



TRENDWATCH 2.0

Q4 2020

PAYMENTS SYSTEM INDUSTRY SYNOPSIS

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Random Thoughts

No Pandemic Rant

We do not intend to begin this issue's Random Thoughts with a rant about the lack of leadership shown by our Federal, state, county and municipal electorate and agencies during the pandemic. No, it would be too easy indict a politicized CDC, shame our home state, for being 48th in the country in terms of COVID vaccinations, or poke fun at leaders that lecture us about social distancing and responsibility from the patio of a Cabo condo or the dining room of the French Laundry restaurant.

Instead, we're going to ask why the banking and payments industry hasn't done more to help with the organization of COVID testing and vaccination credentials for the nation's residents and its businesses.

A Vaccine Passport Would Help

A news article published by Bloomberg earlier this year leads with the headline "Los Angeles Vaccine Recipients Can Put the Proof in Apple Wallet." Really? Believe us when we say that Los Angeles couldn't get out of its own way during an earthquake and yet it has cut a deal with Silicon Valley startup Healthvana to create a digital certificate that fits nicely into an Apple Wallet. Great if you're an Apple user; what about the other digital wallet users? Coming soon, we're confident, but there's a bigger issue.

Banks and networks had the chance to pitch in early during the pandemic's onset by utilizing their extensive infrastructures to identify those with positive and negative test results in the event COVID testing became a criterion for workplace access, shopping for essentials, or attendance at public events. Sure, a COVID test taken yesterday doesn't necessarily mean that someone is virus-free today, but wouldn't it have been a good place to start?

Commercial banks and credit unions aligned with Visa or Mastercard have considerable information about their customers/members while the POS and ATM networks supported by the two card brands bring with them immediate access to virtually 100 percent of U.S. merchants. Couldn't a database of testing results be used to aid merchants, healthcare providers, and others with their responsibilities for keeping all of us safer? We think so because effective contact tracing apps would have been nice but, so far, they have missed the mark.

So, why did LA County have to cut a "vaccine passport" deal with a healthtech venture which has been essentially bootstrapping itself for the past ten years? There are 240 banks and 300 credit unions operating in California and not one offered to help? Actually, we doubt that's the case; more likely, LA County was unable to sort out the legalese required to get the deal done. Our loss.

For a more detailed discussion on how the payments infrastructure might have been used to help us get through the pandemic with some measure of safety, please read Jack Benton's suggestions written on May 4, 2020 for his 4thQtr.com Coronavirus Diary.¹ [This link](#) will take you there.

Speaking of earthquakes, we foresee one coming and discuss it on the following two pages.

Until next time, please stay safe!

¹ Jack Benton was the Executive Director for National Commission on Electronic Fund Transfers and founder of Benton International, a payments consultancy.



The BNPL Earthquake

“I feel the move under my feet” sang Carole King in 1972. Californians are quite familiar with, and very leery of, earthquake behavior, having felt the earth move beneath our feet for decades. The most feared variety of tremor is the increasing slow roller, the type that starts with a swaying effect and builds to a violent rumble. Payments trade articles focused on the Buy Now, Pay Later (BNPL) phenomenon can either be read as separate fact-based (or opinion) pieces or, as we have done here, viewed as evidence that an increasing slow roller BNPL earthquake is underway. Here is a summary of articles that suggest seismic P- and S-waves are converging in BNPL (all dates fall within Q4, 2020):



