

The next 10 years in Fintech

Barcelona, March 2016



Index

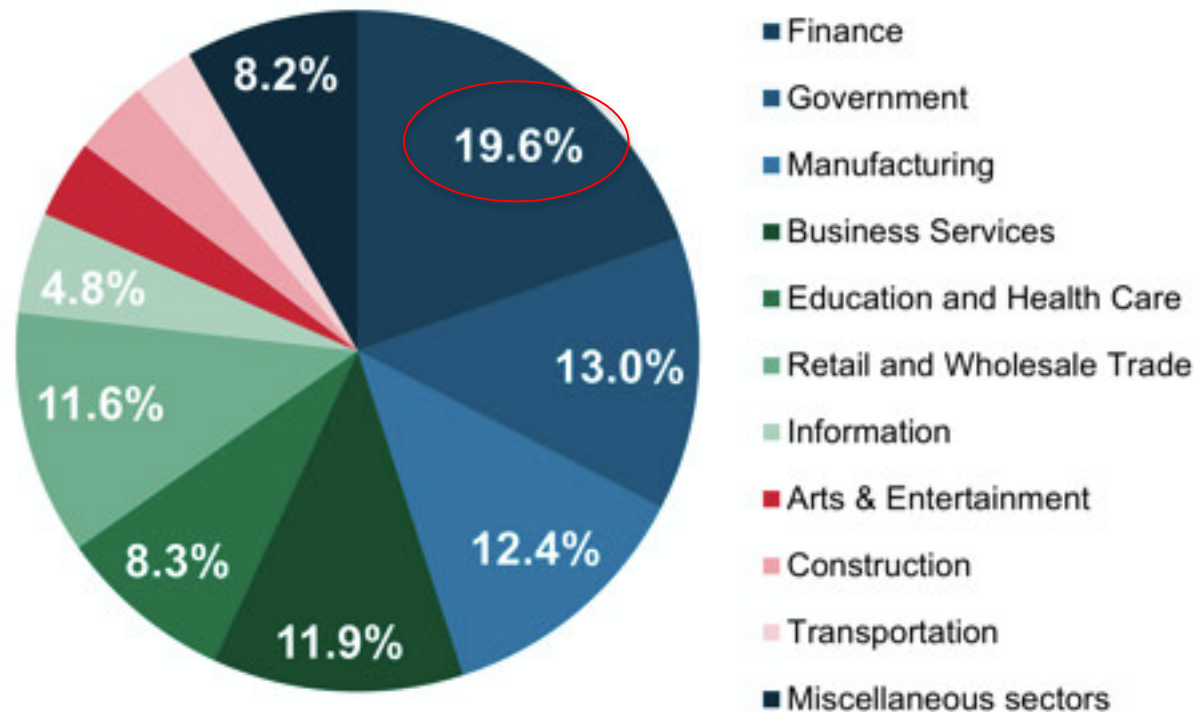
1. The Fintech tsunami
2. Fintech banks
3. What banks can do to adapt and survive
4. A co-petitive eco-system starts emerging

The Fintech tsunami

Finance, one of the largest industries ever disrupted

GDP by Industry

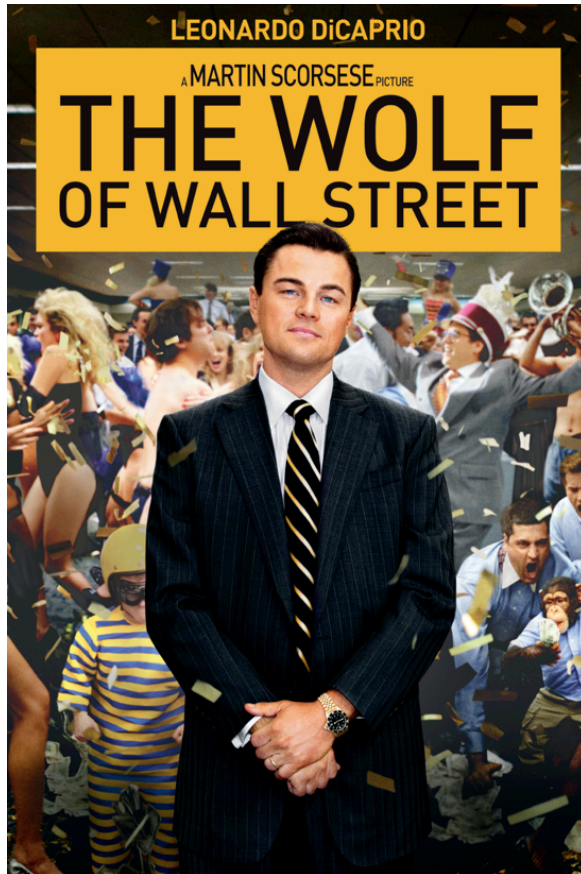
Finance remained the nation's top industry in 2013, while government was no. 2 despite efforts to roll back spending.



Source: Commerce Department | WSJ.com

The Fintech tsunami

An industry with many pain points



Opacity

Overpricing

Unfair behaviours / products

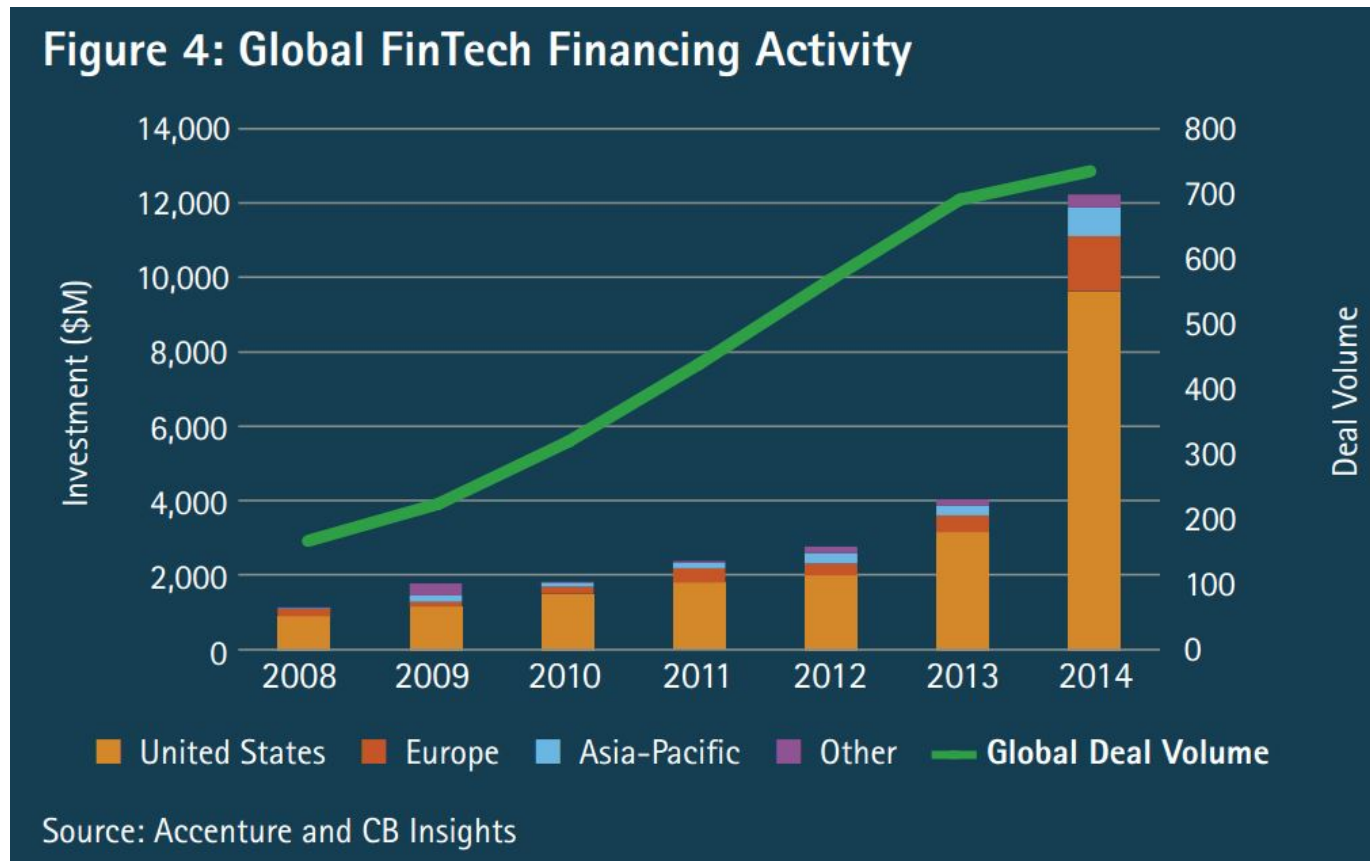
Bad user experience

Systemic risk

“Too big to fail / jail”

The Fintech tsunami

Massive Fintech investments globally to disrupt the industry



The Fintech tsunami

Fintech attacking verticals on UX, prices, transparency...

