



"Backing Future Champions in AI, FinTech and IoT"

# The Future of Disruptive and Enabling Financial Technology post CV-19



Finch Capital is a thematic investor in Financial Technology, AI and IoT companies, and has a track-record since 2014 of backing future champions in Europe and South East Asia. Companies include BUX, Brickblock, Digital Insurance Group, Goodlord, Grab, Hiber, Twisto and Trussle.

FinchCapital is a team of 12 investment professionals with wide entrepreneurial experience (e.g. Adyen, Deepmind and Arista), prior investment experience (e.g. Accel, Atomico, Khazannah) and industry backgrounds (e.g. Facebook, Google, and McKinsey), located across offices in Amsterdam, London and Jakarta. For more information see [www.finchcapital.com](http://www.finchcapital.com)

<b>1</b>	<b>Context, Methodology and Executive Summary</b>	<b>4</b>
<b>2</b>	<b>CV - 19 impact on Financial Technology</b>	<b>6</b>
<b>3</b>	<b>A post CV-19 crisis perspective on key FinTech and FinTech enabling sectors</b>	<b>19</b>
<b>4</b>	<b>How to survive in the short term</b>	<b>24</b>

# Context and Methodology



- COVID-19 has had an inconceivable impact on all of our lives and is reframing our way of life on a daily basis. Never before have we seen such a drastic and immediate impact across businesses in multiple sectors.
- Despite government's committing \$ trillions to help enterprises, SME's and employees, the need for cash management has never been more important.
- We believe that the crisis will accelerate fundamental shifts in how we work and interact in private and business context.
- The crisis is and will even more so result in a revisit of how investors and potential buyers perceive value in this new normal, with some verticals expected to have a rude awakening, while others embrace opportunities a crisis or recession might bring along.
- Since the start of the crisis we have reflected on how we expect the Disrupting and Enabling Financial Technology landscape to be impacted in terms of growth, profitability, competitive dynamics, Investor appetite, valuations and exit routes.
- This report is based on surveys with Founders of Disruptive FinTech as well as AI and IoT companies selling software to Financials, interviews with Financial Institutions in our network and market research leveraging public data and proprietary Finch Capital research

***2020 will be challenging for FinTechs to navigate, but prosperous times remain ahead post crisis where Disruptive winners take it all and demand for AI, Tech and IoT companies that help financials transform to a digital and Data driven interaction will surge.***

- Expect crisis mode until Q3 2020, followed by a 12-18-month recovery
- Digital-only becomes the new industry norm in financial services, accelerating the current trends
- Shift to digital-only triggers a "Big Pocket" online battle between incumbents and challengers to win
- Financial Institutions turn to Tech companies rather than inhouse to accelerate digital transformation
- FinTech sector winners:
  - Consumer and SME lending platforms: best-adapting mechanism to swiftly and efficiently deliver capital to key segments of the economy
  - Mortgage and life insurance digitalization: leaping forward with technology to disrupt the role of intermediaries, whose role was often face-to-face
- FinTech 'enablers' around AI, IoT and software solutions are in high demand:
  - AI: automation in customer support; account-opening procedures; loan automation,
  - KYC: increased need for safe digital ID given volume of digital business transacted and robust solutions required for protection of client assets
- Areas under pressure:
  - Challenger banks: high valuations, and lower expected activity post-crisis
  - Wealth management: client de-risking and lower AUMs impacting bottom line
  - Payments/FX: decreased transaction activity affecting commission businesses
- Pull-back of corporate VC-led investments in combination with higher hurdles for companies' access to funding put pressure on valuations in later-stage rounds
- Increased M&A and trade-sales below \$250m category of fintech companies, as fewer IPOs expected. In addition, Banks likely constrained given higher capital preservation requirements



# CV-19: Impact on FinTech

# Macro economic impact: CV - 19 severe, with recovery to a new normal starting in Q3 2020

**Table 1: Real GDP, 2020 forecast**

% chg, SAAR

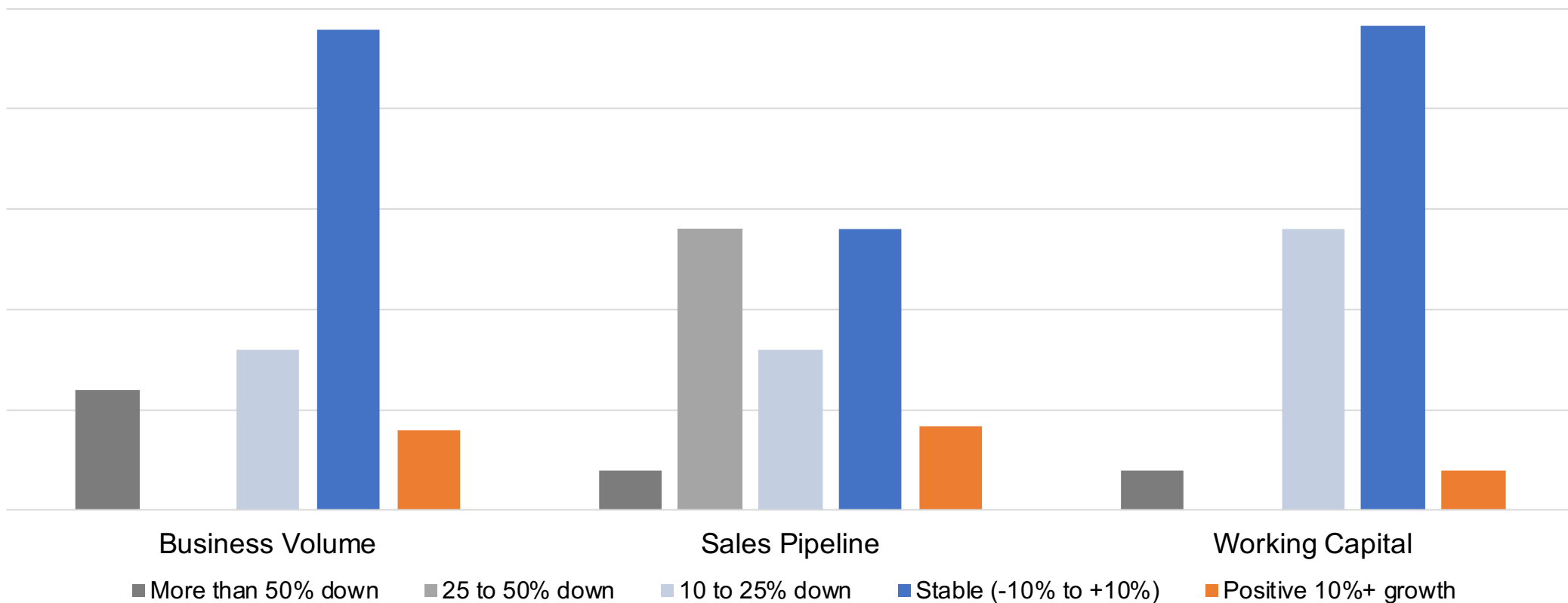
	1Q	2Q	3Q	4Q	4Q/4Q
Global	-12.0	-1.2	19.1	4.3	0.5
Global ex. China	-5.8	-13.7	18.1	4.0	-0.4
Developed	-7.5	-16.0	21.9	3.8	-0.8
• US	-4.0	-14.0	8.0	4.0	-1.9
• Euro area	-15.0	-22.0	45.0	3.5	-0.1
• Japan	-3.0	-1.0	5.0	3.5	1.1
• UK	-10.0	-30.0	50.0	2.5	-0.8
Emerging	-18.8	21.4	14.9	5.0	2.5
EM Asia	-26.0	35.4	17.5	5.8	4.1
• China	-40.8	57.4	23.9	5.5	5.1
• Others	-0.8	-2.0	6.5	6.2	2.4
Latin America	-1.2	-11.6	8.4	2.6	-0.8
EMEA EM	-2.1	-13.1	9.0	3.8	-1.0