- ⇒ On October 26, Finextra reports that Australia’s Westpac bank has simultaneously signed a relationship deal with BNPL provider, Afterpay and sold its proprietary Zip BNPL holding for \$337 million. The bank had bought into Zip three years previously for \$40 million, generating a hefty return for shareholders. An interesting story of financial acumen, but not much in the way of market details. And, after all, OZ is a long way away.
- ⇒ On November 17, Atlas shrugged when Chase announced its entry into the BNPL market with its My Chase Plan. Cardholders making purchases of over \$100 have the option of extending payment from three to 18 months for no interest, merely an (unstated) fixed fee. For now, My Chase Plan is limited to the online and mobile channels yet, since the bank is a major merchant services acquirer across the full spectrum of access points, it’s logical to assume that brick-and-mortar stores may be next in line. Parenthetically, Chase joins the fray several months after Citibank had already floated “Flex Pay” and had inked a deal with Amazon. Not to be left out, Bank of America announced receipt of a “no action” letter from the CFPB, allowing the bank to proceed with plans to launch “Balance Assist,” a program of \$100-\$500 loans repayable in equal installments over 90 days.
- ⇒ On November 18, credit union advisory firm, CUInsight, blasts out an email touting “CashPlease,” a short-term credit granting tool provided by Velocity Solutions, a bank and credit union service provider. Hmm, a bit closer to home and far afield of Australian and U.S. big banks.
- ⇒ One day after that, BNPL firm, Affirm, announces plans for an IPO. Affirm was founded by Max Levchin, one of the bright lights behind PayPal. The announcement is loaded with lots of performance measures: within its short four-year history, Affirm has handled 17.3 million transactions totaling \$10.7 billion for 6.2 million people. Its IPO filing claims an estimated valuation of \$10 billion and 6,500 merchants using the service. Seems like the ground is moving with sharper jolts and more often.
- ⇒ On December 3, soon-to-be IPO-ed Affirm, announces a deal to acquire Canada-based BNPL lender, PayBright for \$264 million. Perhaps a little cart-before-the-horse planning for North America domination, but impressive, nonetheless
- ⇒ On the same day, PYMNTS.com reports that Afterpay, Westpac’s newest BNPL friend, has surpassed \$2.1 billion in sales for November 2020, double that of November 2019. Moreover, 13 million Americans have used the Afterpay platform to finance small purchases. Suddenly, the palms and pines are actively swaying.



The BNPL Earthquake (Cont'd)

- ⇒ On December 8, Digital Transactions files the first wet-blanket story concerning BNPL. Seems Capital One has banned all holders of its credit card products from BNPL transactions. This, despite statements by Klarna AB and Afterpay that 85-90 percent of their transactions are made with debit cards. The announcement fails to quell seismic rumblings.
- ⇒ Digital Transactions weighs in on December 14 and reminds us that BNPL has been around for at least two decades; BillMeLater launched in 2000 and is now known as PayPal Credit. DT includes some interesting forecasts for the future: a KBW research note expects BNPL and other POS lending to account for 11 percent of unsecured credit in 2021 while Kaleido Intelligence, a UK research house, expects global BNPL volume to reach 680 billion by 2025. The trade magazine gives us a glance at merchant pricing – in the 4-6 percent range – and notes that the higher price tag is offset by immediate retailer settlement and higher average ticket transactions. One BNPL executive puts it rather succinctly, “By and large, the reason retailers are adding BNPL is it creates new customers.” The C-suite hallways at two card brands are really rumbling now.
- ⇒ On December 16, we hear via the Digital Transactions newsletter that BNPL industry big boy, Klarna, has cut a deal with Verifone to bring its services to POS terminals deployed in the U.S. and Europe. Three payment options will be available: pay-in-four, pay in 30 days, and straight financing. The agreement enables Klarna to expand beyond e-commerce and to present its deferred payment options directly to the in-store consumer rather than through a salesclerk.
- ⇒ On December 23, Mercator Advisory Group uses its blog to sound a clarion call to those bankers believing that BNPL is just a pain in the butt that will ultimately go away. Not so, says Mercator, which then crafts a well-designed approach for banks to combat the groundswell of fintechs attempting to erode bankers’ NII. Mercator accurately depicts the fintech-led industry as a one-trick pony (for now) and suggests that bankers build relationship-building attributes into their competitive offerings. The earth continues to move beneath our feet, but help may be on the way?
- ⇒ Finally, on December 24, Digital Transactions published an excellent analysis of the reasoning behind BNPL offered up by Patricia Hewitt, the principal behind PG Research & Advisory Services LLC. Ms. Hewitt points out that, by linking up with fintech, merchants are gaining the ability to compete for issuer services which logically include credit. Enablement comes in the form of newly minted fintech banking charters while determination is linked to retailer desires to lower the cost of payment acceptance. An excellent piece of writing and thinking.

So, it seems that we’re at a point where Buy Now, Pay Later efforts will remarkably alter the balance of power for consumer credit or, like most California earthquakes, BNPL will settle down and become dormant. Those of us living close to the San Andreas fault generally sleep with one eye open after a tremblor hits and have a Go Bag at the ready; two practices that entrenched payments players might consider while the earth is still moving.



2020 Predictions

Making specific predictions in the face of a pandemic seems idiotic. So, perhaps a few general thoughts about what could happen will suffice for this quarter.

