

# Fintech: opportunities and challenges for banks and regulators

Vienna, May 30th 2017

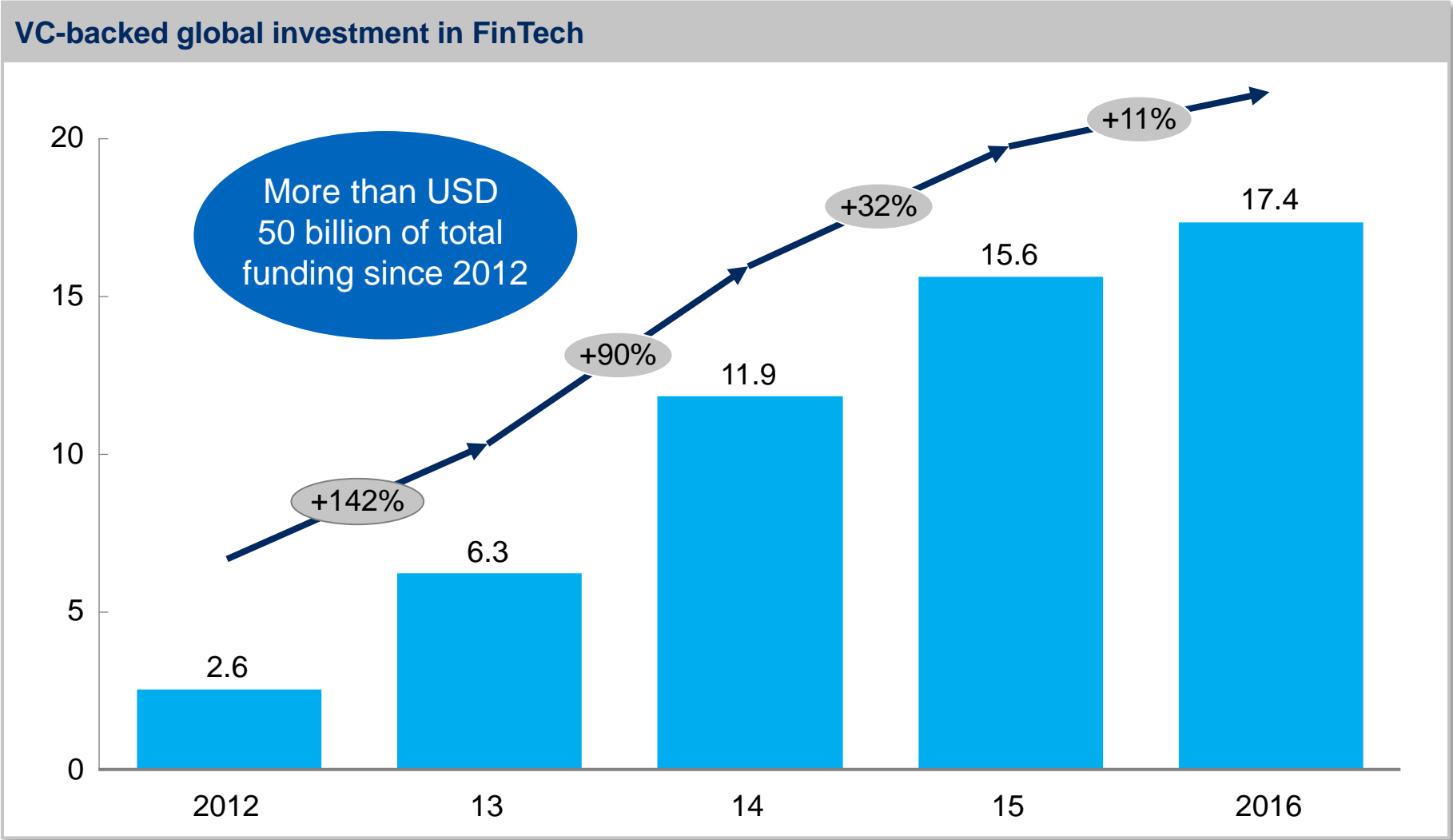
# Agenda

- Fintechs: setting the scene
- B2B or B2C?
- Impact on sector economics

# FinTech startups started the disruption wave and received a spectacular amount of funding

USD billion

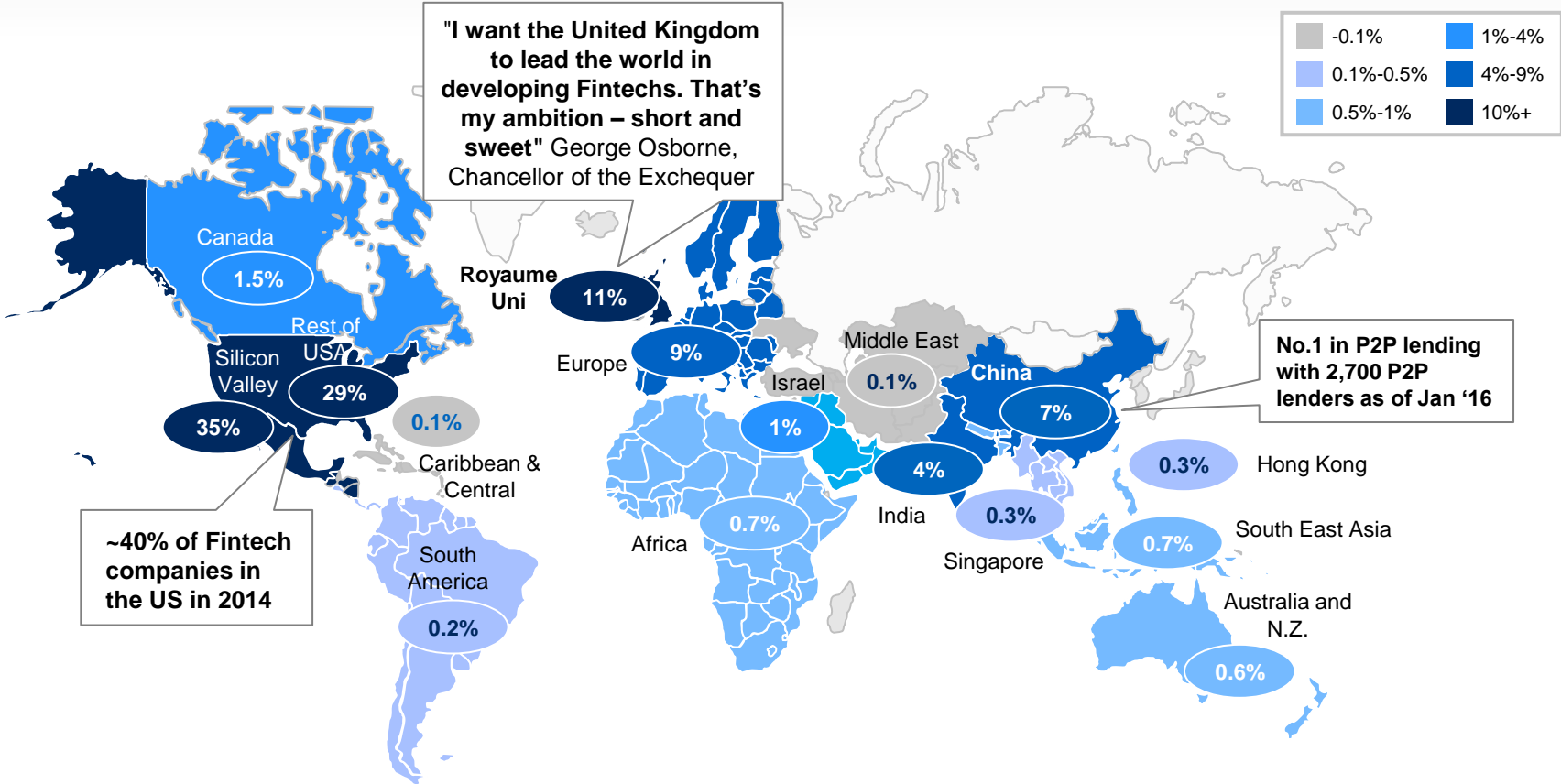
ESTIMATE



