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Five top PMs on how Covid-19 has fired the fintech agenda ahead

LONG READ: Investors operating on the frontlines of fintech innovation look at how the global pandemic has altered the already fast-paced agenda of adoption.

By **Chris Sloley** / 26 MAY, 2020

Covid-19 has boosted online retail and other associated areas, such as contactless payment, as shoppers adjust to a world of limited physical interaction.

But, how much has it really altered and accelerated the investment case for fintech? Will this change in use fall back once the lockdown is lifted globally or are many of the trends enacted over the first half of 2020 here to stay?

In the first of a three-part series, Citywire Selector spoke to rated managers operating fintech-focused funds at leading asset managers to see how the story will evolve and change. In this first instalment, we ask if Covid-19 has benefitted fintech and where the precise winners may lie.

Vincent Vinatier

Citywire AAA-rated manager, AXA Framlington FinTech

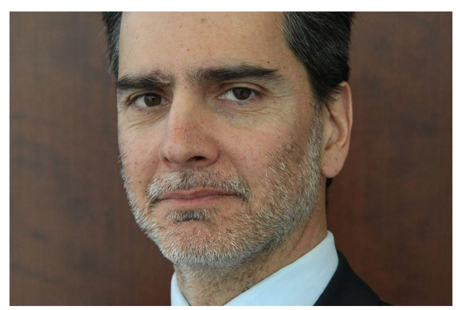
Structural growth prospects for digital payments remain highly attractive. While digital payment volume growth is likely to slow a little for a few weeks, due to lower payment volumes in a number of impacted areas such as travel and hospitality, volumes should generally remain positive and recover and even accelerate quickly thereafter. We anticipate that this acceleration will be driven by two factors: an acceleration in online sales and strong growth in contactless payments.

Online retail is obviously a major beneficiary of social distancing measures. The move from physical retail to online retail, which was already firmly entrenched, will accelerate as a result of the crisis. Retailers' awareness of the need to offer a smooth and efficient multi-platform solution for their customers has been strongly reinforced by the crisis.

Contactless payments is another area that we expect will grow strongly post-crisis, as individuals and retailers alike become more reluctant about handling cash, which is often perceived as a potential infection carrier.

In Europe, for example, the limit for contactless payments has been increased from €30 to €50 with immediate effect, opening a whole new category of transactions to contactless payments. We strongly believe that, once customers have tried contactless payments and seen how simple, safe and efficient it is, they are very unlikely to revert to cash payments.

We believe that existing leading digital payment businesses with a global footprint will be the main beneficiaries of these structural changes: this crisis will favour highly cash generative businesses that have been able to demonstrate to their clients that they could be relied upon in any circumstances.



Vasco Moreno

Citywire A-rated, BGF World Financials and BGF FinTech

In our view, the Covid-19 crisis accelerated the emergence of multiple fintech themes that were already underway. This is especially true on the consumer side, as people increasingly adopt the use of digital solutions for their financial servicing needs.

Broadly speaking, we think digital payment companies are a clear winner, as people have been encouraged to move away from cash. This type of companies has also benefited from the recent surge in e-commerce.

Other beneficiaries include digital banking, as a result of physical banks' branches being closed, and software companies, as businesses have become more reliant on software infrastructure, as they moved to working virtually.

Also, on the consumer side, governments have been encouraging contactless payments as a safer solution during the pandemic and social distancing measures have begun to change people's behaviour regarding the use of digital payments. Our BGF FinTech Fund, targets companies that have exposure to these FinTech themes.