## Base scenario we expect is:

- Now until Q3 - "Crisis"
- Q4 and Q1 2021 - "Recovery"
- Q1/Q2 2021 - "New normal"

# New business negatively impacted, and expected to become more severe in the next few months

Where do entrepreneurs feel most of the impact immediately? How does the immediate impact differ from other crises?



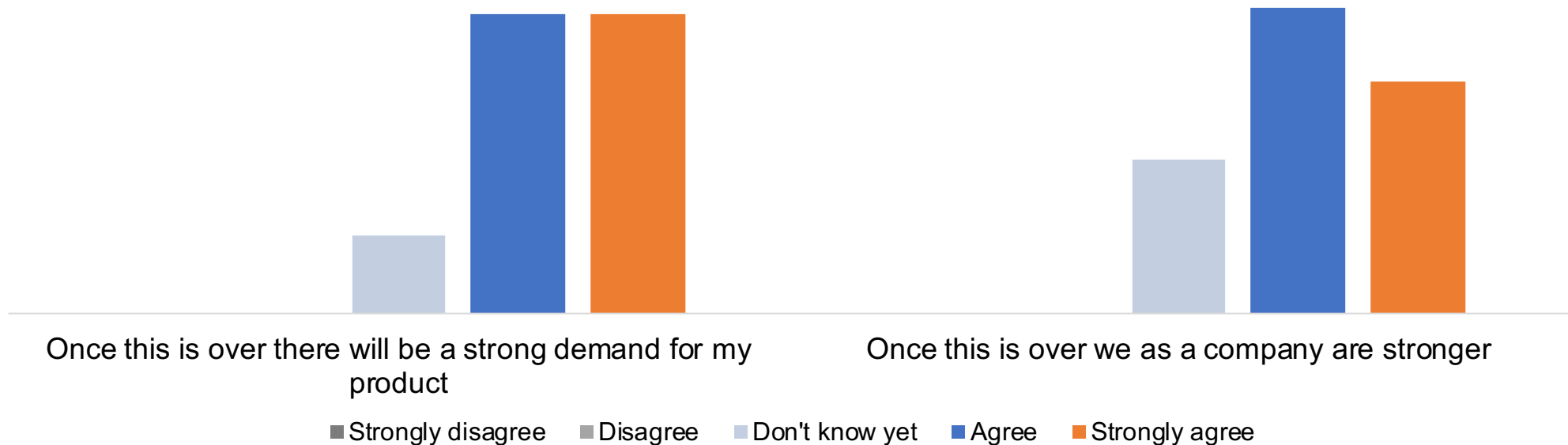


# Impact digital adoption, online stress test and change in funding dynamics will shape FinTech outlook

How does acceleration of digital adoption by Consumers, SMEs and Financial Institutions due to CV-19 change competitive landscape?

How do FinTech and Incumbents perform during the crisis e.g. do they pass the "Digital Stress" test?

How will the CV-19 crisis impact the Funding landscape and valuations?