# EU27 represents 9% of global Fintech Investments

## Global Fintechs investment distribution (2010–2015)

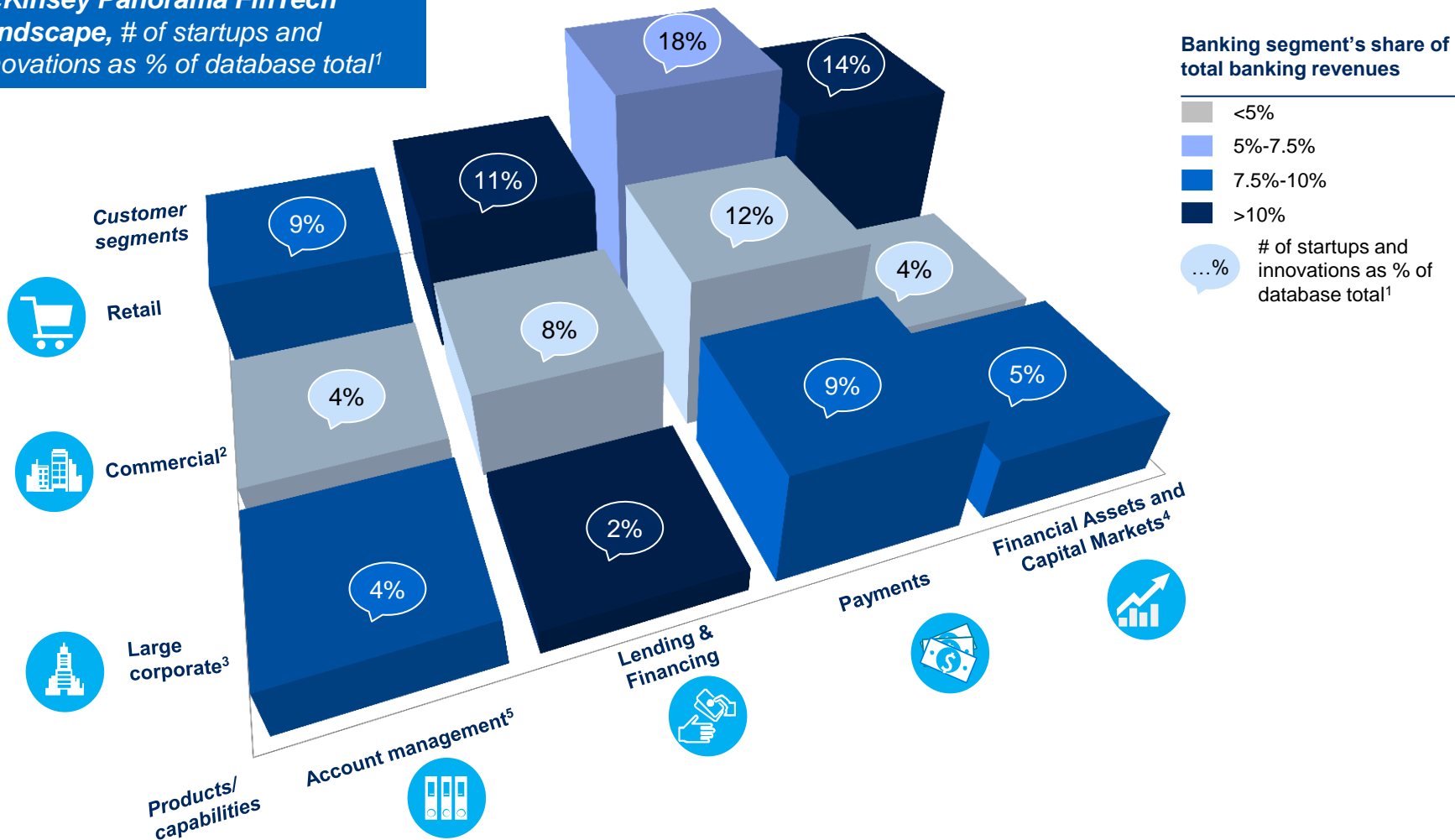
Percent



# 52% of Fintech investments focus on retail banking

ESTIMATES

**McKinsey Panorama FinTech Landscape, # of startups and innovations as % of database total<sup>1</sup>**



<sup>1</sup> 1,050+ commercially most well-known cases registered in the database, might not be fully representative

<sup>3</sup> Including Large corporates, Public Entities and Non-banking financial institutions deposits and asset management factory

<sup>2</sup> Includes Small-, and Medium Enterprises

<sup>4</sup> Includes Investment Banking, Sales and Trading, Securities services, retail investment Non-CA

