

Fintech: opportunities and challenges for banks and regulators

Vienna, May 30th 2017

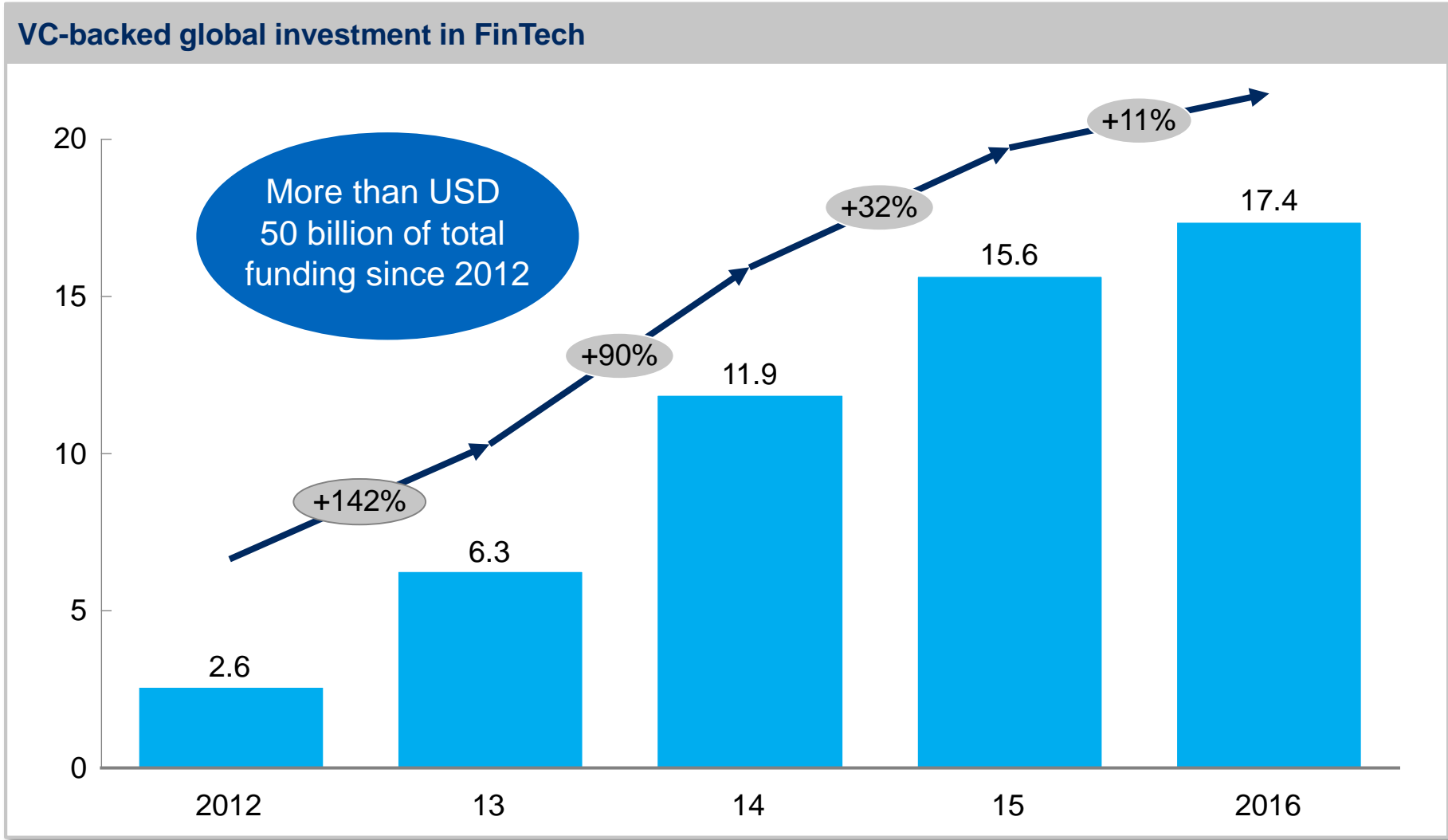
Agenda

- 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