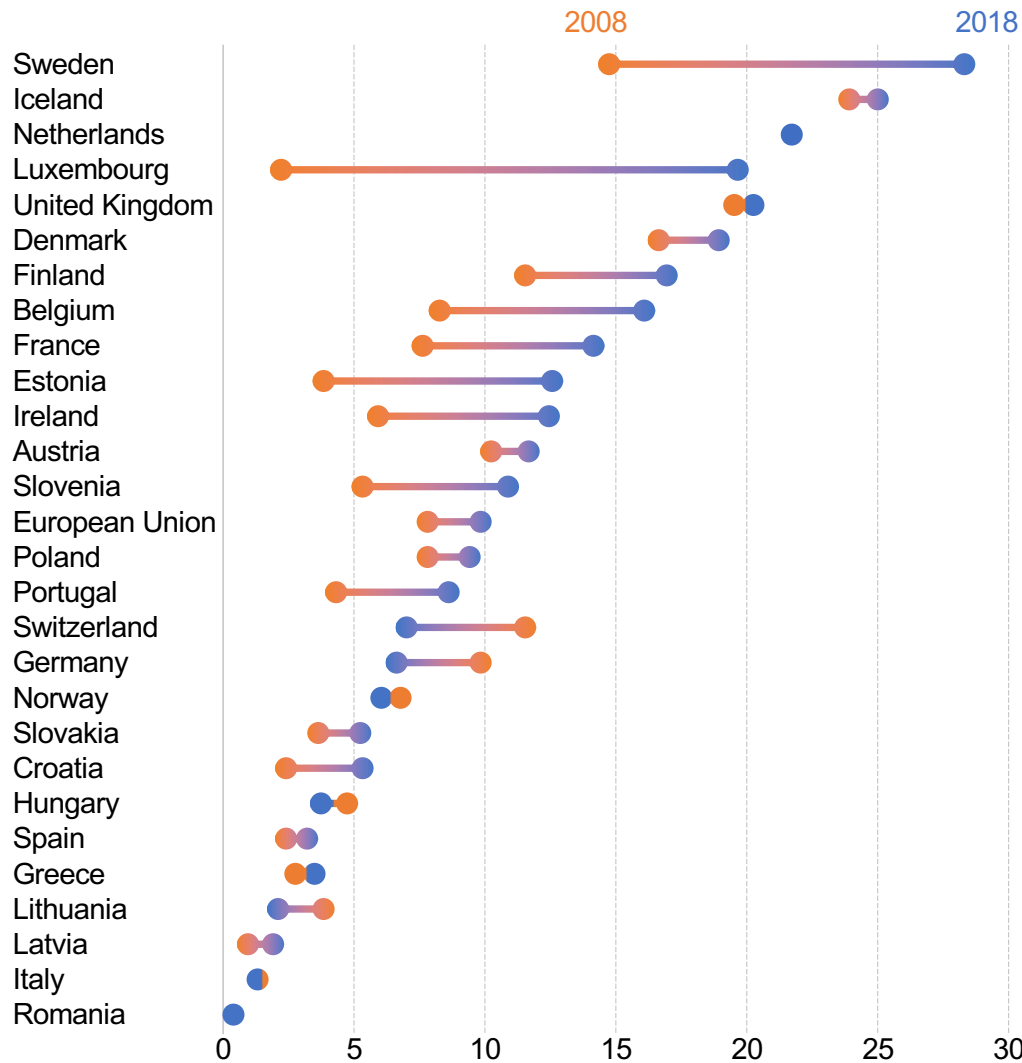


# Digital Adoption - CV-19 crisis forces everybody to accelerate digital adoption....



There was already a general shift for people to work remotely....

Trend % working from home 2009 to 2018....

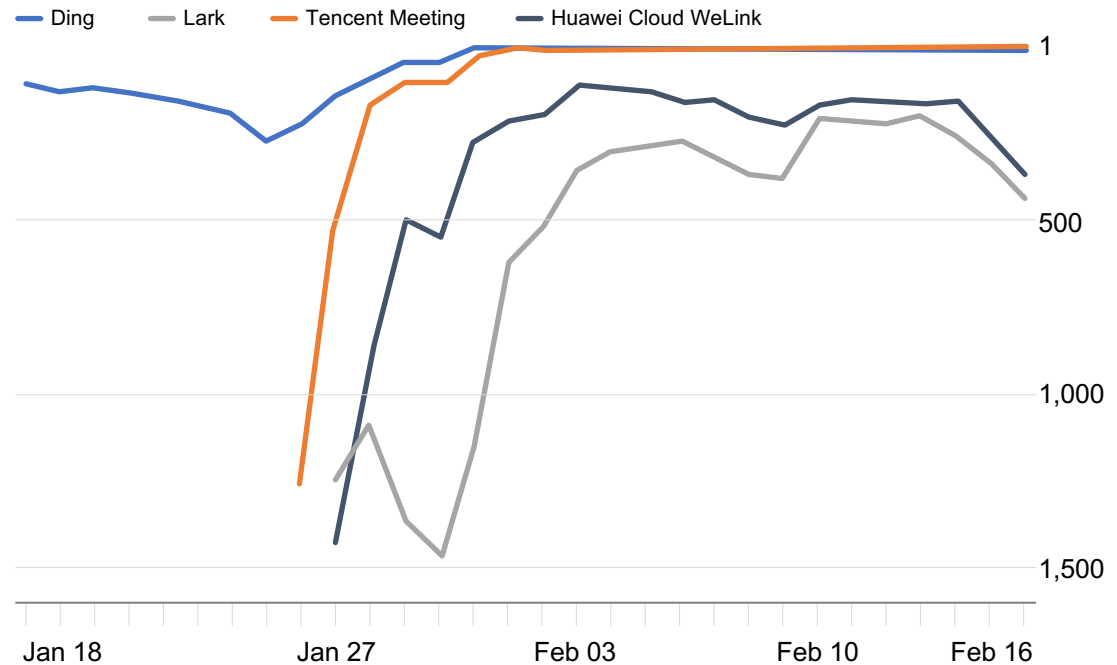


.....now got accelerated to 100%, forcing people to do business and manage their financial matters remotely using tech

Example China

## Coronavirus outbreak leads to surge in Chinese business apps

Overall App Store rank in China by downloads (position)



