

FinTechs in Europe – Challenger and Partner

Roland Berger Study



The dynamic FinTech scene is likely to be a forerunner of bigger changes to come – Established companies have to take their chances

Management summary



1. Trends around digital customers, new technologies, regulation and general market environment currently offer **good conditions** for FinTechs

2. Most of the FinTechs are very young, **confident** and **focused on parts of the value chain** – Many solutions are not yet disruptive and their success is yet to be proven in the market

3. FinTechs partially profit from a **smaller regulatory burden** and the **established companies' "legacy burden"** – But this might change and cause a shakeout

4. In the medium term additional pressure will come from tech giants. **FinTechs are seeking cooperation** with banks/insurers – A potential win-win situation

5. Banks and insurance companies need to be **open to new solutions** and learn from **FinTechs' working methods** – However, they must **manage their digitization** largely by themselves

FinTechs are realistic about their market position – They are a major innovation driver but will not revolutionize the industry alone

Overview of study setup and key results

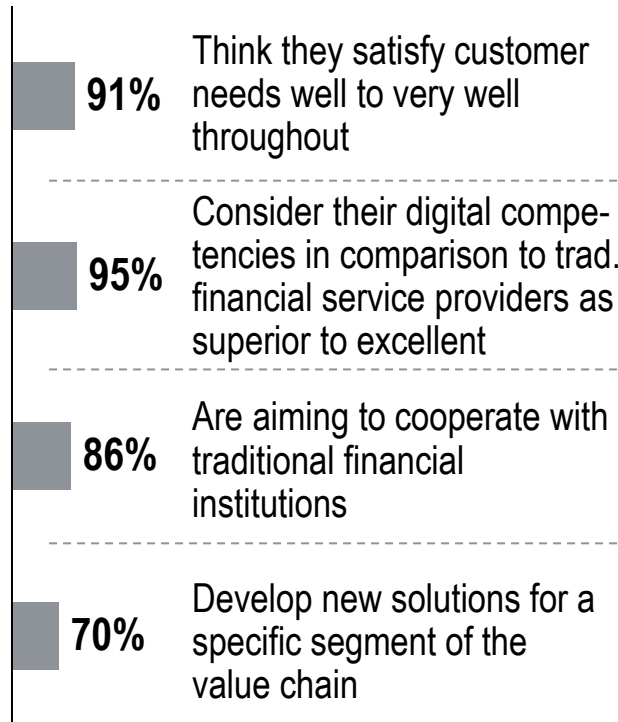
248 FinTechs from...

18 European countries took part.

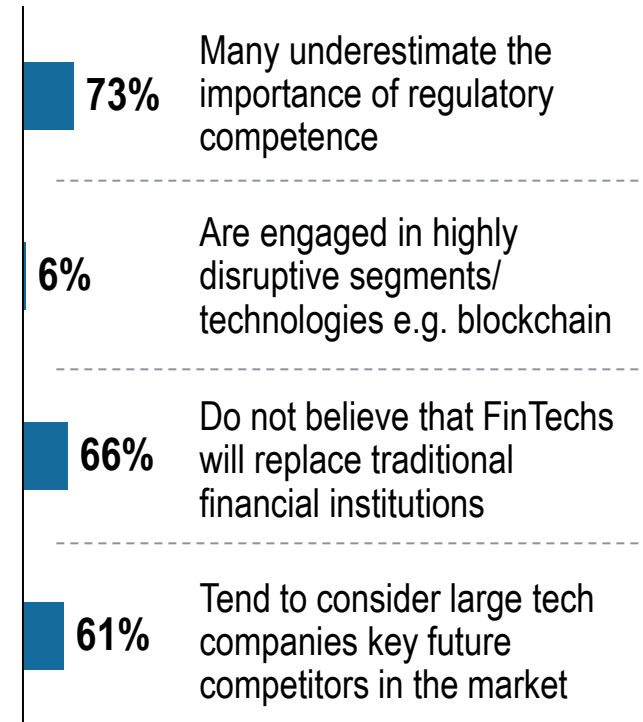
54% of them are operating in one of the three segments

- > **Investing**
- > **Crowdfunding/-lending**
- > **Payments**

FinTechs are able to give the market innovation impetus ...



... but will not drive the whole market or take away the need for incumbents to do their digitization "homework"



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I

Initial situation and
introduction to the
survey



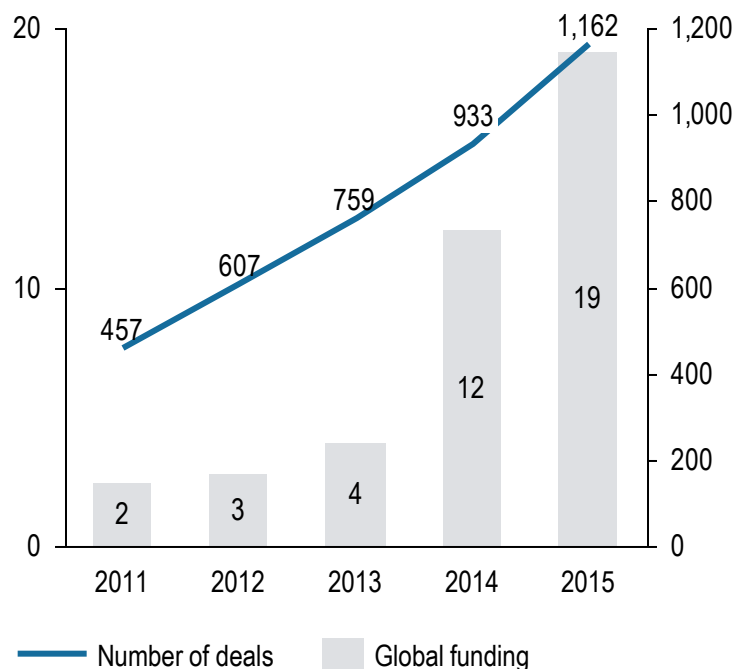
FinTechs attract great investment and attention – We wanted to find out how these new entrants will change the competitive landscape

FinTech investment and media attention on FinTechs

Global FinTech financing



Investments [USD bn]



Martin Krause-Ablass, Roland Berger: "FinTechs have a realistic view of their role in the market: while they are indeed changing the financial industry, they alone will not herald a revolution. What banks and insurance companies themselves can get out of collaborating with FinTechs are opportunities to drive their own digital transformation. **For them, this is about more than technical disruption, it is also about cultural transformation.** That is exactly why people say that digitization begins in the head – it is all about having the right mentality. **The process of change the incumbents face will certainly be painful but, given the entry of new competitors, it is unavoidable:** the market will also be penetrated by tech giants who will ratchet up the pressure on financial service providers in the medium term – and players need to be prepared for this."

So we asked those who are currently at the center of attention – The FinTechs

Panel characteristics and methodology



Broad definition

- > In our survey we approached companies founded with the purpose of offering innovative services by applying new (disruptive) technologies in the FS sector

Large panel

- > Roland Berger's FinTech survey is based on the views of 248 FinTech companies that took part and respondents from 18 different European countries
- > The panel was chosen from our comprehensive FinTech database of more than 1,000 European FinTech companies

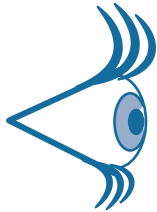


Qualitative methodology

- > Online survey in the form of a multiple choice questionnaire including several open-ended as well as option-based questions
- > Opinion-based questions
- > Survey took place between February and June 2016



Four main categories of questions were addressed and evaluated



What are **general market perceptions** (e.g. expectation of market revenue and promising segments) and **main target segments**?



What are **major success factors** within the financial services market and who addresses the success factors better?