Unbundling of a European Bank

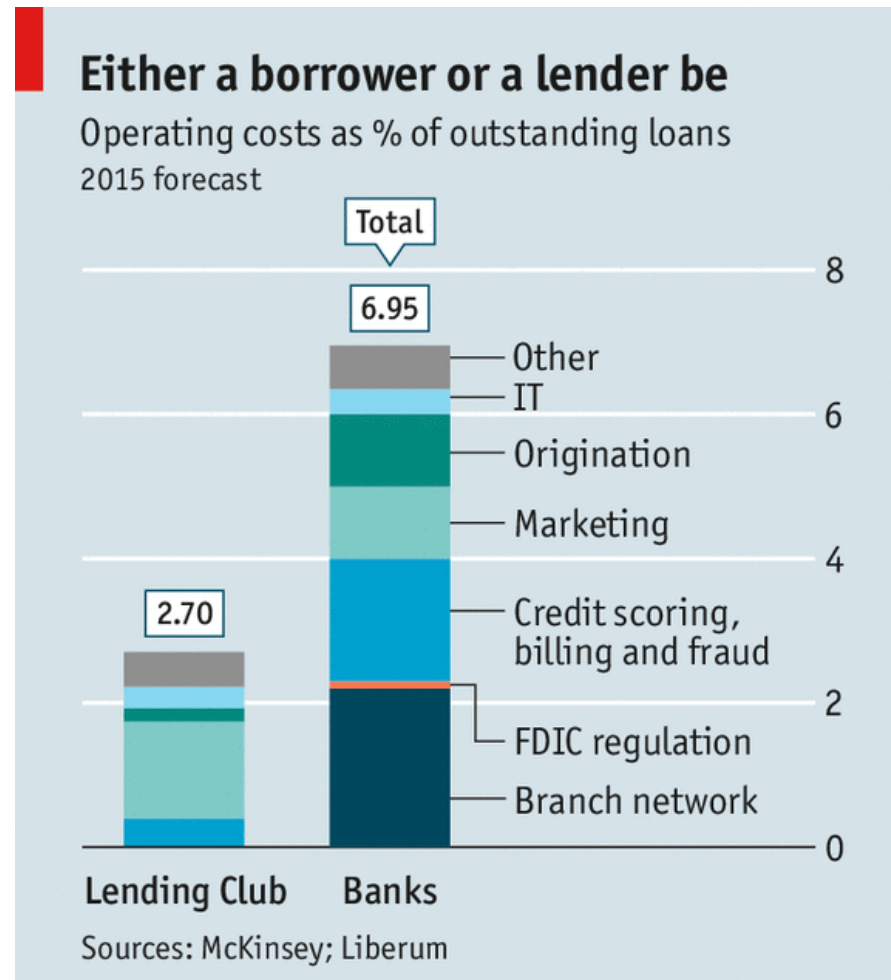
Logos and services shown include: SavingGlobal, borro, Bondora, Zopa, LENDING WORKS, prèt d'union, Lendico, fruitful, LANDBAY, Property Partner, wonga, Spotcap, Funding Circle, FINEXKAP, fleximize, iwoca, copiota, Trade River, LYDIA, jusp, ensygnio, payleven, SavingGlobal, ffrees, osper, CENTRALWAY, SQUIRREL, nutmeg, wikifolio, eToro, tink, CAPITAL, Money Dashboard, moni, transferGo, worldremit, kantox, CurrencyFair, Klarna, adyen, sum up, iZettle, BILLPAY, GOCARDLESS, PAYMILL, and CB INSIGHTS.

HSBC website sections: Personal, Business, Everyday banking, Borrowing, Investing, Insurance, Planning, Send money overseas in a few clicks, Find a mortgage, Our lowest ever loan rate, Save Together offer, International money transfer.

CB INSIGHTS website sections: Business Banking, Commercial Banking, Corporate Banking, International Business, Online Services, Every business has its own story, Discover products and services for your banking needs, Get in touch, Call us on 0800 731 8904, Find a branch and book an appointment, Retrieve application, Retrieve an online application you have already started.

The Fintech tsunami

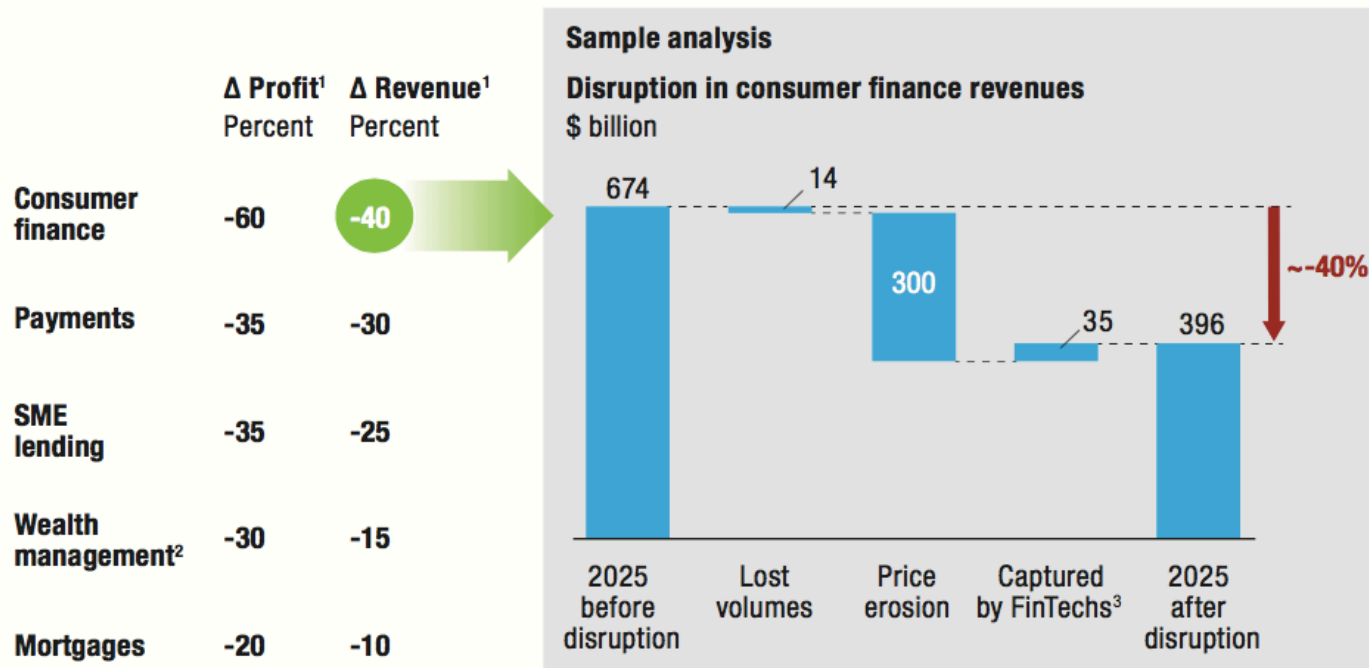
... and efficiency



The Fintech tsunami

Fintech would reduce banks revenues and profits by up to 40% and 60% over the next decade

Estimated impact of FinTech disruption on five retail businesses, 2025



¹ Compared to 2025 projections without the impact of Fintech and digital attackers; profit numbers include the impact of savings on operating costs as a result of digital; revenues are after risk cost, profits are after tax; figures are rounded.