Source: App Annie  
©FT

# ....this accelerated shift to digital likely creates a "digital battle" between incumbents and challengers

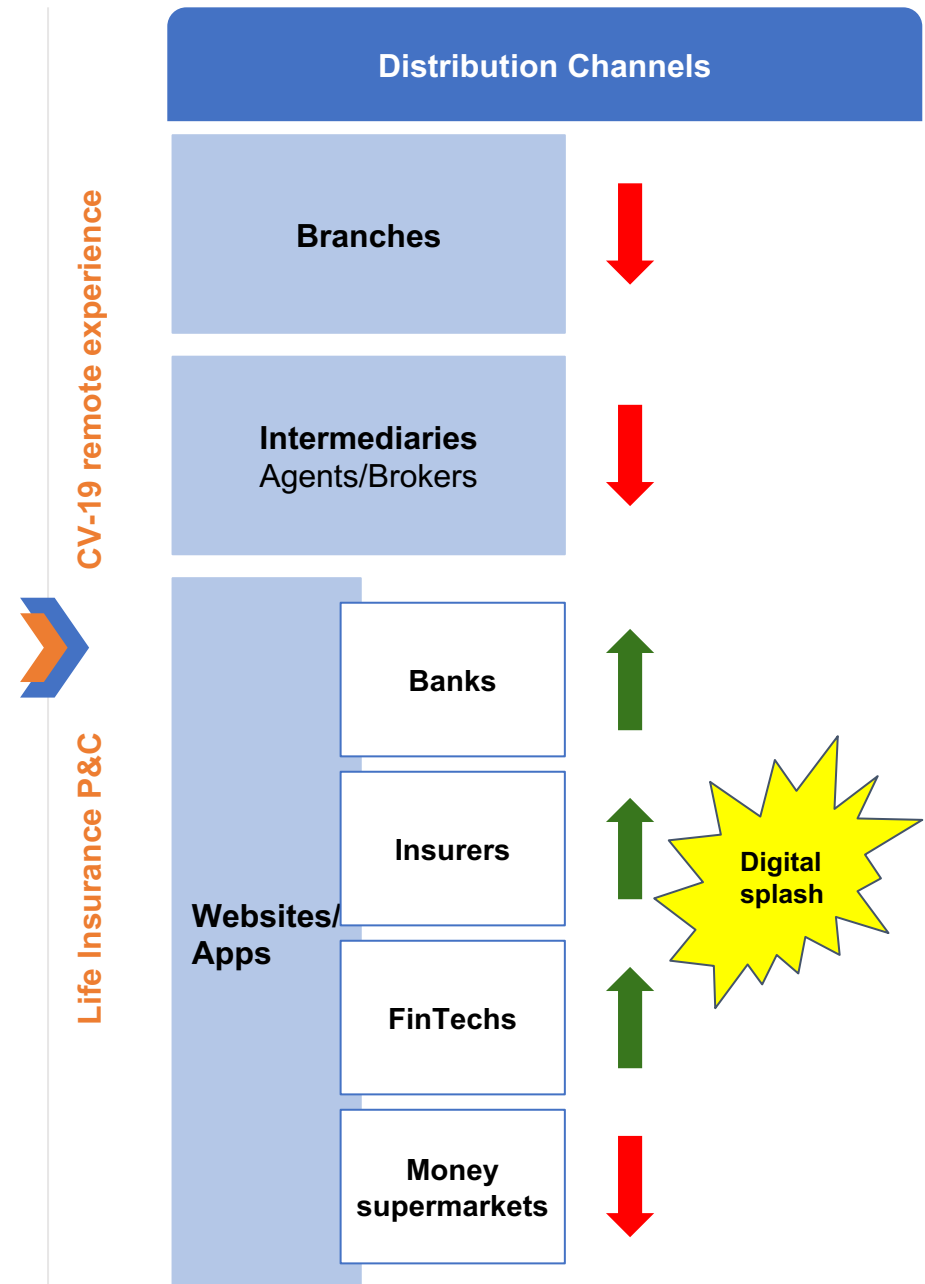
Branches are the most preferred channel when applying for new products, Proportion of respondents who prefer branches

	Mortgage/ mortgage refinance	Wealth management account	Checking account	Credit Card
Mexico	75%	73%	70%	53%
Indonesia	68%	69%	67%	66%
Spain	83%	79%	66%	62%
France	79%	75%	64%	64%
Switzerland	84%	74%	64%	49%
Japan	72%	61%	61%	43%
United States	65%	62%	58%	41%
Canada	74%	69%	58%	46%
Germany	74%	65%	56%	51%
Singapore	67%	62%	52%	32%
India	57%	44%	50%	36%
Brazil	61%	55%	49%	27%
Australia	72%	66%	46%	46%
China	55%	39%	43%	40%
United Kingdom	58%	56%	34%	28%
Netherlands	73%	59%	34%	32%
Norway	48%	40%	14%	18%

Source: Deloitte Center for Financial Services analysis

Deloitte Insights | [deloitte.com/insights](https://deloitte.com/insights)

Average % in person as preferred channel						
	Mortgage	Wealth	Checking	CC	Life	Non-life
Western Europe	30%	±60%	95%	±60%	80%	40%
Lowest	18%	+50%	30%	39%	40%	14%



# Digital test - Incumbents as well as Fintechs facing challenges in a digital world....

## FinTechs issues dealing with scale....



**BEYOND THE VALLEY** Your daily dose of global tech news  
SIGN UP NOW

**FINANCE**  
**Trading app Robinhood experiences 'major outage' for a second day amid heavy volume market action**

PUBLISHED TUE, MAR 3 2020-10:24 AM EST | UPDATED TUE, MAR 3 2020-3:40 PM EST

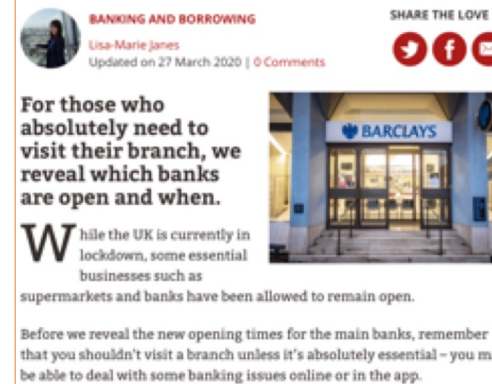
Kate Rooney @KROONEY

**KEY POINTS**

- Robinhood saw a second day of glitches that kept clients from trading as markets rebounded.
- The start-up's technical issues began Monday morning and lasted throughout the trading day, leaving users with their hands tied as the Dow Jones Industrial

## Incumbents have issues dealing with remote

### UK lockdown: bank opening times at Barclays, Lloyds, Nationwide, NatWest & more revealed



**BANKING AND BORROWING**  
Lisa-Marie Jones  
Updated on 27 March 2020 | 0 Comments

SHARE THE LOVE

For those who absolutely need to visit their branch, we reveal which banks are open and when.

While the UK is currently in lockdown, some essential businesses such as supermarkets and banks have been allowed to remain open.

Before we reveal the new opening times for the main banks, remember that you shouldn't visit a branch unless it's absolutely essential - you may be able to deal with some banking issues online or in the app.



### Irish banks struggling under weight of Covid-19 call centre volumes

25 March 2020

Irish banks are re-allocating staff across the business to deal with a massive increase in calls from customers seeking financial support and mortgage payment breaks as a direct result of Covid-19.

Home/ money/ insurance

### 40% jump in online insurance sales on Covid-19 lockdown

Although the industry always records a strong growth in March, this year the growth is stronger compared to average 10 per cent growth logged in previous years

Aprajita Sharma  
March 27, 2020 | UPDATED 21:18 IST



**bunq** @bunq · Mar 28

Hi bunqers to be! 🙌 Our partner Onfido is heavily affected by Covid-19 so we've searched to find alternatives. We found one this morning and we have immediately implemented a solution with iDEAL to get our Dutch signed up as quickly as possible, More at:

# ...Incumbents stepping up digitalisation, creating surge in security / KYC and collaborative tools

	Suitable for WFH?	What will happen	How?
Branches	No	Branchless banking will become real	e-identity/KYC/video
Salesforce	Yes	Tools and mechanisms already exist to make this happen	Smart CRM
Central business units	Yes	Well positioned if collaboration tools in place	Video/productivity software
Product development	Yes	Well positioned if collaboration tools in place	Virtual meeting led by product managers
Technology	Maybe	Unlikely to move for core, but non core possible	Developer collaboration tools
Operations	No	Nothing - regulation driven	High confidentiality requirements
Contact center	No	Scale down - Push towards AI text	Chatbots / home call centers