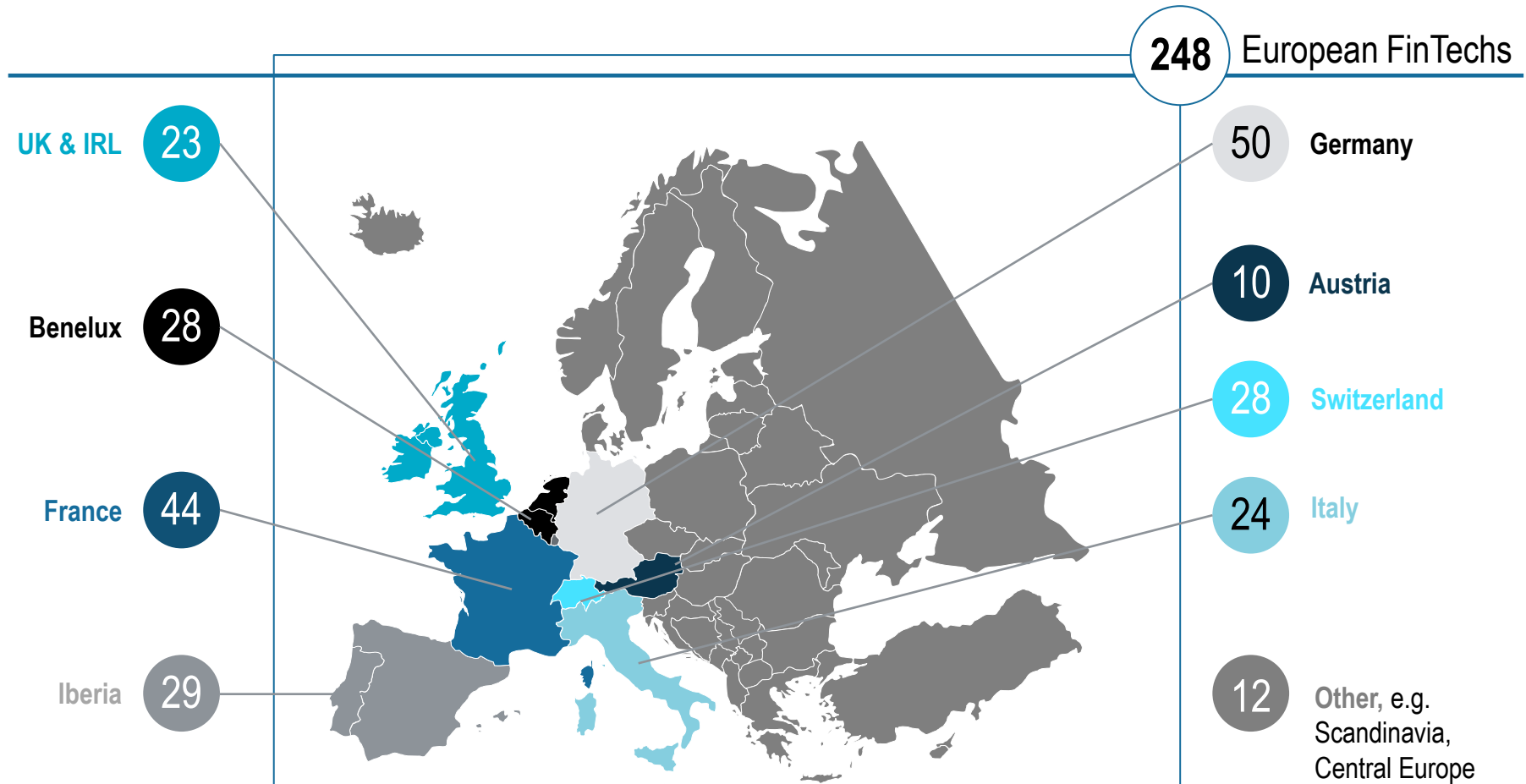


How will the **competitive environment** within the financial services industry change and what is the **potential for future cooperation** between FinTechs and the incumbents?



Which **location factors** for FinTech business are crucial (e.g. regulatory circumstances, availability of investors)?

The 248 FinTechs in 18 European countries cover the most relevant markets in Central, Western and Southern Europe

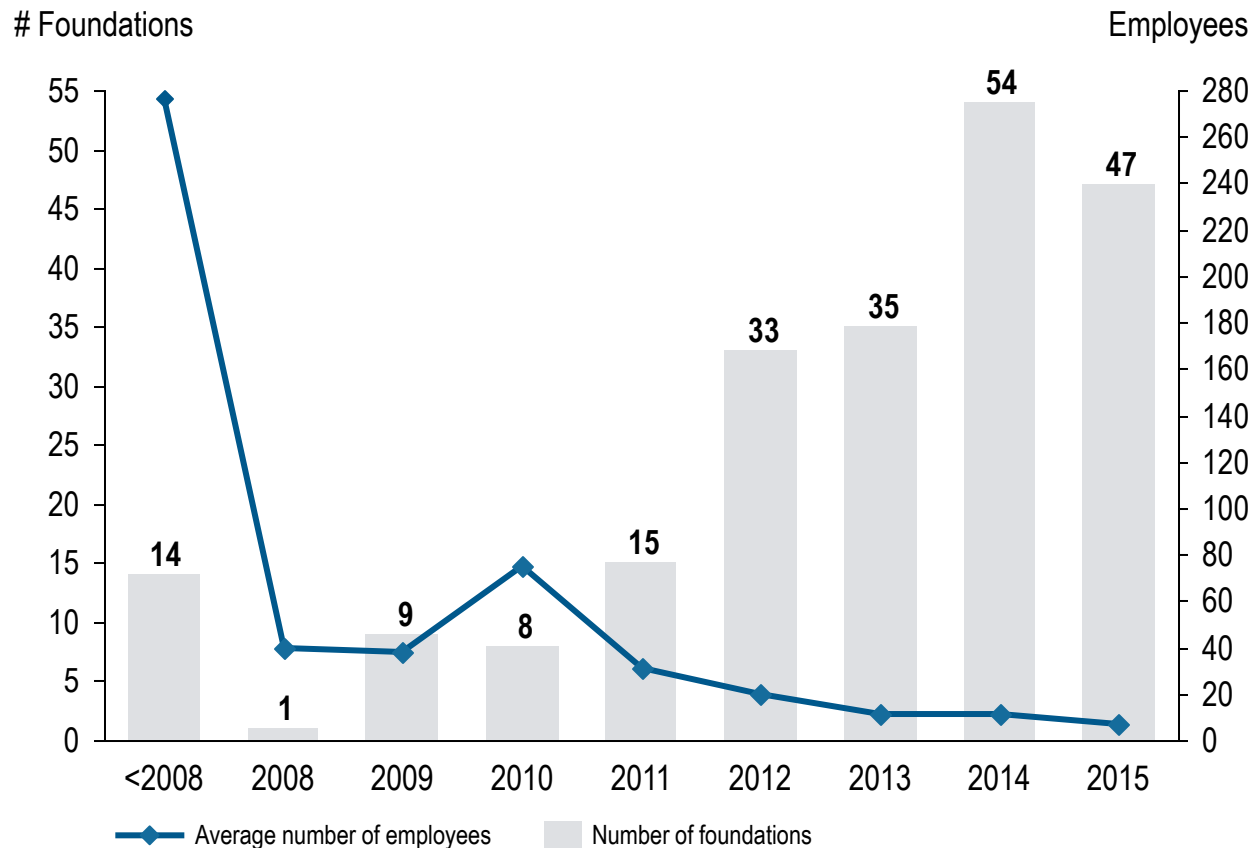


The majority of FinTechs that participated were founded after the financial crisis

Year of foundation and number of employees¹⁾

Key points

- > Start of **FinTech boom** after the **financial crisis** in 2008 – Majority of FinTechs are very young companies that need to establish themselves in the market
- > FinTechs **founded in earlier years** and still in the market employ a **higher number of FTEs**
- > **Peak** in average number of **employees in 2010** was due to **Funding Circle** with a way-above-average headcount of 500 FTEs



1) The answer to our survey question was optional (216 out of 248 survey participants answered the question)

 Survey results



A General market
perceptions and target
segments of FinTechs



According to all survey participants the segments investing and asset management will hold the greatest potential for FinTechs

Assessment of segment potential for FinTechs

Key points



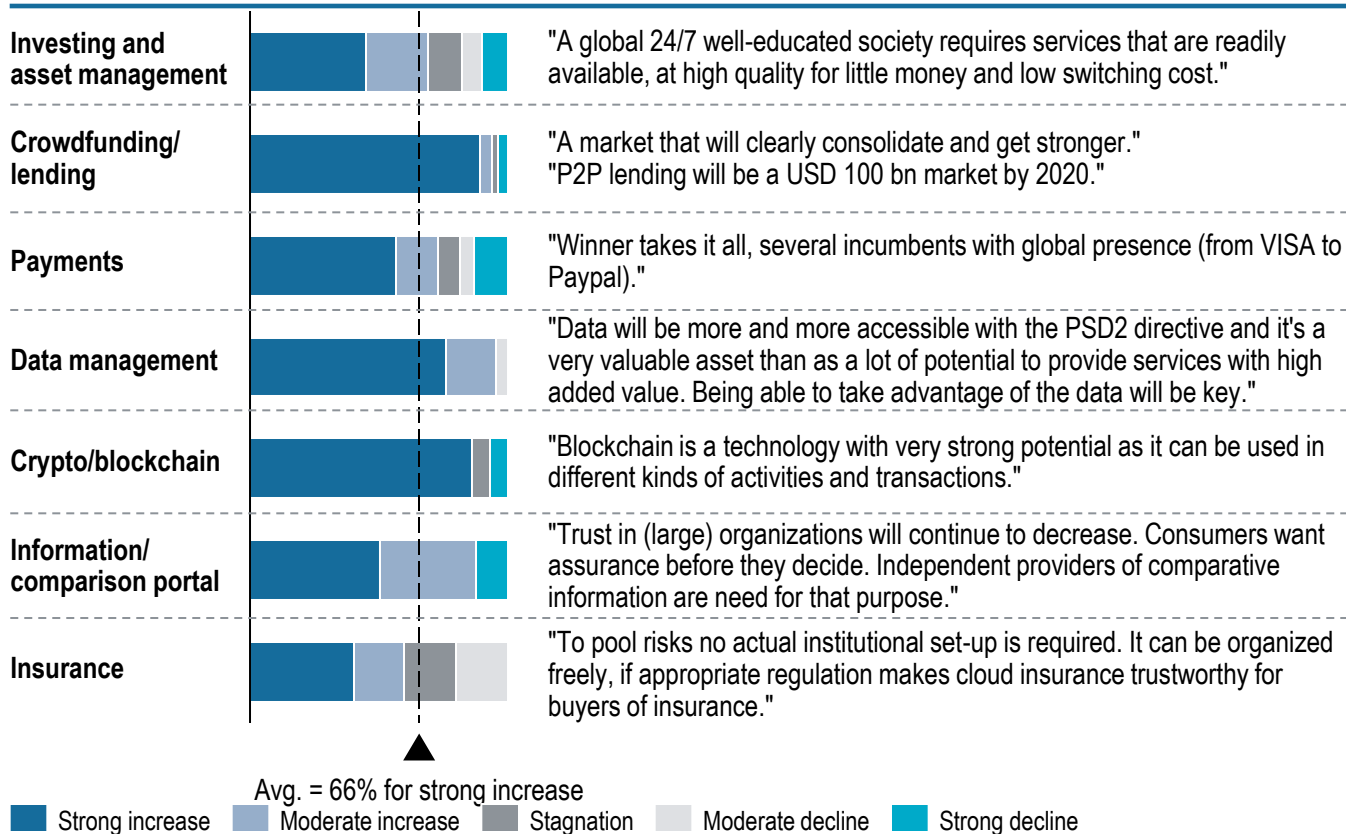
Investing and asset management	55%	"Every investment decision might sooner or later become digital."
Payments	54%	"In the EU, the PSD2 directive will force banks to open up, and payment companies will now have access to more frictionless payments."
Crowdfunding/lending	52%	"A market that will clearly consolidate and get stronger."
Crypto/blockchain	48%	"This looks like the darling of the FinTech space with huge impacts on the manner in which banks will interact."
Data management	44%	"Data will be more and more accessible with the PSD2 directive and it's a very valuable asset that has a lot of potential to provide services with high added value."
Insurance	32%	"To pool risks no actual institutional set-up is required. It can be organized freely, if appropriate regulation makes cloud insurance trustworthy for buyers of insurance."
Information/comparison portal	13%	"Disruption took place many years ago, [there has been a] lack of significant new developments beyond an increase of user mobile access."

