

AtonRā Fintech Update: Things Are Moving Fast As Square Applies For A Banking License

Payment processor Square (SQ US) announced last week it would apply for a banking license in the US. Following similar moves from private startups SoFi and Varo Money, this is the first time a listed fintech tries to get the banking status since the US administration's decision late last year to open up a specific bank charter to fintech companies.

A banking license is likely to accelerate fintech companies' expansion as it will improve their brand strength and customer confidence and will let them offer new financial products and services.

Hence, this announcement strengthens our view many tech companies could seek to use their payments / mobile payments operations as a Trojan horse to expand into lending and banking in a near future and leverage huge numbers of users as well as data analytics and artificial intelligence skills. In other words, we believe they are likely to follow the example of their Chinese counterparts **Alibaba** and **Tencent** that now offer full banking services in their home country.

PayPal (which already acts de facto as a bank by offering digital wallets, debit cards and lending) and online lending companies appear as the next most obvious applicants. And, importantly, tech giants (**Apple, Google, Amazon**) could follow soon...

In all, we believe that some of the largest fintech names are a no-brainer as they are about to benefit from a significantly expanding total addressable market while some of the smaller names (notably in the online lending space) could appear as strategic assets (and hence M&A targets) for tech giants seeking to accelerate their fintech ambitions.

Needless to say, traditional banks are about to face hard times thanks to this new breed of competitors and will have no choice but to massively invest in their digital offerings and platforms, a bonanza for vendors of banking software.

We have designed our Fintech portfolio accordingly