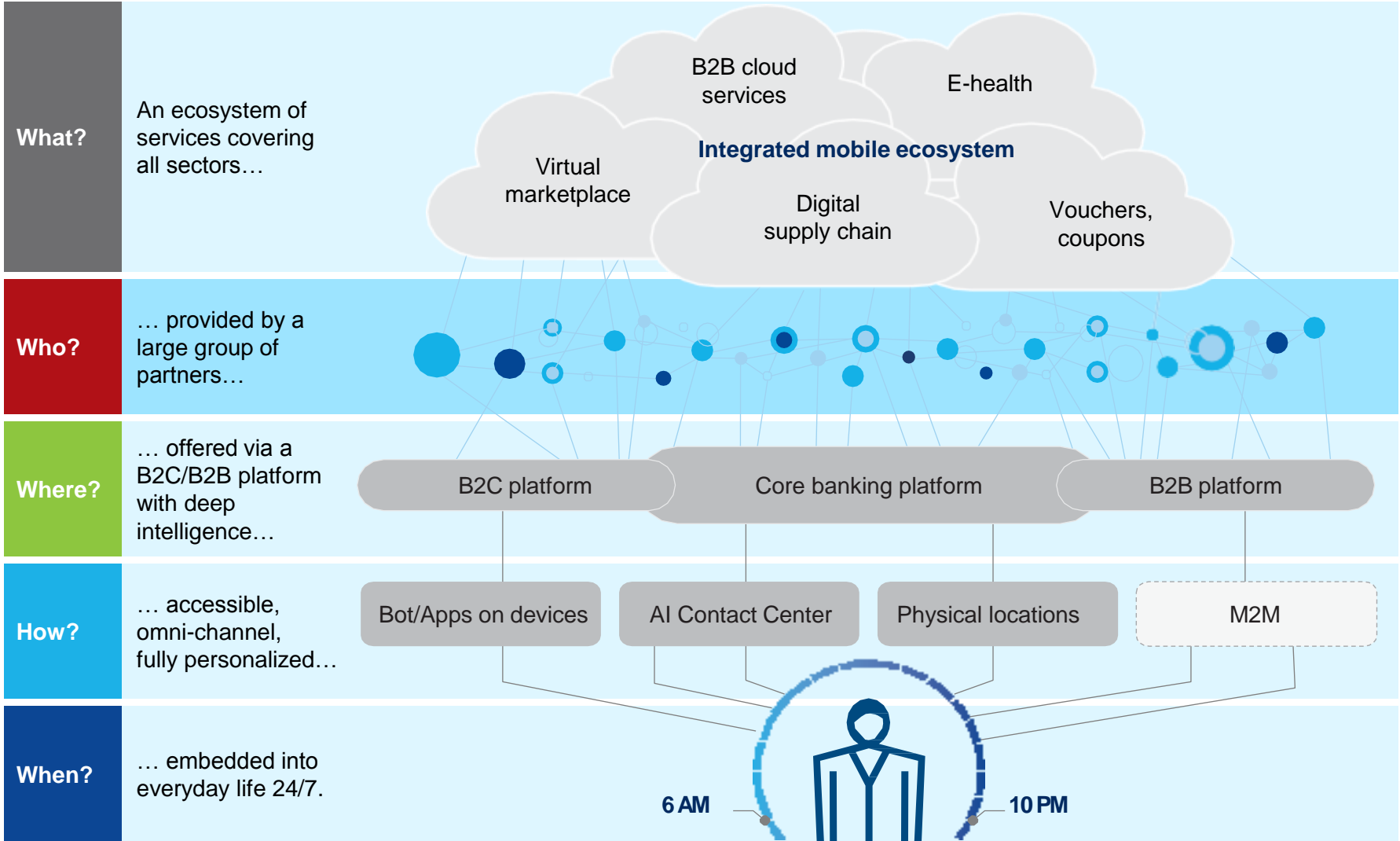
<sup>5</sup> Includes retail CA deposit revenue and corporate CA and non-CA deposits

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# The role of Fintechs in retail banking

## Customer perspective—summary of long-term business vision



# Customer expectations as to how we pay have changed radically over the last 15 years

Amazon illustration

## Early 2000s Card-entry

Pay with a debit or credit card  
If you don't have a PayPal account

Country:

Credit Card number:

Expiration Date:  /  CSC:

First name:

Last name:

Billing Address Line 1:

Billing Address Line 2 (Optional):

Zip code:

Customers consciously chose which card to use



## 2010 – present One-click checkout

Qty:

Add to Cart

or 1-Click Checkout

Buy now with 1-Click®

Order within 6hr 9min to get it:

Thu by 9pm +5.99	Fri Free
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Ship to:  
Puneet Dikshit- NEW YORK ▾

Customers & merchants now prefer a “one-click” checkout experience...



