

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

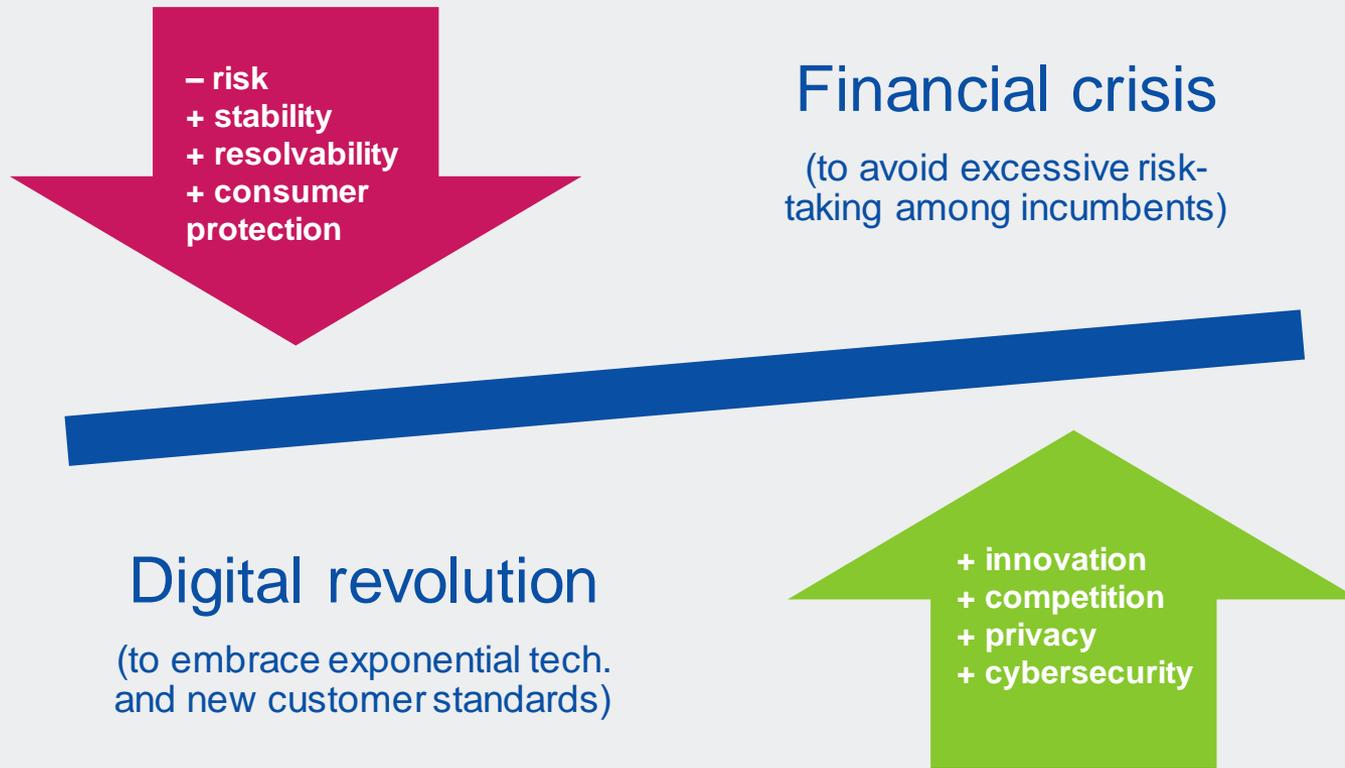


Undifferentiated offer

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

