

Elisabeth Magnor, 3 January 2024

Most Read Flagship Insights of 2023

In 2023, Flagship published insights across a wide range of payment and fintech topics. The scope and scale of Apple's fintech ecosystem, in parallel with our analysis of fintech's efficiency, generated the most traction amongst our readers. Other topics that gathered attention were our definition of the widely used catchphrase 'embedded finance', KKR's failed investment in German PSP Unzer (and lessons learned), and the proliferation of digital wallets in the global economy. We summarize our most impactful insights below.

Links to our 5 most read insights here:

1. [Scope and Scale of the Apple Fintech Ecosystem](#)
2. [High-Growth Fintechs Must Now Learn Efficiency](#)
3. [Peeling Back the Onion of Embedded Finance](#)
4. [KKR's Failed Investment in German PSP Unzer](#)
5. [Digital Wallets Thriving, Proliferating in All Directions](#)

1. Scope and Scale of the Apple Fintech Ecosystem

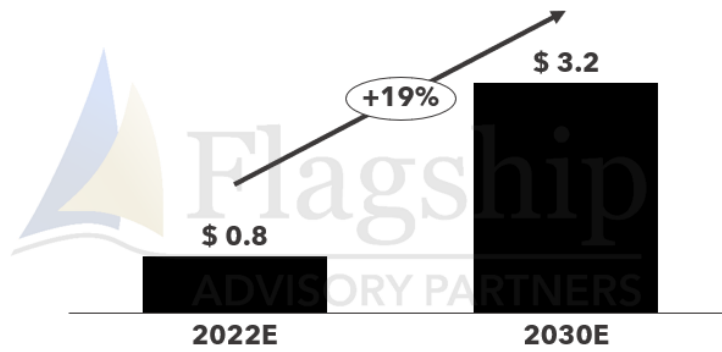
The dissection and sizing of Apple's fintech ecosystem was our most popular article. As Apple has heavily invested in its fintech business and does not publicly disclose any data, this is an interesting topic that Flagship frequently receives questions on from our clients, who increasingly see Apple as a competitor in the fintech and payments space. Flagship estimated that Apple 'controlled' c. \$800 billion of payments flows in 2022, which we estimate to grow to \$3.2 trillion by 2030, with the largest flow from ApplePay and a material proportion of growth from services that are yet not mature today (e.g. tap-to-pay, BNPL, banking). We followed up this article with an analysis of the failed Apple/Goldman partnership, where we estimated the profitability of the Apple Card program which we believe to be the root cause of Apple pulling the plug on the relationship.

Links:

[*Scope and Scale of the Apple Fintech Ecosystem*](#)

[*The Rise and Fall of the Apple-Goldman Sachs Consumer Finance Partnership*](#)

Figure 1A: Estimated Scale and Forecast Growth of Apple’s Fintech Ecosystem (2023, sized by volume of flows; in \$ trillion)



Sources: Flagship Advisory Partners, Apple annual reports, third-party press releases
 © Flagship Advisory Partners, January 2023

Figure 1B: Apple’s Estimated Fintech Ecosystem Volume Flows by Product & Service (2023)



Sources: Flagship Advisory Partners, Apple annual reports, third-party press releases
 © Flagship Advisory Partners, January 2023

Figure 1C: Comparison of Apple Card to Leading US Issuer Offerings

Card Name	Annual Fee	Standard APR	Rewards	Late Fee	Foreign Trxn Fee	Intro Offer
Apple Card	\$0	19.24% - 29.49% variable APR	3% Daily Cash back at Apple and select merchants and 2% Daily Cash Back when using the card with Apple Pay.	No Fee	No Fee	N/A
Quicksilver Rewards - Capital One	\$0	19.99% - 29.99% variable APR after	Unlimited 1.5% back on every purchase	Up to \$40	No fee	0% intro APR for the first 15 months; \$200 cash bonus if you spend \$500 within the first 3 months
Citi Custom Cash Card	\$0	19.24% - 29.24% variable APR	5% back on top eligible spend category each billing cycle up to \$500 spend and 1% back on all other purchases.	Up to \$41	3%	\$200 cash bonus if you spend \$1,500 within the first 6 months
Amazon Visa - Chase	\$0	19.49% - 27.49% variable APR	5% or 3% back at participating stores/sites; 2% back in rewards categories; and 1% back on all other purchases.	Up to \$39	No fee	\$200 cash bonus if you spend \$1,500 within the first 6 months
Blue Cash Everyday Card - American Express	\$0	19.24% - 29.99% variable APR after	3% back on groceries, online retail, and gas stations in the U.S. and 1% back on other eligible purchases.	Up to \$40	2.7%	0% intro APR for the first 15 months
Chase Freedom Unlimited Card	\$0	20.49% - 29.24% variable APR after	5% back on Chase Travel, 3% back on dining and drugstores, and 1.5% back on all other purchases.	Up to \$40	3%	0% intro APR for the first 15 months; \$200 cash bonus if you spend \$500 within the first 3 months