- > More than **half of the respondents** believe that the **segments investing and asset management, payments and crowdfunding/lending** have the **greatest potential** for the future of FinTechs
- > **Information/comparison portal** has the **least positive** outlook for the future; one respondent claimed that **disruption** in this segment has **already taken place**
- > The European **PSD2 directive** will have a **positive impact** on several segments

FinTech companies that operate in crowdfunding/lending and crypto/blockchain are the most optimistic about revenue development

Expectation of market revenue development per segment by 2020

Key points



"A global 24/7 well-educated society requires services that are readily available, at high quality for little money and low switching cost."

"A market that will clearly consolidate and get stronger."
"P2P lending will be a USD 100 bn market by 2020."

"Winner takes it all, several incumbents with global presence (from VISA to Paypal)."

"Data will be more and more accessible with the PSD2 directive and it's a very valuable asset than as a lot of potential to provide services with high added value. Being able to take advantage of the data will be key."

"Blockchain is a technology with very strong potential as it can be used in different kinds of activities and transactions."

"Trust in (large) organizations will continue to decrease. Consumers want assurance before they decide. Independent providers of comparative information are need for that purpose."

"To pool risks no actual institutional set-up is required. It can be organized freely, if appropriate regulation makes cloud insurance trustworthy for buyers of insurance."

> Overall, **66% expect a strong increase** in their respective segment's market revenue by 2020 – although today some of the segments do not show significant market growth

> **Crowdfunding/lending and crypto/blockchain companies** are most optimistic about the development of revenues

> **Investing and asset management** is the least optimistic segment, however **~50% still expect a strong increase** in market revenue

FinTechs see four main factors pushing their development

Trends accelerating FinTech development as cited by participants

Selected quotes

Demographic development



- > Digital affinity of the generations
- > Millennials will dominate assets under management by 2020, requiring online interfaces mixed with remote human advice
- > Digital natives will increasingly enter the workforce

- > Blockchain technology/ cryptocurrency
- > Big data
- > Data science
- > Digital identity management
- > API models
- > Artificial intelligence

Technology



Finance

- > PSD2 (payment service deregulation)
- > Basel III
- > No forex fees enabling global transactions

- > With a low inflation and negative rates environment, [...] there will be a need for better advisory in riskier asset classes in order to obtain higher returns
- > Financial crisis
- > Consumers distrust banks



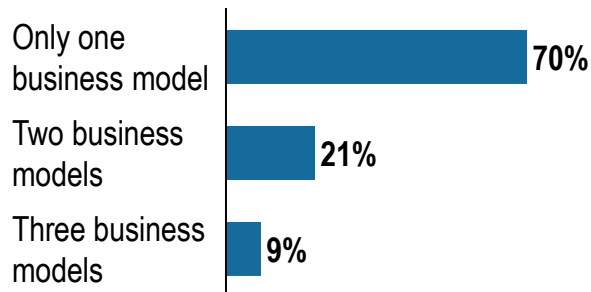
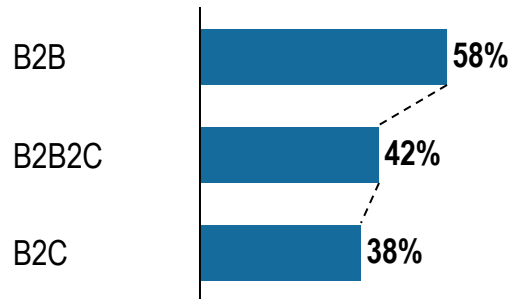
Regulation



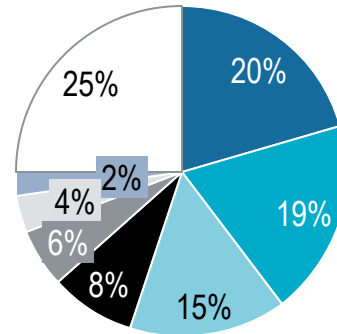
Financial market environment

The majority of FinTechs focus on a single target group and B2B models

Business model



Target segments



- 1 Investing and asset management
- 2 Crowdfunding/lending
- 3 Payments
- 4 Data management
- 5 Crypto/blockchain
- 6 Information/comparison portal
- 7 Insurance
- 8 Others

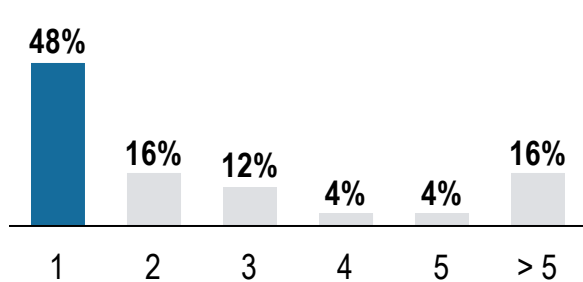
Key points

- > Most FinTech companies target **B2B solutions** – However, there is a **trend towards diversified business models**
- > More than **50%** of the respondents focus on the promising segments of **investing/asset management, crowdfunding/lending** or **payments**
- > Even though **crypto/blockchain** is considered one of the segments with the most significant developments ahead, **only 6%** of all participating FinTechs currently work in this field

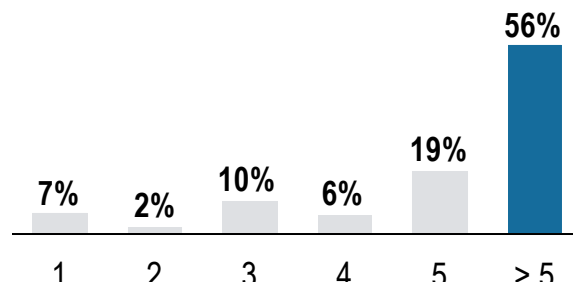
Most FinTechs started operations in only one country but have ambitious plans to expand strongly within the next five years