THE REGULATORY CONTEXT FOR FINTECH

Two regulatory forces will shape the future of fintech



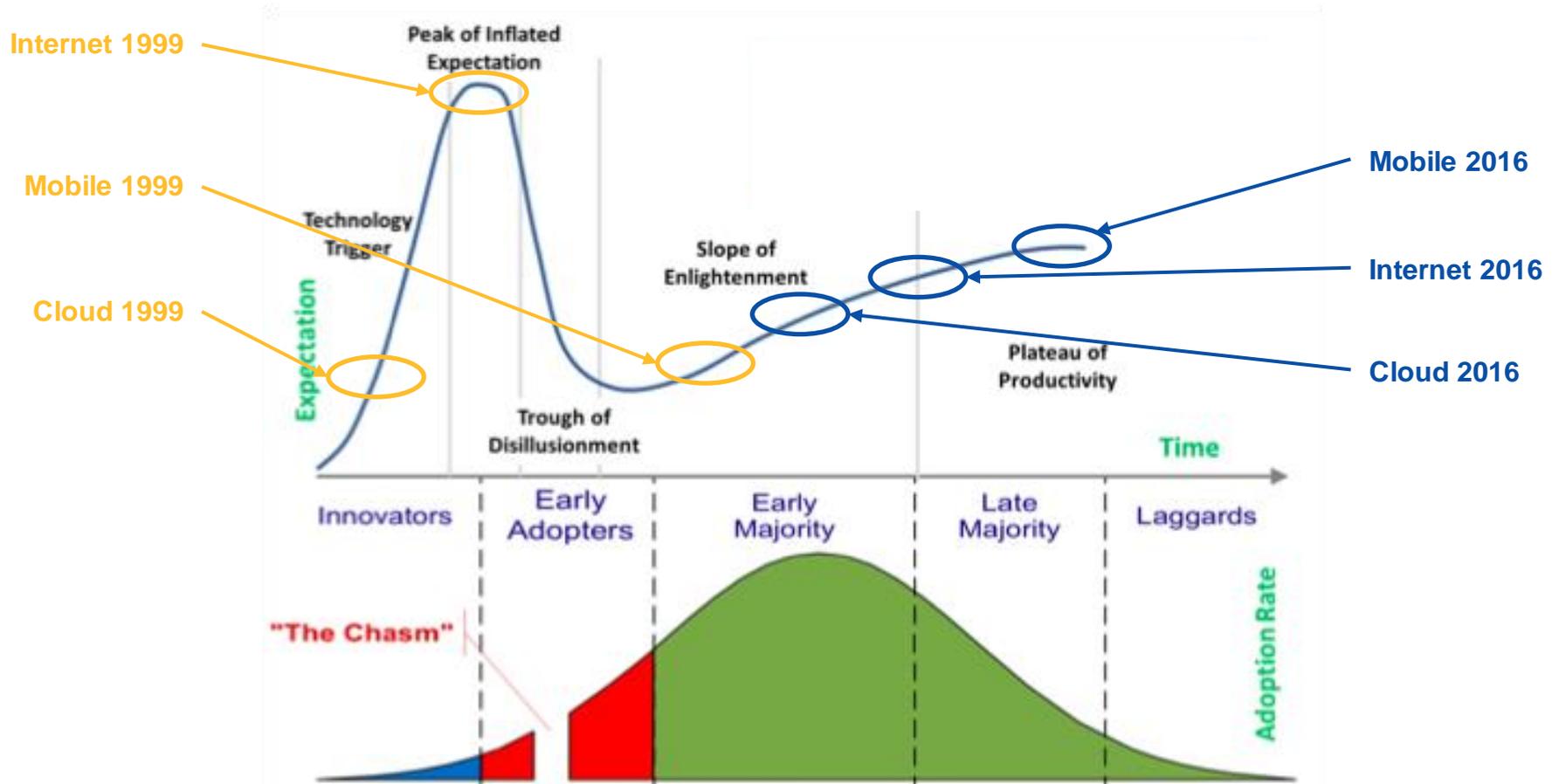
THE RISE OF FINTECH

