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Driving Growth in Card Issuing

Prepared for: **thredd**

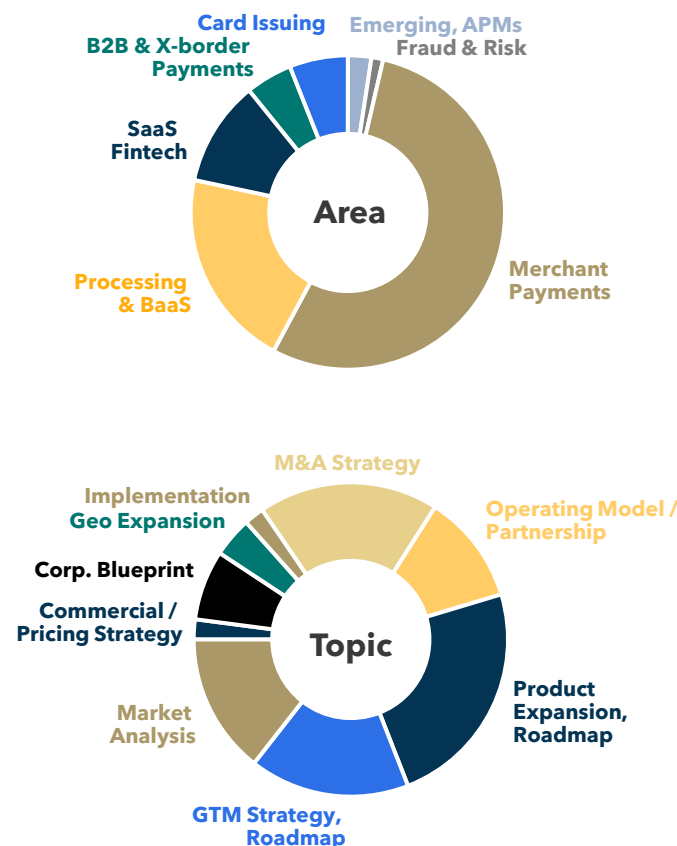
Flagship Advisory Partners is the leading strategy consulting and M&A advisory boutique focused exclusively on payments and fintech.



A multi-national strategy consulting and M&A advisory firm focused exclusively on payments and fintech.

- Flagship was founded in 2020 by partners with 20+ years in payments and fintech, with DNA from First Annapolis, Accenture Strategy, and as practitioners / operators
- We are 40+ people located across 4 offices in the US and EU: Washington D.C., Amsterdam, London, and Prague
- We provide strategy consulting and M&A advisory services specifically in the payments and fintech sector
- Most of our consulting is growth-oriented, focusing on product expansion, geo expansion, go-to-market and pricing strategy

Flagship delivers approx. **100+ projects per year** across functional and industry topics



Why Flagship Advisory Partners?



Deep industry subject matter expertise

- Our partners have 20+ years of experience advising 200+ clients worldwide and have led fintech businesses
- Our team of 40+ experts is laser-focused on payments / fintech



Unique intellectual property

- We maintain a collection of unique IP assets such as market sizing, competitor insights, etc.
- We conduct 1,000+ expert interviews with industry leaders and survey 10,000+ businesses and customers annually



Understanding of all participants in the payments & fintech ecosystem

- We have completed 100+ projects over the past 12 months with a broad range of financial institutions, Big Tech companies, major merchants, payment processors, growth-stage fintech companies, and investors



Multi-national footprint with diverse team and global experience

- Flagship's team includes citizens of 18 countries based in our offices in the US, London, Amsterdam and Prague, providing us with deep insights on local nuances in fintech
- Global network of collaborating industry experts



Boutique model allows us to move quickly and put client needs first

- Able to move quickly, mobilize new projects, and adapt project direction mid-flight
- Teams are always empowered to do what's right for clients
- Collaborative culture with strong ethical principles



Understanding of the fintech M&A space

- We can tell the story better than any bank or consulting firm when it comes to fintech M&A
- We support 30-40 fintech M&A deals each year

As in many industries, card issuing is undergoing significant change, and this is reflected in clients' asks towards their card provider.