# FinTech enablers expect a boost in demand for AI, IoT and SaaS to help financials accelerate digital change



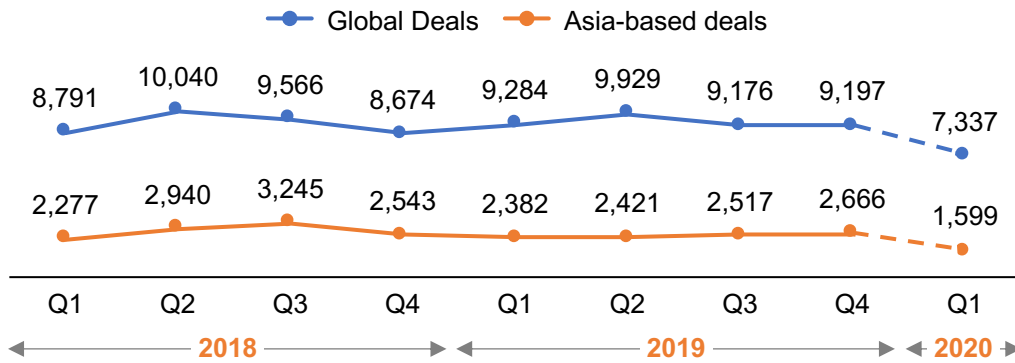
		<div style="display: flex; justify-content: space-around; align-items: center;"> <div style="border: 1px solid green; padding: 2px 5px;">Increase demand</div> <div style="border: 1px solid yellow; padding: 2px 5px;">Similar demand</div> <div style="border: 1px solid red; padding: 2px 5px;">Decrease demand</div> </div>		
		Banking and Payments	Insurance	Property Tech
<b>Front end</b>	<b>Customer Service</b>	Chatbots: Call center disruption	Chatbots: Call center disruption	Deemphasized with short term pressure on new volumes
	<b>Onboarding</b>	Drive to branchless banking continues	Shorter term decrease in new policy onboarding	Deemphasized with short term pressure on new volumes
	<b>Productivity tools</b>	Remote working, performance management	Remote working	New sales workflow required
<b>Middle</b>	<b>AML/KYC/Fraud</b>	Remain committed to checks & regulation	Fraud will remain top of mind	Non-core to business
	<b>Multi-channel software</b>	More focus on core products	Change product creation architecture	Need to digitise creation and management
<b>Back end</b>	<b>Computer vision</b>	Innovative payment projects on hold	Automated claims management	Physical surveyor replacement
	<b>IOT &amp; Not Present Security</b>	Drive to cashless, remote working security issues	Telematics hit in short term	Cameras, drones, access management

# Funding landscape - Bar has been raised, with first impacts visible in Q1 2020 - CVCs capital can be at risk...



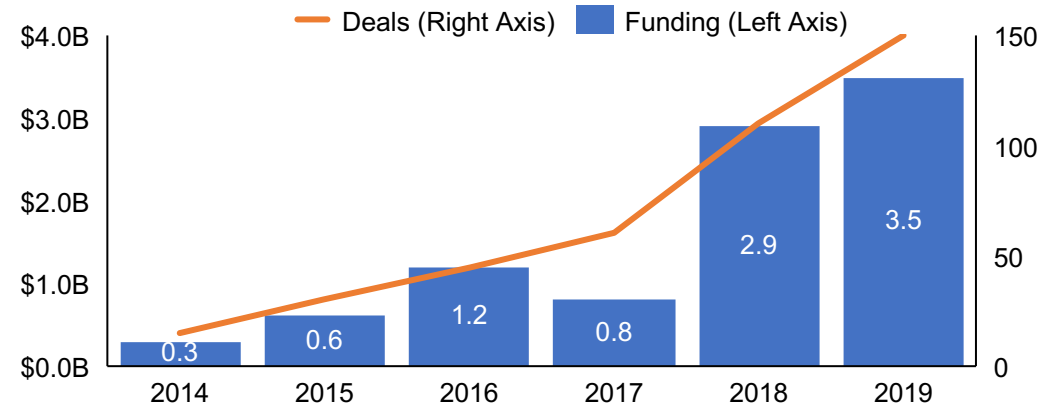
Funding volumes already dropping in Q1 2020....

Global funding rounds to private companies, Q1'18 – Q1'20



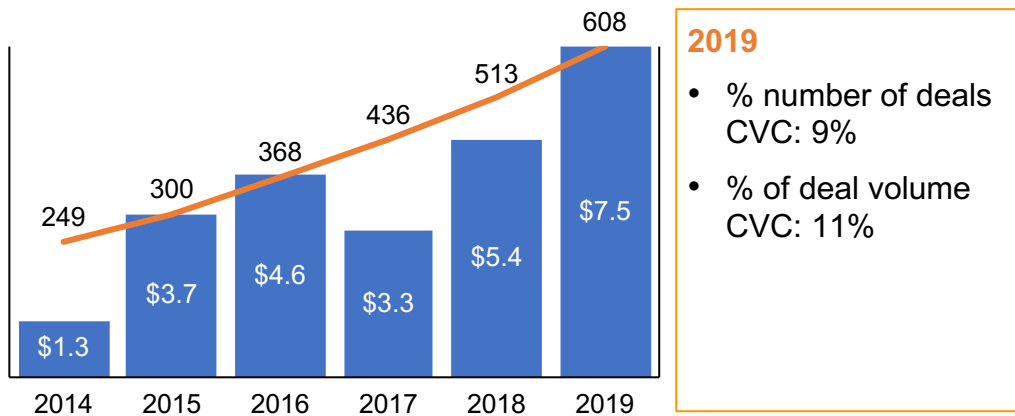
...CVC lead funding represent 10-20% funding as seen in other recessions CVC's existence might be at risk