A window of opportunity for challengers



MATURITY OF EXPONENTIAL TECHNOLOGIES

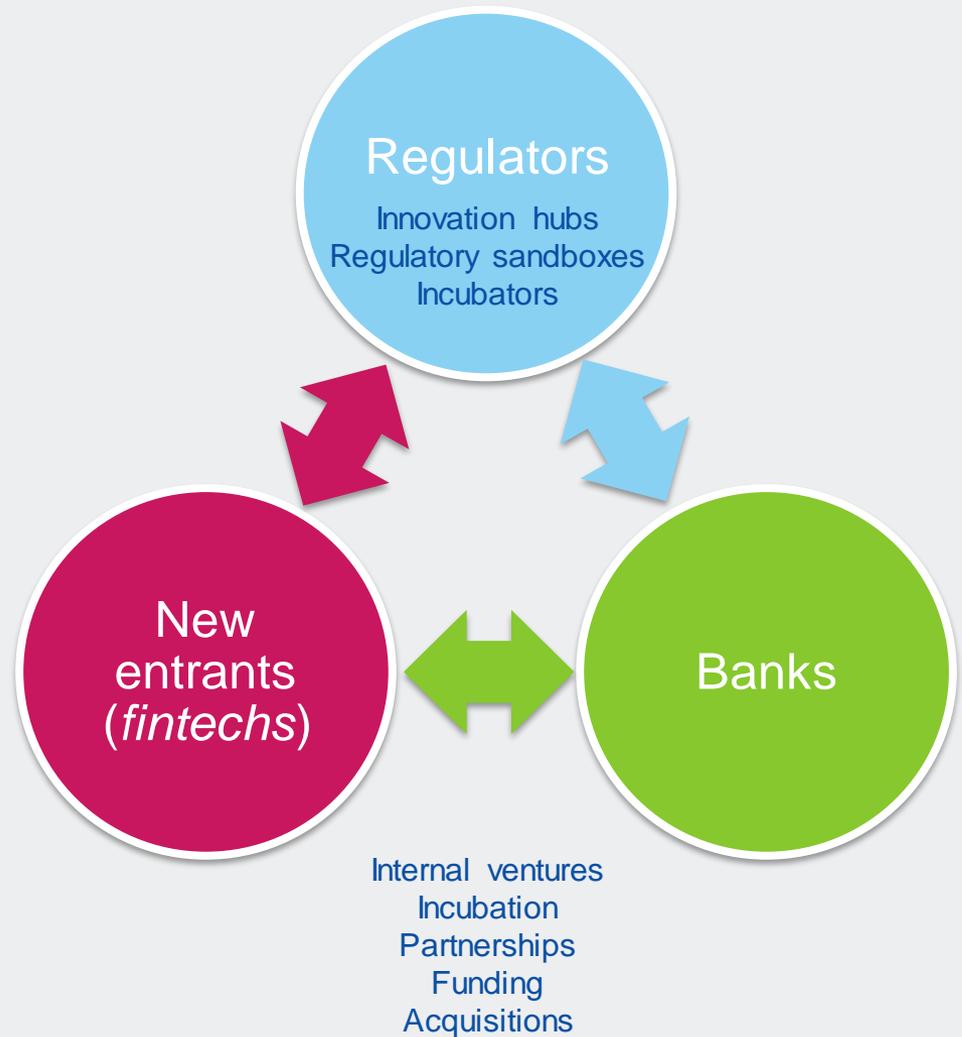
How is the tech landscape any different from 1999?