- ⇒ VC and PE investors that have funded payments and fintech innovation for the past decade could follow the current need and shift their focus on healthtech.
- ⇒ The number of points of purchase is likely to shrink as main street shopkeepers either exit the brick-and-mortar category and close for good or migrate to digital storefronts like Etsy or eBay.
- ⇒ Established general merchandise and food merchants like Costco, Walmart, Target and Kroger, those who have risked so much during the pandemic, will wind up with lifetime customers previously not seen.
- ⇒ Bankers will take notice that the branches closed temporarily weren't really needed in the first place. So, financial services networks of physical locations and ATMs could shrink.
- ⇒ Caps imposed on contactless transactions are likely to rise to reduce device touches (oops, V and MA, just went to \$250).
- ⇒ Data mining and analytics houses may reap big rewards as they identify gaps in the distribution system that led to shortages of water, TP, paper towels and other pandemic-spurred "necessities." (Perhaps they'll be able to identify those with a penchant for hoarding as well).
- ⇒ Clearly, we all will invest time and treasure in methods and technologies that will enable payments workers to more effectively work remotely or in far smaller groupings. It follows that a second wave of interest in finding ways to augment human labor with artificial intelligence will arise.

So, what's happened in 2020?

- ⇒ The Federal Reserve Bank has tossed its hat into the faster payments ring with the August 6 announcement of FedNow's proposed launch date. The Fed cites the need to speed funds to people and businesses in need and it's resolve to reach 100 percent of all U.S. residents.
- ⇒ BNPL enterprises are popping up everywhere and Bank of America has announced its entry into the domestic micro-credit market.
- ⇒ Bankers hoping to take advantage of the pandemic to accelerate branch closure plans will be heavily scrutinized by the OCC according to the agency's acting head. Moreover, extensions of emergency permissions for temporary closures granted during the early round of lockdowns will be infrequently granted. Seems our regulators aren't quite ready for a non-branch banking system.
- ⇒ At the rate VC firms are currently plowing new money into artificial intelligence startups, the industry will attract at least 50 percent more than the \$18.5 billion it attracted in 2019. The fallout could be significant widespread. For instance, CNBC reports that "Microsoft is reportedly making more job cuts at MSN in favor of an AI-driven system of selecting news stories." Scary, right?



So, what's happened in 2020? (Cont'd)

- ⇒ Acquisitions continued apace. The Visa move toward Plaid could be big news if the DoJ lets it go through. The FIS and Global Payments discussions didn't go anywhere, yet, but another megadeal will have widespread repercussions. Mastercard went after Finicity to stake a claim in open banking. The Huntington Bancshares/TCF merger signifies that broad distribution networks are essential for continue growth. M&A hasn't withered away, it seems.
- ⇒ Bankers are re-thinking their original thoughts about permanent branch closures as commercial real estate developers begin to carve up shopping centers and strip malls hard hit by the pandemic. New configurations of these once retail-only sites call for mixed-use ecosystems consisting of retail, commercial, residential and hotel facilities. An entirely different kettle of fish that may well spur bank branch foot traffic and account opening activity.
- ⇒ A touchless fleet of ATMs was recently rolled out in Europe and with plans to hit the U.S. soon. Contactless card acceptance sites and devices are growing like mushrooms in a dark cellar.



2021 Predictions

- ⇒ The Buy Now, Pay Later segment will continue to post multi-digit growth numbers throughout 2021. However, toward year end, we expect to see intra-segment M&A activity as the need for scale builds.
- ⇒ Consumer preference for touch-less purchasing will spur the share of contactless cards in circulation in 2021 to exceed 60 percent (it was 19 percent in 2019.)
- ⇒ Two major food/pharmacy retailers will follow the path set by CVS and begin accepting QR code-based payments provisioned by marque quality payments houses.
- ⇒ Emboldened (and backed) by a new Federal administration, Senator Durbin will be successful in his effort to arm wrestle the Federal Reserve into solve the PIN-less debit skirmish between card issuers and merchants. It may take the Fed some time to act, however.
- ⇒ One of either Google or Amazon will step up to challenge Goldman Sachs and its Marcus wealth management product. Robinhood will be hurt as collateral damage.
- ⇒ Inspired by PayPal's victory over the CFPB regarding the prepaid rule (caution, not all of the dust has settled yet), other payments system providers will tackle key past rulings by the consumer watchdog agency.
- ⇒ Visa will prevail in its legal tussle with the Department of Justice but will be forced to either curb its enthusiasm for expansion or disgorge existing API-related assets.



