GRIFFIN

EQT Ventures

29-06-2020

INTRODUCTIONS

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FOUNDER BACKGROUNDS

David (CEO)

Allen (CTO)
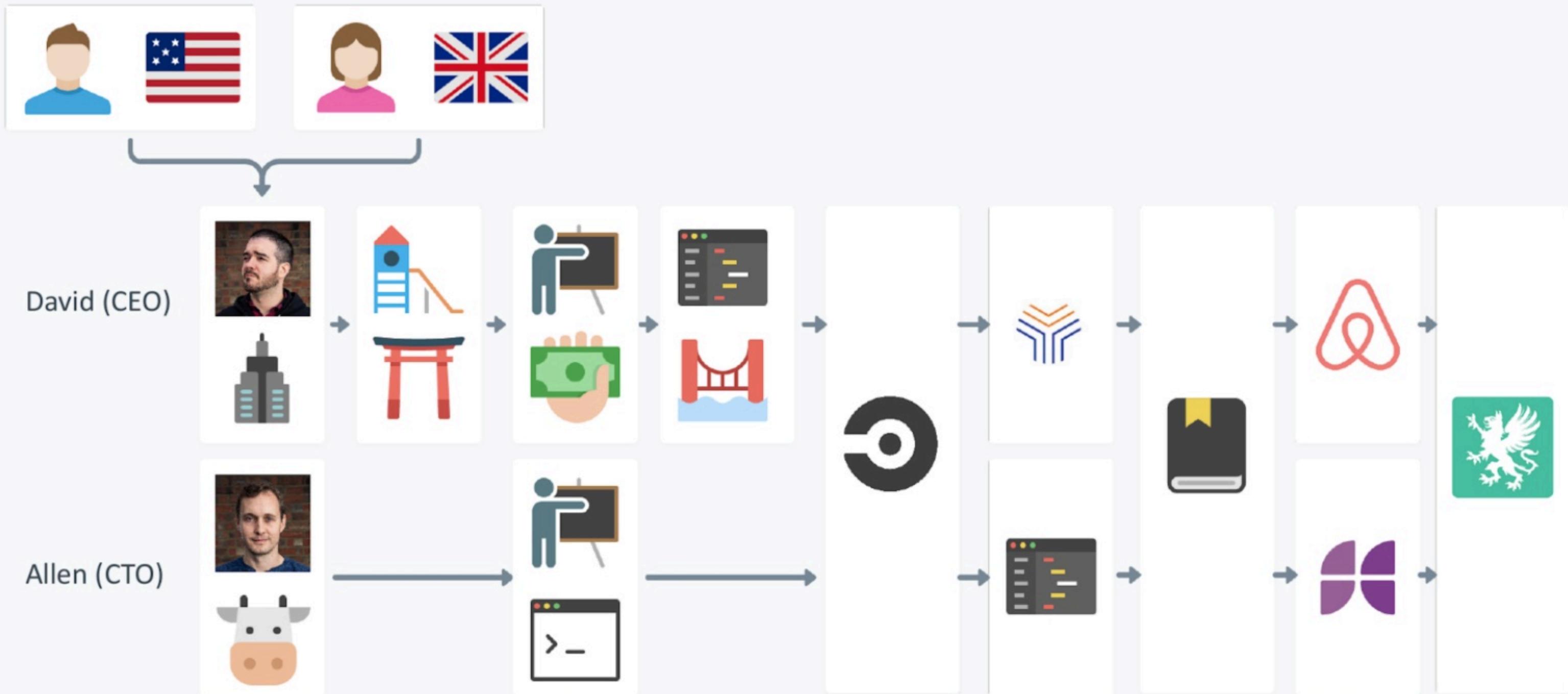
SERIOUS BANKING EXPERTISE

Rupert Whitten (COO)

- Former Head of Credit at UK leading credit fund
- Served as COO for the UK bank authorization process for a narrow banking subsidiary
- Chaired the investment committee for a portfolio of $65Bn

Sam Perera (CFO)

- Former CFO at two UK banks: one of which he went through the authorization process for and later took public
- Prior to that, was in the banking and audit practice at both KPMG and PwC

Paul Virno (CRO)

- Former CRO of Paysafe
- Senior financial crime, operational risk and finance roles across banking, asset management and insurance
- Former CFO and head of operational risk of asset manager's UK subsidiary

STANDARD TREASURY (2014-2015)

- Tech company selling an API to banks.