UNDERSTANDING THE FINTECH ECOSYSTEM

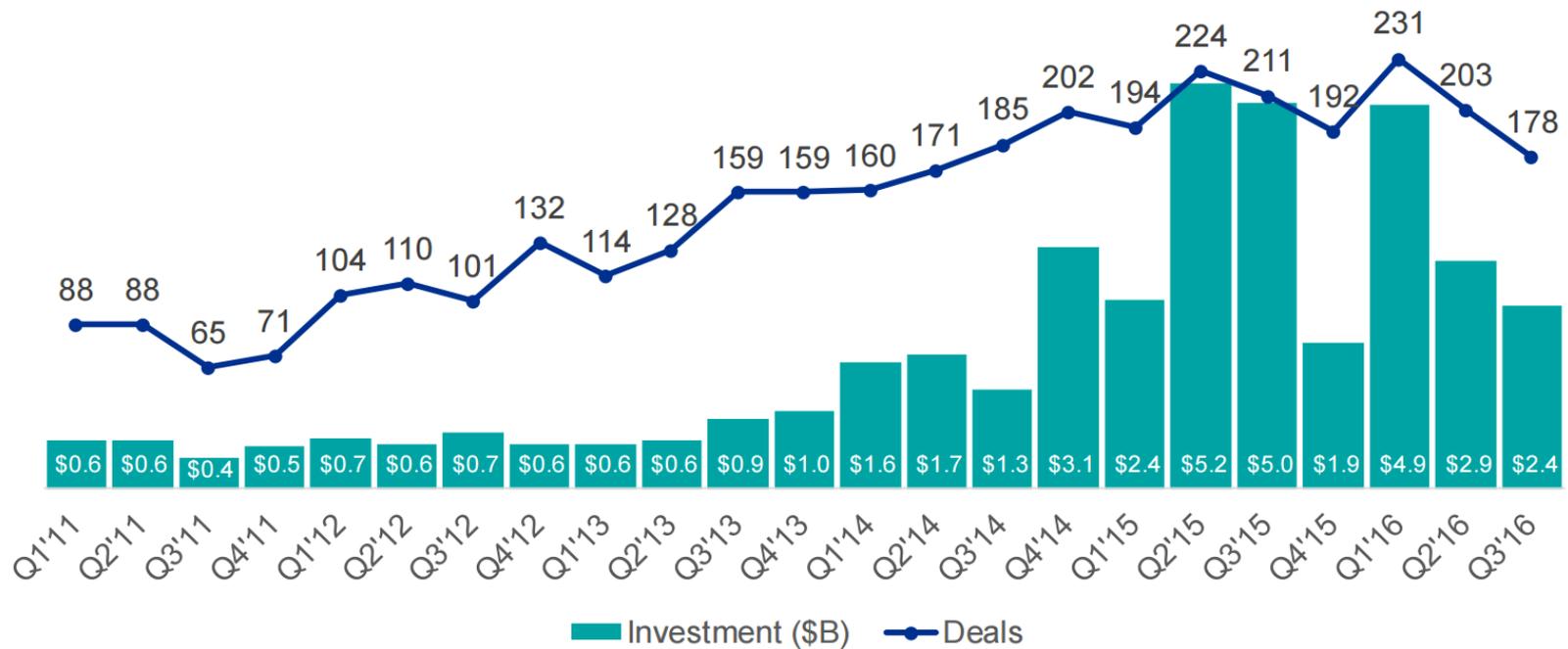
Forget the manichaeist battle

- 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

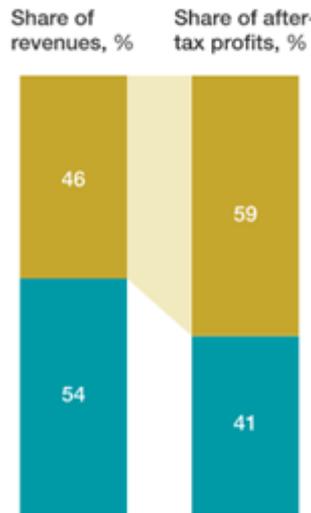
Global investment in fintech is slowing down



IMPACT ON PROFIT POOLS

New business models address high-return niches

■ Origination and sales
■ Balance-sheet provisioning¹



Fintechs are often focused on origination and sales activities, which are less regulated and offer higher ROE



¹Revenues generated by carrying loans and other assets already sold and sitting on the books.
²Asset management includes investment and pension products. Only insurance sold by banks is included.
 Source: Analysis and data provided by Panorama (a McKinsey Solution)