TrendWatch Summary: Industry Focus Areas – Q4 2020

Recent Activity Level	Industry Impact	Entrenched Player Impact	Market and Industry Situation	
			Focus Area	Recent Movements
Med	●	●	New Payment Forms	Movement toward “touchless” is beginning to transform old form factors.
Med	●	●	ATM Restructuring	There are over 500 bitcoin ATMs in the U.S. Touchless ATM technology is beginning to roll out.
High	●	●	POS Volume Trend	What is more important than absolute POS volume is the shift in mix between card present and CNP volume, a function of burgeoning online purchase behavior.
Low	●	●	Legal/Regulatory Issues	Two rounds of PPP loans is just about all Congress could muster in 2020.
Low	●	●	New Venture Growth	Challenger banks continue to emerge; segmentation based on ethnicity is creeping into the mix.
Med	●	●	Earnings Announcements	Q4 earnings reports are due soon. Don’t expect glad tidings.
Low	●	●	Industry Investments	The FIS/Global Payments deal would have been a barnburner but didn’t happen.
Med	●	●	Payments Industry Security	Which foreign country is next to take a crack at the U.S?

- Positive
- Mixed
- Negative



TrendWatch Search Light: The New Players

Industry Players to Watch In 2021

Buy Now, Pay Later Now that large U.S. banks are taking up defensive positions against BNPL, the competition may get rough.

The Challenger Bank Sector Even though VC and PE money is stilling flow to the sector, profits are slow in coming. Q3 2021 could be bloodbath.

High Street Lenders Between the missed opportunity of PPP loans and coming to BNPL late in the game, the top U.S. banks are likely to see consumer lending wane. On the other hand, perhaps they don't care?

Real-time Payments Just because it's important.

The Retailer Sector In particular, keep an eye on the major retail pharmacy and grocery chains. Payments may become an emphasized form of competition among them.

Alphabet, Apple, Amazon, and Facebook It seems obvious that the U.S. is looking for a way to create a "vaccine passport." Any of these could easily adapt their systems to fulfill the need. Of course, the Apple Wallet is already prepared for provisioning.



2020 Payments Industry YTD Yields

Pretty rough roller coaster ride, right? Still, our equities *perceived* to be in the realm of contactless payments exchange did extremely well while processors and other “mainstream” players just trudged ahead. The Dow gave us a 7.3 percent return in 2020 and the S&P posted 16.3 percent in gains. Meanwhile, we managed to generate over 47 percent even after a few significant losses. Bitcoin continues to confound lots of people but somewhere in there are a few folks making some very healthy investments, for now. Cardtronics will be leaving us next quarter but we predict it will be back in 30 months or so. Fortunately for us, investing is one of the few activities left to us that can be conducted without fear of infection.

Industry Player	12/31/2019	12/31/2020	Price		Cap Value		2020	
			△	△	Yield	Rank		
Alliance Data Systems	\$112.20	\$74.10	(\$38.10)	(\$2,267)	-34%	16		
American Express	124.49	120.91	(3.58)	(3,866)	-3%	12		
Bill.com (12/19 IPO)	38.05	136.50	98.45	6,951	259%	1		
Cardtronics PLC (M&A Pending)	44.65	35.30	(9.35)	(381)	-21%	15		
Discover Financial Services	84.82	90.53	5.71	2,746	7%	8		
Euronet Worldwide	157.56	144.92	(12.64)	(637)	-8%	13		
Fidelity National Information Services	139.09	141.46	2.37	452	2%	10		
Fiserv Inc.	115.63	113.86	(1.77)	(276)	-2%	11		
Everi	13.43	13.81	0.38	29	3%	9		
Jack Henry & Associates	145.67	161.99	16.32	1,369	11%	7		
Mastercard Worldwide	298.59	356.94	58.35	7,550	20%	5		
MoneyGram International	2.10	5.47	3.37	195	160%	3		
PayPal	108.17	234.20	126.03	153,757	117%	4		
Square	62.56	217.64	155.08	50,711	248%	2		
Western Union	26.78	21.94	(4.84)	(2,753)	-18%	14		
Visa	187.90	218.73	30.83	26,079	16%	6		
Bitcoin Closing Price	\$7,177.36	\$28,963.00	\$21,785.64		304%			

Sources: Company releases; Morningstar.com; Bloomberg.com; and Coinbase.
 Note: 2019 YTD yield excludes dividends; based on 12/31/19 and 12/31/20 closing prices.