Jeroen van Oerle

Portfolio manager, LO Funds – Global FinTech

Covid-19 has had impact on the fintech universe in three ways:

1. Digital payments has increased substantially. This is an acceleration of the shift away from physical cash which we have observed over the past couple of years. Governments and health organisations are pushing people to pay via card, mobile phone or online in order to stop the spreading of the virus through contaminated cash. We strongly believe that there will be a group of people who are new users of digital payments, and will continue to use it going forward because of the increased levels of convenience besides hygiene;

2. Digital financial services are in high demand. Think of mortgage advice, investment advice and credit requests which are consumed online. Covid-19 accelerated this move towards digital financial services as well. Prior to the crisis we saw that a lot of providers did not offer digital services, but have now seen the light and realise that this is the way to stay in close contact to clients. Efficiency increases as well because there can be more meetings scheduled in a day. We think that physical advice will certainly come back again once allowed, but here too there will be a group of people that prefer to consume digital services going forward;

3. Fintech companies are actually helping governments to provide businesses and individuals with financial aid. Especially on the individual level, there are a lot of unbanked people. There are financial inclusion programmes set up by fintech companies to also reach this group of people that has no access to regular financial services. Think of prepaid card providers and POS/online credit facilities.

Patrick Lemmens

Citywire AAA-rated, Robeco New World Financial Equities and Robeco Global FinTech Equities

Covid-19 has absolutely pushed the investment case for fintech. In terms of improved (lower) valuations for the companies we invest while in certain cases the growth profile has even improved. Winners include companies which offer Cybersecurity solutions that are relevant with increased working from home and increased use from cloud solutions. Another category is the payment companies which are focused on e-commerce and digital payments.

But we also believe that the winning payment company of the future needs to be omni-channel. Robeco FinTech owns a nicely diversified global portfolio of payment companies with strong skills on both digital as well as off-line payments. More recently a couple of these investments came out with the following three observations: 1) the cashless transition has been accelerated by 1-2 years, 2) e-commerce adoption has been accelerated by 2-3 years and 3) one of the large networks witnessed a 40% growth in contactless transactions worldwide in just the first quarter.

Bruce L. Glazer

Lead portfolio manager, Wellington FinTech

The short answer is yes. My team and I believe this crisis can be a catalyst to accelerate many trends that were already in place within the industry and help push the investment case for fintech.

Clearly the move from physical retail to ecommerce accelerates the shift away from cash and the adoption globally of contactless payments. This crisis is forcing consumers to embrace technology to adjust to the new normal and is driving increased usage of mobile wallets (P2P), branchless banking, and do-it-yourself services.

Additionally, it has highlighted the ease of managing and updating cloud-based infrastructure versus legacy on premise technology. Financial institutions with more modern technology have been able to respond better to a more digital customer and more remote workforce. They are the winners here.

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This is what will hold traditional firms back from riding a fintech boom

LONG READ: Our panel of five specialist fund managers focus on whether finance alone will benefit from the acceleration in tech.

By **Chris Sloley** / 27 MAY, 2020

Finance is obviously the key area in which fintech will boom, but how much crossover will there be into other industries as they adopt financial and technological innovation?

Having asked five leading fund managers whether Covid-19 has pushed the fintech agenda forward, we now turn our attention to the potential winners and long-term lessons.

In this second instalment, the specialists were asked whether this will lead to more companies pivoting to improve their fintech capabilities. Will this solely be traditional financial companies but also other industries?

Vasco Moreno

Citywire A-rated, BGF World Financials and BGF FinTech

We believe fintech trends such as digital payments, digital banking and financial software outsourcing were already underway. Covid-19 has only accelerated these trends. Looking at banks, for example, holding onto legacy systems can lead to higher operating costs, higher operational risks and poor consumer experience.

Banks must ramp up their technology platform not only to meet the demands of tech-driven consumers, but also to stand out amid a growing competitive landscape. In our BGF FinTech fund, we look for banks that already have a strong technology platform, or financial technology outsourcing companies who can help build banks' technologic platform. If superior technology was already critical for banks, the impact of Covid-19 has only increased this need.

Vincent Vinatier

Citywire AAA-rated manager, AXA Framlington FinTech

Innovative financials that are able to offer the best digital experience to their customers offer exciting investment prospects and should be a net beneficiary of the Covid-19 pandemic. They will exit this crisis in a stronger competitive position compared to financially weaker and digitally less advanced competitors.