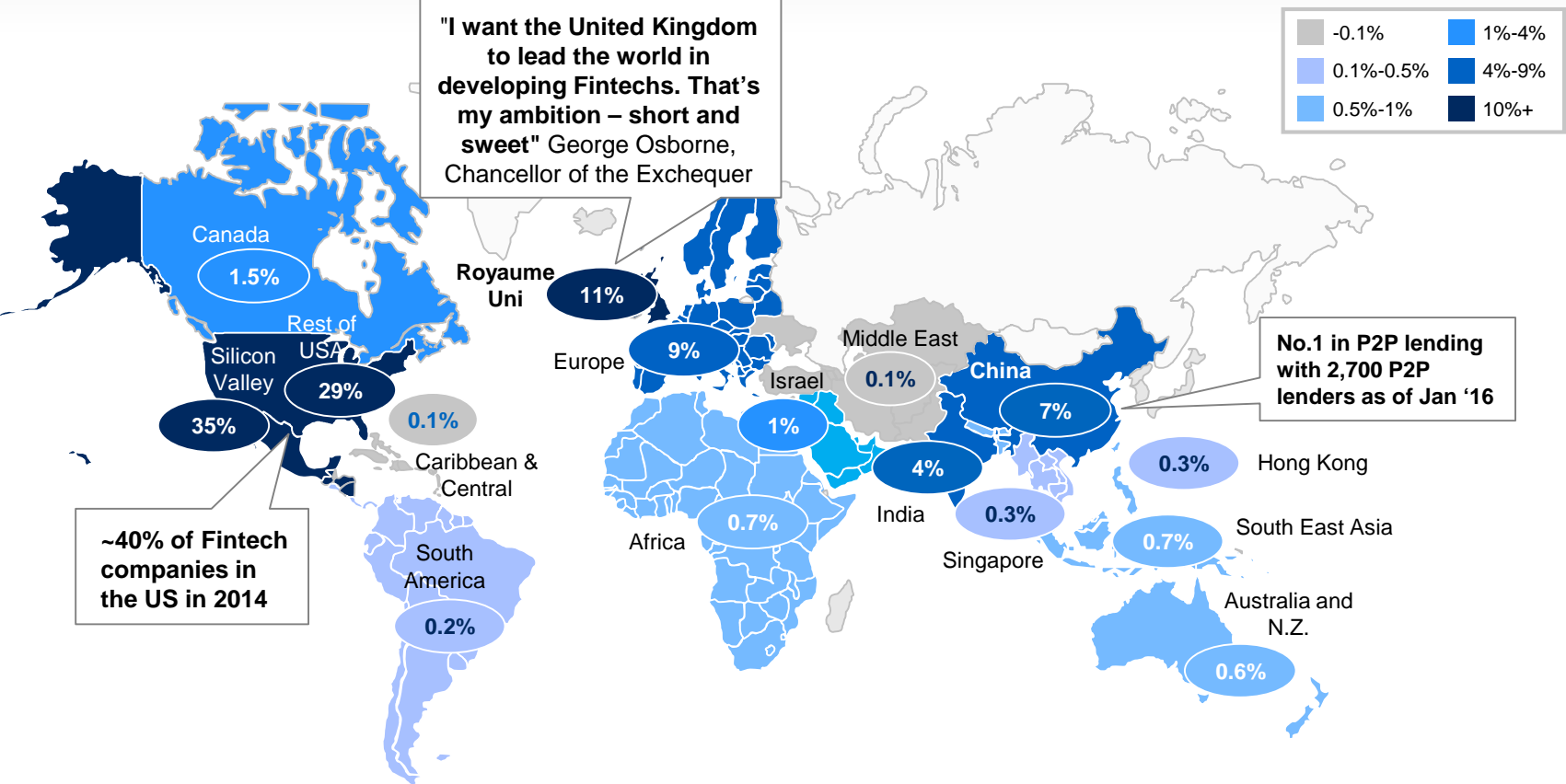
ESTIMATE



EU27 represents 9% of global Fintech Investments

Global Fintechs investment distribution (2010–2015)

