



Digital Wallets

A \$4.6 Trillion Opportunity In Your Pocket



Metcalf’s law, the law that “the value of a telecommunications network is proportional to the square of the number of connected users of the system,” has never had a more powerful example than the growth of the smartphone.

With every new smartphone user, the potential for interconnectivity through chat apps such as WeChat and social media such as Facebook and Snapchat increase exponentially, and it’s changing the fabric of global society.

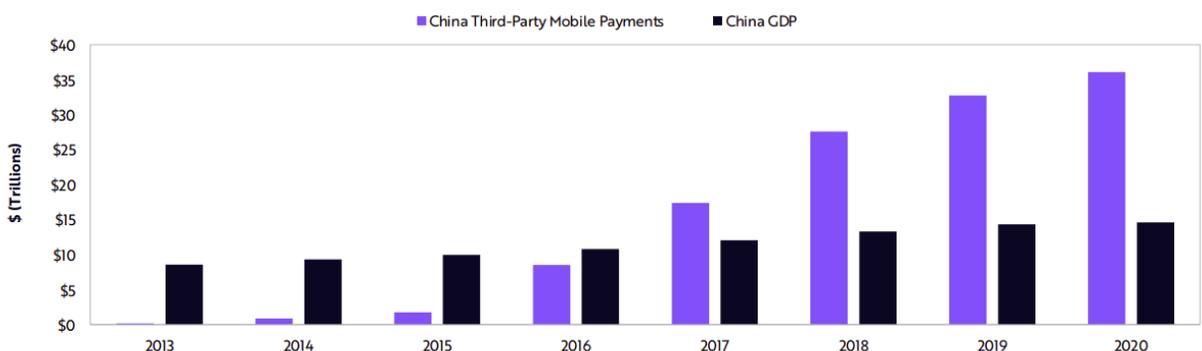
As more consumers become tech savvy the opportunities are endless, especially as we are only just now tapping into the unprecedented potential from global smartphone penetration with 3.2 billion smartphone users in 2020 against a global population of about 7.7 billion, or 41.5 percent according to Statista. Digital payments have evolved tremendously over the past few years, raising the question: where will digital payment technologies take us in the future?

Venmo, Cash App, and venture funded startups are likely to upend traditional banking by activating the mobile phones — the bank branches — in users’ pockets and handbags. Today, digital wallets are beginning to penetrate the full traditional financial services stack, including brokerage and lending. Digital wallets could serve as lead generation platforms for commercial activity beyond financial products.

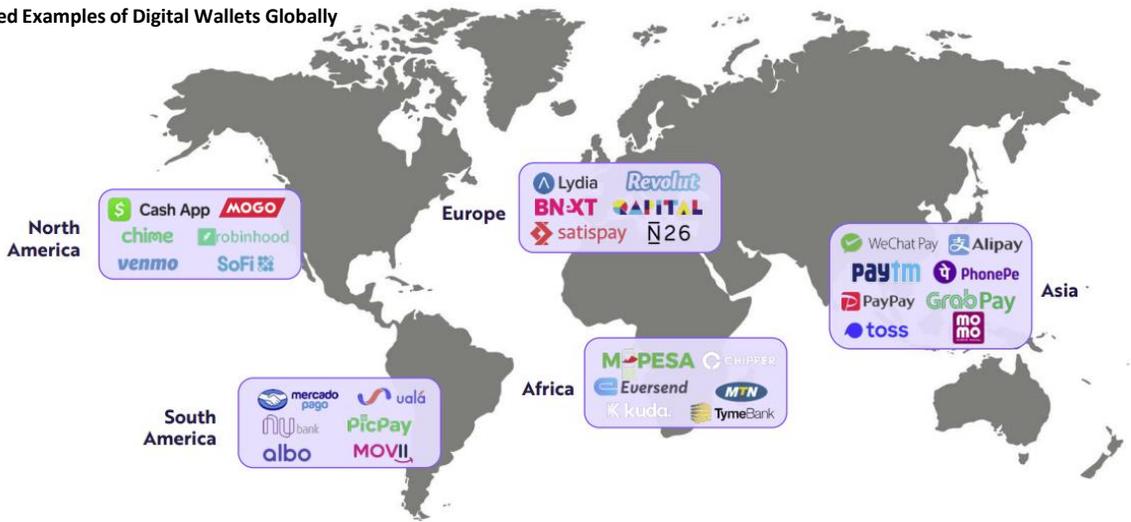
Incubated In China, Mobile Payments Are 2.5x Its GDP

The volume of mobile payments in China has exploded more than 15-fold in just five years, from roughly \$2 trillion in 2015 to an estimated \$36 trillion, nearly three times the size of China’s GDP in 2020.

China Third Party Mobile Payments vs. China GDP



Source: ARK Investment Management LLC, 2020 based on data sourced from “2020 China Third-Party Payment Industry Report”, iresearch.com.cn, iResearch; “GDP – China”, worldbank.org, World Bank, “World Economic Outlook, October 2020: A Long and Difficult Ascent”, imf.org, International Monetary Fund (IMF).