Market Context

Strong underlying growth drivers

- Growth in card payment volumes still double digits
- Still a lot of cash used at POS
- E/m-commerce drives digital payments

Proliferation of competing rails

- Domestic schemes, alternative payment methods, broad account-to-account schemes, open banking + instant/real time A2A payments, cross-border networks, stablecoin-based payments

Shifts in behavior and client expectations

- Huge shifts during Covid; returned to trendline, but that trendline also typically shifted
- Fintech boom then slowdown, now returned to "normal"
- Clients seeking ability to pursue new use cases, continually improve, and sharpen and optimize their operating models, and expect their providers to support

Dynamic market landscape

- Use cases, verticals, and the competitor set continue to evolve, creating new opportunities and challenges (as in every industry)
- Shifting geopolitics, regulatory environment, etc. driving uncertainty

Technological change

- AI in peak of hype cycle, but impacts will be huge over time

Much of payments industry activity in recent years has been driven by acceptance, but issuance is primed for growth as many participants view issuing as the more difficult but underpenetrated “other half” of the market.

Payments Market Definitions

Product & Business Model Domains	Market Size (revenue today)	Perceived Growth Opportunities	Investor Interest Level
Pay-out Domains			
Banks (cards, A2A payments)	Large	Low	Low/Medium
Specialized issuers, A2A PISPs	Medium	Medium	Medium
Alternative payment methods (APMs)	Medium	High	Medium
Credit/lenders (tied to payments)	Large	Medium	Medium
Program managers, BaaS	Small	High	High
B2B and X-border providers	Medium	High	High
Technical processors	Medium	Medium	Medium
ATMs, card production	Medium	Low	Low
VAS vendors (KYC, fraud, etc.)	Medium	High	High
Pay-in Domains			
Merchant acquirers and PSPs	Large	Medium	High
ISOs	Small	Low	Low
ISVs, SaaS, payment facilitators	Medium	High	High
Gateways, connectivity	Small	Low	Low
Orchestrators	Small	Medium	Medium
Hardware, servicing	Medium	Low	Low
VAS vendors (KYB, fraud, etc.)	Medium	High	High

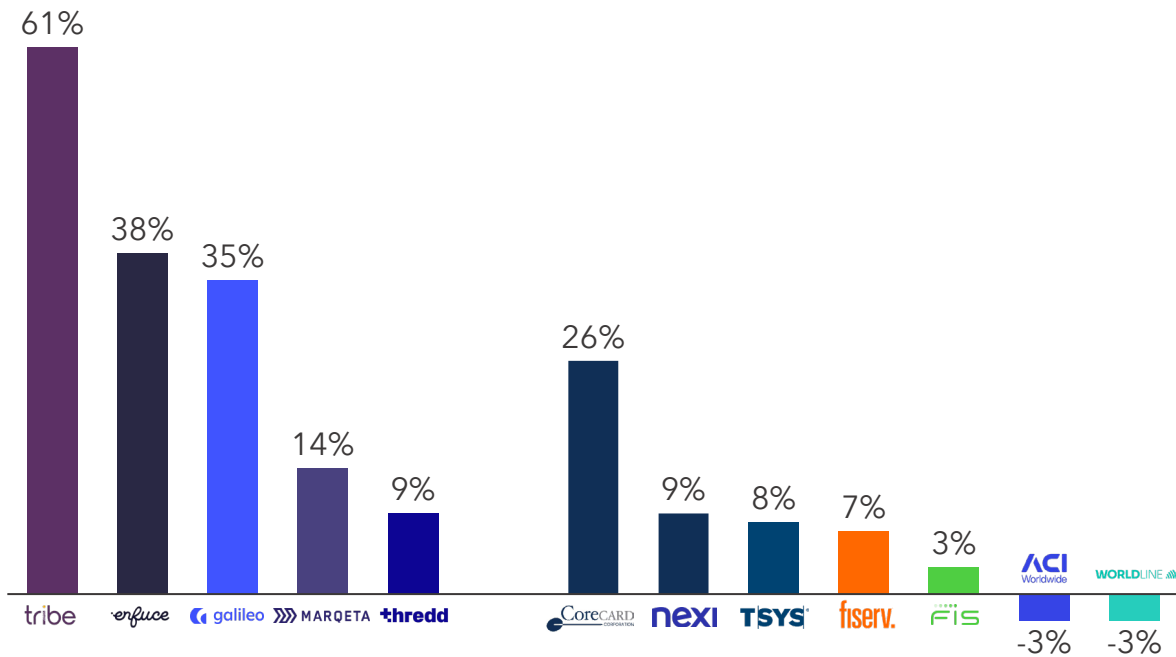
Functional Domains

Licensing
 Regulatory compliance
 Customer onboarding (KYC, etc.)
 Fraud management
 Digital security
 Credit risk management
 Disputes
 Customer service
 Collections
 Other back office
 Technical processing
 Other value-added services
 Hardware and card production
 Hardware installation & servicing