Current and expected number of target markets

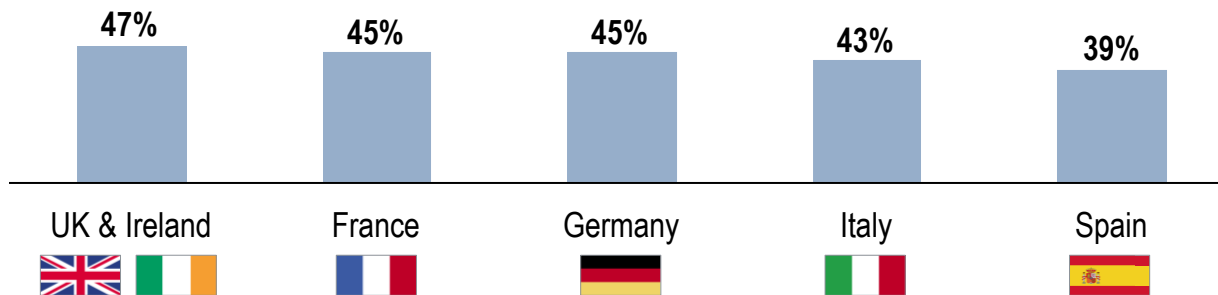
No. of countries as of today



No. of countries planned in 5 years



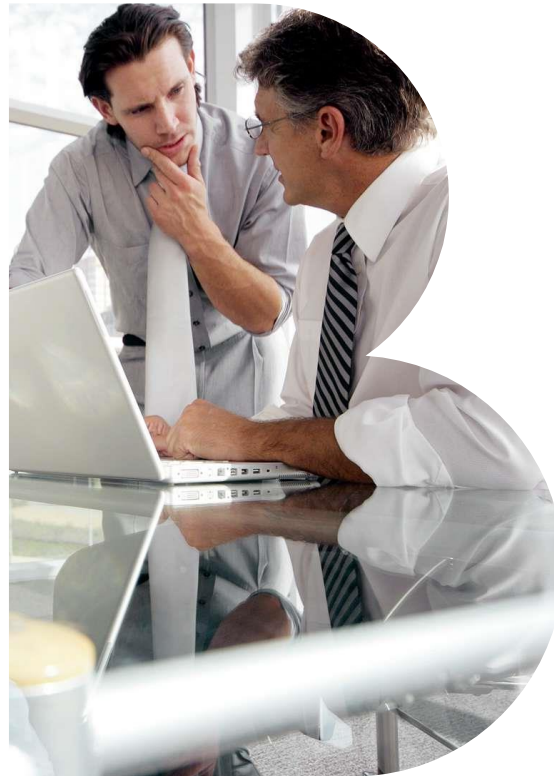
Top 5 target countries for expansion



Key points

- > FinTechs are **eager to expand** their **geographic presence**
- > While **only ~15%** operate in **more than a handful** of countries **today**, **~50%** plan to be operating in **five or more countries in five years' time**
- > **Strong expansion of companies located in one country** within the next few years since 90% want to expand to >3 countries
- > Most **popular countries** targeted for **expansion** are **UK & Ireland**, France, Germany, Italy and Spain

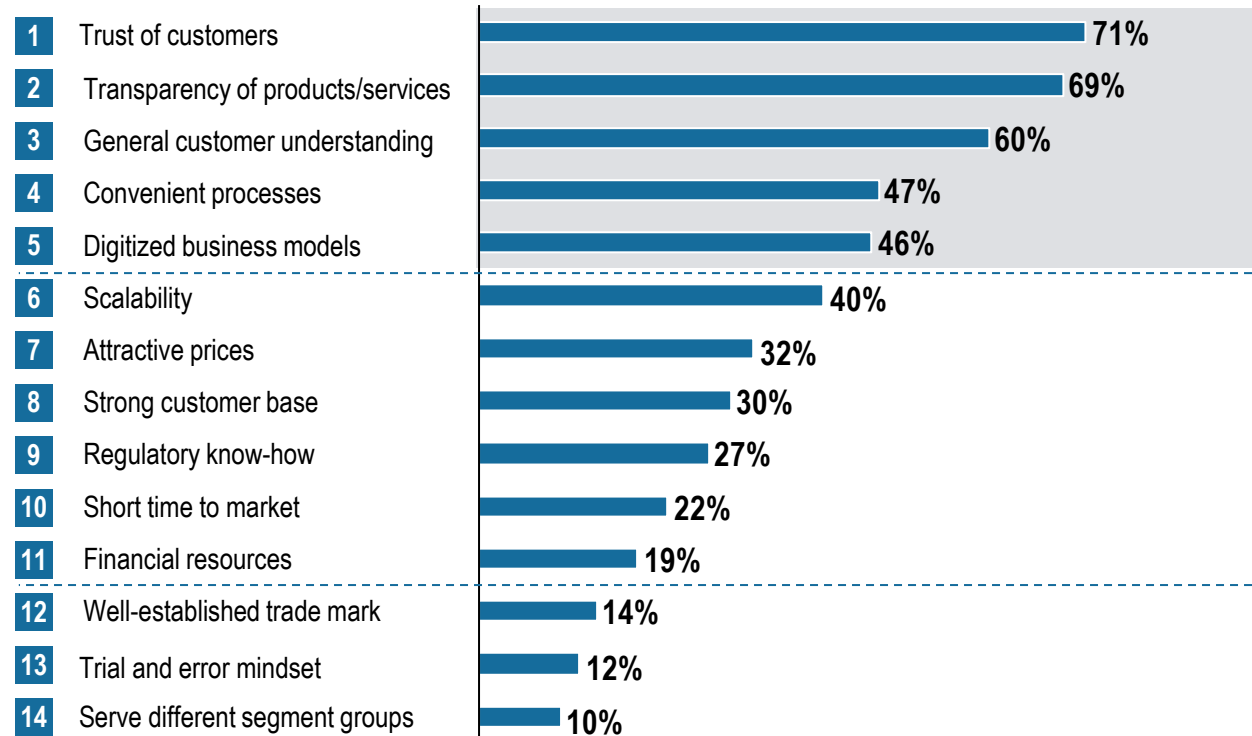
B Key success factors
and capabilities of
incumbents vs.
FinTechs



Customer-related factors are regarded as the key to success in financial services

Key success factors in financial services

Success factor Ranked¹⁾ among the 5 most important factors by:



Key points

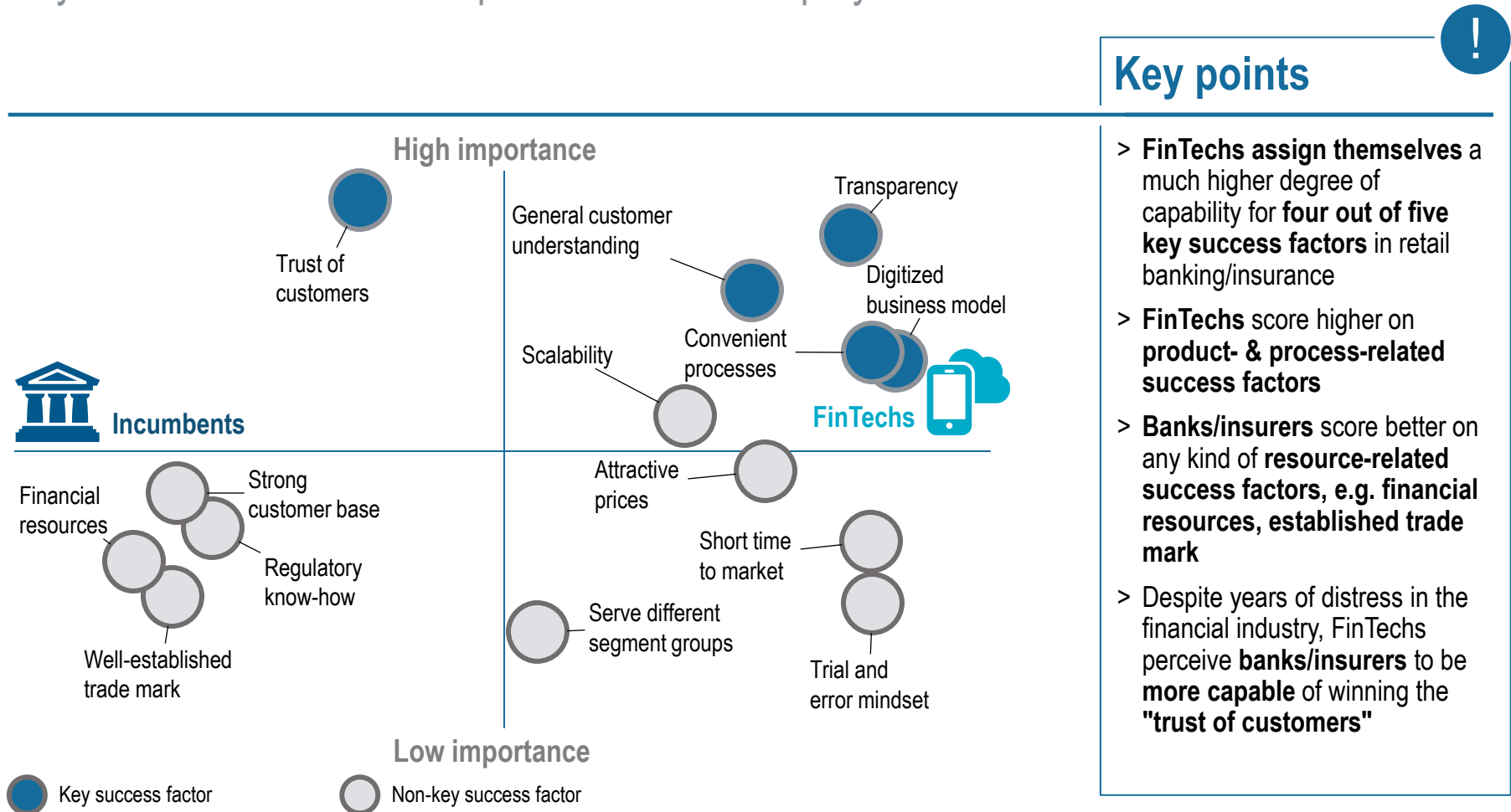


- > **Customer-related success factors** are ranked especially often **among the top five** key success factors
- > **"Trust of customers"** is the most important key to success, followed by transparency and customer understanding
- > Some **traditional banks'/ insurers' key strengths**, like financial resources, well-established trade mark, and regulatory know-how are assigned **below average importance**