Bank CVC-backed deals & funding

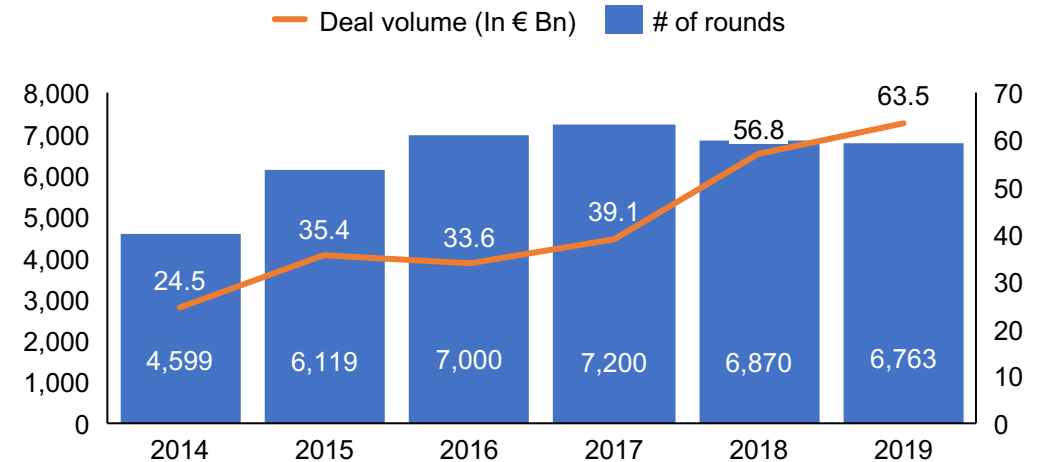


Number and volume (\$bn) of CVC backed funding rounds in Europe....

Annual disclosed CVC-backed funding to Europe, 2014-2019



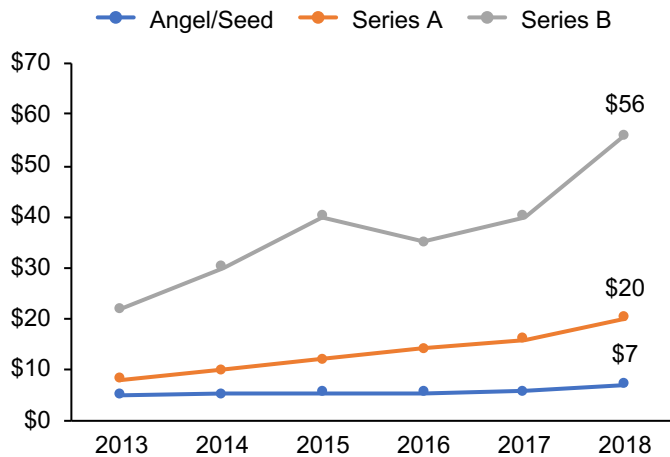
...Total number and volume of venture rounds in Europe



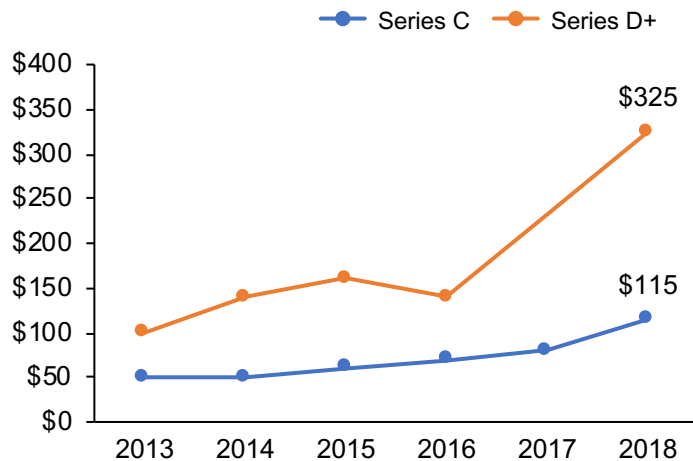
# ...less capital in system puts pressure on valuations, and triggers consolidation/shake-out in most sub-sectors