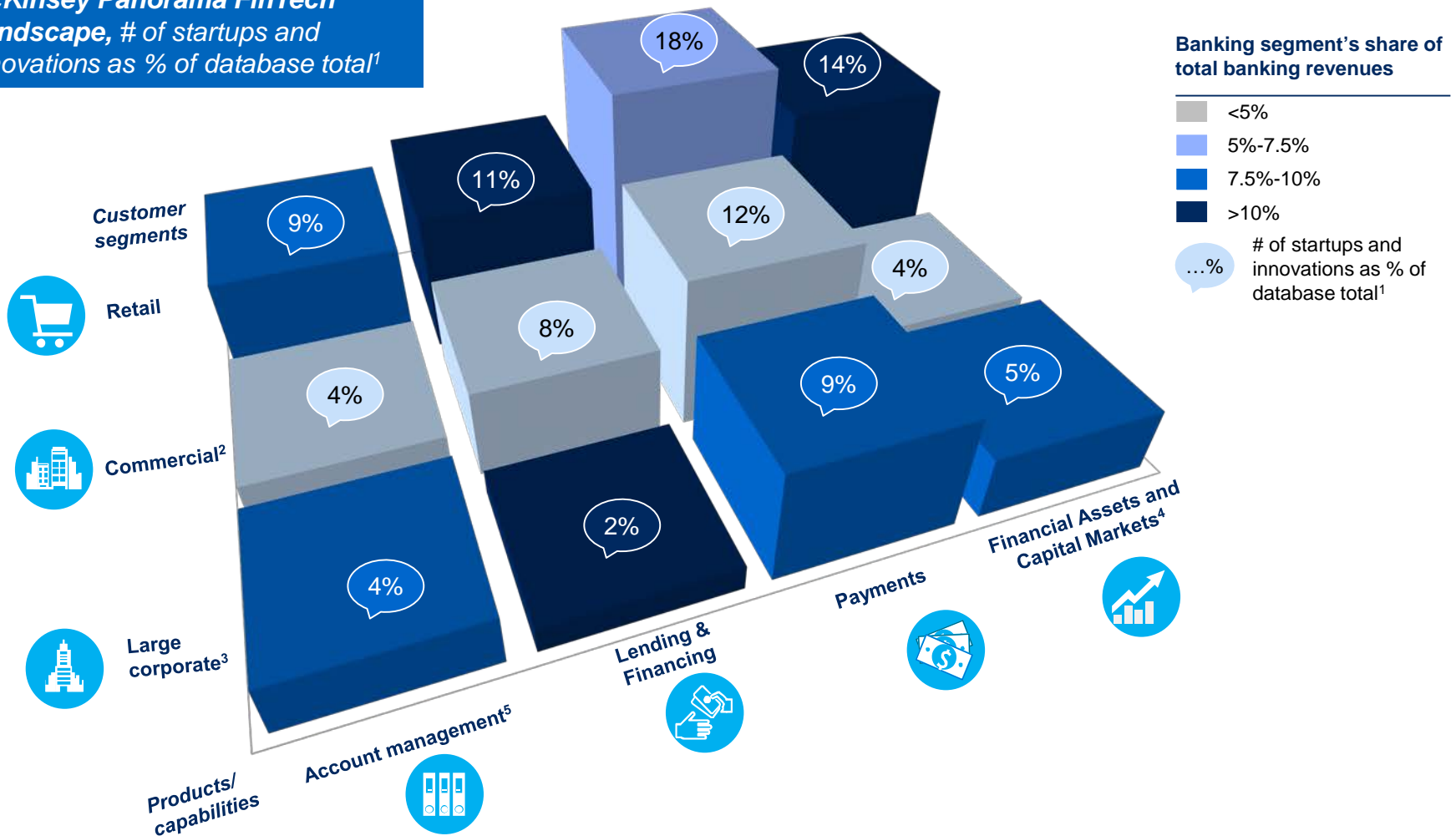
Percent



52% of Fintech investments focus on retail banking

ESTIMATES

McKinsey Panorama FinTech Landscape, # of startups and innovations as % of database total¹



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

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

² Includes Small-, and Medium Enterprises

⁴ Includes Investment Banking, Sales and Trading, Securities services, retail investment Non-CA