Perceived Growth Opportunities	Investor Interest Level
Medium	Low
High	High
Medium	Medium
High	High
High	High
Medium	Medium
High	High
Low	Low
Low	Low
High	Medium
Medium	Medium
Medium	High
Low	Low
Low	Low

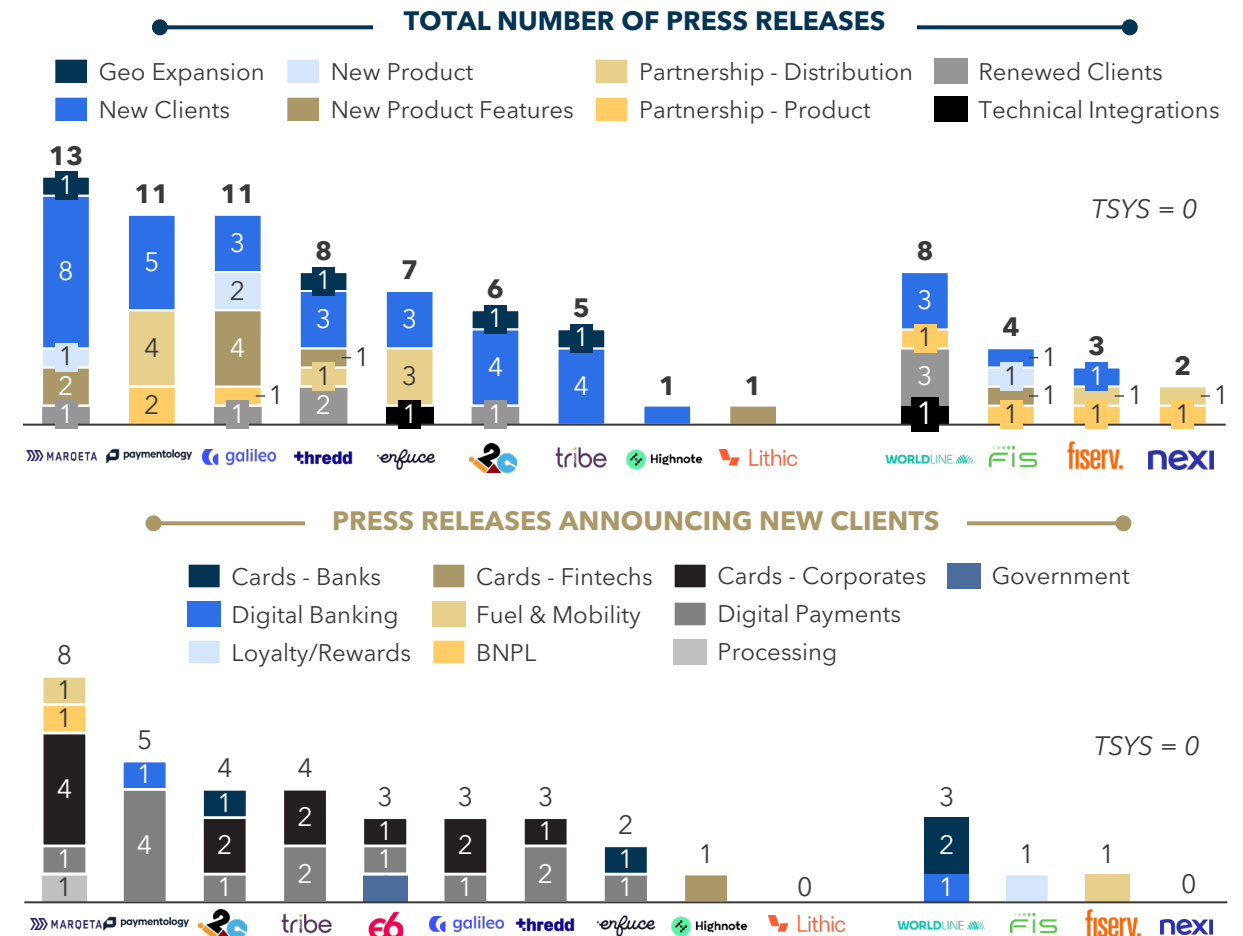
Card issuing processing has healthy supply of providers, but differences in business models, target customers, and individual product offerings have nuanced differences, which has at times made their top-line growth challenging.