Median Pre-Money Valuation, \$M



Median Pre-Money Valuation, \$M

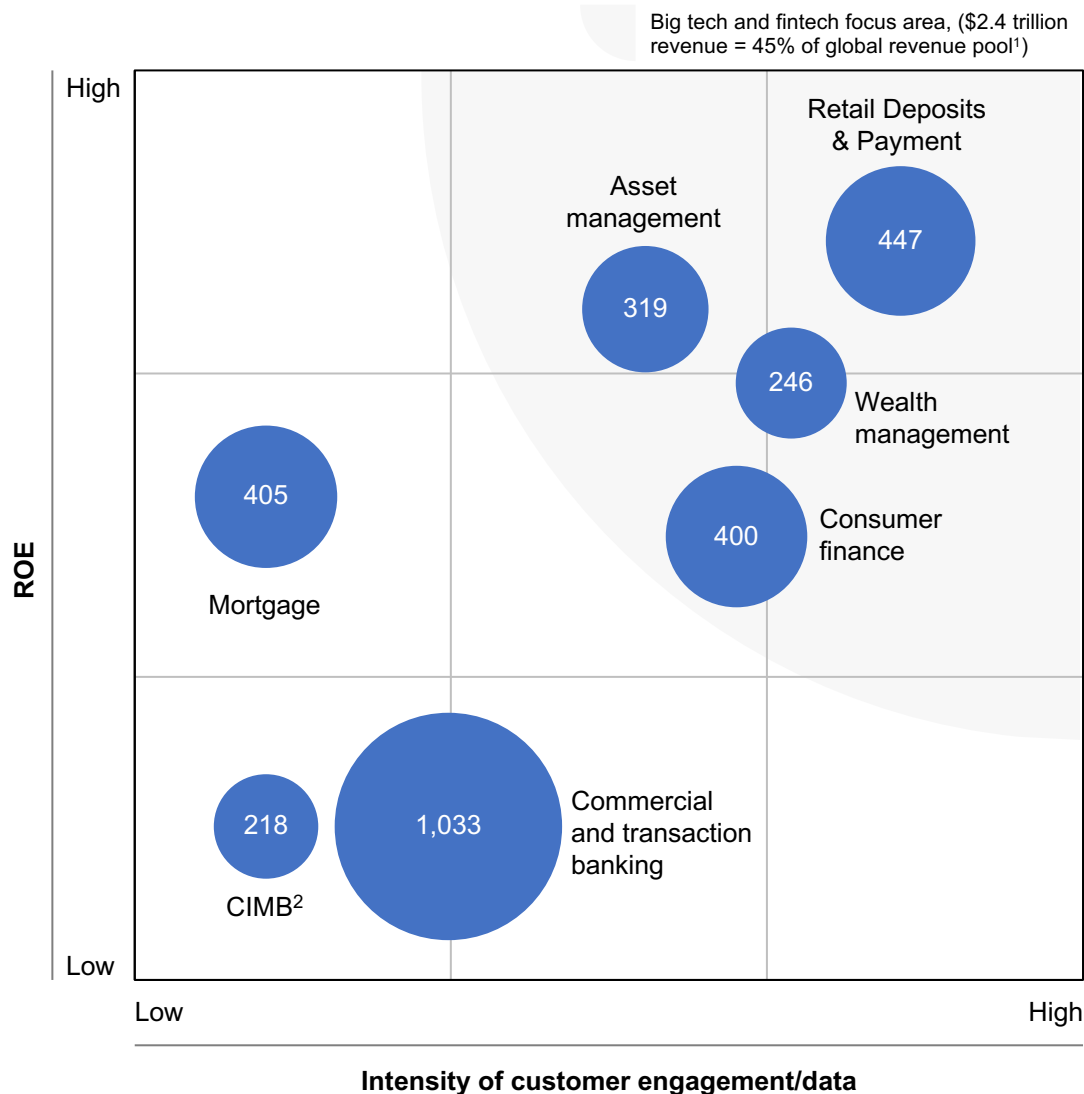


	Example	Relative valuation Price to revenues	Growth impact CV-19 post crisis	Unit economics post crisis	Valuation & M&A implications
<b>Challenger Banks</b>		50x+	↔	↓ Less activity	↓ + Consolidation
<b>Consumer Lending</b>		10-30x	↑ Credit need	↑ Higher NIM	↔ + M&A
<b>Mortgages</b>		10-30x	↑ Remortgage More digital	↑ Higher NIM	↔ + M&A offline brokers
<b>SME Lending</b>		10-20x	↑ Credit need	↑ Higher NIM	↔
<b>Wealth Management</b>		50x+	↓ De-risk	↓ Less AuM	↓ + M&A
<b>Savings/Deposits</b>		50x	↔	↔	↓ + Valuation pressure
<b>Insurance Distribution</b>		50x+	↔	↔	↓ + M&A with traditional
<b>Insurance Products</b>		50x+	↔	↔	↓ + Valuation pressure
<b>Payments/FX</b>		50x	↓ Less activity	↑ FX Spread	↓ + M&A
<b>Enabling FinTech</b>		10-20x	↑ Demand	↑ Lower CAC	↑ + M&A by old tech



# Post crisis, expect an increase in funding flow to mortgage disruptors, and consolidation of payments space

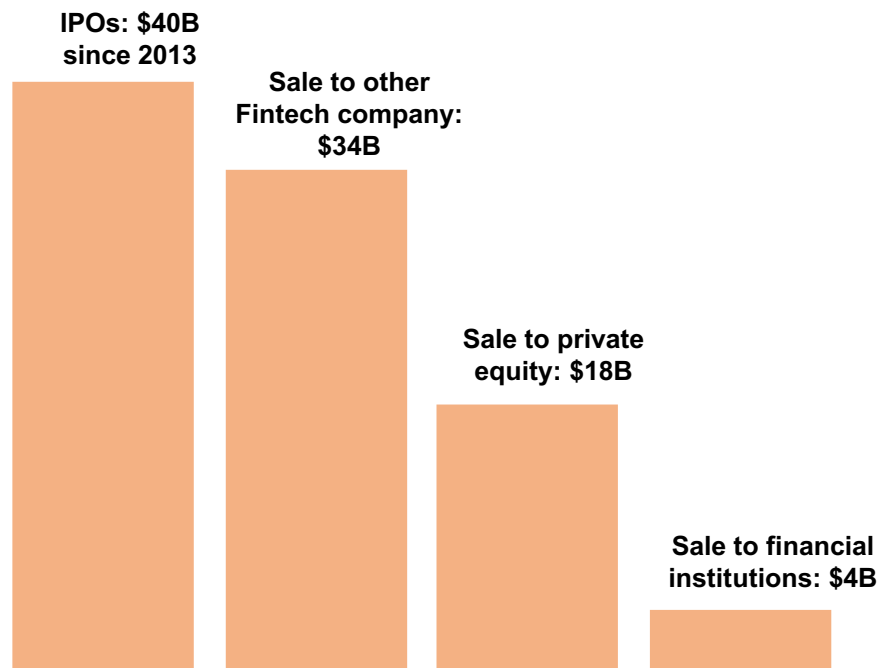
## Developed markets



	2014-2019	2021 -2024	Theme
<b>Challenger Banks</b>	€6 Bn	↓	Geo Winners emerge
<b>Payments</b>	€5.3 Bn	↓↓	Consolidation
<b>Lending &amp; Mortgage</b>	€4.7 Bn	↑	Digital disruption
<b>Wealth Management</b>	€3.3 Bn	↓	Revenue at risk, flight to safety
<b>InsurTech</b>	€1.8 Bn	↓	Health & telemedicine
<b>PropTech</b>	€2.8 Bn	↑	Rent & Remortgages
<b>Enabling FinTech</b>	€3.5 Bn	↑↑	Automate, automate....

# Exit Landscape - Closing IPO window and lower valuations increase EUR 0-250m Financials led M&A

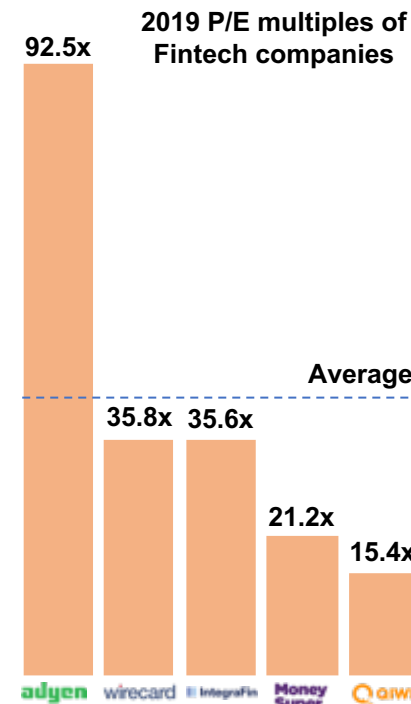
IPO exit route likely to be more complicated....resulting in more trade sales....  
\$ Billions 2013 - 2019 exit



