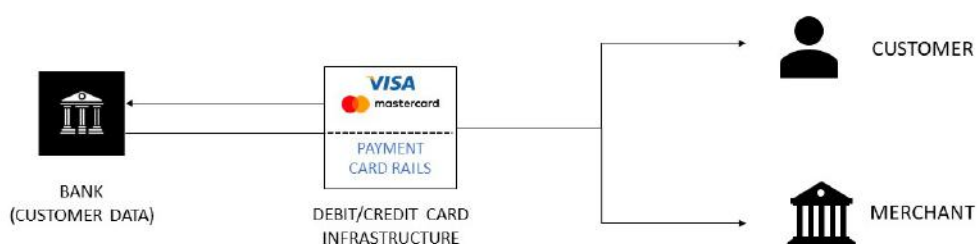
The early indication of the roll out of Open Banking in UK has been extremely successful and we see payment giants Visa and Mastercard to be meaningfully impacted. We see PIs taking significant market share from traditional payment networks over the medium to long term. The pandemic has accelerated the underlying adoption of PIs in Europe as more companies move to adopt open banking-based payments - eating into the market share of traditional card-based payment networks. Both Visa and Mastercard have been working to reinvent themselves, with some success, into a full-service payment companies beyond just card-based networks.

#### String of defensive moves

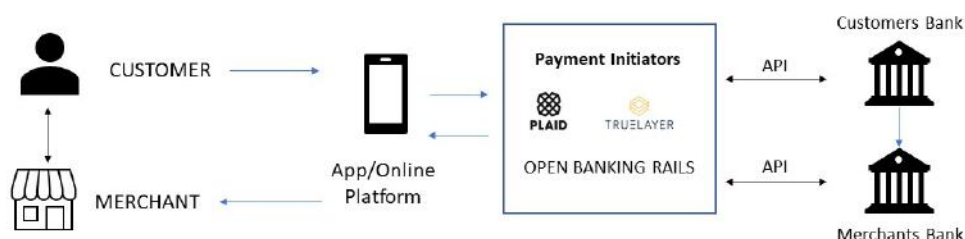
Given the potential risk of disintermediation from data aggregators, Visa announced the acquisition of Open Banking API Fintech provider Plaid. This was followed by Mastercard which announced the acquisition of Finicity in June. PayPal for a second time participated in a €90m fund raise by Swedish API provider, Tink in June 2020.

### Traditional networks are disintermediated in the Open Banking world

#### Payments - Traditional Card Network



#### Open Banking Payments



## Funding increases significantly post PSD2

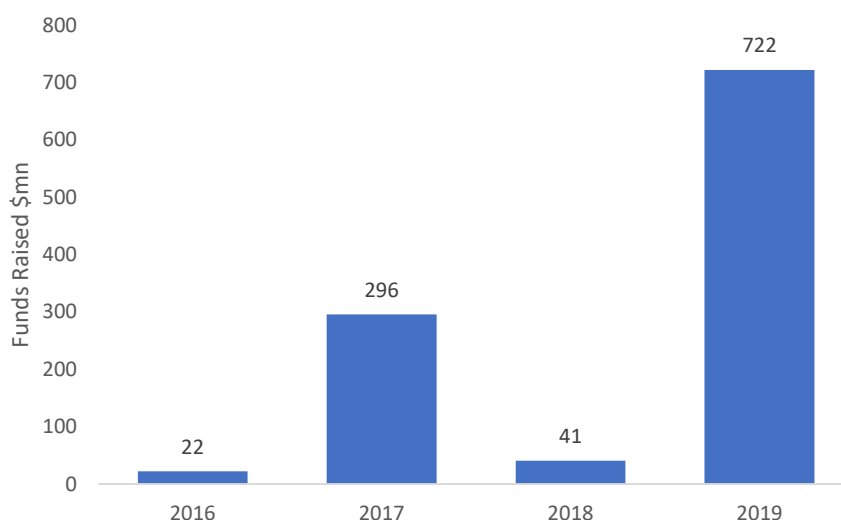
### Big Tech, Payment giants and Venture Capital to remain active in Pls

API providers is a fragmented space with several Fintechs emerging over the past five years in Europe. We expect tech giants such as Google, Facebook and Amazon continuing to invest in both the financial API and the broader payments space without wanting to be regulated. Most tech companies have seen significant success in India's UPI marketplace.

#### Financial API providers will continue to attract funding at punchy valuations

Given the growth prospects of Financial API's, especially PISPs, we see funding to continue to increase as companies expand their product offerings and invest in sales and marketing to win new customers. Financial API providers that grow quickly over the next three to five years will be long-term winners in the Open Banking world. Companies at risk are those who fail to raise additional capital to execute on a growth strategy that includes: i) adding new products, ii) expanding into new geographies, iii) onboarding new clients and iv) forming partnerships.

### Funding for European API fintechs has increased since the launch of PSD2



#### TrueLayer announces \$25m funding (Sep 21<sup>st</sup> 2020):

- Truelayer, based in London was one of the first companies to be authorized by the FCA.
- The platform accounts for more than half of all Open Banking payments in the UK
- In the past year, TrueLayer has partnered with Revolut and Nutmeg to deliver open banking capabilities beyond current account access to millions of European customers.
- TrueLayer raised \$25m in funding from existing investors as an add-on to its Series C round, taking its total capital raised up to \$72m.



TRUELAYER

## Tink driving growth through M&A




- Tink raised €90m in January this year at a post-money valuation of €415m
- On the back of funds raised from notable strategic investors, including PayPal, Tink acquired three fintechs Eurobits, Instantor and OpenWrks
- All three businesses operate in the open banking space and allow Tink to grow its scale, product offering, geographic presence and client list

### Overview of Tink



Founded in 2012 and headquartered in Sweden, Tink is one of the leading Open Banking Platform companies in Europe. It offers open banking APIs to more than 2500 banks and fintechs across Europe and Latin America and processes more than 10bn transactions annually.

#### Strategic rationale for acquisitions:

	Product	Scale	Geography	Clients
	●	●	●	●
	●	●		●
	●	●		●

#### Acquired Eurobits for €15.5m



- Tink acquired Spanish account aggregator Eurobits for €15.5m in March 2020.
- Eurobits services more than 50 fintechs and banks including Santander, Sabadell & Fintonic.
- Founded in 2004, the platform handles more than 50m transactions a month and services companies in 17 countries across Europe and Latin America.
- Acquisition allows Tink to add to its scale and build a bigger network, while allowing Eurobits customers access to its PIs and data services.

#### Acquired Instantor in September 2020



- Tink acquired Stockholm based provider of credit decisions software, Instantor for an undisclosed amount in September this year.
- Instantor has revenue of €4m and makes more than 5m credit decisions annually.
- The Company uses open banking account aggregation technology to allow banks and fintechs to improve their credit decision by verifying customers identity, income and expense.
- It was founded in 2010 and serves more than 150 customers including banks and fintechs across 13 European markets.

#### Acquired OpenWrks in September 2020



- Tink acquired aggregation business OpenWrks in the UK in September.
- OpenWrks, the first company to be licensed in the UK and a leader in the data aggregation space, accounting for more than a third of the country's account aggregation volume.
- Acquisition allows Tink to offer data for business accounts.



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