- Decided we should become a bank ourselves.

- Ruled out the US – too much risk and cost in auth process.

- UK reg landscape looked good but no investor appetite for UK pivot.

- Sold to SVB in 2015.

- End of 2016, wave of new bank authorisations in the UK.

PROBLEM STATEMENT

So, you want to offer a financial product

CONTEXT

If you're not a bank, bringing a financial product to market means working with a partner bank to hold funds

- Regulated entities:
  - Electronic Money Institution (EMI) – must hold funds in a "safeguarding" account at a commercial bank under the Electronic Money Regulations 2011
  - Payments Institution (PI) – must hold funds in a "safeguarding" account at a commercial bank under the Payment Services Regulations 2017
  - Firm with custody permissions (i.e. can hold stocks, bonds, other financial assets) – most hold funds in a "client money" account governed by Client Assets Sourcebook ("CASS") [part of the FCA Handbook]. Can be at an EMI, but only for non-ISA products – if you want to do ISA products your client money account must be held at a bank.

- Unregulated entities:
  - If you want to hold money on behalf of customers in any sort of wallet [think embedded fintech/embedded finance], you need a partner that is an EMI or is a bank. Doing otherwise is illegal.

- Other:
  - If you are a lender, no special regs about how you manage money...but most banks don't want to touch you anyways because they don't like dealing with your AML risk
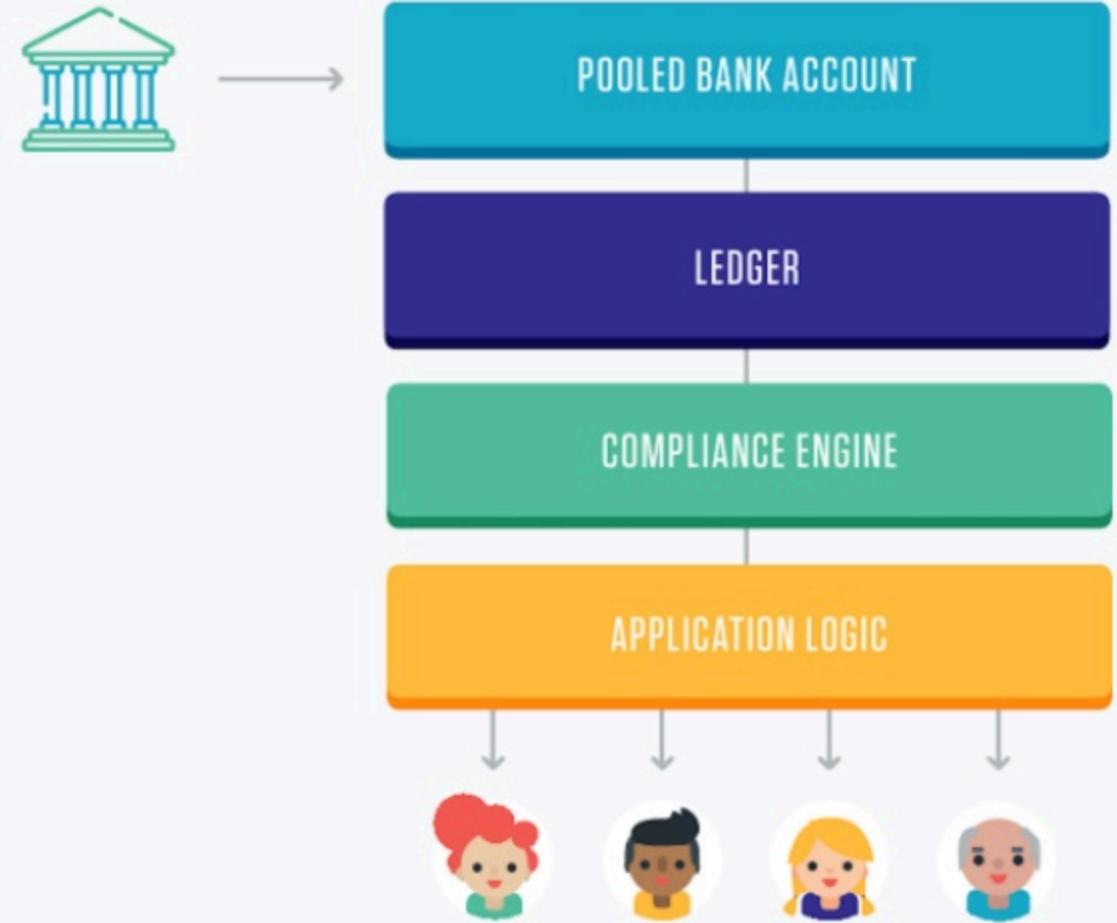
ADDRESSABLE MARKET