2020 - 2025 outlook

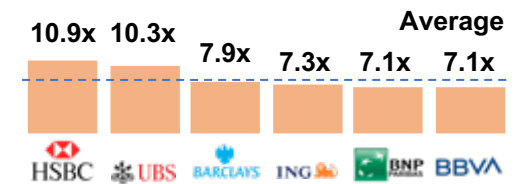


...gap between P/E and FinTechs remains, continue to make "Big M&A by Financials Hard short to medium term



P/E 4/2020	115	26	35	16	11
P/B 4/2020	27	6	13	8	2

2019 P/E multiples of traditional banks



P/E 4/2020	19	8	7	6	5	7
P/B 4/2020	0.7	0.6	0.3	0.4	0.3	0.2



A post CV-19 crisis perspective on  
key FinTech and FinTech enabling  
sectors

# Banking & payments: Severe impact now; post crisis, online mortgage surge, others consolidate

	Example	During crisis	Post crisis
Challenger Banks	 	Interchange and FX revenues collapse	Consolidation and product M&A rebound
Payments	 	Payment volume doom and gloom with travel issues	The end of cash is nigh but travel headaches
FX		Short term FX solutions to counter volatility	Even less focus from incumbents to drive consolidation
Trading	 	Volatility is its best friend	Free brokerage has attracted millions of new retail investors
Wealth Managers	 	De-risking investors withdraw	Pressure on fees, ETFs hit hard
SME Lending		SME default worries	Old and new school FinTech consolidation
Consumer Lending	 	Need for credit, but beware of defaulters	Recession loan books but attractive pricing
Mortgage Challengers	 	Remortgage to get disposable income Shift to online	Accelerated shift to digital disruption

Impact on sales/profit: > +15% -30% to +15% <-30%









# InsurTech: Short-term challenged (excl. health & claims) post-crisis strong in SME, health, and enabling tech



	Example	During crisis	Post crisis
B2C Challengers P&C		No driving, no travelling and pressure on disposable income	Comparison sites / brand winners lead fightback
B2C Challengers Health		Flight to safety like never before	Telemedicine and health insurance new reckoning
B2B Challengers	 	Lockdown of businesses, lockdown of policies with self employed hurting	The move to digital will truly be on
Claims Handling	 	Automated claims will be differentiator	Even more eager
Analytics		How to adjust from COVID-19 "mindset"	Accuracy never been more important
IoT	 	Crisis monitoring solutions needed	Alternative data to lead CAT pricing
Software – FrontEnd		Need to have digital policies becomes no brainer	New business only on digital interface
Software – Mid & Back-end		No immediate need to jump on bandwagon	Cost overhaul doing away with expensive consultants

Impact on sales/profit: > +15% -30% to +15% <-30%

# PropTech: Low volume during crisis but light visible at the end of the tunnel

	Example	During crisis	Post crisis
Rent	Platforms 	Crisis management for agents	Insurance will be on everyone's mind
	Marketplaces 	Zero volume, no renters, no travellers	Hesitant travellers, market share winners
	Deposits 	Need of the hour but few people are moving	Industry mis-selling and scandal pressures
Rent	Mortgages 	Remortgage to get disposable income	Contact-free digital disruption
	Deposits 	No one buying houses	Savings wipe off will mean help needed
	iBuying 	Inventory risk damaging	Price correction to re-balance businesses
Development – Construction Software		Cannot disappear from projects	Investment in infrastructure to drive out of recession
Investments	AVMs 	Monitor, monitor, monitor (without humans)	Data becomes ever more important in daily life
	Property investments 	Withdrawals for liquidity	Effects of price correction unknown

Impact on sales/profit: > +15% -30% to +15% <-30%

# Enabling FinTech – Sales delayed during crisis; post-crisis surge for enabling techs that reduce costs

	Example	During crisis	Post crisis
<b>Crypto</b>	Ledger BITFURY	The sell off commences	Clear out of 90% of market
<b>AI</b>	<b>Automate &amp; analyse</b> UiPath	Never a better time to automate	SMEs shout for more
	<b>Customer Service</b> PolyAI	Chat bot army mobilizes	Call centers start optimizing
	<b>RegTech/ Security</b> PRIVITAR fourthline	Work from home vulnerabilities exposed	E-Identity becomes norm
	<b>“As-a-service” software</b> blend	No volume through the system	Lending and mortgages implementation breakthroughs
<b>Open Banking</b>	solarisBank TRUELAYER	Fast tracking rescue packages	Challenge to update API standards
<b>Blockchain</b>	<b>Trade Finance</b> TRADEIX	Defaults up and technology is last thing on mind	Fight for survival and execution
	<b>Real Estate Investment</b> Brickblock	New initiatives on hold, pressure on fees	Need to raise AuM cost effectively
	<b>Capital Markets</b> ripple	No trade, no remittance, XRP issues	No major push to the protocol

Impact on sales/profit: > +15% -30% to +15% <-30%

A dramatic seascape with a large, crashing wave in the foreground and a small sailboat in the distance. The sky is dark and stormy, and the water is turbulent. A large orange banner is overlaid on the image, containing the text "How to survive in the short term".

How to survive in the short term



# 7-step checklist to navigate through the crisis phase and reposition well for the new normal



1. **MANAGING LOSSES WITH SPEED AND ADEQUACY:** cut staff costs (be open and empathic), use force majeure clauses, renegotiate contracts
2. **BE REALISTIC ABOUT FUNDRAISING LANDSCAPE:** short term little appetite for new deals as focus is with protecting portfolio (this will change in +- 6 months)
3. **USE EQUITY TO REWARD AND INCENTIVIZE STAFF:** your remaining staff needs to be 100% aboard with the mission of the company and needs to overperform to survive
4. **COMMUNICATE OPENLY WITH STAFF:** will help to gain support of staff whilst making tough decisions
5. **PUT AS MUCH EFFORT AS YOU CAN IN PRODUCT DEV:** now is the time to make sure your product stands out amongst the crowd
6. **MARKETING SPEND:** focus only on high ROI channels
7. **GOVERNMENT SUPPORT:** make use of local rescue packages where you can and explore opportunities early (find overview [here](#))

For more information how to navigate short term, please visit [www.Finchcapital.com/covid19](http://www.Finchcapital.com/covid19)



**For questions or feedback about this report, please feel free to contact us.**

Radboud Vlaar  
Managing Partner  
[Radboud@finchcapital.com](mailto:Radboud@finchcapital.com)

Aman Ghei  
Principal  
[Aman@finchcapital.com](mailto:Aman@finchcapital.com)

**If you like this report, please share it!**