In the digital banking space, short-term profitability will be under pressure due to the overall economic impact of the crisis. This crisis plays to their strengths, highlighting their ability to offer customers a seamless digital banking experience during the lockdowns.

During such stressful times, offering full, unrestricted access to one's bank account and investments is of great importance, as is the ability to dialogue with knowledgeable financial advisors. Customers of the companies held in the fund have been fully able to discuss with their advisors remotely, to change their investment strategy, to negotiate and sign new mortgages digitally, and so on.

In the digital insurance space, longer-term trends are highly supportive. For example, all surveys point to much stronger demand for health and protection insurance as a result of the Covid-19 crisis, particularly in Asia. Given the ongoing physical constraints still facing many economies, those companies that are most digitally advanced are best placed to win highly profitable market share.

Patrick Lemmens

Citywire AAA-rated, Robeco New World Financial Equities and Robeco Global FinTech Equities

Traditional financials have already been active in trying to improve their fintech capabilities. But a lot of focus has gone into digitizing the front office. What remains are often still former century core IT systems.

While larger tech savvy firms renew their core IT systems every four-to-six years, traditional financials needed to substantially invest yesterday, instead of just relying on middleware technology and API's that help solve today's problems but are not enough to survive and thrive longer term.

Additional significant investments are needed, as well as a rethink of business processes, to be successful in the future and an ability to cooperate with the big tech firms that are moving towards offering financial services. The biggest challenges traditional financials face are hiring the right (IT) talent and the fact that significant investments have at least 3-5 year payback periods.

The larger and more complex a financial is the longer that period will be. Finally, the whole Covid-19 crisis will have a clear negative impact on the profitability of financials, which will reduce the investing ability even further. There are good fintech firms out there who are helping financials to digitize their core IT systems. In those fintech firms, we have a significant investment with our fintech fund.

Jeroen van Oerle

Portfolio manager, LO Funds – Global FinTech

If one thing has become clear now, it is that every company requires a digital strategy in order to survive. Within financials, we have seen increasing demand for digital services, but there was never a revolution. The process was gradual and some were taking it more seriously than others. Those that actually made investments in the past several years now find themselves on the winning side.

Those that thought there was more than enough time to go digital and it was only a hype now find themselves losing out on business and being too late to close the gap. The traditional banking and insurance market is in a tough environment. Interest rates remain low, regulatory costs remain high and non-performing loans will start to increase because of the economic slowdown.

The natural tendency for the C-suite (often pushed by investors) is to start cost cutting, while the only relevant strategy to survive is to invest in technology to increase operational efficiency and enhance the digital service offering.

Big tech companies have been entering into financial services too over the past 18-24 months. That will not change as a result of Covid-19. Still, in many cases, these big tech companies work together with fintech companies that hold the appropriate licenses and tech-stack. Our investible universe benefits from this trend.

Bruce L. Glazer

Lead portfolio manager, Wellington FinTech

We believe Covid-19 will only accelerate the adoption of digital processes. Financial services is a massive industry that is still in the early days of being disrupted. Both incumbents and new entrants will embrace technology to improve the user experience, increase their value proposition, and expand their addressable markets.

Incumbents have the advantage of a large customer base but are often bogged down by legacy technology. The opposite is true for new entrants. We think the ultimate winners will be a combination of both, but the common thread will be leveraging new technology.

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Why Asia is leading the fintech agenda... and who can catch up

The third part of our specialist series zeroes in on which regions are leading the next wave of innovation.

By **Chris Sloley** / 28 MAY, 2020

Asia has emerged a leading force in fintech, as China, India and Korea are pushing the agenda at rapid pace, but do leading fund managers believe this is a regional opportunity or a wider global investment opportunity?