Publicly Reported Rev. Growth of Issuer Processors (2021 – 2023 CAGRs)*



*Note: CAGRs are for 2021-2023, with the exception of Nexi, which is for 2022-2023 only due to change in reporting definitions. For publicly traded traditional processors, revenue growth figures are only for the issuing/financial services processing division, not the entire corporation. Not all issuer processors are included in the sample due to not reporting revenue figures publicly.
Sources: Flagship market observations and analysis; Companies' annual financial releases.

of Press Releases for Issuer Processors: 2024



Clients seeking to issue cards can choose from multiple types of providers with varying business models, which creates competitive overlap and confusing definitions.

Payments Issuing Business Models

Increasing scope of services and/or ownership of program P&L

	Issuer Processors & Vendors	Group Service Providers	White-label BaaS	White-label Program Managers	SaaS Payment Facilitators	Specialized Direct Issuers	Bank Issuers
Definition	<ul style="list-style-type: none"> • Tech vendors that provide core auth and card mgmt. processing • Specialized vendors (e.g., fraud, 3DS, etc.) 	<ul style="list-style-type: none"> • Provide processing + VAS + BPO in a bundled package to small banks • Some (e.g. Velera) re-sell processing rather than provide it directly 	<ul style="list-style-type: none"> • Suite of banking and/or payments products (many from partners) delivered via APIs from central integration layer • Value chain coverage varies 	<ul style="list-style-type: none"> • Card and/or A2A products on an end-to-end basis for clients (B2B2C or B2B2B basis) • Level of program P&L ownership varies • Often serve verticalized use cases 	<ul style="list-style-type: none"> • Providers of end-to-end products to SaaS platforms that integrate payouts into their software platforms and distribute payments to customers of the platform 	<ul style="list-style-type: none"> • Specialized issuers focused on niche use cases (e.g., travel, fuel cards, employee benefits, expense management) • For closed loop networks, also sign-up accepting merchants 	<ul style="list-style-type: none"> • Banks typically utilize a traditional issuer processor and perform other functions with a mix of in-house and other vendors
North America							
UK & Europe							

Growth in card issuing can be driven in multiple ways: business models, new target customers, new use cases, geo expansion, product expansion, etc.

Top-level Growth Opportunities in Card Issuing



Banks

- Provide **smooth, hassle-free customer experience** for a key product that customers use every day (it must work well, and it must not cause friction!)
- **Differentiate card product features and benefits** vs. competitors to help drive acquisition and retention as part of the overall transactional banking proposition
- **Innovate credit**
- **Penetrate new B2B use cases** (expense management, mobility, etc.)
- Provide better customer experiences and reduce expenses by using **new tools** (e.g., AI) to automate and digitize manual or clunky processes



Fintechs

- **Diagnose the existing business model and tech/operating stack** to ensure efficiency and future-proof ability to deliver (e.g., what to insource, what to outsource, who to partner with, etc.)
- **Continue to sharpen specialization in existing use cases** (supported by provider capabilities) and monetize past investments via aggressive growth
- **Position for new target customer segments** (e.g., corporates, SaaS platforms)
- **Position for new use cases:**
 - Clear adjacencies
 - Greenfield opportunities (e.g., mass payouts, escrow functionality, international trade, etc.)
- Enable **geographic expansion**



Corporates

- **Re-assess current operating model with the underlying goal for having a payments program**
 - Is our current stack and set of partners still meeting the need for why we have a payments program in the first place?
 - Do we have the right partners, with the right capabilities and roadmaps, to deliver what we need to drive growth and differentiation?
 - Can we consume services the way we want from our partners (e.g., end-to-end bundling vs. a la carte menu)?