1) Numbers do not add up to 100% due to multiple counting (i.e. each respondent ranked five most important key success factors)

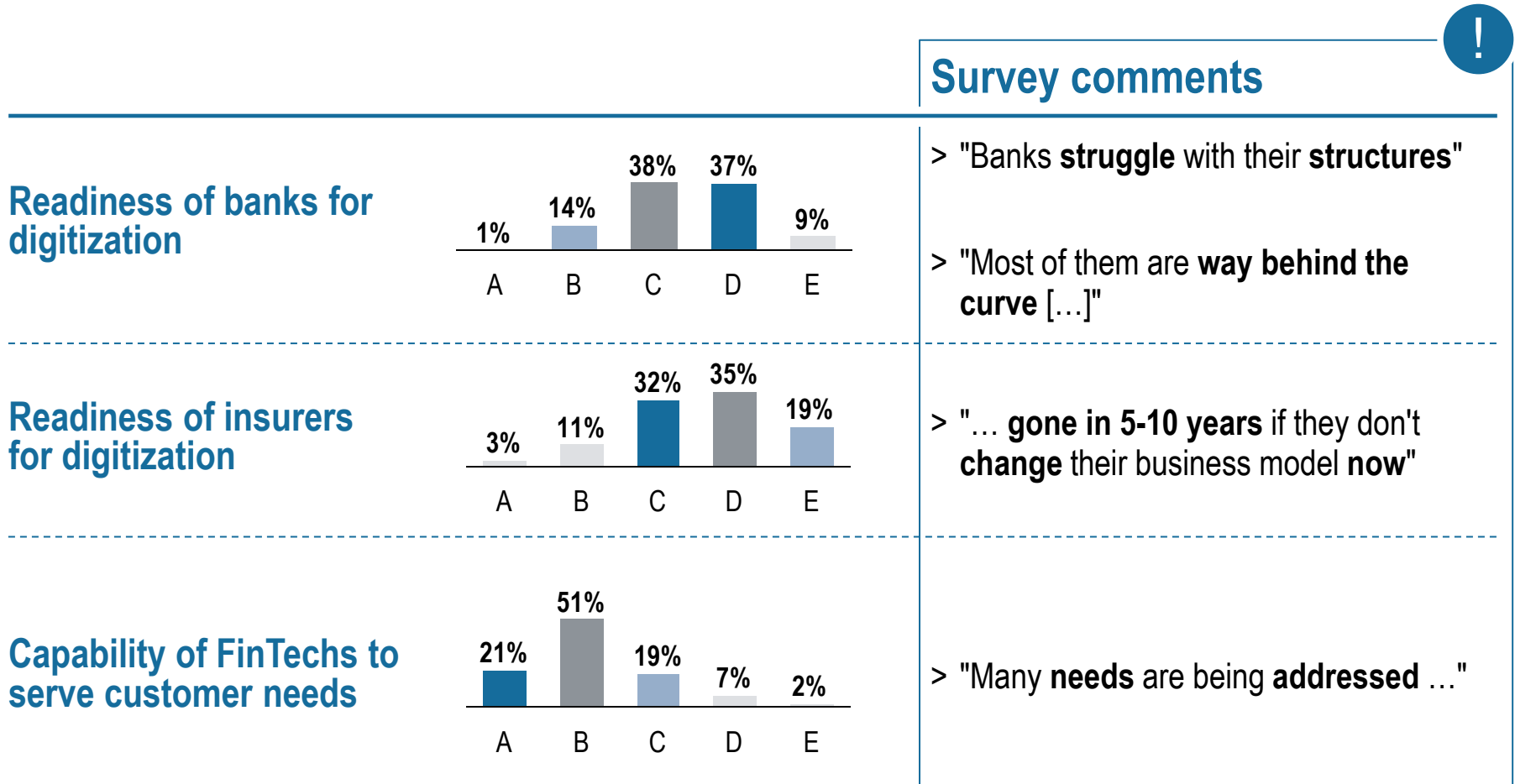
FinTechs expect to be better able to cope with the majority of key success factors

Key success factors and capabilities of market players



The majority of the surveyed FinTechs are very confident that they serve customer needs and that incumbents are behind on digitization

Grades awarded to banks/insurers and FinTechs



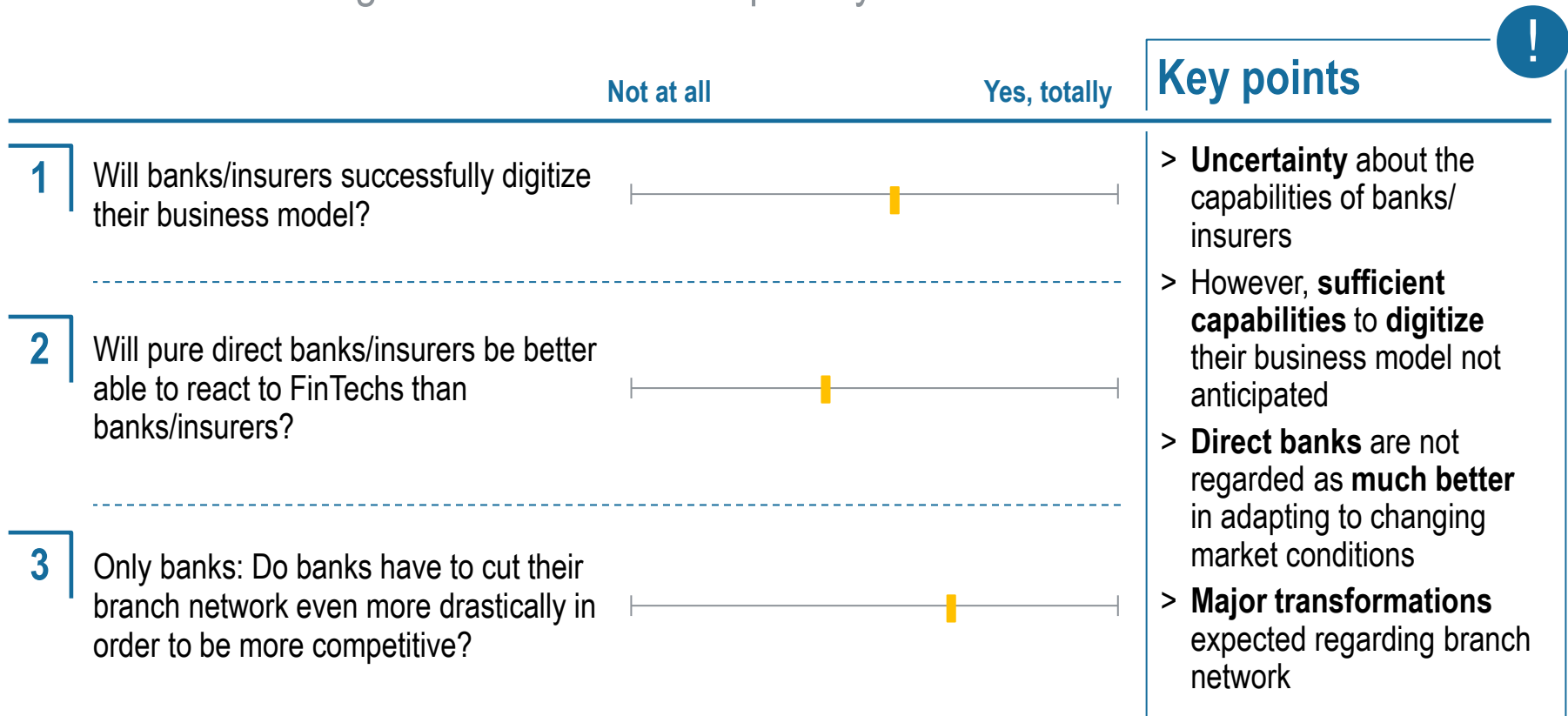
1) A: highest grade, E: lowest grade

- C** Transformation of the competitive landscape, collaborations and best practices



Looking forward, banks/insurers are not regarded as fully capable of digitizing their business model