Interesting News This Quarter

Subject	Source / Date	Summary
Ahead Financials, LLC	<i>Various December</i>	Online small loan lender, LendUp, is launching another challenger bank while riding on the backs of as-yet unnamed commercial banks for FDIC insurance. An emerging middle class is the stated target market for Ahead , which plans to offer the standard set of banking products – a checking account and debit card, early wage access, and applied-for overdraft protection up to \$100. LendUp is licensed under a California Financing Law ticket and promotes itself as being cheaper and faster than traditional payday lenders. Not setting the bar very high, are they?
Google Pay	<i>Various November</i>	Citibank and Mastercard collaborate and join a handful of other banks and credit unions lining up to offer the Google Pay Plex account. The digital checking and savings account comes with both a virtual and plastic debit card for broad access to funds on deposit with the respective financial institutions. Google has claimed for years that it has no interest in becoming a bank (for good reason, we think.) This approach seems to confirm that claim. Those eager to use Google Plex don't have much longer to wait – Q1 2021 is the expected launch date. Applications are found in Google Play Store.
JPMorgan Chase	<i>PYMNTS.com October</i>	Those holding their breath to see what JPMorgan Chase was going to do with the resources it picked up with the WePay acquisition can now exhale. The bank is taking a hard run at the SMB merchant services segment with a new product dubbed “QuickAccept.” The services comes complete with its own business checking account, streamlined acceptance rules, and a lower price. SMBs with annual revenues below a half-million dollars are in the target market; the sweet spot for other notable players in the segment, Square and PayPal. Most will agree that merchant services is a tough business and will wish the bank good luck.
Conferma Pay	<i>Presser November</i>	Fifteen-year-old B2B virtual payments player, Conferma Pay , will become the engine behind Visa's enhanced entry into commercial card and other B2B payments. The Visa Commercial Pay suite of three products covers cards via mobile, a travel pay component, and straight B2B payments. Although positioned as a “collaborative” agreement, we know what usually happens to third parties that enter into similar arrangements with the card brand.
Mastercard	<i>Finextra November</i>	Not to be outdone in the B2B space, Mastercard has taken the A2A approach to moving money between buyers and suppliers. The new(ish) multi-rail system allows product buyers to select the preferred rails – card, ACH, RTP – depending on the amount and nature of information passing in addition to the payment. For now, the service is U.S. exclusive but the rest of the world and trans-border remittances across the platform will begin later in the year.



Interesting News This Quarter

Subject	Source / Date	Summary
CVS	<i>TechCrunch</i> November	Mega-drug emporium, CVS , has become the first major retailer to integrate acceptance of PayPal and Venmo QR codes into its POS terminals. This, in an effort to capture “touch-free” shopping benefits (and market share.) CVS customers who utilize the proprietary “ExtraCare” account can use those accumulated saving at checkout as well. Customers will need to launch their respective mobile apps to take advantage of the touch-free approach to paying. InComm is the integration agent behind the new partnership. We’re curious to see what major retailer will be next to go touch-free.
Sesame Cash	<i>Payments Journal</i> November	Credit Sesame is a fintech credit card and lending organization that has raised over \$120 million since its founding in 2010. CS focused on helping new entrants to the financial services arena to build and maintain a credit history and to better manage money. Now, through the auspices of Community Federal Savings Bank (\$186 million in assets; located in NY), Credit Sesame is offering its own version of a challenger bank named Sesame Cash . The new firm encourages depositors to keep track of and attempt to improve their credit scores. An interesting twist to the offering is a “smart bill payment” tool that helps to build cash balances and seeks alternative sources of credit with lower borrowing expense. Might be unique.
Visa	<i>Finextra</i> November	Few industry observers were surprised when the Department of Justice sued Visa to prevent its acquisition of bank data sharing startup, Plaid. The suit alleges that Visa’s multi-billion dollar bid for Plaid extends its monopolistic hold on debit transactions and ought to be stopped. Others might argue that Visa’s argument that it faces competition from a vast number of players is fallacious and that Plaid isn’t a threat. Plaid holds access to financial data from over 11,000 U.S. banks, a condition that could lead to the formation of an alternative payments network. We’ll let you decide whether DoJ or Visa is in the right.
SoFi	<i>Business Insider</i> November	Integrated consumer lender, investment house, card issuer, and insurer, SoFi has received conditional approval from the OCC for a national bank charter. The action, subject to concurrence by the FDIC, allows the organization to accept deposits and lend to consumers and businesses without support from sponsor banks. It’s likely the case that SoFi Stadium, home for the LA Rams and Chargers will be renamed SoFi Bank Stadium. Unfortunately, neither team is likely to see their luck change when the rebranding occurs.
Upgrade	<i>Finextra</i> October	Three-year old neobank, Upgrade , has cooked up an interesting twist to incenting its customer to repay their debt. Depositors receive 1.5 percent in cash rewards with every POS purchase. However, the rewards are not paid until the monthly balance payments are made. The scheme seems to be working for Upgrade and its customers; the challenger bank has funded \$3 billion in credit and has taken 10 million in card or loan applications. Investors like the idea of rewards tied to debt reduction; Upgrade has raised \$222 million in capitalization.