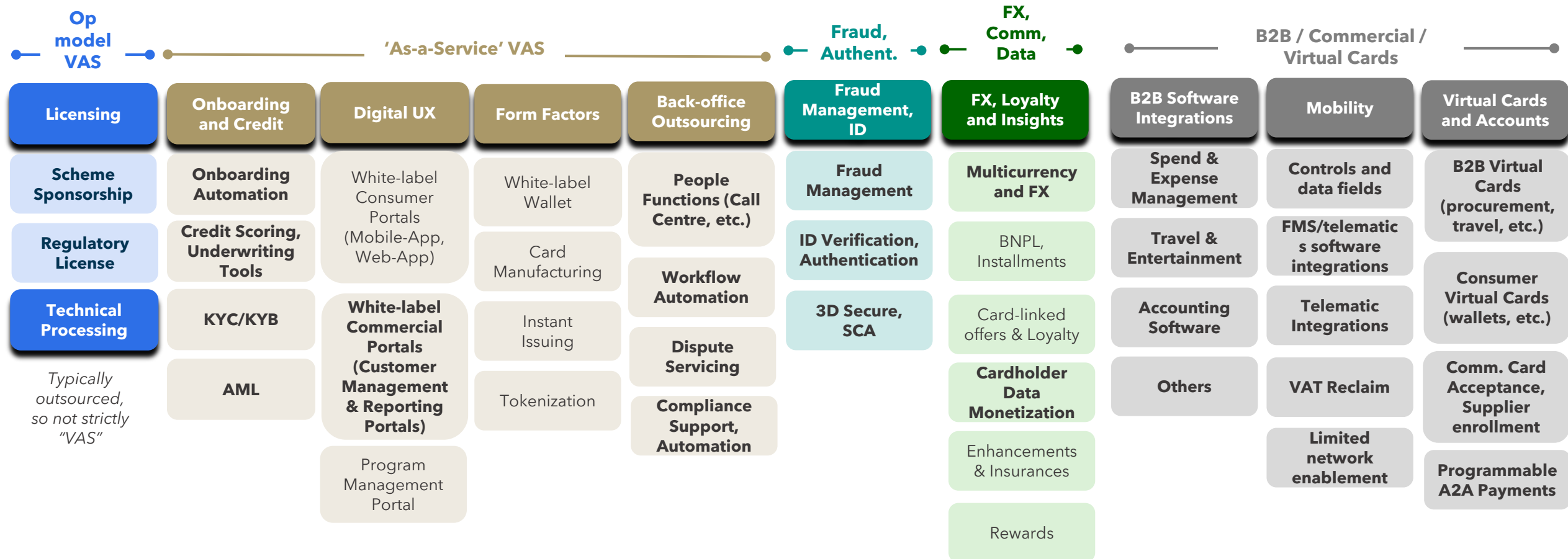


SaaS Platforms

- **Replicate success monetizing pay-ins with pay-outs**
- **Create right to win in pay-outs** and issuing driven by low customer acquisition costs and clear user experience benefits from tying payments to the core software that businesses use everyday
- **Move up the maturity curve** from simple payouts procured from end-to-end providers to progressively owning (and therefore monetizing) more of the payouts value chain
- **Add adjacent fintech services:** banking, credit, etc.

Clients and providers can drive growth via offering more/better value-added services for existing or new use cases.