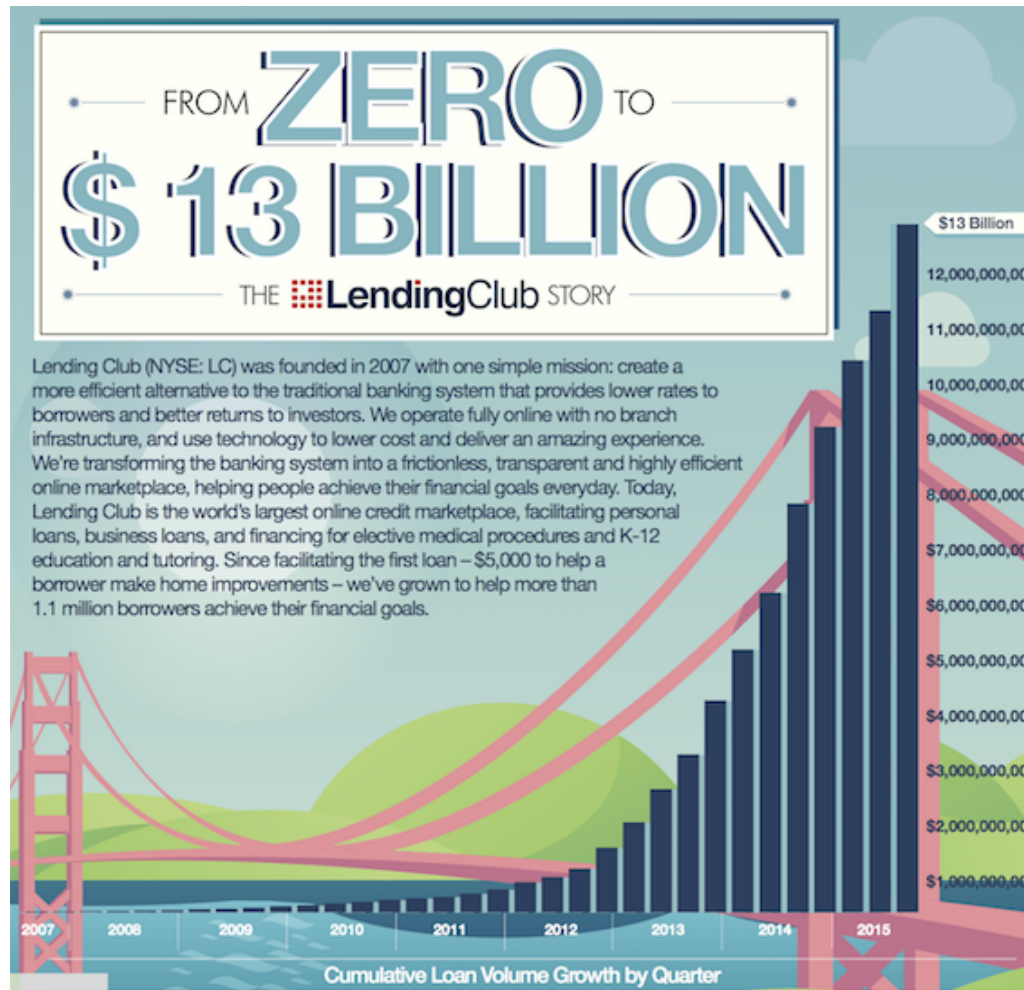
² Excluding deposits

³ Includes currently unbanked segments

Source: McKinsey Panorama

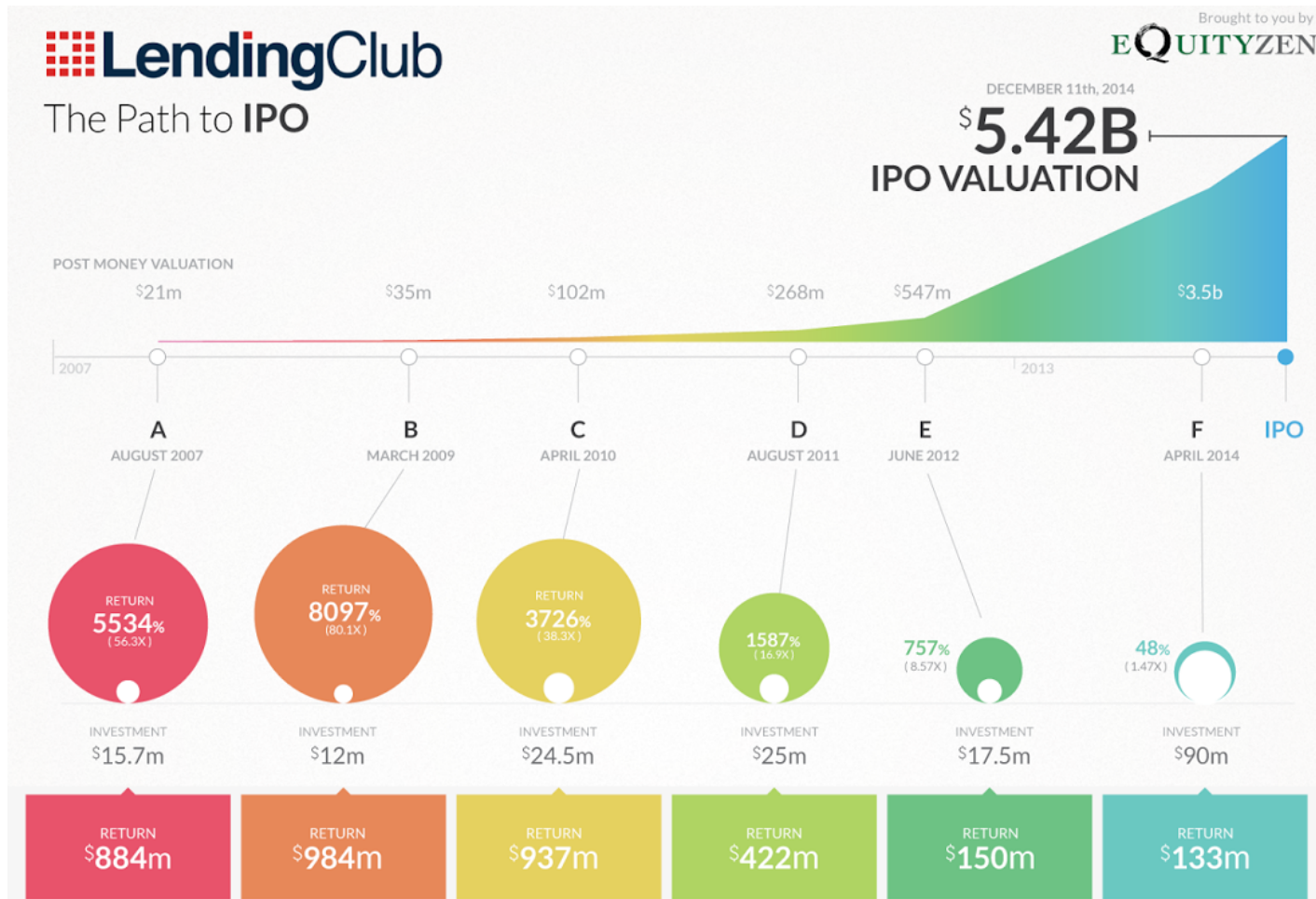
The Fintech tsunami

Success stories...