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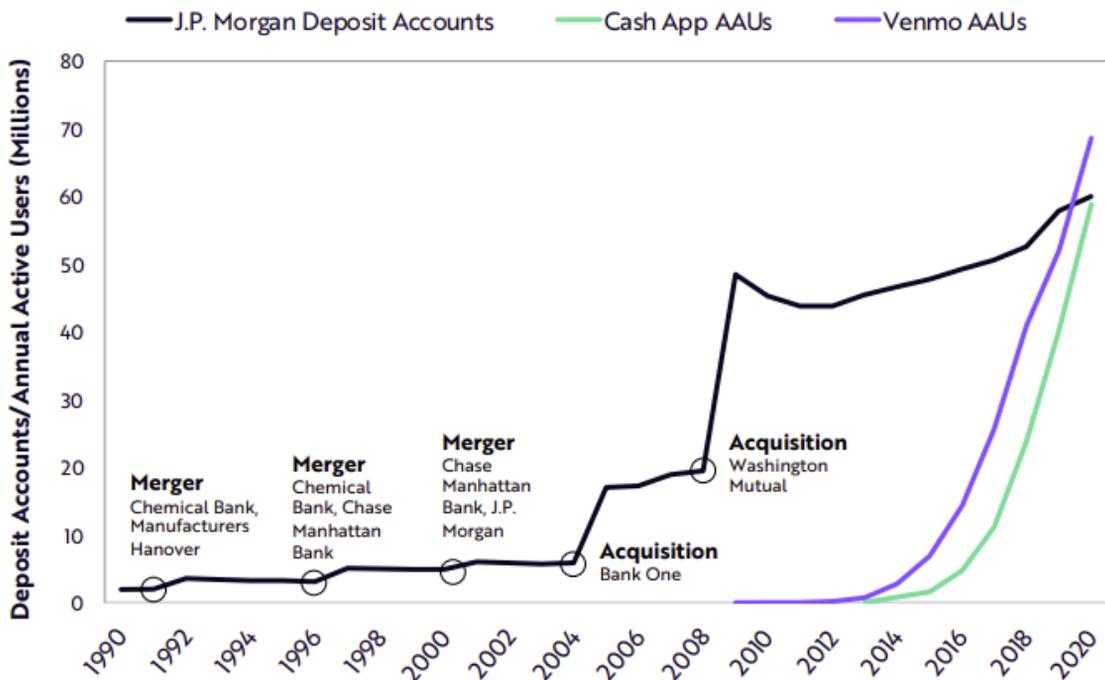
Digital Wallets Have Become A Global Phenomenon

In the US, Digital Wallet users are surpassing the number of deposit account holders at the largest financial institutions.

Square’s Cash App and PayPal’s Venmo each amassed roughly 60 million active users organically in the last 7 and 10 years, respectively, a milestone that took J.P. Morgan more than 30 years and five acquisitions to reach.

At the end of 2020, the number of J.P. Morgan Chase deposit account holders totalled approximately 60 million while Cash App’s and Venmo’s Annual Active Users (AAUs) scaled to 59 million and 69 million, respectively.

J.P. Morgan Chase Deposit Accounts vs. Cash App and Venmo Annual Active Users (AAUs)

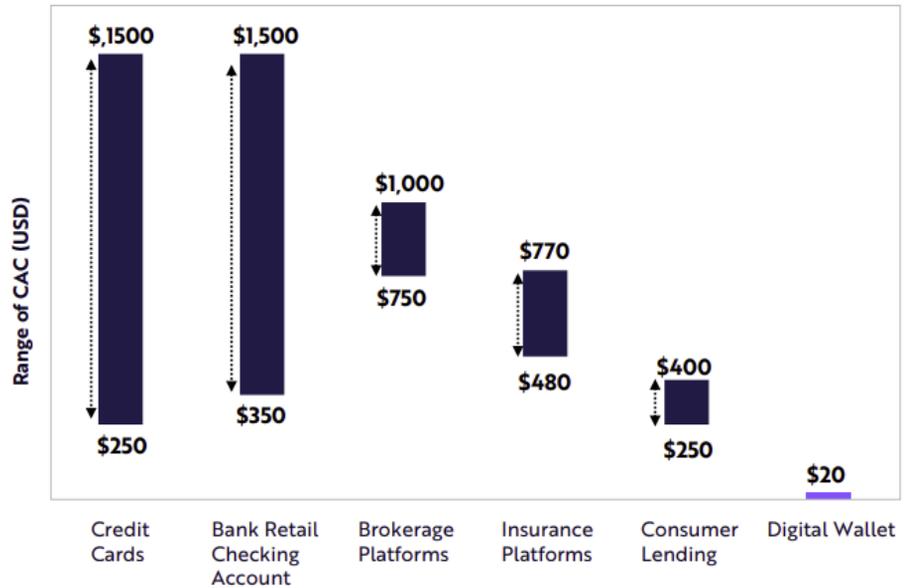


Digital Wallets Can Acquire Customers For A Fraction Of Banks' Customer Acquisition Costs

According to ARK's research, compared to the roughly \$1,000 that a traditional financial institution might pay to acquire a new checking account customer, digital wallets invest only \$20 thanks to viral peer-to-peer payment ecosystems, savvy marketing strategies, and dramatically lower cost structures.



Customer Acquisition Costs (CAC) Across Financial Products



Bank Branch Costs Are Rising While Their Utility Is Decreasing

As consumers have abandoned bricks & mortar in favor of mobile banking, bank branches have experienced increased occupancy expenses, which hit a record high of \$568,000 in 2019.

Occupancy Expenses per Bank Branch in the US



Source: ARK Investment Management LLC, 2020 based on data sourced from: Federal Deposit Insurance Corporation (FDIC) BankFind Historical Data

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