- Fintechs & traditional financials
  - Brokerages, robo-advisors (Wealthfront, Robinhood, etc.)
  - Back-office custody for funds and investment advisors (Multrees, SEI, etc.)
  - FX and Remittances (TransferWise, Revolut, WorldRemit, etc.)
  - Expense management (Pleo, Soldo, etc.)
  - Neobanks and digital "banks" *who don't have actual bank licenses* (Tide, Simple, etc)
  - Payment aggregators / merchant acquirers (Stripe, Square, PayPal, etc.)
  - Peer-to-Peer Lenders (Funding Circle, etc.)
  - Payroll Companies (Zenefits, Telleroo, etc.)
  - Trade Finance (Beacon.co.uk, Seawise Capital, etc.)

- Digital marketplaces
  - Gig economy (Uber, Airbnb, etc.)
  - E-commerce merchant accounts (Etsy, etc.)

- Brands - motivated by DATA or STRATEGIC interests
  - Prepaid cards (BP, Retail, etc.)
  - Bank accounts and payments (Google, Facebook, entire gig economy etc.)
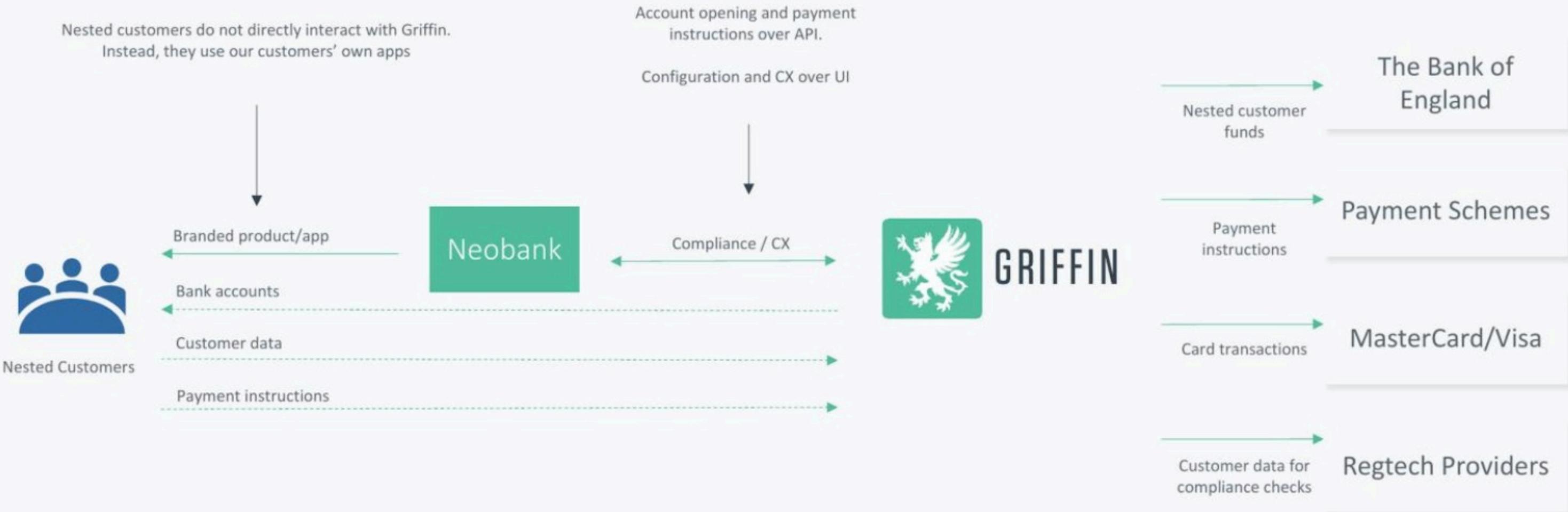 - Lines of credit (Mercedes-Benz, general asset financing)