Interesting News This Quarter

Subject	Source / Date	Summary
Apple Pay	<i>PYMNTS.com</i> <i>October</i>	Believe it or not, Apple Pay recently celebrated its six-year anniversary. PYMNTS.com commemorated the event by publishing some statistics: \$65 billion in in-store POS transactions, nearly twice the number of transactions in physical stores than measured in March 2020, Generation Z are heavy users, particularly for in-store transactions. And they said it wouldn't last!



M&A and Alliance Activity

Buyer/Investor	Target	Payments Emphasis	Possible Strategy
Huntington Bancshares	TCF Financial Corp	Banking	We rarely comment on mergers between banks but this one brought a smile. Both banks have made payments news in past that bear retelling. Huntington Bancshares holds U.S. Patent number 5,787,403 which illustrates how transactions and customer data might be routed and held on remotely located devices like ATMs, PCs, tablets and telephones. The patent architect, William Randle, was clearly ahead of his time since the patent was applied for 1995, before most of the envisioned devices were popular. TCF (fka Twin Cities Financial) gained notoriety by filing suit against the Federal Reserve Bank in an effort to block enactment of regulations stemming from the Durbin Amendment. The effort to negate a 21¢ stipulated cap on debit transactions was short-lived, however. Papers were filed in October 2010 and withdrawn in June of the following year. Photos of the HB/TCF wedding should be breath-taking.
Hudson Executive Capital and Apollo Global Management	Cardtronics	ATM deployer	For some TW readers, hearing that Cardtronics will become a private company is a bit like watching one's youngest child head off to college. That is, they were there at the beginning, through the IPO, and beyond, via the M&A route. Now, a new set of owners will guide the company toward maximized organic growth and branding partnerships. Hudson and Apollo are paying a 35 percent premium for CATM stock. In return, they tap into a stream of free cash flow that's impressive - \$127 million in the first nine months of 2020. The CATM fleet of 270,000 devices represents 10 percent of global ATM installations. PE players being what they are, we should see a public offering in about 30 months (SWAG). Update: An undisclosed potential buyer has offered \$39 per share, \$4 better than the original transaction. The CATM Board is looking at the offer.
Fiserv	OnDot	Cardholder controls/tools	Mega-processor, Fiserv , has paid an undisclosed amount for OnDot , the California-based Fintech whose initial toolkit provided cardholders with the ability to turn their cards on or off as conditions dictate. TW first discussed OnDot in April 2014 and noted Citibank Ventures' investment in the firm in 2018. Over the past six years, the OnDot list of services has grown to include digital card wallet insertion, new customer onboarding, and card replacement. Fiserv gains a bolt-on service enhancement package for its card issuing business line and Citibank Ventures gets a nice payday. Seems like a good fit.