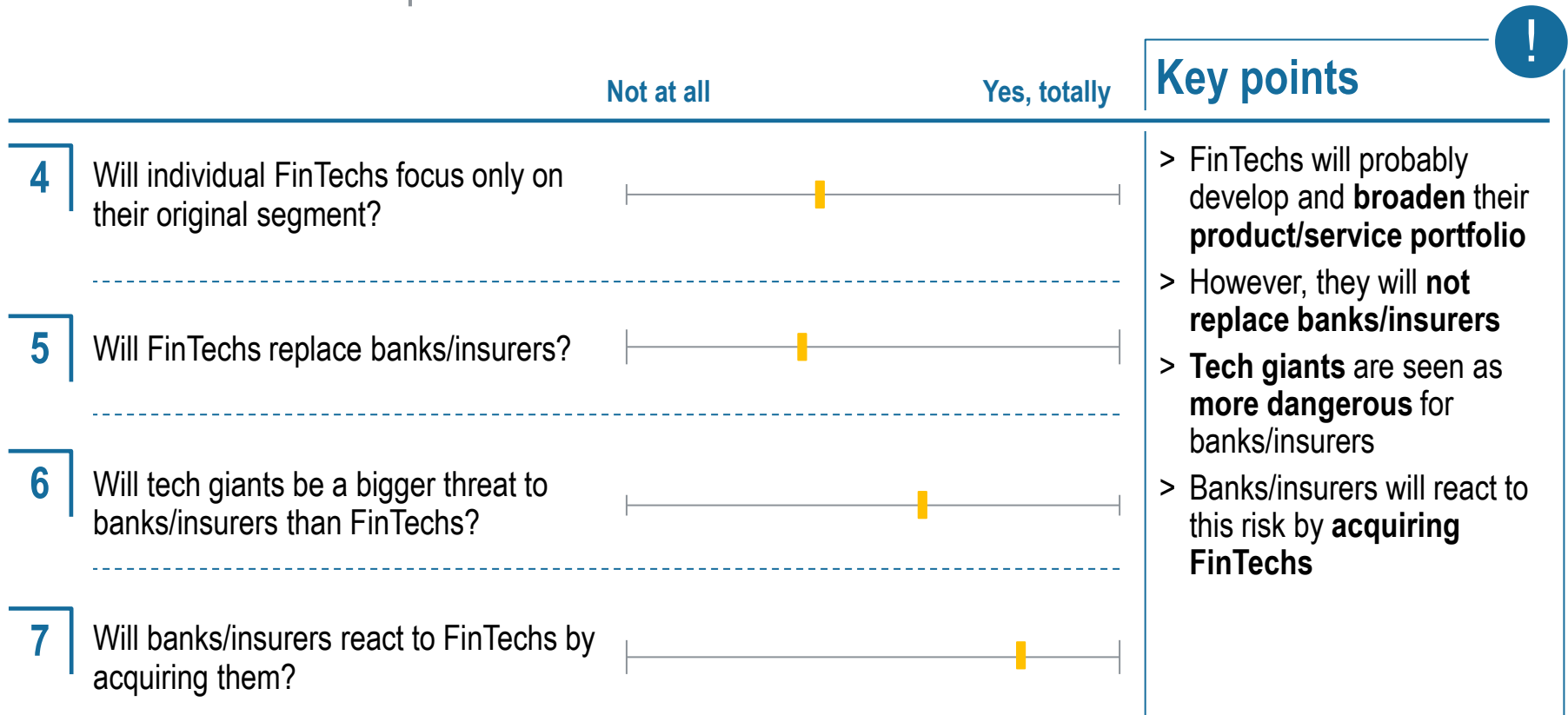
Current situation: digital transformation capability of banks/insurers



 **FinTechs tend to see the whole sector at risk**

Tech giants are expected to be the bigger threat for banks/insurers – Acquisition of FinTechs as an option to overcome challenges

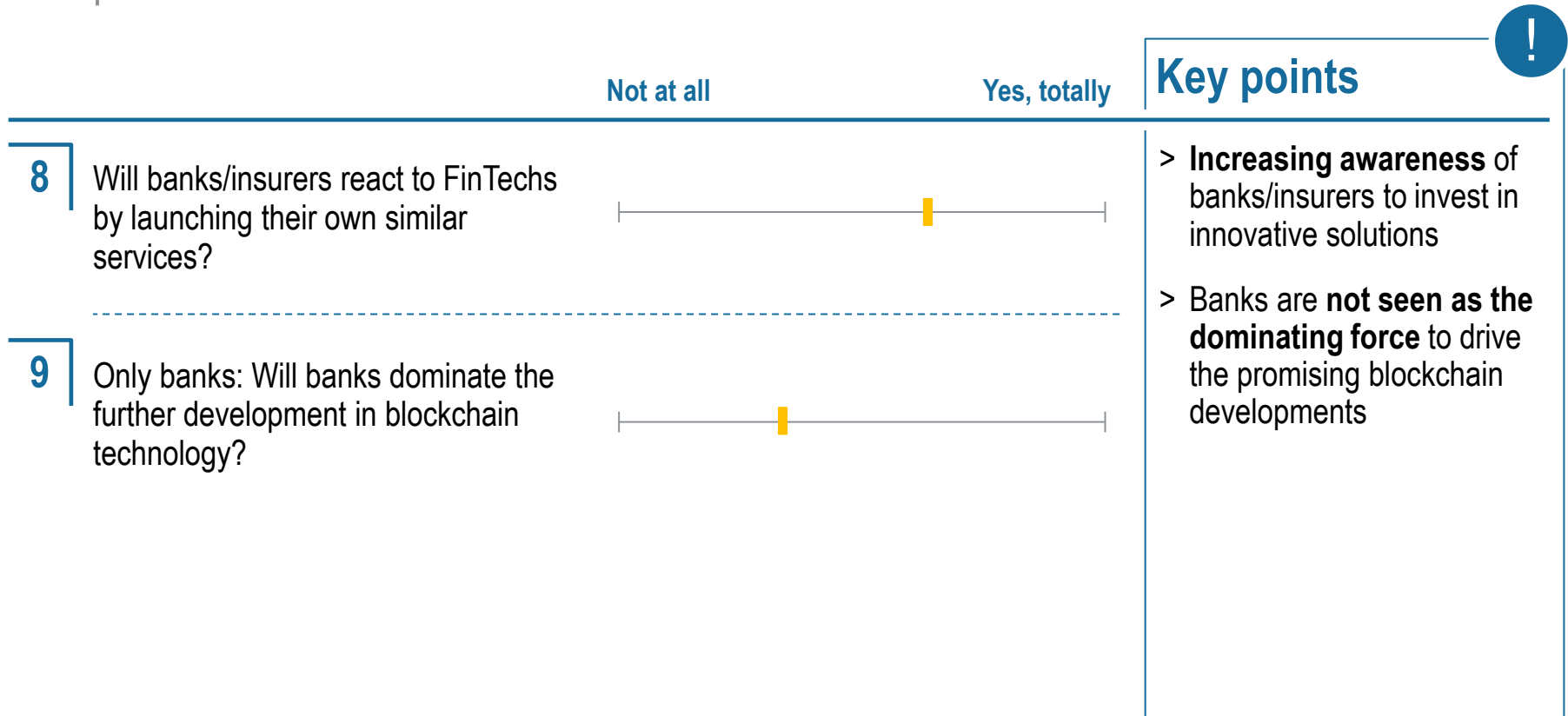
Threats from new competition



FinTechs do not see themselves as largest disruptive force – takeovers expected

Banks/insurers are expected to partly copy services provided by FinTechs but are not seen as drivers of bigger disruptions

Competition for FinTechs from banks/insurers

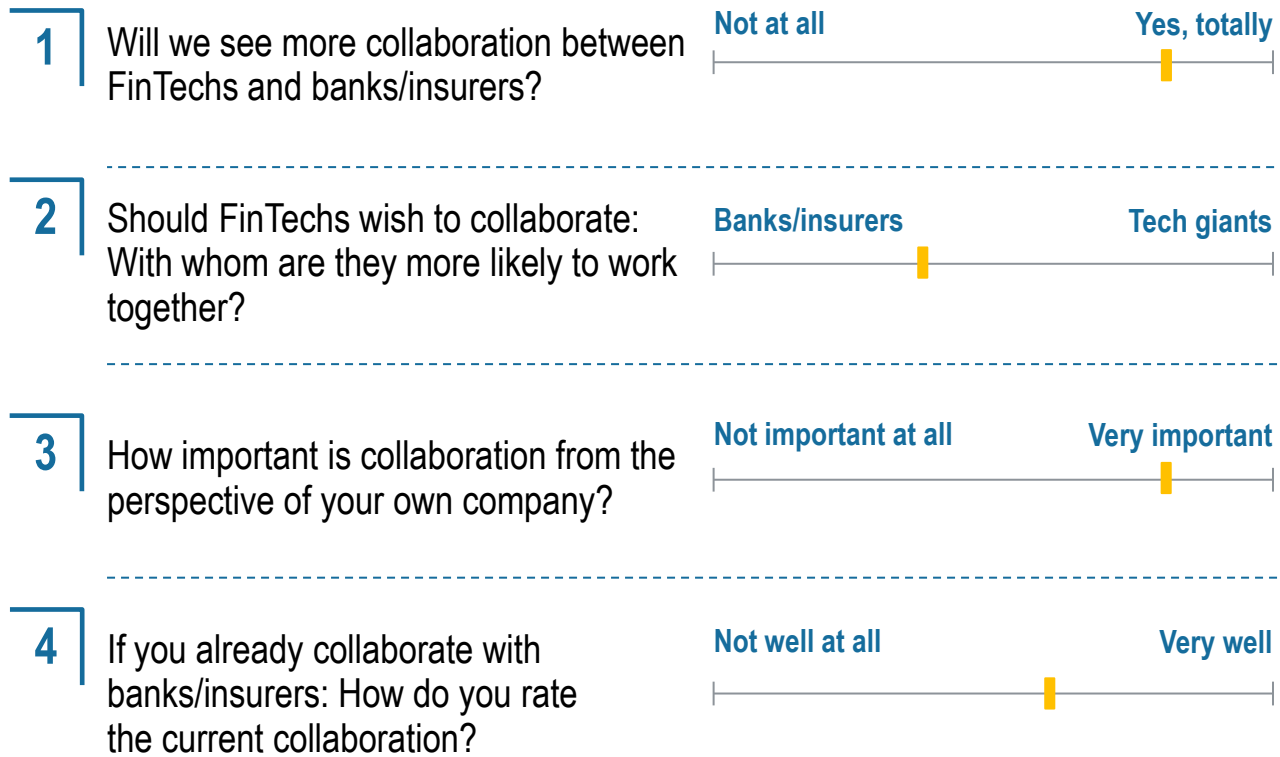


Increasing competition and potential shakeout in the market

Collaboration is very important from the FinTech perspective too, and will most likely take place with banks/insurers