Universe of Issuing Value-Added Services



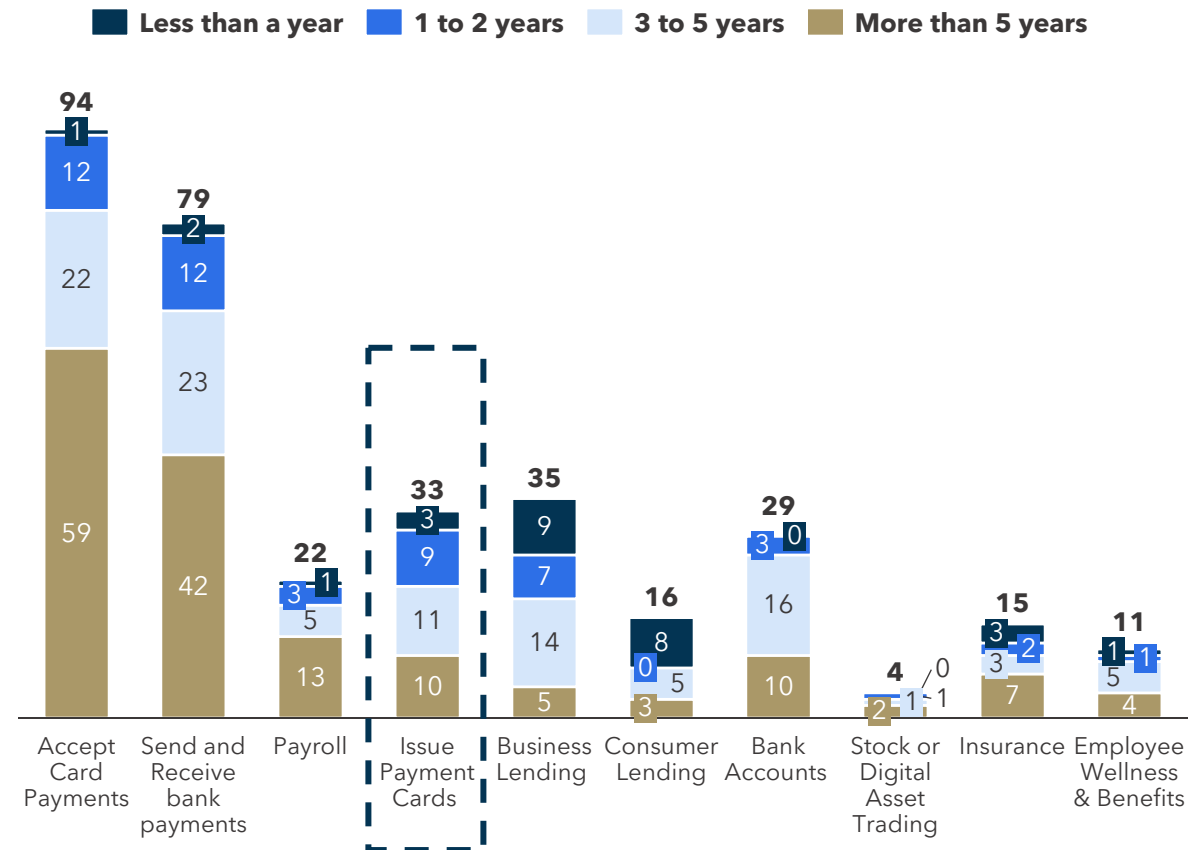
The current list of established issuing use cases is long, offering clients and providers many opportunities to expand.

Established Issuing Uses

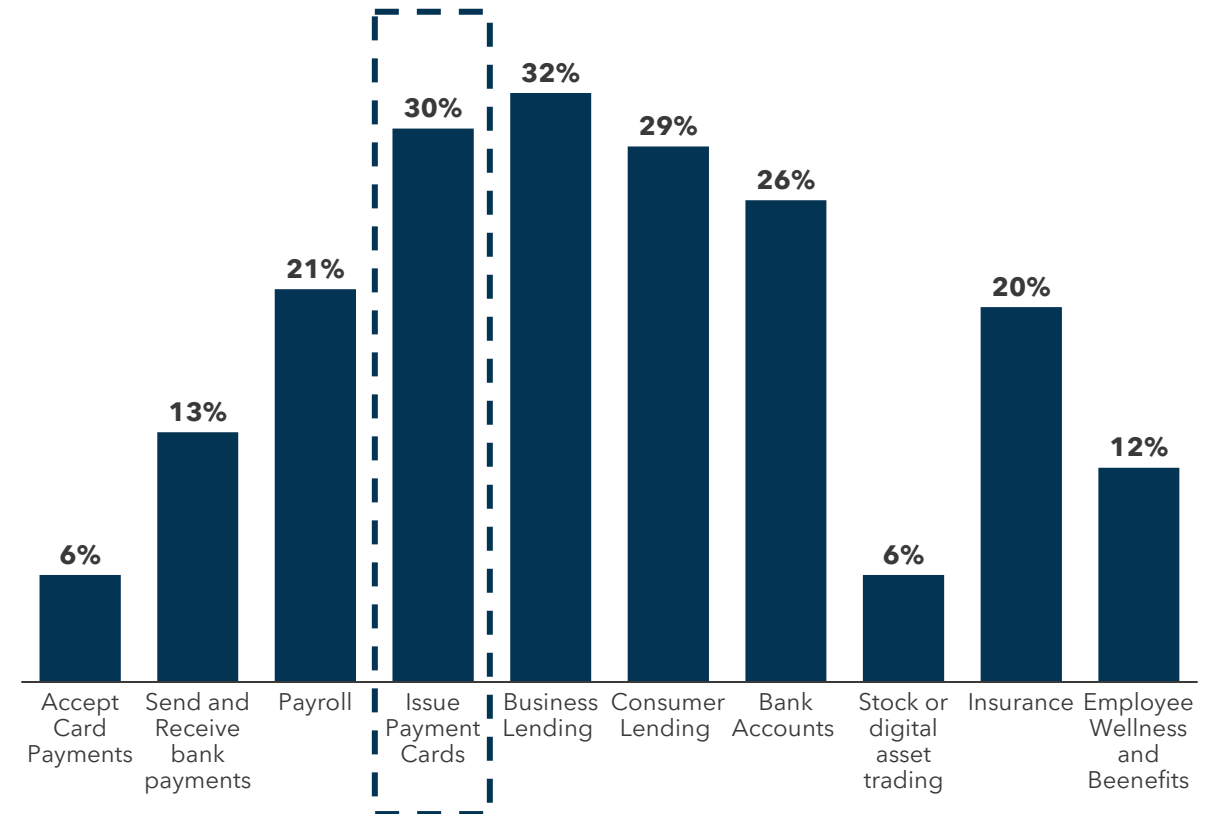
General-purpose Open Loop	Payouts & Virtual Cards	Closed-loop and/or Limited Network	Credit
Account access (current accounts, checking accounts, prepaid balance, etc.)	Travel & OTAs	Gift Cards / Vouchers	Credit and charge cards
Wallets	Spend & Expense Management	Verticalized Stored Value (i.e., Transit, Games, etc.)	B2C credit innovation (BNPL, installments, sales finance, etc.)
Gift & Incentives	Gig Economy	Land-based Gaming	B2B credit innovation (SMB credit cards, working capital, trade finance, etc.)
Rewards & Loyalty	Marketplaces	Mall Gift Cards	
FX (i.e., travel money, cross-Border remittance, etc.)	Insurance	Fleet & Fuel	
Employee Disbursements (i.e., employee benefits, gifts, etc.)	Corporate Payments / Accounts Payable	Government: Social / Welfare Benefits	
Gaming	Mobility	Government: Emergency Disbursements	
Crypto	Other Aggregator Solutions (i.e., BNPL, media, loan distribution etc.)	Employee Benefits & Gifts	
Payroll and Early Wage Access	Payouts Embedded into SaaS Platforms		
Government: Pensions			