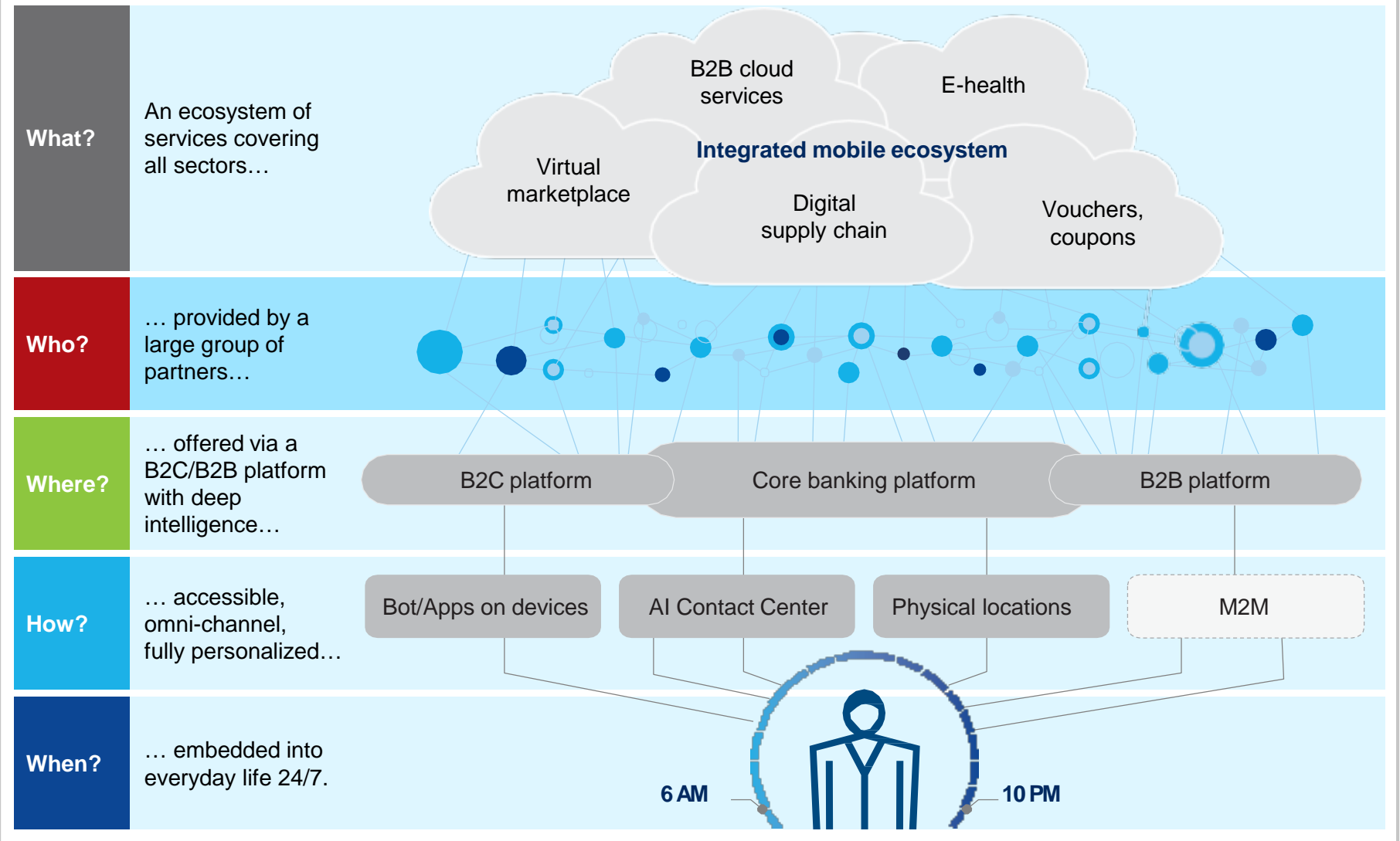
⁵ Includes retail CA deposit revenue and corporate CA and non-CA deposits