Collaborations

Key points

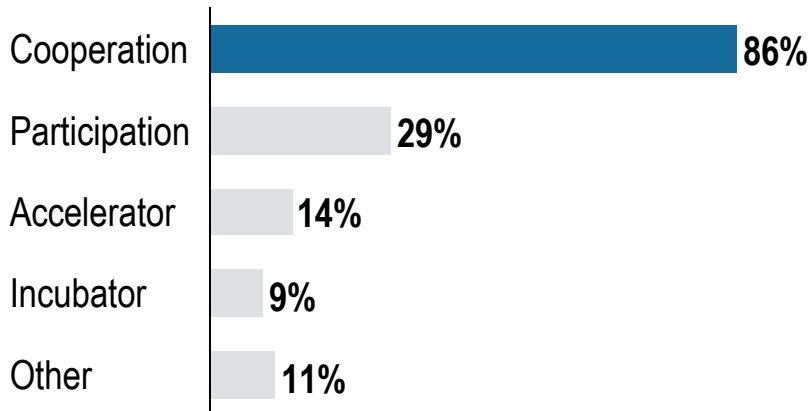


- > **More collaboration expected** between banks/insurers and FinTechs
- > **FinTechs** more likely to collaborate with **banks/insurers** than with tech giants
- > **Collaboration important** for both sides – it also plays a key role for FinTechs
- > **Evaluation of current collaborations** is **mixed** and needs to be improved

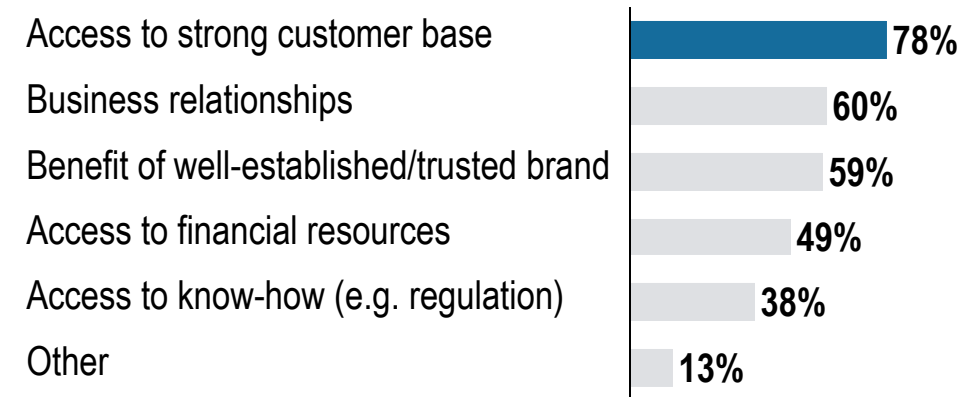
Collaboration is mostly sought through cooperation, and for the purpose of accessing a strong customer base

The how and why of collaborations

Form of collaboration sought¹⁾



Most important reasons for collaboration¹⁾



Key points






- > **Cooperation** is preferred means of **collaboration**
- > **Incubators** and **accelerators** less popular
- > **FinTechs** look for **access to strong customer base**
- > **Regulatory know-how** a **minor reason** for collaboration
- > FinTechs are looking for access to **regulated services** and **banking licenses**

1) Numbers do not add up to 100% due to multiple counting (i.e. each respondent ranked three most important reasons for collaboration)

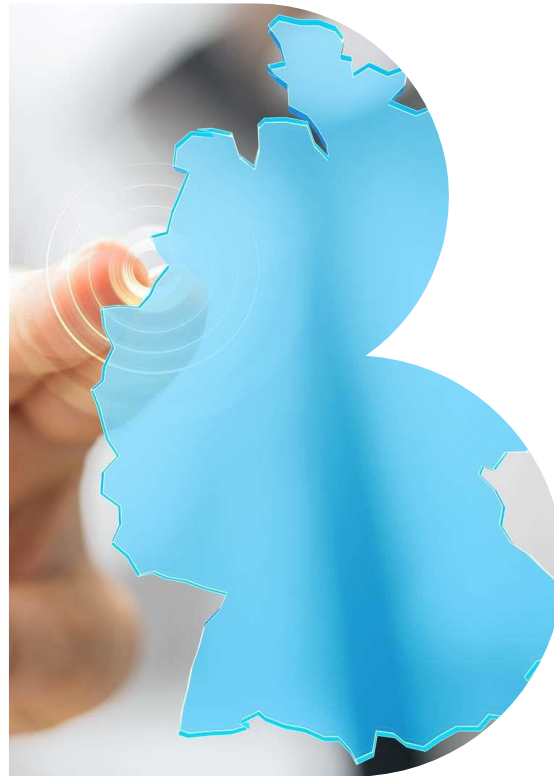
The participating FinTechs also voted on the best-in-class FinTech companies – Clear leaders within the various segments

Most promising FinTechs¹⁾

			
Investing and asset management	Betterment	WealthFront	Acorns
Crowdfunding/crowdlending	Funding Circle	Crowdcube	Lending Club
Payment services	N26	Adyen	Stripe
Crypto/blockchain	Ethereum	Blockstream	–

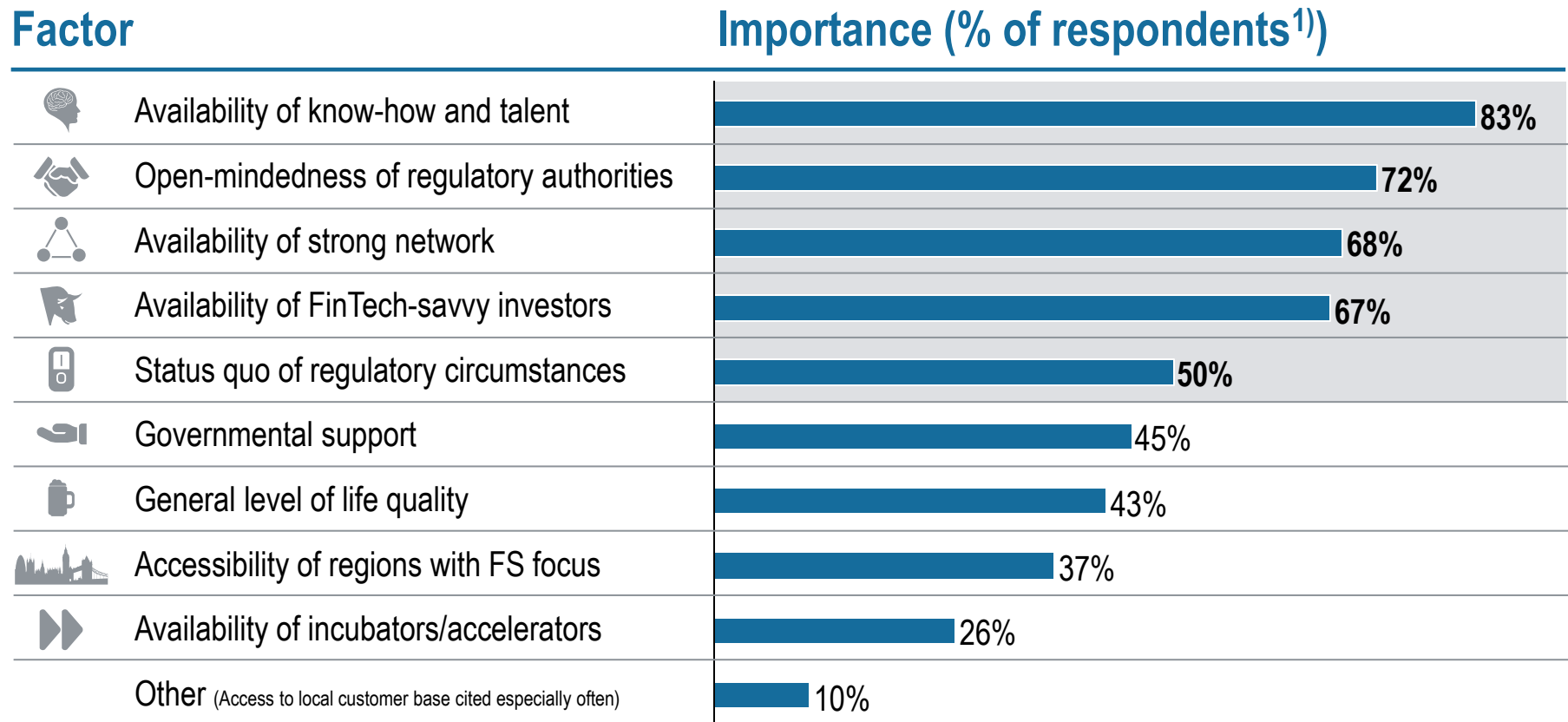
1) Respondents were asked to name the most promising companies within their segment