The Fintech tsunami

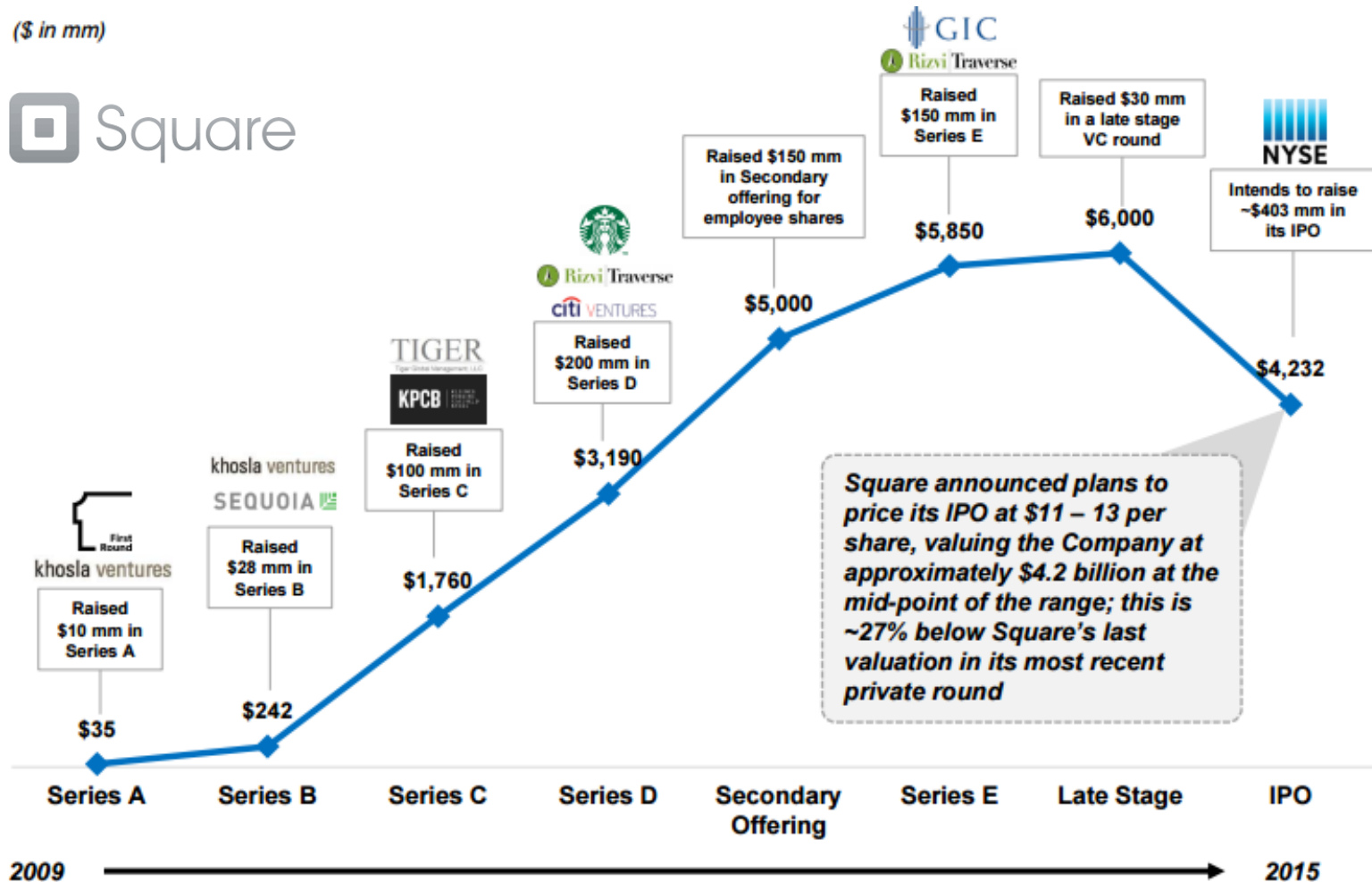
... unicorns ...



The Fintech tsunami

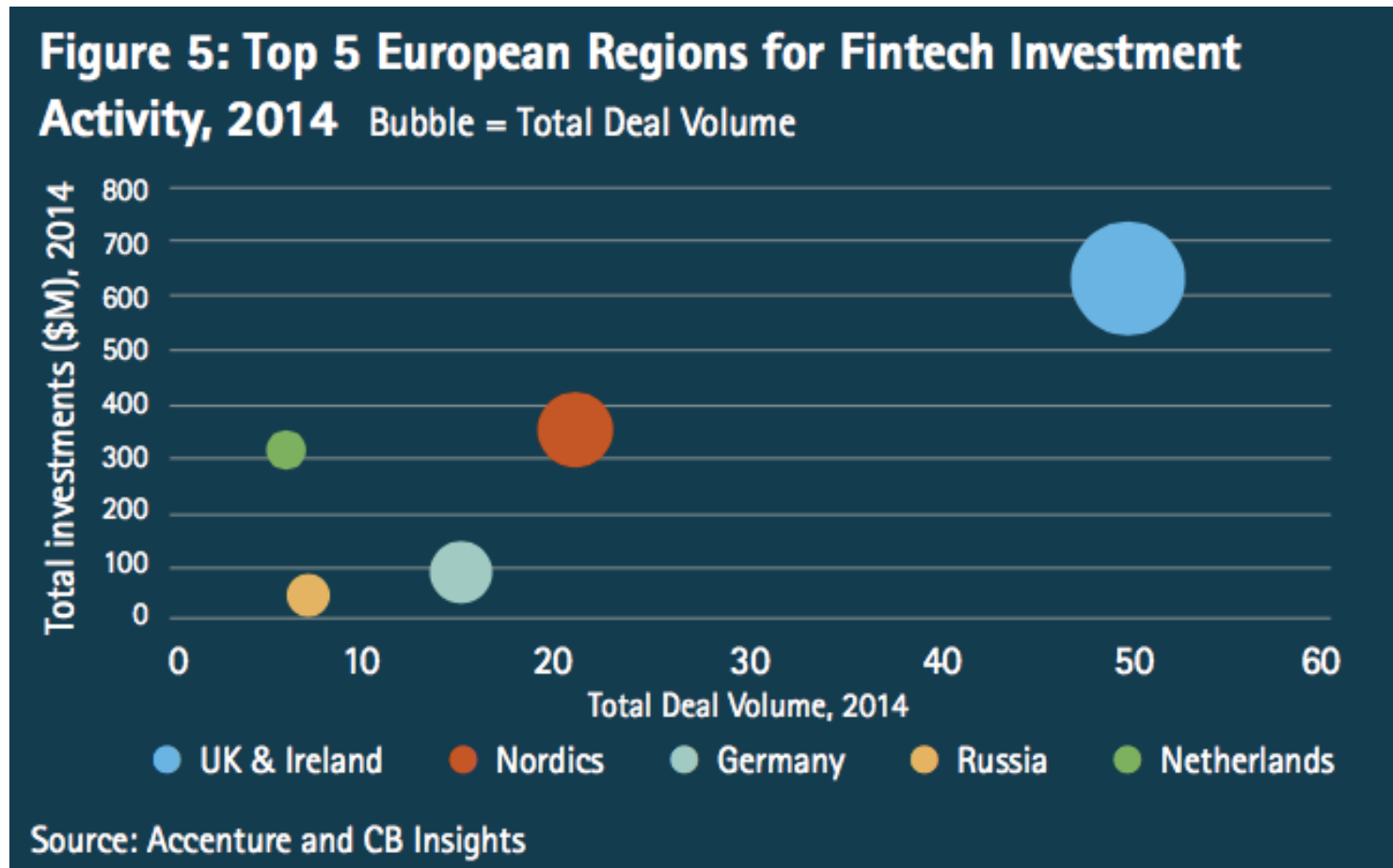
... and bubble

(\$ in mm)