## Emerging since 2015 Omni-device



Digital shopping moving to non-screen based interfaces



## Future outlook Auto-purchase



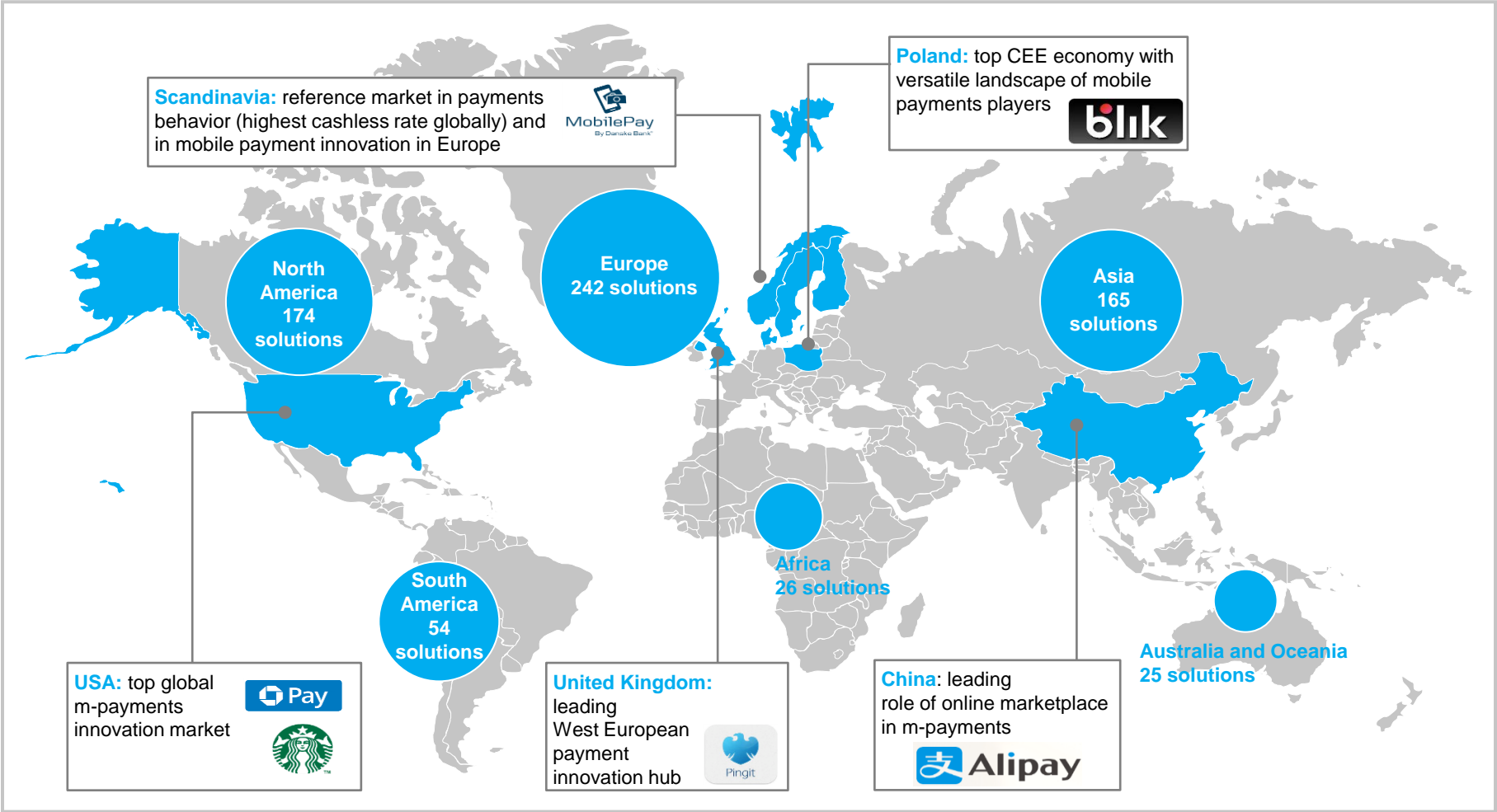
Almost entirely takes away consumer’s involvement in the payment process

1 Illustration for the US



# ~690 mobile payment Fintech attackers already identified across the Globe...

● Size of the bubble indicate number of m-payments solutions identified within McKinsey database



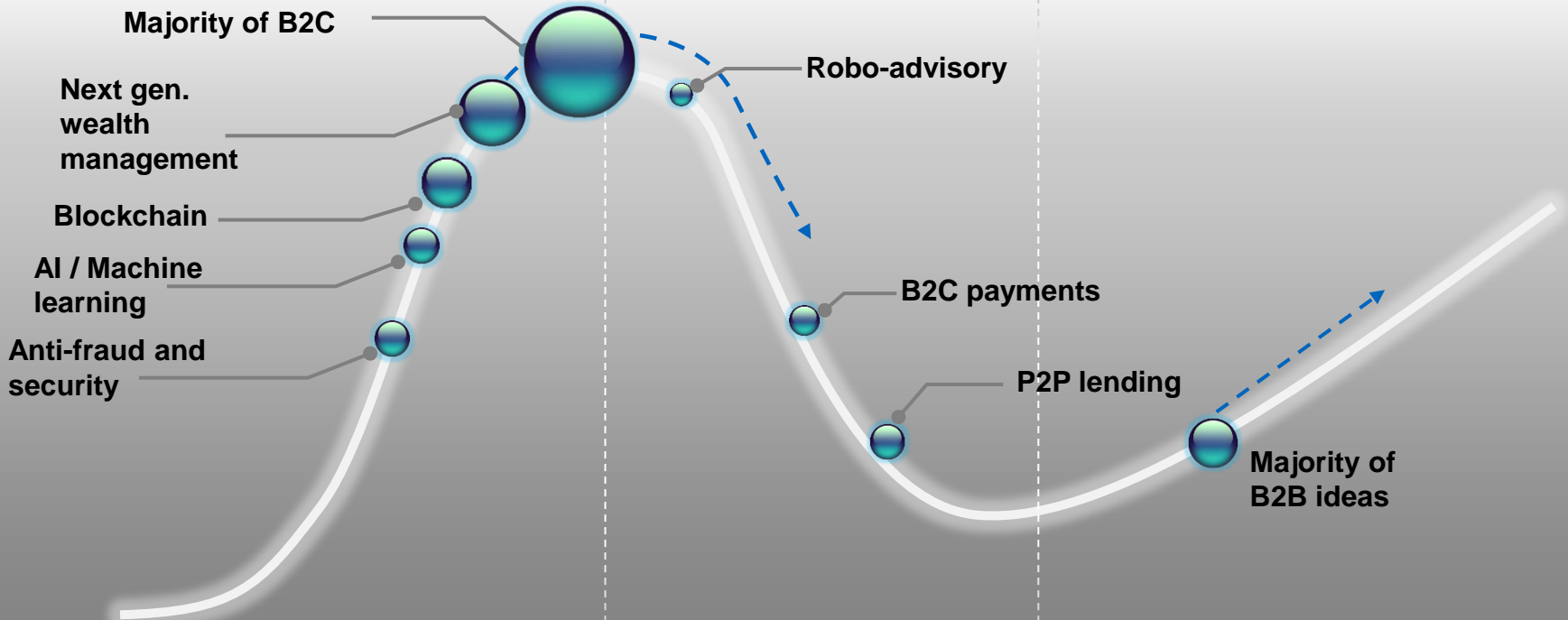
# .... but where are we on the hype curve?