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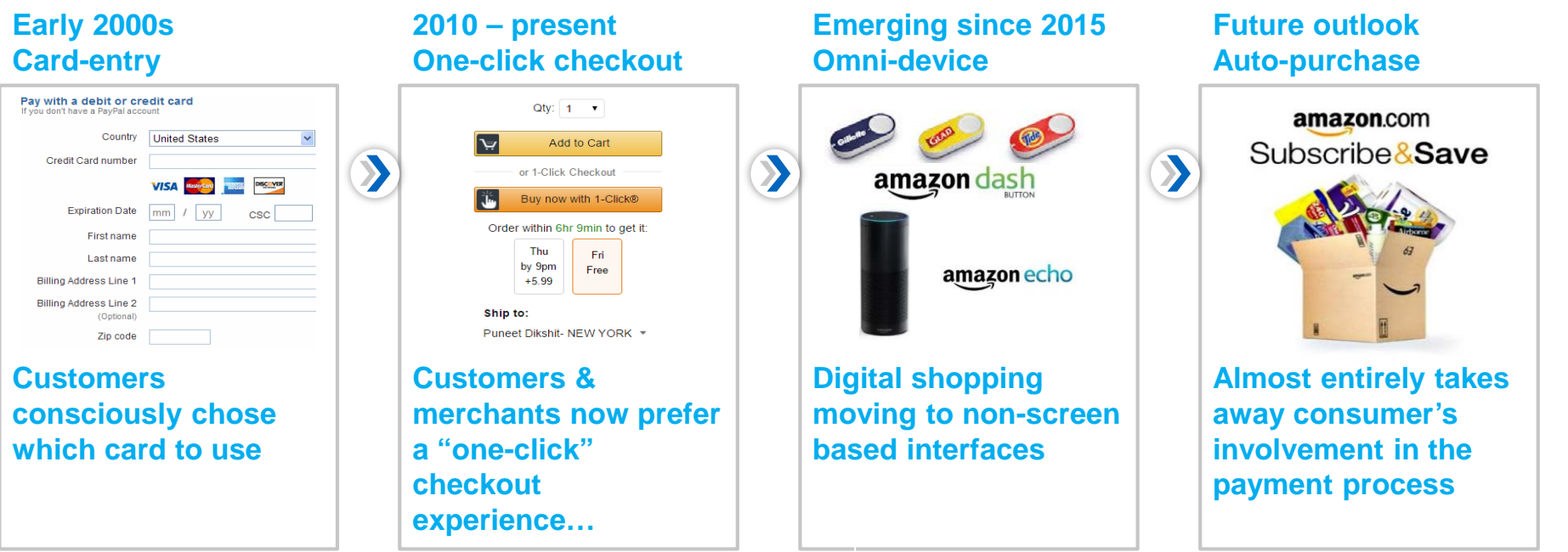
The role of Fintechs in retail banking