D Location factors for
FinTech businesses



Availability of know-how, talent and strong network are leading location factors

Importance of location factors for FinTech businesses



1) Numbers do not add up to 100% due to multiple counting (i.e. each respondent ranked five most important location factors)

2) Ratings were given only by companies that ranked the respective factor among their top five

Innovative clusters combine ideal location factors for FinTechs

Overview of important location determinants



Availability of know-how and talent

- > Proximity to leading universities
- > Access to research and industry experts



Availability of strong network

- > Availability of start-up ecosystems
- > Physical closeness of various stakeholders



Open-mindedness of regulatory authorities

- > Priority of digitization on agenda
- > Willingness to foster local start-up scene



Availability of FinTech-savvy investors

- > Availability of capital
- > Established start-up (investment) culture

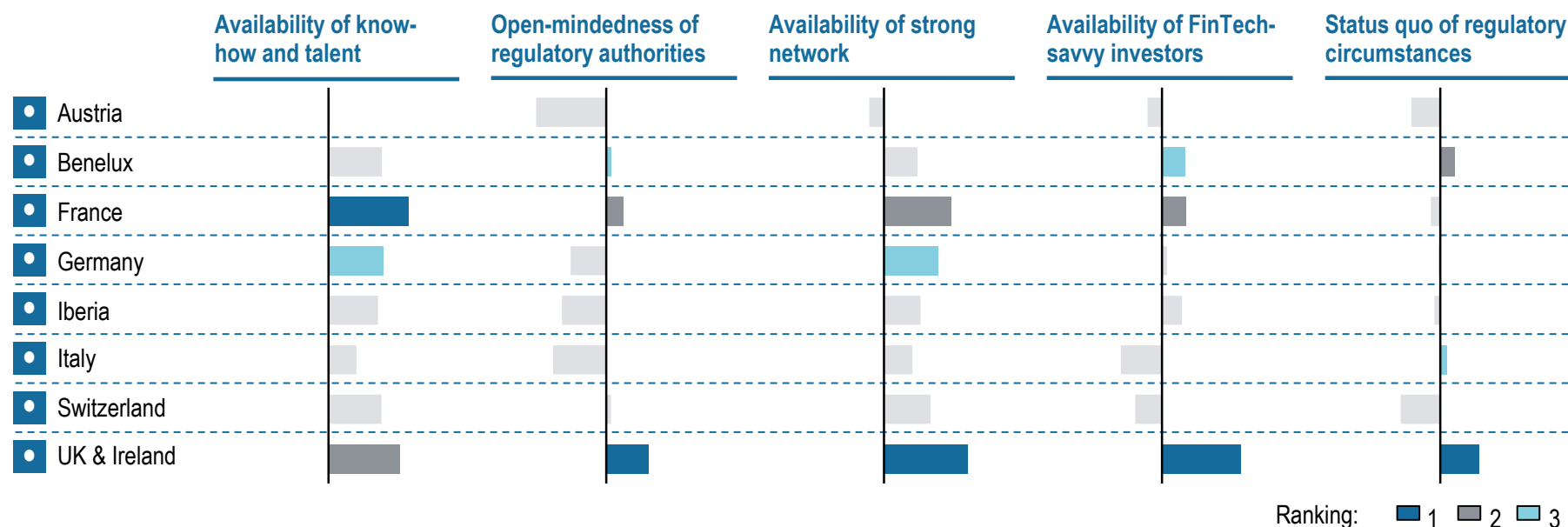


Status quo of regulatory circumstances

- > Digital literacy of region/country
- > Historical degree of government involvement in banking control

France and UK/Ireland provide the best accumulation of location advantages for FinTechs

Rating of current location by region – "Not good at all" (left) – "Very good" (right)



Key points

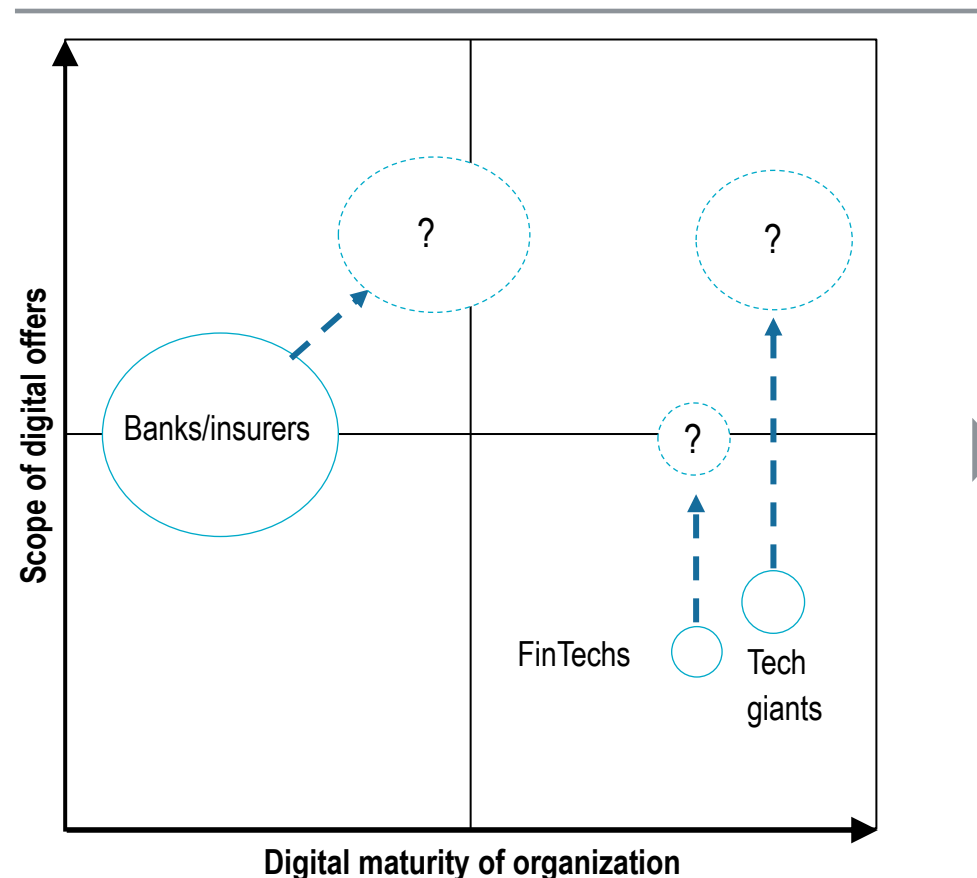
- > **Consistently positive** evaluation of "Availability of know-how and talent"; Italy comes in last
- > Rather **negative evaluation** of "Open-mindedness of regulatory authorities"
- > **Strong network** is available in all regions
- > **UK** scores the **best** on "Availability of FinTech-savvy investors"

 Fields of action



Dynamic FinTech development is part of a race for the new normal in financial services – Opportunities of digitization are spread right now

Competitive dynamics in financial services



Race between three major groups:



Banks/insurer digitize their products/ processes step by step
 → **Market standard increases within next 2-3 years**



FinTechs offer solutions for parts of the value chain
 → **Depending on focus they may tend to be a partner to banks**



Tech giants plan to substantially revolutionize financial services by "[modernizing] the way consumers and businesses manage money [...]. We believe that technological transformation will make financial services more accessible, safe and affordable for everyone [...]"¹⁾


→ **Mid-term challenge for banks/insurers**

 Today
  Development of the next five years
   Relative importance
 1) FinTech innovation group

As we see it, both FinTechs and incumbents can learn from each other and cooperate but have also distinctive to do's on their own

Fields of action for FinTechs and banks/insurers


- 1



FinTechs: Bet on sustainable business models

 - > Do not rely on current market conditions and **ensure a sustainable business model** (e.g. regulatory requirements, data access)
 - > Evaluate carefully if you offer **specialized B2B solutions** or if you really **have the power to disrupt the market with a B2C solution**
 - > If you partner with banks/insurer, **differentiate yourself and ensure to set market standards**
 - > Do not choose a "me-too"-approach but **focus on a truly innovative solution**, e.g. using blockchain technology

- 2



Banks/insurers: Do your "own digital homework"

 - > **Leverage** FinTech solutions for your **own digital transformation** but you'll have to do the bulk of the transformation work yourself
 - > **Adopt** your **working methods** to be more open to innovation (e.g. agile, design thinking)
 - > **Ensure sufficient investments** in digitization but start with lighthouse projects to learn and react step by step
 - > Place **focus not only on FinTechs** but on financial services **activities of tech corporations** as well – seek partnerships where possible

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