ILLUSTRATIVE

## The "HYPER" phase

## The "BUST" phase

## The "ENLIGHTENMENT" phase



### Examples of winning banking strategy

- Follow trends
- Make small, early bets
- Manage public profile, investor communication
- Build partnerships, but not large investments
- Run arm's length with innovators

- Pick up opportunities at the bottom
- Play "self-fulfilling prophecy" pipe deals
- Invest and divest actively
- Bring in top talent from failed companies

- Make major selected investments
- Deeply integrate into core operations
- Start second wave of acquisitions

# Three reasons why now is the time to look beyond the B2C FinTech hype, and focus on the valuable B2B side

**1**

B2B FinTechs are centered around the major market drivers:

- Cost
- Control
- Capital
- Compliance



**Touches all aspects of the FinServ value chain**

**2**

B2B FinTechs are centered around providing banks and other financial players with technology.



**Prone to partnership and collaboration models**

**3**

This year's funding is expected to shift from angel to later-stage backing.



**Maturing industry.**

# Fintechs and banks are increasingly moving towards working together through partnerships

**Banks**



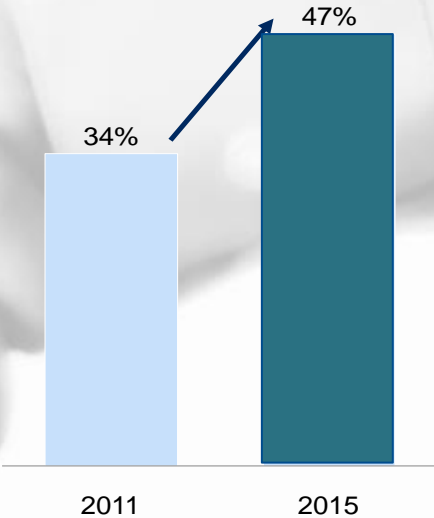
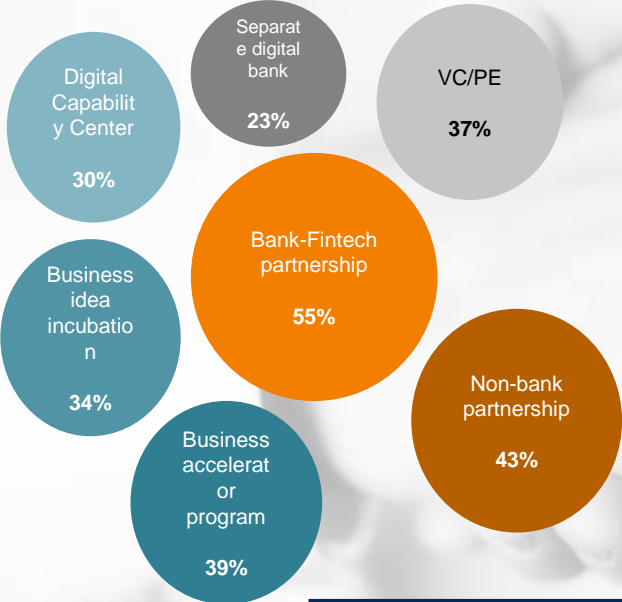
**Fintechs**

52% of the top 100 banks are already in active partnership with Fintechs...