The Fintech tsunami

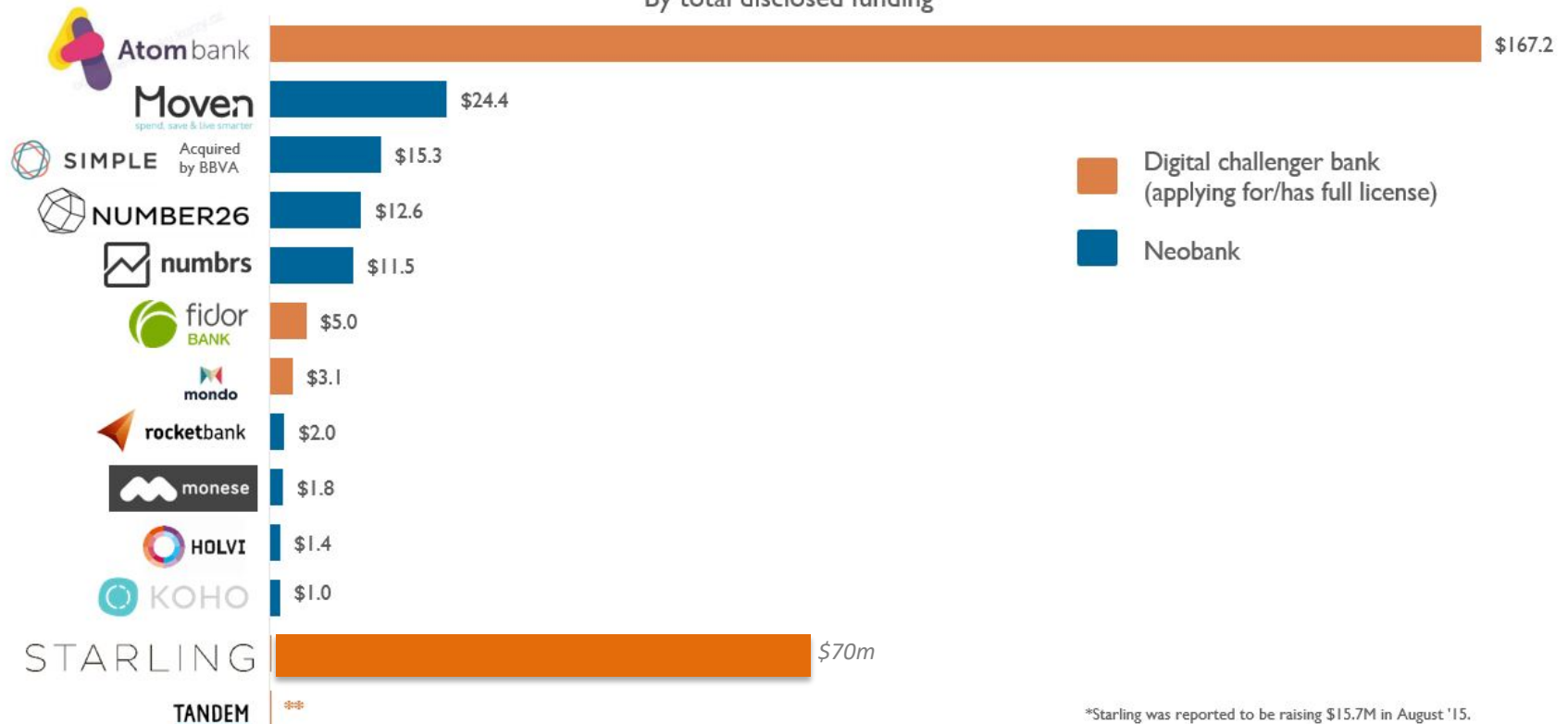
London, the US (and China) leadership



Fintech banks

Fintech banks: build from scratch, no legacy, no branches, mobile 1st, with(out) banking licence

Notable Digital Challenger Banks & Neobanks
By total disclosed funding

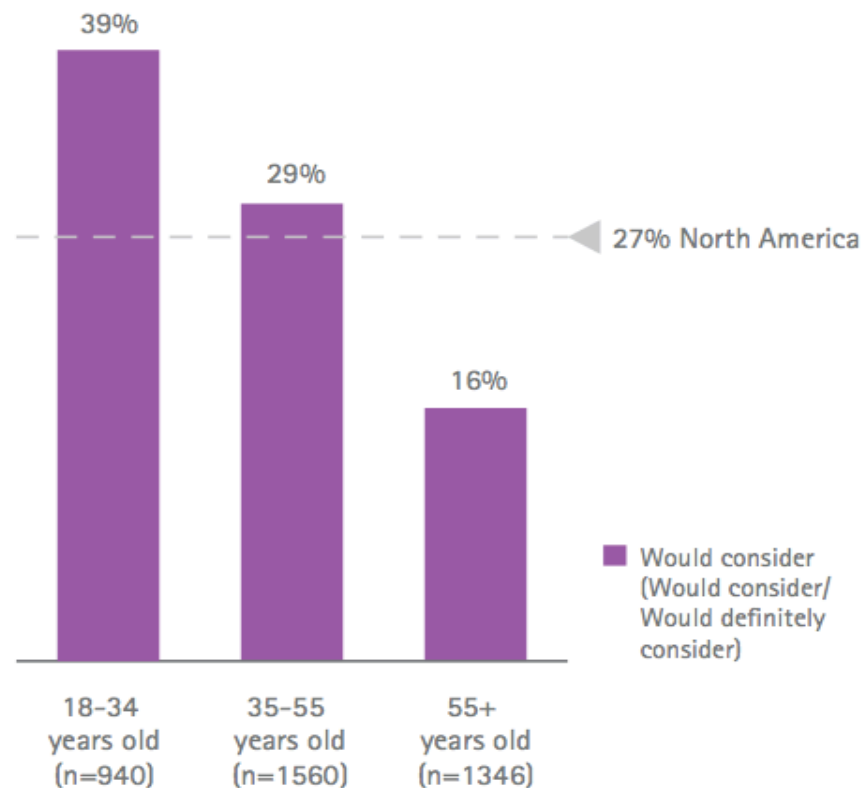


*Starling was reported to be raising \$15.7M in August '15.

Fintech banks

Branchless banking is gaining acceptance

Q: If you were to switch banks, would you consider a bank with no branch locations?

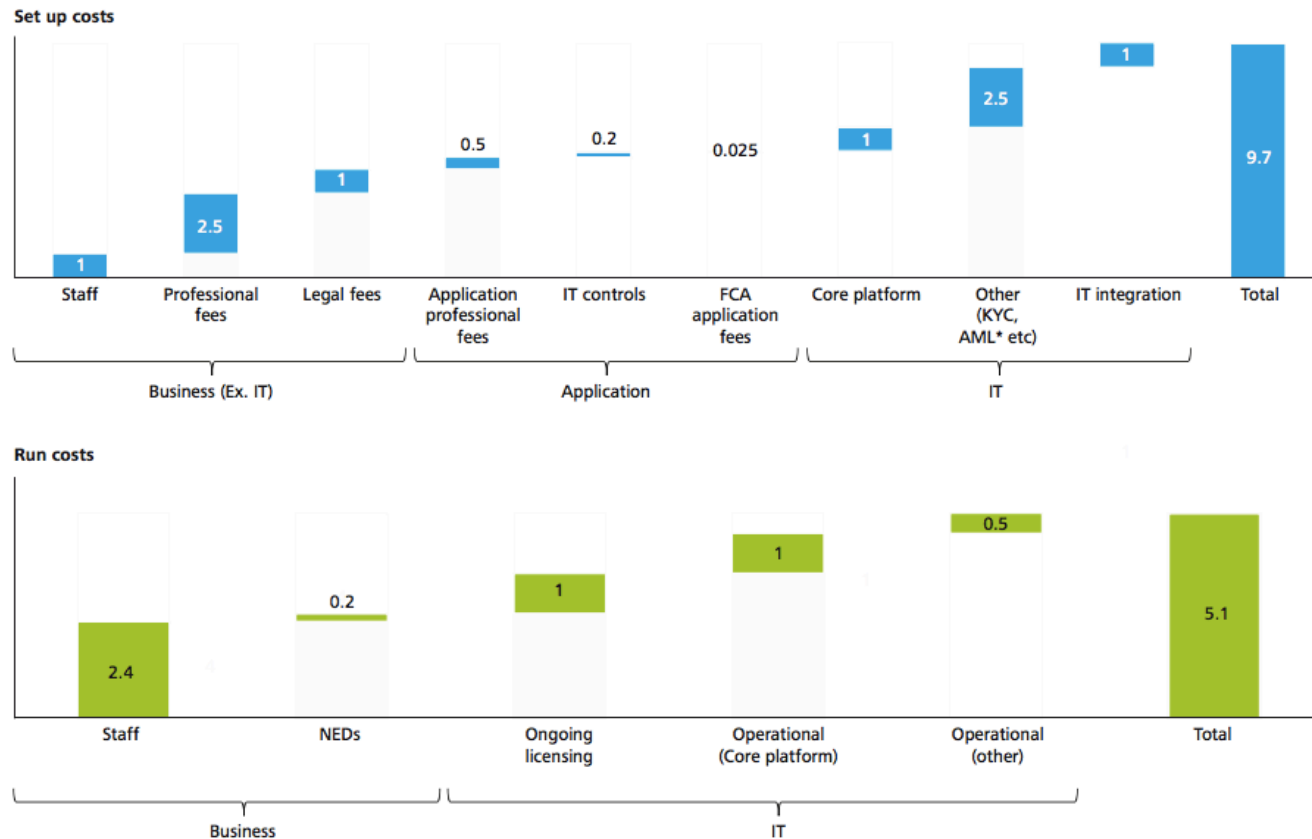


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Fintech banks

Fintech banks are now “low-cost to build... but high quality”