M&A and Alliance Activity

Buyer/Investor	Target	Payments Emphasis	Possible Strategy
Liquidation	Xinja	Challenger banks	Competing on the basis of price is not for the feint of heart; a lesson learned by Australian challenger bank, Xinja . The neobank had used the high-yield savings account gambit to attract \$250 million in deposits within two months of launch. In light of the dampening effect COVID-19 has had on raising investment capital, Xinja was unable to maintain its lofty yields and has been forced to shutter. Older readers will recall that banking is one of the oldest (legitimate) form of arbitrage and when there's nowhere to lay off the bank's expensive deposits, it's time to head for the exit. We wouldn't be surprised to hear of more Xinja-like outcomes during 2021.
PNC	BBVA USA	Regional banking	BBVA USA learns the same hard lesson that a number of foreign banks have learned over the past four decades – it is extremely difficult to manage a U.S. banking subsidiary from halfway around the globe. PNC becomes America's fifth largest bank by acquiring \$101 billion in assets and 637 branches spread across seven southern states from Florida to California. Equally as important, PNC gains a highly rated mobile banking platform which will likely replace the bank's current offering. These assets aren't cheap; PNC is paying \$11.6 billion. European and Asian banks have made valiant efforts to build a U.S. franchise in the past. Most have been less than successful.
Macquarie Capital, Napier Park, Camden Partners	Bluefin	Merchant services	Atlanta and Ireland-based Bluefin raises another \$25 million in growth capital from a consortium of investors. Headed up by well-known industry leaders John Perry and Tim Barnett, the Wells Fargo ISO focuses on several vertical markets including healthcare and consumer products.
Fintech Acquisition Corp II	Paya Inc.	Payments process	Fintech Acquisition Corp II is a publicly traded SPAC (we once called them blank-check companies) that will be relieving GTCR LLC of its ownership position in Paya . Funds from the liquidity event will be earmarked for new product development and market expansion. This is another example of lower-rung payments companies being invested in to compete with the big players that were ingested earlier this year. For its part, Paya handles \$30 billion in purchase volume annually with its 100,000 customers. Paya was once known as Sage Payments Solutions before GTCR acquired the asset in 2017. Hmmm, just about 30 months between M&A events.
GoDaddy	Poynt	Payments acceptance	Web-hosting giant, GoDaddy is spending \$365 million to acquire Poynt , another lower-rung player in payments acceptance. Poynt uses Android-powered POS terminals and has feeds to 16 different payments processors. Customer count covering both online and in-store retailers tops 100,000.



M&A and Alliance Activity

Buyer/Investor	Target	Payments Emphasis	Possible Strategy
Coatue Management	Step	Teenage financial literacy	Teen-focused Step generates another \$50 million in investor funds, bringing its total funding to \$76 million. Parental controls are included with the package of P2P linkages, a deposit account and a debit card. Other notable investors include Eli Manning, Justin Timberlake, Larry Fitzgerald, and Stripe. Evolve Bank & Trust is behind the scenes for FDIC coverage and Visa access.
Andreessen Horowitz, Bain Capital	Moov	Open banking applications	Ever wonder how it is that fintech-backed financial institutions can come out of the ground so quickly? One contributor to this idea-to-website pace is Moov , a developer of libraries of APIs that can be cobbled together to provide depository and lending functions in a hurry. Andreessen Horowitz (a16z) and Bain have funded two rounds of capitalization in 2020 totaling \$32 million. No doubt there will be more funding in the wings as demand for API-based open banking continues apace.
Tiger Global Management, others	Current	Challenger bank	Five-year old neobank, Current , raises \$131 million in Series C funding, bringing its total capitalization to \$182.4 million. Backed by Choice Financial Group (FDIC member), the Current offerings aren't too much different than most challenger banks; they've just been at it longer. Two days of advanced payroll benefits are included along with a minor amount of free overdraft protection. 2 million "members" are claimed to be in the flock.
Blackhawk Network	National Gift Card	Prepaid card technology	Blackhawk Network began life as a J-hook distribution system for prepaid cards. The firm has gradually matured into a fully integrated provider of digital incentive programs and content. The combined company has provided \$3 billion in gift cards and prepaid products ranging from loyalty to employee incentives. It all started with Talbot Roche, CEO, and she's still at it. Nice job.
Alliance Data	Bread	POS lender	Alliance Data agrees to pay \$450 million to acquire Bread , a POS lender with significant technology, putting ADS in the BNPL space with its retail merchants. Look for more deals with similar ambitions.



Curiosities

We've found a few items in our payments review that we consider mildly amusing (despite today's circumstances).