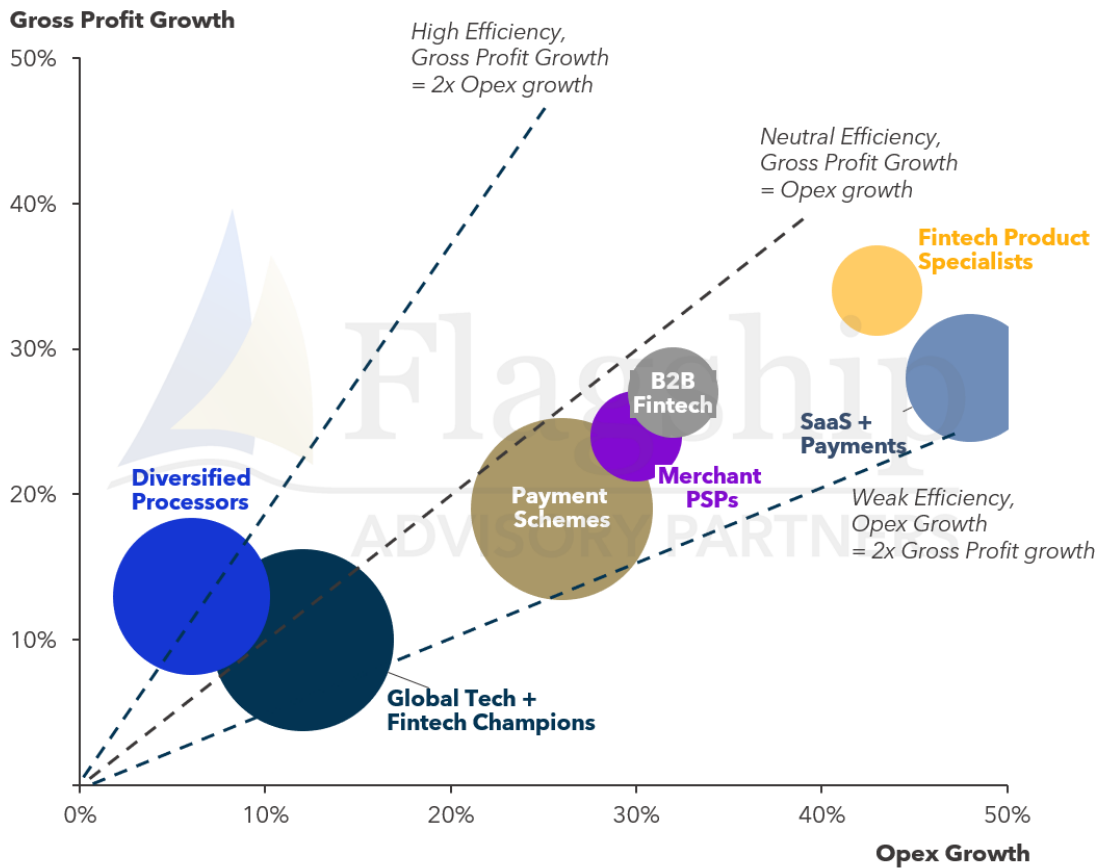
Sources: Flagship Advisory Partners, Company Websites
 © Flagship Advisory Partners, December 2023

2. High-Growth Fintechs Must Now Learn Efficiency

The year 2023 started with a continuation of company valuations getting down-to-earth. In the prior period there was an investor notion of limitless growth, and many fintech companies (as in many other industries) had become over-valuated. We double clicked on the financials of 50 fintechs, which showed a clear difference between mature fintechs and high-growth fintechs. Mature fintechs such as 'Diversified Processors' outperformed their higher-growth peers on operating leverage, resulting in strong profit performance that generally exceeded expectations. We firmly believe that public investors in the current market environment will look for revenue-efficient investments, rather than patient long-term growth opportunities.

Link: [High-Growth Fintechs Must Now Learn Efficiency](#)

Figure 2: Fintech Cohort Gross Profit vs. Opex Growth (2021-2022)



Sources: Company annual reports, Yahoo finance
© Flagship Advisory Partners, March 2023