Figure 2. Indicative costs for a new bank (£mn)

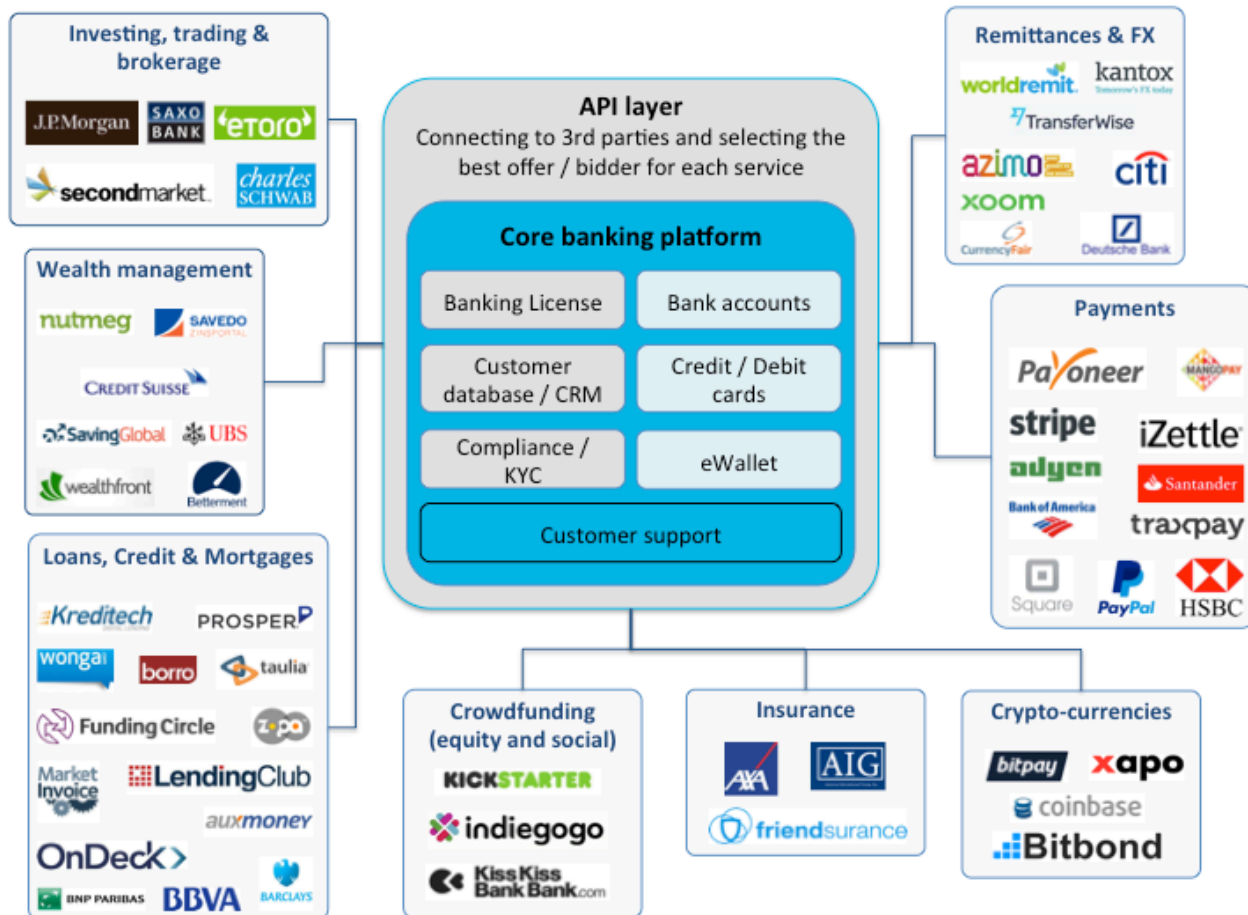


* Know your customer, anti-money laundering

Source: Deloitte analysis

Fintech banks

Marketplace banking: core banking platform + API layer + CRM + KYC + Banking License



Fintech banks

GAFAs will not become banks ... but banks may become slaves of GAFAs

- Not profitable enough (negative impact on market cap)
- Too regulated
- “Slow” growth

Q: If these companies offered banking services how likely would you be to bank with them?
Percent of customers which would likely bank with each non-bank with which they do business.



What banks fear most are GAFAs owning the customer relationship and them becoming the mere white labels at the back end of the process

Fintech banks

Uber is now the largest acquirer of small business bank accounts in the US today

- 30% of Uber drivers in the US have never had a bank account
- To be a driver on Uber, they need a minimum of a debit card to get paid
- Uber has had to solve this problem by allowing drivers to sign up for a bank account as part of the Uber driver application process, in real-time

The next obvious move is to design day-to-day banking into Uber's app (including financing cars, leasing, insurance...)