... While the share of FinTechs having a B2B business model has increased from 34% to 47%

**Banks by innovation solution, % of banks<sup>1</sup>**

**Share of FinTechs<sup>2</sup> with a B2B business model**



The share of B2C Fintechs working with banks has also been increasing through customer referrals and other setups

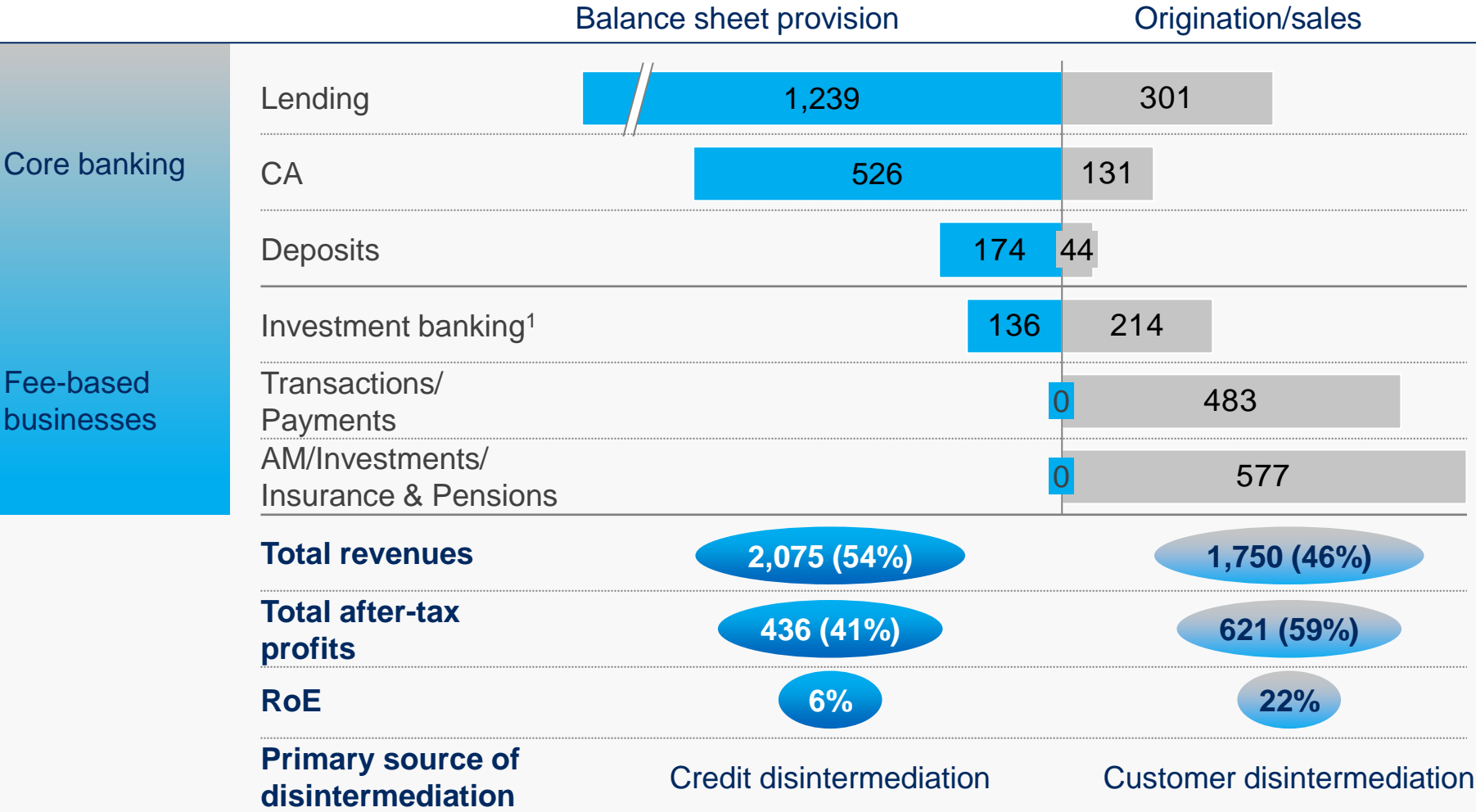
<sup>1</sup> Based on a survey covering the top 100 banks; Percentage includes all banks that have initiatives in a certain category  
<sup>2</sup> Based on a sample of ~ 600 FinTechs included in the database

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# Customer disintermediation targets the most profitable activity in banking – origination and sales account for ~60% of global banking profits