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

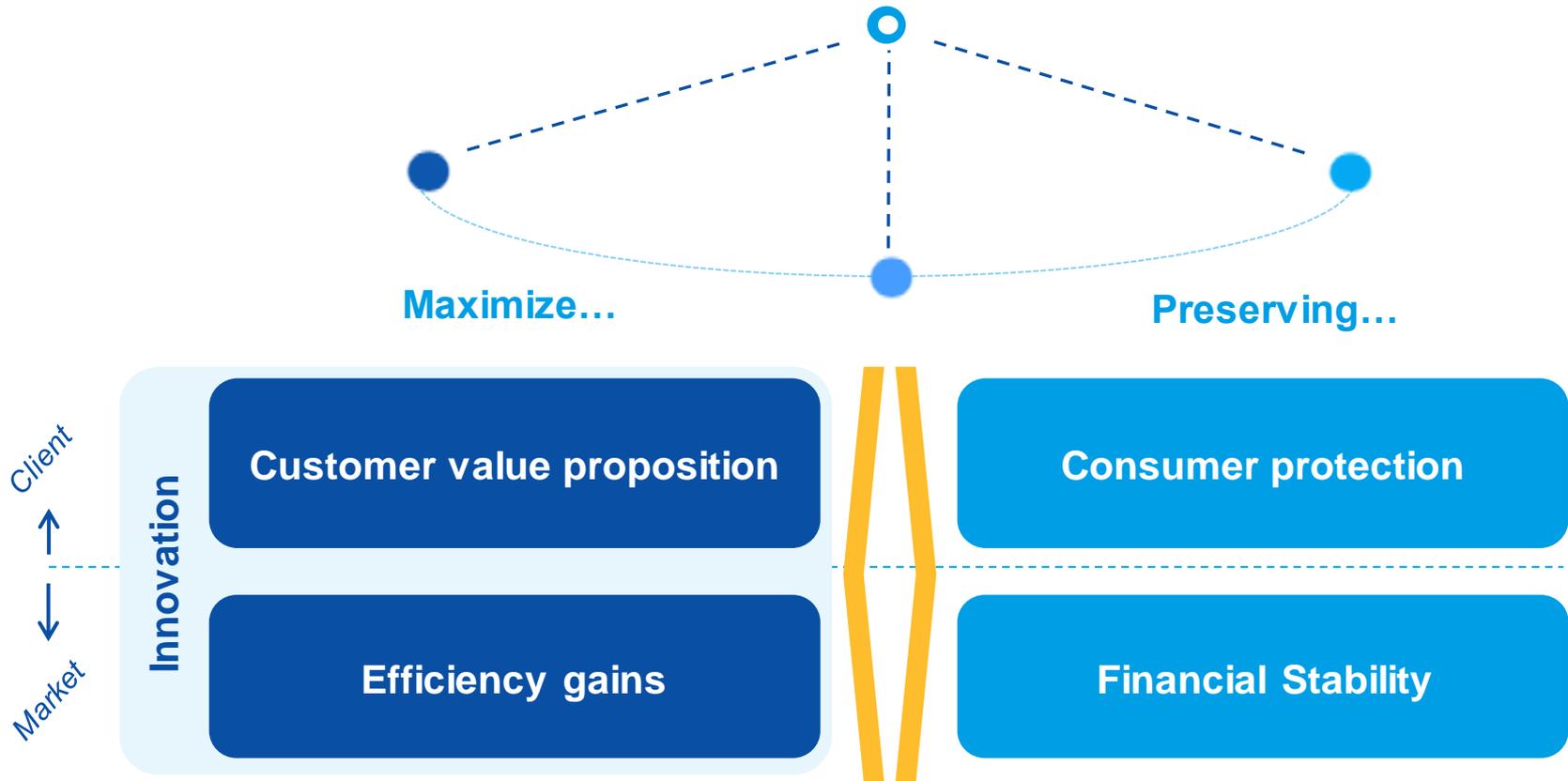
Consumer surplus

Profit pools

Automation of jobs

THE ROLE OF REGULATION

Challenges to the current regulatory framework



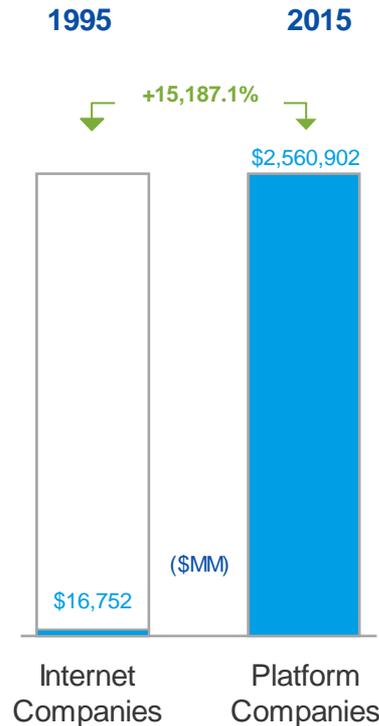
Similar products or services should receive equivalent regulatory treatment, without jeopardizing the potential of new technologies to improve customer experience

THE PLATFORM ECONOMY

Are digital platforms the future of fintech?