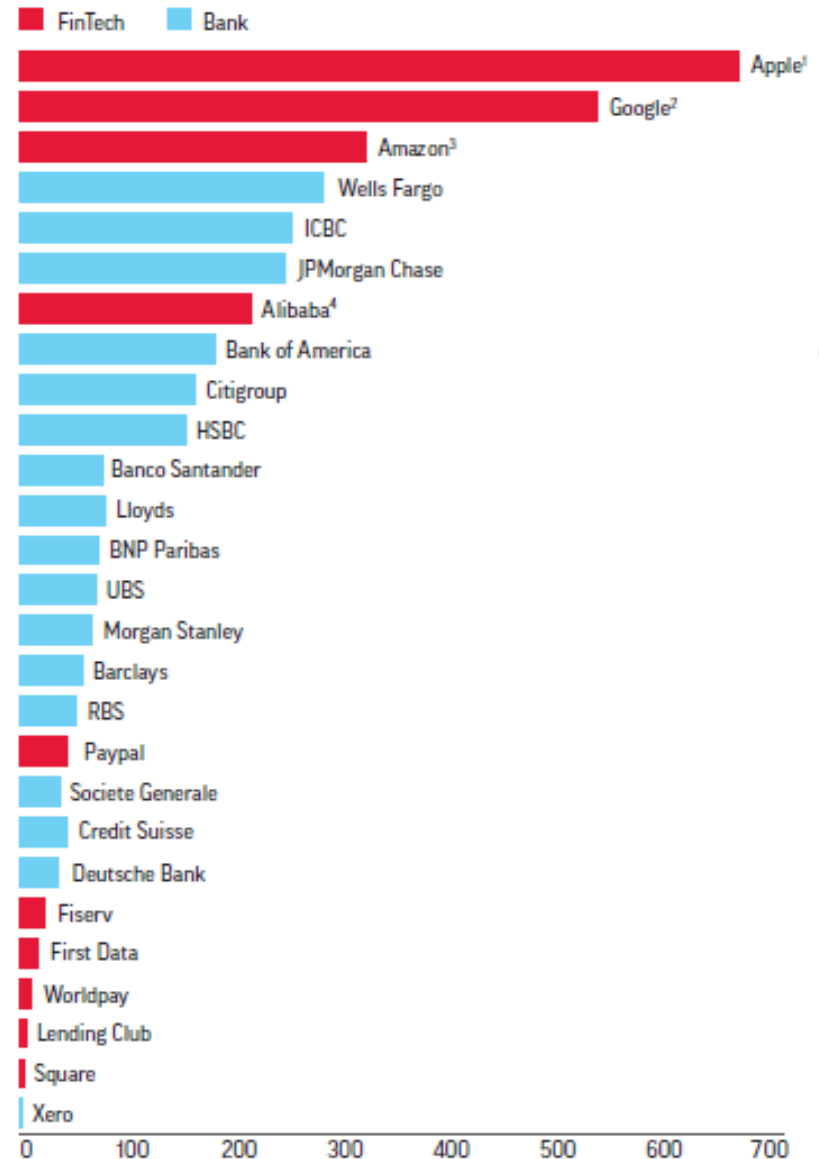
Fintech banks

Banks are frightened by GAFAs financial power and brand image

BRANDZ™ TOP 100 MOST VALUABLE GLOBAL BRANDS 2015

	Brand	Category	Brand Value 2015 \$M	Brand Contribution
1		Technology	246,992	4
2		Technology	173,652	4
3		Technology	115,500	4
4		Technology	93,987	4
5		Payments	91,962	4
6		Telecom Providers	89,492	3
7		Telecom Providers	86,009	3
8		Soft Drinks	83,841	5
9		Fast Food	81,162	4
10		Tobacco	80,352	3
11		Technology	76,572	5
12		Technology	71,121	4
13		Retail	66,375	2
14		Retail	62,292	4
15		Telecom Providers	59,895	4

MARKET CAP OF SELECTED GLOBAL BANKS AND FINTECH COMPANIES



What banks can do to adapt and survive

Do not be in denial...



« Hundredths of start-ups with a lot of brains and money working on various alternatives to traditional banking. They are very good at reducing pain points. We are completely comfortable with partnering where it makes sense »

Jamie Dimon, CEO at JP Morgan Chase



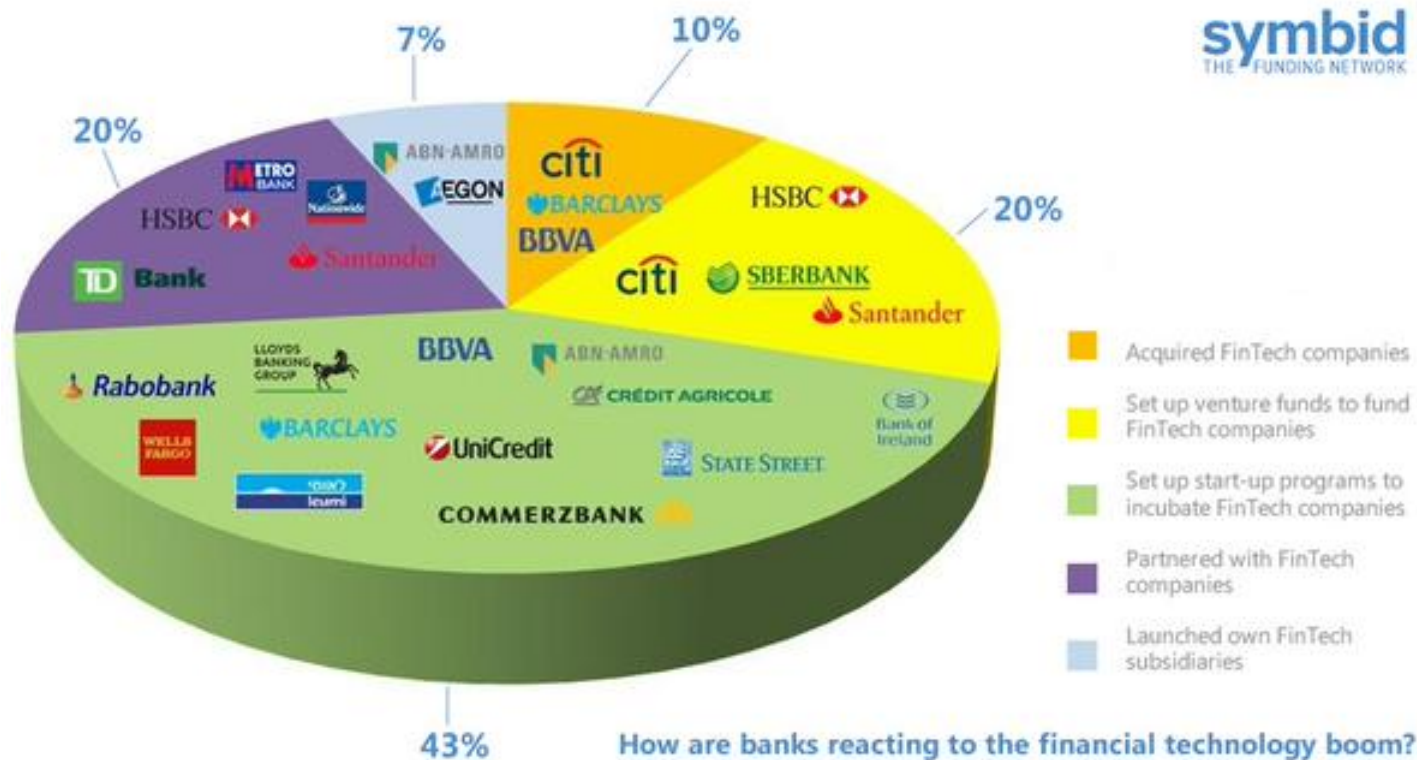
“Uber moment that could reduce headcounts by up to 50%”

«11 big banks have cut a combined 10% of their staff in 2015»

Anthony Jenkins, former CEO at Barclays

What banks can do to adapt and survive

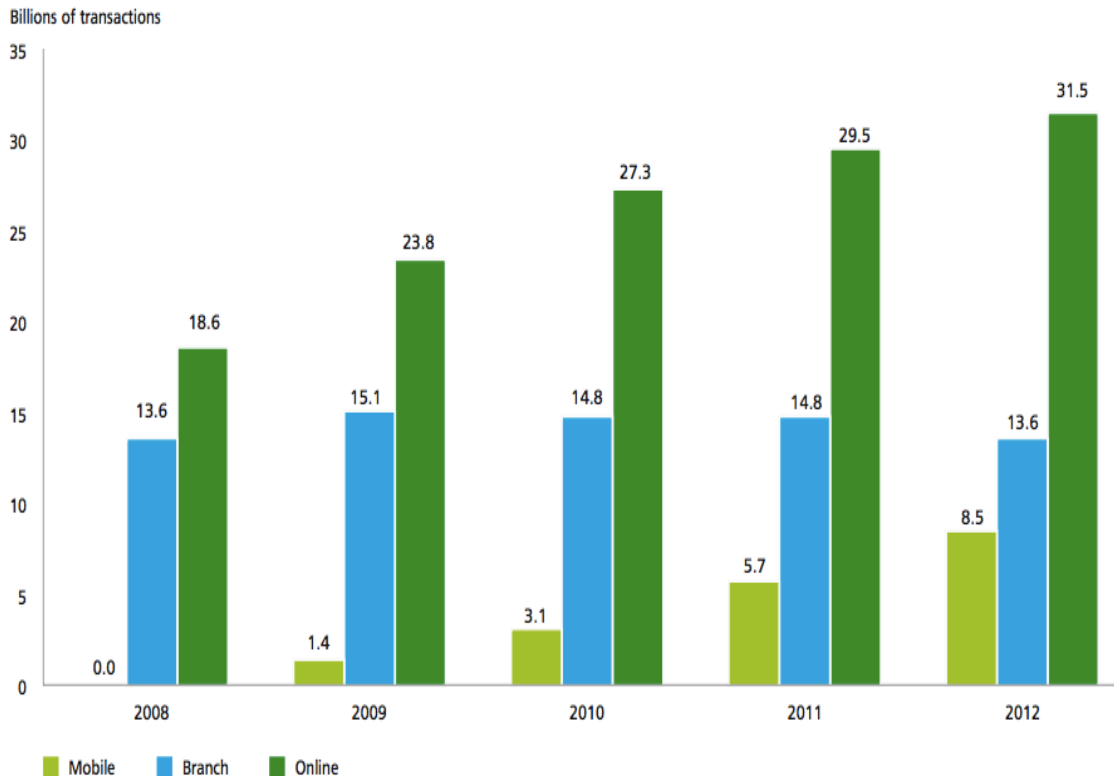
Understand “cosmetic” is not enough: VC funds, hackathons, incubators...