30% of major SaaS platforms in the US plan to add card issuance in the next 3 years, illustrating the scale of the opportunity.

Embedded Finance Products Time in Market (U.S.) (% of total respondents, N =104, Jan 2025)

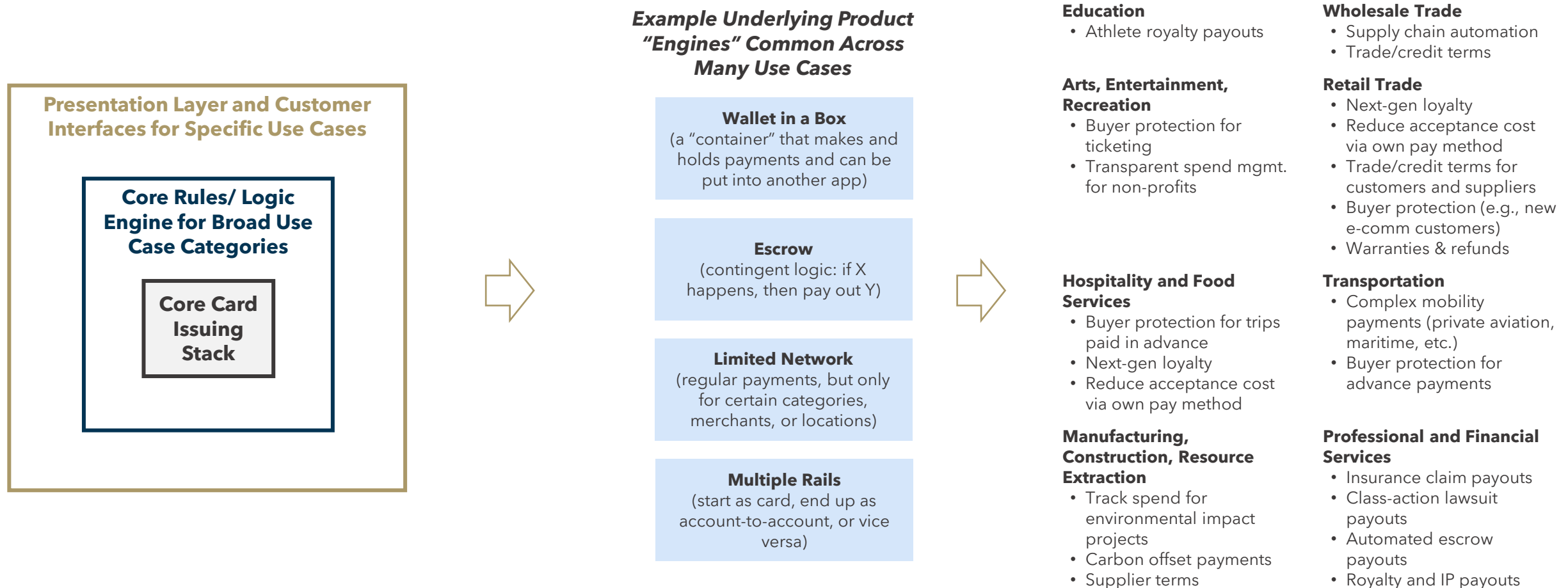


Embedded Finance Products Expected to launch in the Next 3 Years (U.S.) (% of total respondents, N = 104, Jan 2025)









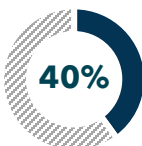










There remain a huge number of new/low penetrated use cases ripe for innovation.

Example Greenfield Issuing Uses



AI will create a multitude of opportunities for programs and providers to increase efficiency, reduce expense, and provide customers with better experiences.

AI Impacts in Fintech Across Expense Domains

Domain	Primary Use Case(s)	Typical Fintech % of Exp. ¹	Potential AI Impact	Examples
 Sales & Marketing	<ul style="list-style-type: none"> Marketing content creation Analytics and recommendations Easier to insource from agencies 	 20%	SUBSTANTIAL 	 shopify Klarna Revolut  Google
 Product & Technology	<ul style="list-style-type: none"> Code writing Code testing Security testing Smart or self-serve integrations 	 40%	HIGH 	stripe VISA
 Service & Operations (Back-office)	<ul style="list-style-type: none"> Service automation (chat bots, etc.) Smart, dynamic dashboards intercepting inquiries Automated data operations (e.g., reconciliation, report generation, etc.) 	 20%	HIGH 	Klarna  INTUIT quickbooks stripe
 Overhead & Central Functions	<ul style="list-style-type: none"> HR automation Accounting automation Smart documents and information management 	 20%	SUBSTANTIAL 	stripe tipalti  coupa bill  INTUIT quickbooks

The factors for how clients should select and work with a processor, and how processors can power growth, are very similar.

Keys to Success for Card Issuer Processing

Area	Key to Success
Brand & Reputation	Well-known brand , approved by regulators, strong references
	Visible PR , thought leadership, attendance at events
	Clear messaging around strategy, positioning, differentiators
	High uptime , low incidence of operational failures
Business Models	Support range of operating models targeted to customer needs in key geos
Product	Coverage of all card products
	Strong architecture enabling deep hierarchies and flexible parameterization
	Visibly on the forefront of new products and innovations
	Strong documentation (catalogs, solution descriptions, tech docs, etc.)
	Clear roadmap, including towards higher-value-added VAS
Go-to-Market	Robust tracking and clear positioning on scheme and regulatory mandates
	Slick key account sales , supported by playbooks and tools
	Formal partner distribution channels
	Robust targeting , funnel management, balance of formalization vs. speed
	Clear pricing models with several structures based on client needs
Technology	Ability to monetize effort (e.g., change requests) and margins (e.g., VAS)
	Highly scalable, componentized architecture
	Robust API integration layer and developer portal
	Robust security
	Strong documentation , knowledge management, change mgmt. processes
Operations	Clear backlogs , quantification of technical debt and known code quality
	Robust operational SLAs and monitoring capabilities
	Striking right balance of speed and agility vs. bank-level robustness
	Clear internal operational playbooks
	Ability to efficiently onboard , implement, and migrate programs
	Robust client change request management process (and dev. capacity)

Common Processor Pitfalls

- **Lack of standardized playbooks** for new program implementation, migration, testing, and run to enable efficient, scalable growth without relying on limited pool of subject matter experts
- **Lack client-facing documentation** (formalized product catalogs, client-facing business requirements documents and templates, etc.)
- **Lack know-how to run migrations**
- **Unable to instill confidence** in clients (particularly banks) that implementation, migration, and run can meet the clients' needs with low risk
- Overly informal and/or inefficient **client change request management process**
- **Not responsive to client needs** and do not get balance of scalable operating efficiencies vs. client care right

Thank You



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