LOTS OF INFRASTRUCTURE COMPLEXITY

- Most clearing banks will only provide a pooled account, meaning you need to build or buy a ledger/core banking system and keep it reconciled with the pooled account

- You're required to build your own compliance infrastructure and then undergo a lengthy (3-6 month) audit of these systems at your expense

- We understand that some banks may also think fintech startups are less likely to succeed, so their charging structures reflect this

- This is expensive, time consuming, and your customers don't care the things that differentiate you are your product and brand, not what happens behind the scenes

- Did I mention that there's a 50% chance the "API" is just a file uploaded to an FTP server?

POOLED BANK ACCOUNT

LEDGER

COMPLIANCE ENGINE

APPLICATION LOGIC

EXAMPLE RELATIONSHIP DIAGRAM

Nested customers do not directly interact with Griffin. Instead, they use our customers' own apps

Account opening and payment instructions over API.

Configuration and CX over UI

Neobank

Branded product/app

Bank accounts

Customer data

Payment instructions

Nested Customers

Compliance / CX

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Nested customer funds

The Bank of England

Payment instructions

Payment Schemes

Card transactions

MasterCard/Visa

Customer data for compliance checks

Regtech Providers

REDUCE COMPLEXITY WHILE ADDING VALUE

- By offering individually segregated accounts with an integrated ledger, we can eliminate the major pain points of reconciliation.

- By offering compliance as a service, we can accelerate time to market from 3-6 months to days/weeks.

- Note that this doesn't introduce financial crime risk – banks are always responsible, but this model enables us to be **smarter** about it.

BANK ACCOUNTS W/ INTEGRATED LEDGER

COMPLIANCE ENGINE

APPLICATION LOGIC

SPEED UP TIME TO MARKET

Customers can self-serve into our sandbox environment instantly

They will be able to gain live access to bank accounts and payment rails after an efficient DD process

This will enable firms to start integrating immediately and to get products into market quickly instead of having to wait 3-6 months to get onboarded

WHY THIS?

- **Moats** – high barriers to entry: becoming a bank takes ~2 years and is hard, capital-intensive, requires scarce human expertise
- **Unit economics** – looks like a payments business; very high margin per customer
- **Economies of scale** – high fixed costs and extremely low variable costs
- **Superior risk model** – we know who our end customers are, unlike competing banks

Why _now_?

- **Embedded finance/fintech** – "every company is becoming a fintech company"
- **Reg tech as enabling force** – unit economics of compliance have shifted dramatically
- **Pro-competition regulatory bodies** – pro-competition regulatory bodies who have greatly reduced previous barriers to entry for new banks

BUSINESS MODEL

- Revenue is overwhelmingly driven by transaction and account fees at current interest rates (70%+).

- Part of the business is driven by lending. If interest rates go up, so does revenue from that part of the business.

- Strategic SaaS-based products (like core banking or loan management systems) as a sales tactic and to allow us to start building pipeline.

LENDING PRODUCTS

- We will lend on a secured basis to other fintechs (i.e. against invoices, assets, receivables, etc.). This means focusing on existing/potential customers or adjacent firms.

- Our market research shows a lot of these companies are thinly capitalized on equity and have funding duration gaps. Most banks see them as too high-risk and so they raise debt from debt funds at ~15%

- We should be able to offer a superior cost of capital by funding through deposits and by leveraging the data we'll have from their platform banking activities in the underwriting process.

Secured loans @ 12%

Term deposits @ 2%