What banks can do to adapt and survive

Go digital and be prepared to close 80% of branches

Figure 4. Transactions going online and mobile in the US



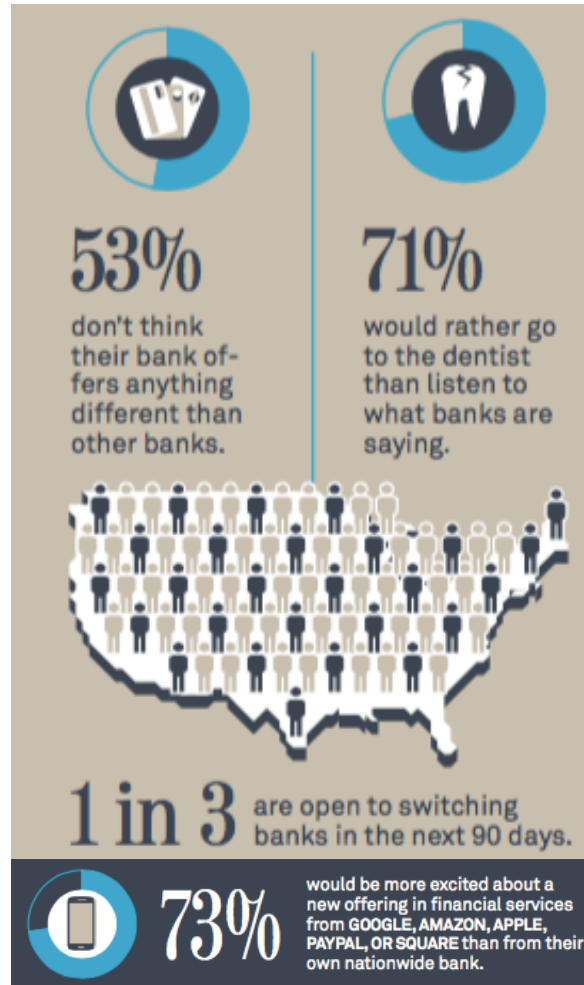
Source: Deutsche Bank; TowerGroup, Deloitte analysis

“We don’t know how to grow without branches... But, we have taken the total square footage of the bank from 117 million in January 2009 to 92 million in 2015, and we’re continuing to go down

John Stumpf, CEO at Wells Fargo

What banks can do to adapt and survive

Solve the Millennials challenge



What banks can do to adapt and survive

Build a culture based on customer needs and innovation... not on risk aversion

*"Operational risk is culturally unacceptable for us. It is not a matter of how much you may lose, it is a matter of DNA. Losing one euro because you failed on managing operational risk may f**k your career in the bank"*

Chief innovation officer
at a large European
bank

"Most banks are built on systems and programmed with languages that pre-date the birth of the Internet, let alone the birth of mobile banking (Cobol...), creating in some cases massive outages that may last several days"

Source: Telegraph

"Many banks outsource their online banking platforms to software companies to avoid the risk of building new platforms from scratch. They end up with non differentiated platforms with an average user experience"

What banks can do to adapt and survive

Do not be focused on short term profits and market cap

- Purpose of banks CEO: increasing / maintaining the market capitalisation to get juicy bonuses and strengthen reputation
- The long run is not important because they will have left!
- Find a balance between fintech “challengers”, which are quickly eroding your revenue, and fintech “enablers”, to create new revenue streams
- The main challenge is that "challengers" are far ahead "enablers" regarding size and growth and so the arbitrage between both is tough

Understand that you can not bridge the gap and that more collaboration with "challengers" is the only way to prepare the future

What banks can do to adapt and survive

Leverage big data to sell more and push credit

- **Data analytics**: analyse customers' life and take advantage of it to sell more products according to record of purchases.
- **Credit**: provide instant credit facilities for that purchases.

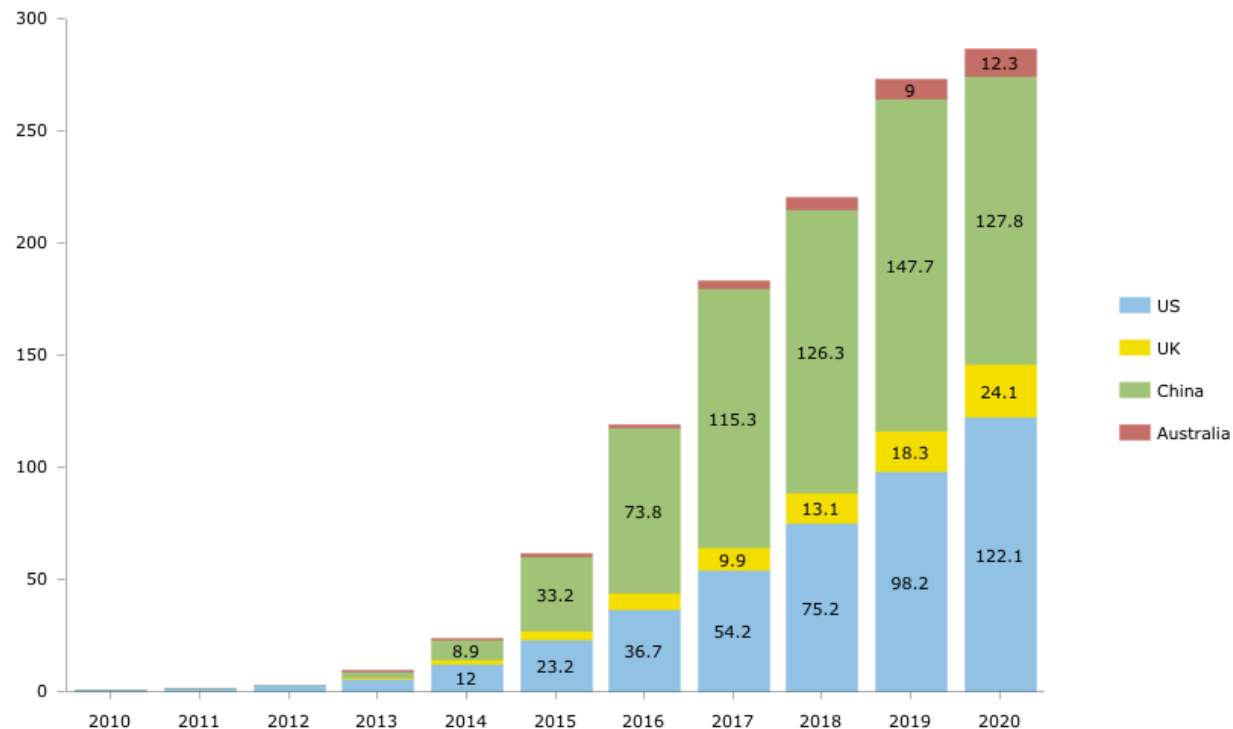
Big data is an opportunity for banks to turn into a gigantic portal of online shopping

When buying is a matter of a simple click and can be financed with instant credit, compulsive buying and over-consumption become non-stop money-making machines for banks

A co-petitive eco-system starts emerging

Build true partnerships: lending on marketplaces, integration, whitelabels...

Global Marketplace Loan Issuance (\$billions)



2010-2014: Compound Annual Growth Rate of 123%; 2015-2020: Expected CAGR of 51%
Source: Company Data Morgan Stanley Research

A co-petitive eco-system starts emerging

Acquire what you can not build, particularly if you are a small or medium bank

1. Low cannibalization
 2. Access to generation X / Y
 3. Cutting-edge technology
-
1. Opportunities to outcompete large banks
 1. International expansion at low cost
 2. Big returns

Examples: [BBVA \(Simple, Atom\)](#), [Arkea \(Leetchi\)](#)

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