The economic impact of fintech

December 16, 2016
THE BANKING CONTEXT FOR FINTECH

Houston, we have a problem

Complex macro environment

- Historically low interest rates
- Low growth expectations, with doubts about China and emerging markets

Regulatory pressure

- Higher capital requirements
- Consumer protection and compliance
- Strict supervision

Heavy cost structures

- Networks, products and servicing factories
- Obsolete systems
- Digitalization processes

Undifferentiated offer

- Reluctance to pay for services
- Expensive campaigns to attract clients
- Strong competition

Source: McKinsey
Two regulatory forces will shape the future of fintech

Financial crisis
(to avoid excessive risk-taking among incumbents)

Digital revolution
(to embrace exponential tech. and new customer standards)

- risk
+ stability
+ resolvability
+ consumer protection

+ innovation
+ competition
+ privacy
+ cybersecurity
THE RISE OF FINTECH

A window of opportunity for challengers
MATURITY OF EXPONENTIAL TECHNOLOGIES

How is the tech landscape any different from 1999?
Forget the manichaeist battle

- Corporate VCs accounted for a third of total investment in fintech in 2Q16
- Fintech accelerators / incubators launched by banks all over the world
- Regulatory sandboxes and innovation hubs have introduced authorities in the ecosystem too
DIRECT ECONOMIC IMPACT

Global investment in fintech is slowing down

Source: The Pulse of Fintech: KPMG and CB Insights
Fintechs are often focused on origination and sales activities, which are less regulated and offer higher ROE.
EXPECTED ECONOMIC IMPACTS

Three broad areas of economic impact for fintech

**Efficiency gains**
- Transactional costs
- Search costs
- Risk management

**Improved supply**
- New products
- Customization

**Digital disruption**
- Consumer surplus
- Profit pools
- Automation of jobs
THE ROLE OF REGULATION

Challenges to the current regulatory framework

Maximize...

Preserving...

Similar products or services should receive equivalent regulatory treatment, without jeopardizing the potential of new technologies to improve customer experience.
Are digital platforms the future of fintech?

Market Cap Valuations — Dotcom vs. Platform Companies

<table>
<thead>
<tr>
<th>Internet Companies</th>
<th>1995 ($MM)</th>
<th>2015 ($MM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apple</td>
<td></td>
<td>2,560,902</td>
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<tr>
<td>Axel Springer</td>
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<td>Copart</td>
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<td>Fox Communications</td>
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<td>IAC/InterActive Corp</td>
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<td>iLive</td>
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<td>iStart Internet</td>
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<td>Live Microsystems</td>
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<td>Netcom Online</td>
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<td>Netscape</td>
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<td>PSINet</td>
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<td>RentPath</td>
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<td>Storage Computer Corp.</td>
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<td>Wave Corporation</td>
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<tr>
<td>Web.com</td>
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</table>

Market Cap of Top 15 Public Platform Companies: $2.6 trillion

Market Cap of Private ‘Unicorn’ Companies: $500 billion

TOTAL $3+ trillion

Source: Accenture (2015)
# A CONCEPTUAL FRAMEWORK

## Economics of digital platforms in financial services

<table>
<thead>
<tr>
<th>Providers</th>
<th>Type of Digital Platform</th>
<th>Users</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks</td>
<td>Informational Platforms</td>
<td></td>
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<tr>
<td>PSPs</td>
<td>Transactional Platforms</td>
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<tr>
<td>Asset Managers</td>
<td>Marketplace Platforms</td>
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<td>Insurers</td>
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<td>Marketplace lenders</td>
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<td>FX houses</td>
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<tr>
<td>Start ups</td>
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<td>Developers</td>
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BaaS
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