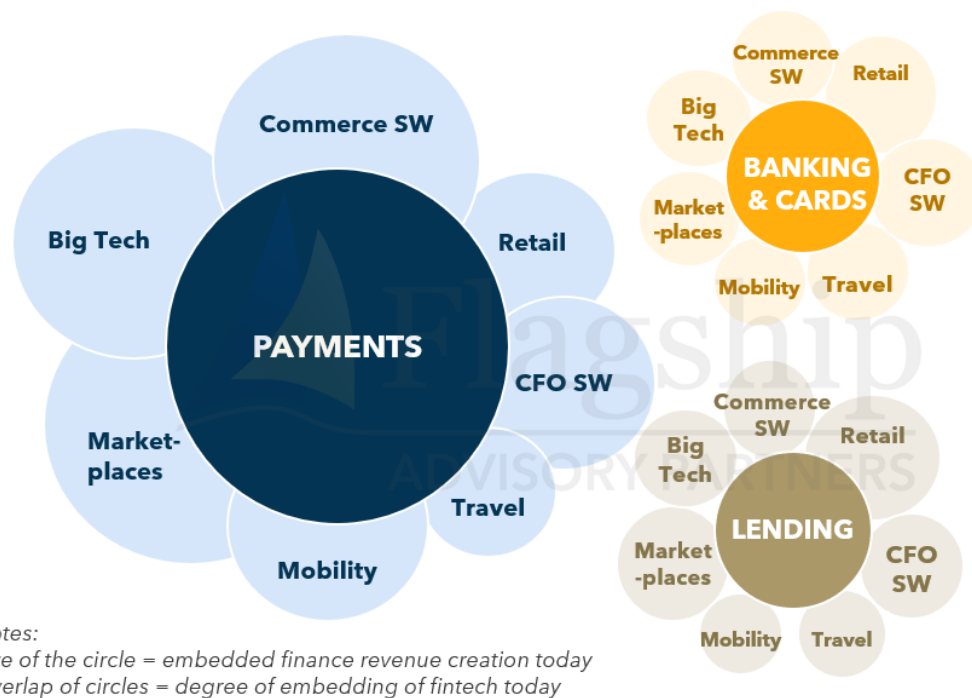
COHORTS	COMPANIES	DESCRIPTION
Merchant PSPs	adyen nuvei tyro flywire Paysafe: SHIFT4 d-local	Fintechs focused on providing payment acceptance and related services to merchants
Diversified Processors	fiserv. FIS nexi evertec ACI Worldwide WORLDLINE globalpayments network	Fintechs who provide merchant payments, card processing, and other svcs.
SaaS + Payments	toast shopify Square nhte ZUOR INTUIT WIX olo	Fintechs that provide both software (commerce or biz mgmt.) and payments
Payment Schemes	PayPal mastercard AMERICAN EXPRESS	General purpose payment schemes/networks
B2B Fintech	wex FLEETCOR avidxchange bill billtrust Expensify	Fintechs focused on B2B customer segment, providing payments, cards, lending, etc.
Global Tech + Fintech Champions	sea mercado libre PagSeguro paytm Uber nu Tencent 腾讯 Alibaba.com st ne	Global companies (mostly not US/EU HQ) who provide platform tech + fintech
Fintech Product Specialists	riskified Payoneer Remitly Klarna. 7Wise MARQETA SoFi affirm	Fintechs focused on specialized products such as BNPL or x-border payments

3. Peeling Back the Onion of Embedded Finance

Fintech is full of acronyms and catchphrases, none more used and yet more confusing than 'embedded finance'. As everyone seems to have a different definition and understanding of this term, we attempted to, given our constant exposure in the market, define and explain exactly what embedded finance is by peeling back the onion and illustrating its many layers with real-life examples.

Link: [Peeling Back the Onion of Embedded Finance](#)