Customer perspective—summary of long-term business vision



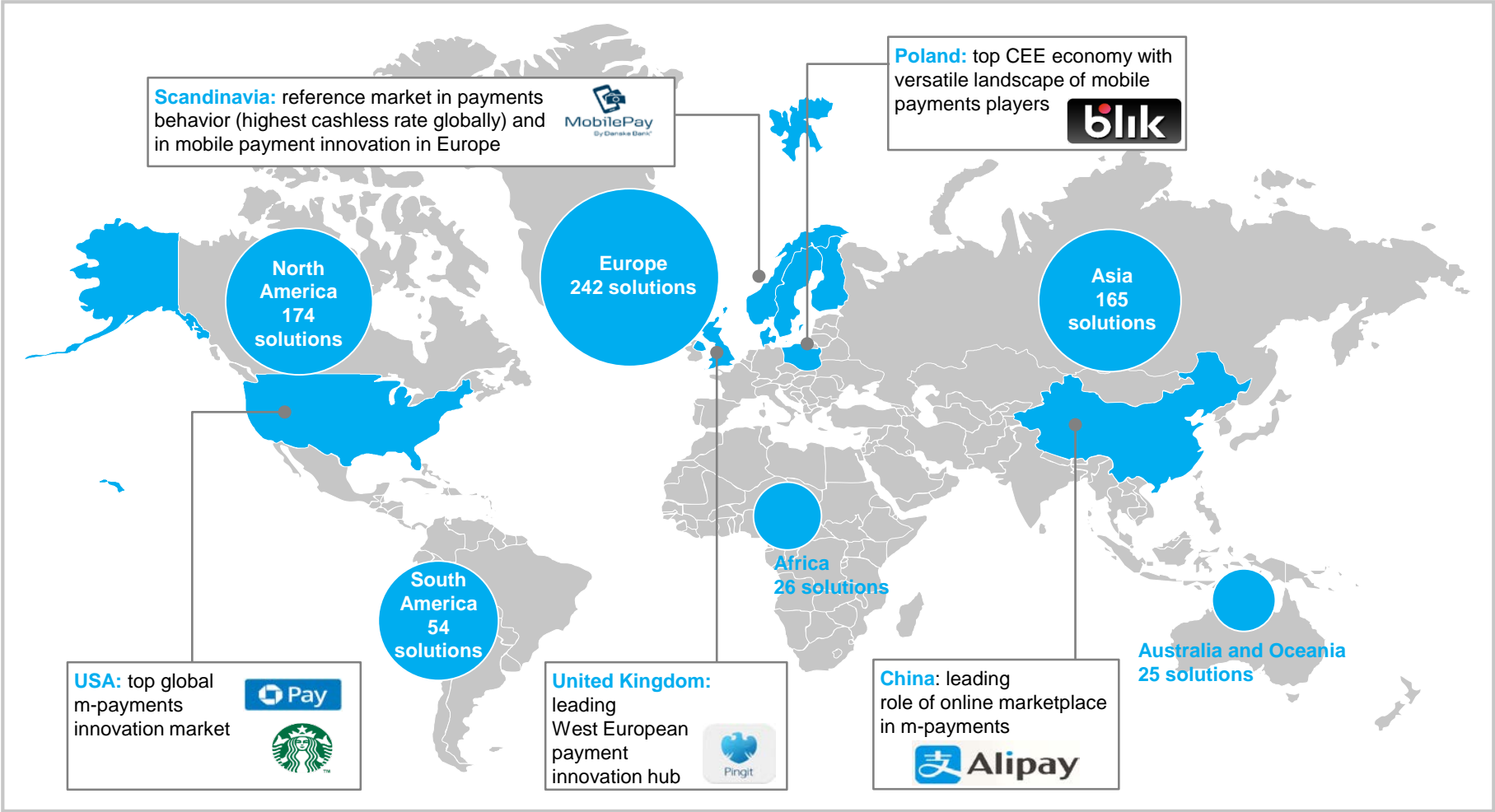
Customer expectations as to how we pay have changed radically over the last 15 years

Amazon illustration



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

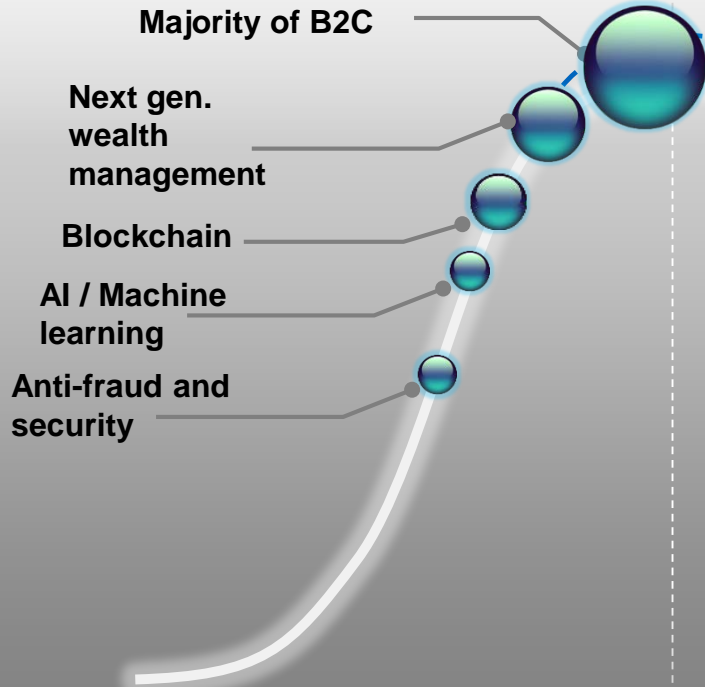
Size of the bubble indicate number of m-payments solutions identified within McKinsey database