Market Cap Valuations — Dotcom vs. Platform Companies

- Internet Companies
- Apple
- Axel Springer
- Copart
- Fox Communications
- IAC/InterActive Corp
- iLive
- iStart Internet
- Live Microsystems
- Netcom Online
- Netscape
- PSINet
- RentPath
- Storage Computer Corp.
- Wave Corporation
- Web.com



Tech Companies and Born-Digital Organizations

- Alibaba
- Alphabet
- Amazon.com
- Apple
- Baidu
- eBay
- Facebook
- JD.com
- LinkedIn
- Netflix
- Priceline.com
- Salesforce
- Tencent
- Twitter
- Yahoo!

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

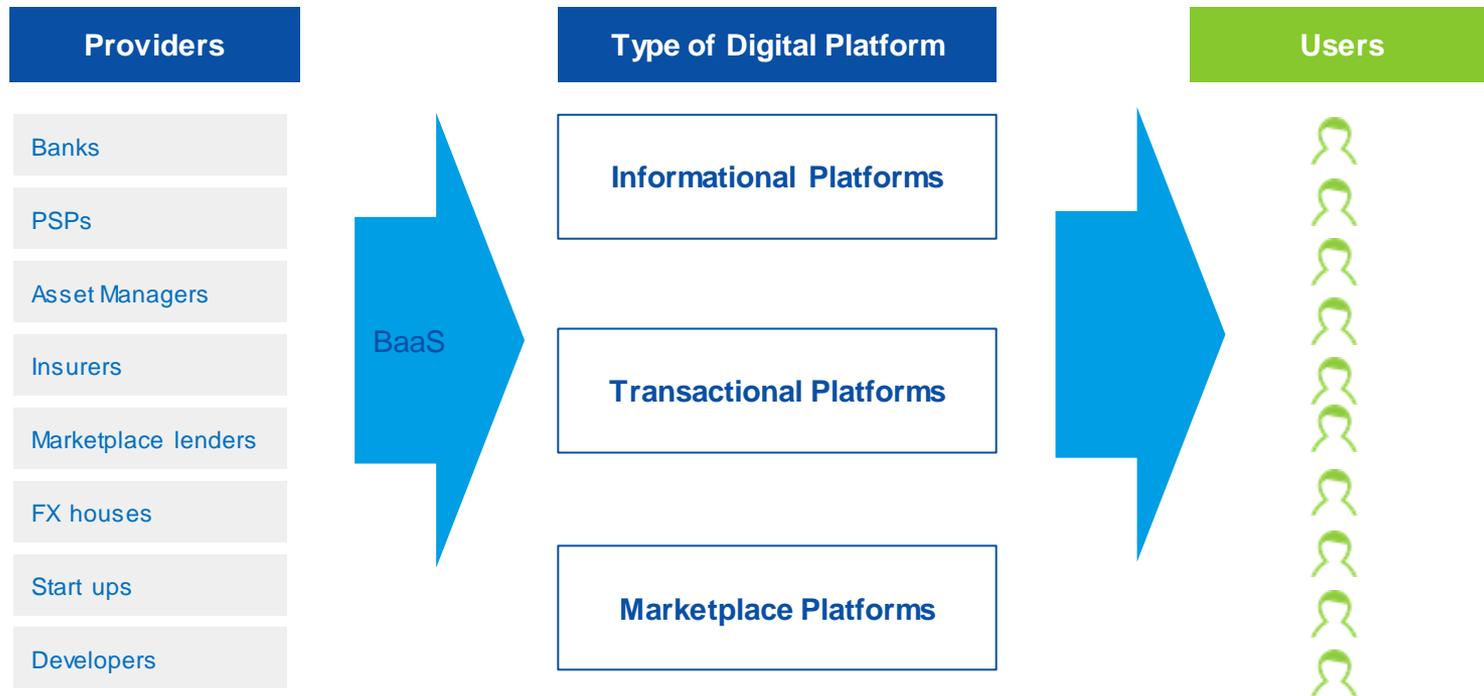
Market Cap of Private 'Unicorn' Companies: **\$500 billion**

TOTAL
\$3+ trillion

Source: Accenture (2015)

A CONCEPTUAL FRAMEWORK

Economics of digital platforms in financial services



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