Figure 3: Embedding Finance in Concept



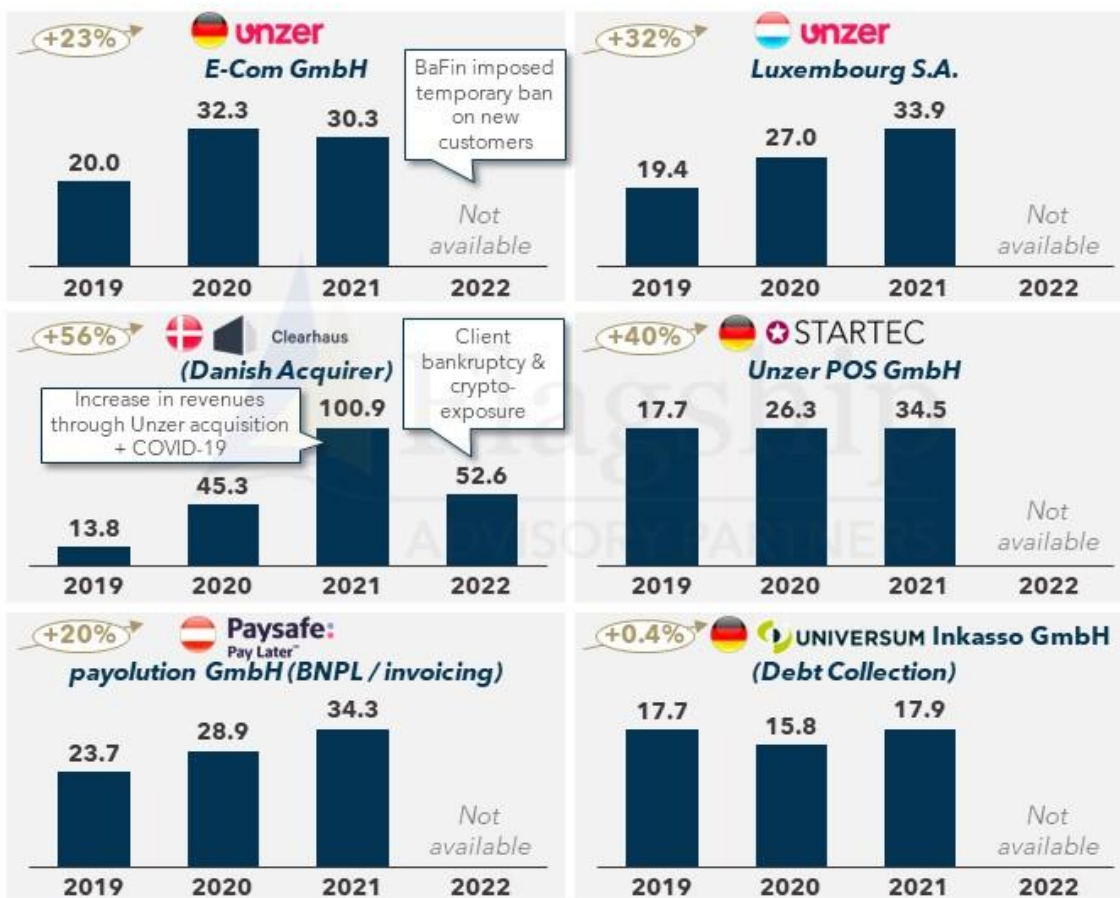
Source: Flagship Advisory Partners
© Flagship Advisory Partners, February 2023

4. KKR's Failed Investment in German PSP Unzer

KKR acquired a majority stake in Unzer from AnaCap for \$668 million in August 2019, and after less than four years into the deal, KKR announced plans to hand-over several key lessons in merchant payments. Here are our key four lessons: 1) Investors must pay a fair valuation to generate equity returns; 2) conglomerations of many small merchant PSPs acquired at full valuation is a challenging playbook for generating equity returns; 3) compliance matters; and 4) risk-seeking in merchant payments often does not end well.

Link: [KKR's Failed Investment in German PSP Unzer](#)

Figure 4: Gross Revenue Development of Key Unzer Subsidiaries
(as reported by local entity; in € mil.)



📈 CAGR '19-'21, except for Clearhaus which shows CAGR '19-'22






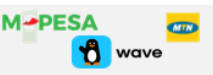

Source: Flagship Advisory Partners; companies' annual reports
© Flagship Advisory Partners, August 2023

5. Digital Wallets Thriving, Proliferating in All Directions

Digital wallets have gone through several rounds of trial and error in major economies, but there is no longer any basis to question the massive influence and potential of digital wallets. We estimate that wallets powered \$12 trillion global C2B payment volumes in 2022, and penetrated e-commerce payments with 23%. In this popular article we examined the global state of digital wallets and the reasons behind their success.

Link: [Digital Wallets Thriving, Proliferating in All Directions](#)

Figure 5: Forms of Wallet Constructs

Wallet Account Type	Examples	Tech Foundation	Payment Rails	Accept Open / Closed	Est. Scale* (global C2B pmt. value)
① Stored Value		▪ Digital Accounts	▪ A2A ▪ Cards ▪ Other	▪ Open	c. \$5.2 T
② Merchant Acct & Vault		▪ Mobile app ▪ Tokenized cards	▪ Cards	▪ Closed	c. \$3.5 T
③ Acct-to-Acct (A2A)		▪ Mobile app (bank or fintech)	▪ Bank RTP	▪ Open	c. \$1.2 T
④ Big Tech & Platforms		▪ iOS ▪ Android	▪ Cards	▪ Open	c. \$1.1 T
⑤ Vertical Specialist		▪ Mobile app ▪ Merchant integration	▪ Cards ▪ A2A ▪ Crypto	▪ Closed, striving for open	c. \$0.4 T
⑥ Mobile Money		▪ SIM/SMS ▪ Mobile app	▪ Mobile airtime	▪ Open	c. \$0.3 T
⑦ Crypto		▪ Blockchain ▪ Mobile app ▪ Digital account	▪ Block-chain	▪ Closed, striving for open	c. \$0.3 T

Source: Flagship Advisory Partners market observations
© Flagship Advisory Partners, February 2023

We look forward to delving into more diverse topics that generate debate and challenge perspectives in the coming year. Should you have any questions, please do not hesitate to contact us at Info@FlagshipAP.com.