2014 revenue before risk cost, \$ billion



<sup>1</sup> Corporate finance, capital markets, securities services

# Fee-based businesses likely to experience the largest margin reductions

**Fee and margin reduction in revolutionary digitization scenario**

Percent

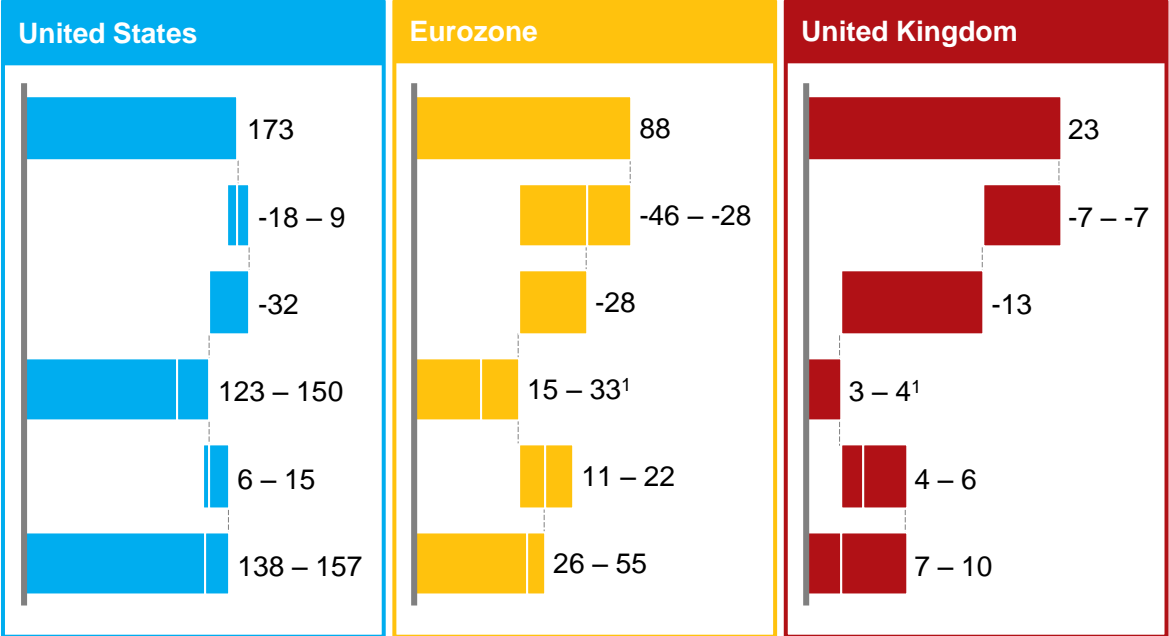
0-3% 3-10% 10-20% 20%+

		U.S.	U.K.	China	Japan	Eurozone	Other developed	Eastern Europe	MEA	Latin America	Other EM Asia
<b>Retail</b>	Consumer finance	13.9	13.8	7.7	25.1	9.7	10.5	11.3	2.3	11.1	3.4
	Mortgage	2.5	5.1	1.0	4.4	3.7	3.2	1.0	0.2	1.6	0.6
	Checking deposits	1.0	1.4	0.4	1.4	0.6	0.9	0.3	0.1	0.1	0.0
	Term deposits	3.8	5.1	0.0	5.1	3.9	3.9	5.5	1.5	8.9	2.3
<b>Corporate</b>	Cash management	0.5	0.7	0.2	0.7	0.5	0.5	0.2	0.1	0.1	0.1
	Corporate lending	0.7	0.9	0.8	0.7	0.7	0.7	0.6	0.1	0.1	0.2
<b>Payments</b>	Payments	17.3	23.6	8.6	23.6	18.1	18.0	8.6	2.3	3.6	3.6
<b>WM</b>	Asset/wealth management	16.6	21.7	3.9	21.7	16.6	16.6	3.9	1.1	1.6	1.6

# Potential profits at risk and implied cost gaps in developed market banks

Changes in profitability from 2 secular forces, 2015-20

\$ billion



Cost gap to reach	United States		Eurozone		United Kingdom	
	Gap \$ billion	As % OPEX	Gap \$ billion	As % OPEX	Gap \$ billion	As % OPEX
2015 profits	-35 - -16	-10 - -5	-52 - -45	-14 - -12	-16 - -14	-11 - -12
8% cost of capital	-16 - 3	-5 - 1	-132 - -139	-38 - -36	-53 - -51	-41 - -39
10% cost of capital	-54 - -35	-16 - -11	-183 - -176	-50 - -48	-68 - -66	-51 - -52

<sup>1</sup> In consensus and flat view, including evolution to withstand the negative effects of low interest rates and digitization

<sup>2</sup> Pro-forma 2020 profit is 2015 profit net of interest-rate and digital effects. Should profits grow strongly, banks will be better able to withstand the negative effects of low interest rates and digitization