Subject	Source / Date	Summary
FIS/Global Payments	<i>Various December</i>	Atypical of collapsed merger talks, the chit-chat between FIS and Global Payments actually made it to the front pages of public and trade periodicals. Had the \$70 billion-or-so deal gone forward, FIS would have gained some much-needed help on the card issuing side of its ledger (via Total Systems) and Global could have been able to leverage the transaction volume FIS acquired in the \$35 billion snatch of WorldPay in 2019. We suspect that DoJ would have sniffed around the deal but, since it's off the table (for now), things will remain as they were (for now.)
Branches: Yes or No?	<i>Bank Innovation, Others</i>	<i>Bank Innovation</i> filed a story last October that noted the closing of numerous branches by some of the country's larger banks – Truist (104), U.S. Bank (290 plus another 15 percent in early 2021) and Wells Fargo (900). Spokes folks for the banks universally stated that the actions were “transformative” moves toward digital banking while U.S. Bank pointed to its new relationship with State Farm as a move toward greater efficiency. Branch closures – permanent or pandemic-related – are healthy and reasonable strategic reviews. Yet, we hear recently that a number of bankers are beginning to re-think their shutter-and-walk moves as recent consumer surveys suggest that, when they're free to do so, depositors intend to return to their old ways of doing things, banking included. Time will tell, we think.
Bank of America	<i>ATM Marketplace October</i>	Bank of America selected Woodbridge, Virginia as the site for its first solar-powered ATM. Interestingly, that spot on the planet experiences 7.7 months of cloudy skies between November and July. The drive-up unit is the first of three and part of the bank's plan to install 60 solar panel arrays across its footprint over time. Woodbridge beats most of the big cities in Texas for sunny days, so this makes sense. Wonder where Woodbridge is, exactly? Us, too.
General Motors	<i>WSJ November</i>	What goes around, comes around, they say. General Motors created GMAC in 1919 for the primary purpose of financing its automobiles sales with dealer inventory flooring and consumer lending. A series of twists and turns left the subsidiary twirling in the wind during the great recession and it was sold off to become Ally Bank. GM is now in serious talks with regulators in hopes of obtaining a banking license to handle both lending and deposit-taking activities. Hard to keep a good company down, they say. BTW, besides Tesla, what auto maker owns a battery supply company? Right, GM. Delco was started before GMAC; might be important sometime down the electric vehicle road.



Curiosities

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Subject	Source / Date	Summary
Overdraft fees	<i>Business Insider</i> October	BI reports on a recent study by Bankrate which tells us that the average overdraft fee in the U.S. has reached \$33.47, the highest point in the 22-year history of the Bankrate annual study. As BI points out, rising overdraft rates in the midst of a pandemic doesn't show well. On the other hand, five of the country's top ten consumer banks have waived overdraft fees completely. At least for now. Moreover, the balances required for consumers to avoid paying overdraft fees has escalated to \$7,500, not a good trend either. Quantoids will be interested to learn that, over the past twenty-two years of the Bankrate study, the rate of increase for overdraft fees reflects a CAGR of 1.7 percent.
Wells Fargo Bank	<i>PYMNTS.com</i> November	According to the trade website, Wells Fargo Bank is shopping its book of private-label credit card accounts and its POS financing unit. Seems that the bank is tired of playing catchup with industry leaders Synchrony and Capital One and hopes to exit the fray. Nilson estimates that Wells Fargo's share of private-label credit card spend was 5.75 percent in 2019 and its share of borrowings was sub-4.0 percent. Also contributing to the decision to move on are the government restrictions placed on the bank which prohibit it from significantly growing its balance sheet.
Bank of Ireland	<i>ATM Marketplace</i> October	Seemed like a good idea at the time. Until recently, Bank of Ireland owned and operated 2,000 ATMs in Irish post office locations but the bank has decided to exit the business. The Irish postal service will take over ownership and operation of the ATM network and cut approximately 600 of the fleet. The postal service is planning a network-wide technology refresh which will benefit all the lads.



Useful Links for More Information

This quarter we are providing BNPL links to give readers the option of reviewing their respective credentials.

Company	Role	URL
Affirm	BNPL	https://www.affirm.com
Afterpay, Ltd	BNPL	https://www.afterpay.com/index
Klarna AB	BNPL	https://www.klarna.com/us/
Quadpay	BNPL	https://www.quadpay.com
Sezzle	BNPL	https://sezzle.com
Splitit Ltd	BNPL	https://www.splitit.com

Back in the Day!

No contest; merely something to think about. So, which came first – innovations in payments or innovations in technology?



A – Mobile Banking



B – Telephone Banking



C – Merchant Point of Sale



D - Ubiquitous ATMs



E - Videotext Banking