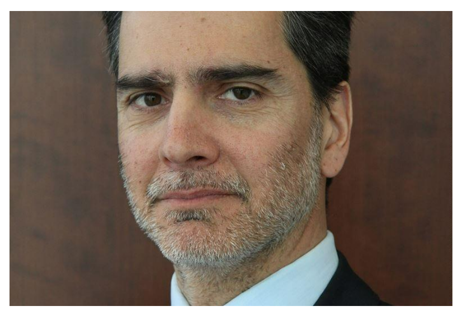
Having looked at how Covid-19 has pushed the fintech agenda and potential headwinds, this third instalment uncovers how leading fund managers from five major asset managers operating in this field are adapting at a geographic level.

Bruce Glazer

Lead portfolio manager, Wellington FinTech

In our view, Southeast Asia is ahead of the curve in many aspects of fintech. However, the region's use of fintech exhibits large gaps between rich and poor, men and women, and rural and urban areas, and there is still a long runway for future adoption. This region consists of many leapfrog economies, meaning there will be a number of unbanked consumers who have never been into a physical branch and instead go directly to a digital offering.

So it's important for banks that want to win that consumer cohort to have a modern technology platform. In this region, the impediments to greater use are mostly regulatory – do countries restrict access to certain players to promote national champions with inferior technology and digital offerings? In some cases, the answer is yes.



Vasco Moreno

Citywire A-rated fund manager, BGF World Financials and BGF FinTech

Asia has historically been ahead of the curve in what regards fintech adoption and innovation, especially if you look at digital payments. However, we believe the trend is not Asia-specific, but rather global. We see the greatest opportunities for fintech exposure through companies domiciled in the US, though many of these businesses operate globally.

Considering that over 50% of global consumer transactions are still done in cash, we believe this global trend is still at an early stage. The impact of Covid-19 has had an especially strong impact on digital payments companies. We think this has created a great entrance point for long-term structural fintech trends, such as digital payments.

Last year in November I visited India and met with a lot of fintech companies which also have interesting links with Chinese fintech leaders. In China and India there are already a few investable opportunities available for us and we believe this will grow substantially over time. With the recent team additions of Michiel van Voorst and Koos Burema we have added substantially to our knowledge on Asian fintech while Robeco also has dedicated analyst resources on the ground in India and China.

Patrick Lemmens

Citywire AAA-rated fund manager, Robeco New World Financial Equities and Robeco Global FinTech Equities

Our VC expert in the team, Bryan Satterly, whose previous working experience includes the International Finance Corporation for their Emerging Markets Venture Capital Group, said: ‘Two countries in Southeast Asia that have made tremendous progress in FinTech are Vietnam and Indonesia.

‘Both countries have growing VC-backed fintech ecosystems, and large tech platforms that have developed fintech services on top of their original products. The most important limiting factors right now include under-penetration of mobile internet usage and building trust amongst consumers and businesses in conducting digital transactions.’

Jeroen van Oerle

Portfolio manager, LO Funds - Global FinTech

Asia has always been on the forefront of fintech adoption. That was apparent pre-crisis already. There are some explanations for this: first, supportive governments; second, good smartphone and internet penetration levels; and third, no legacy infrastructure. This last point especially is a big difference with the West, where payment choices are abundant.

The US is far advanced when it comes to innovation. Adoption levels are gradually increasing. Europe has too stringent regulations for tech-enabled platforms to thrive, hence plays only a small role on a global level. That is not to say there are no high quality companies to be found in Europe or innovative companies, but compared to a massive internal market (Asia) and an excellent access to funding (US), Europe loses out.

Vincent Vinatier

Citywire AAA-rated fund manager, AXA Framlington FinTech

We believe those markets where fintech will grow faster post-Covid-19 are those same ones that were best positioned before the crisis. South Korea, India and China in particular are already seeing strong growth in fintech due to a mix of cultural awareness, favourable demographics, high mobile penetration and broad government support.

Impediments to greater use are generally limited, with the possible exception of some “newer” business models such as P2P lending that are likely to continue to face strict government scrutiny, but that was already the case before the crisis, especially at times of higher economic uncertainties.