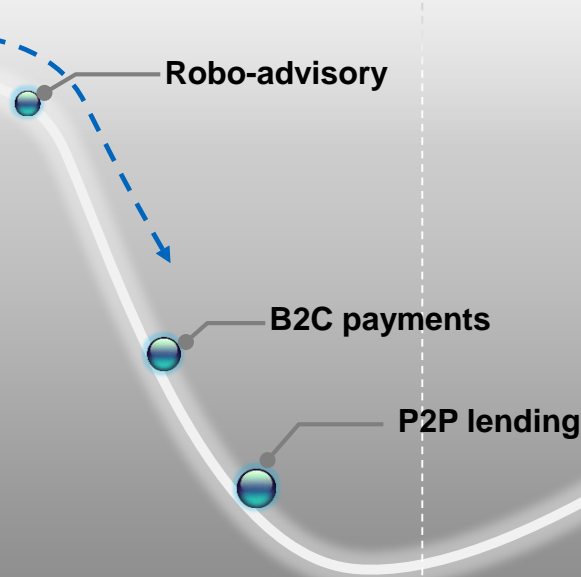
.... but where are we on the hype curve?

ILLUSTRATIVE

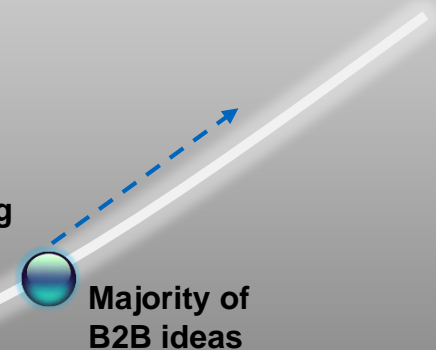
The “HYPE” phase



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



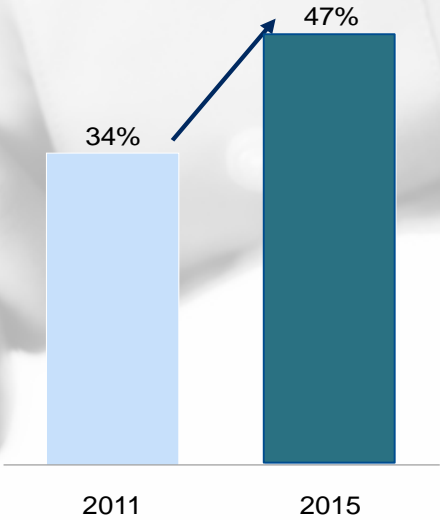
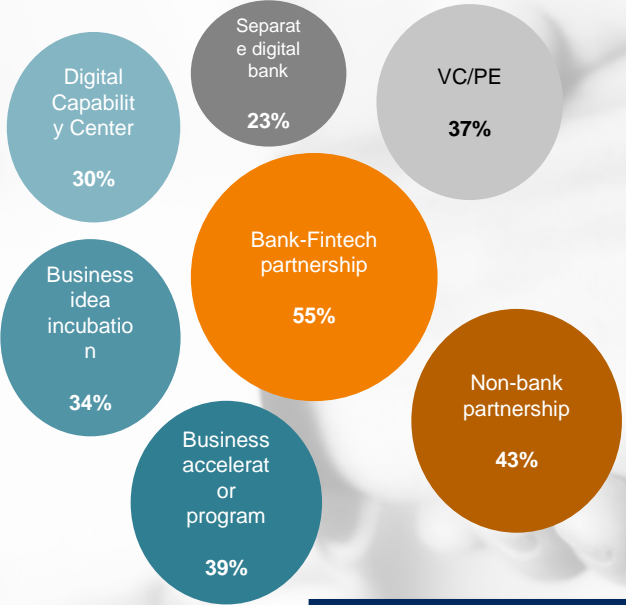
Fintechs

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 banks¹

Share of FinTechs² with a B2B business model



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

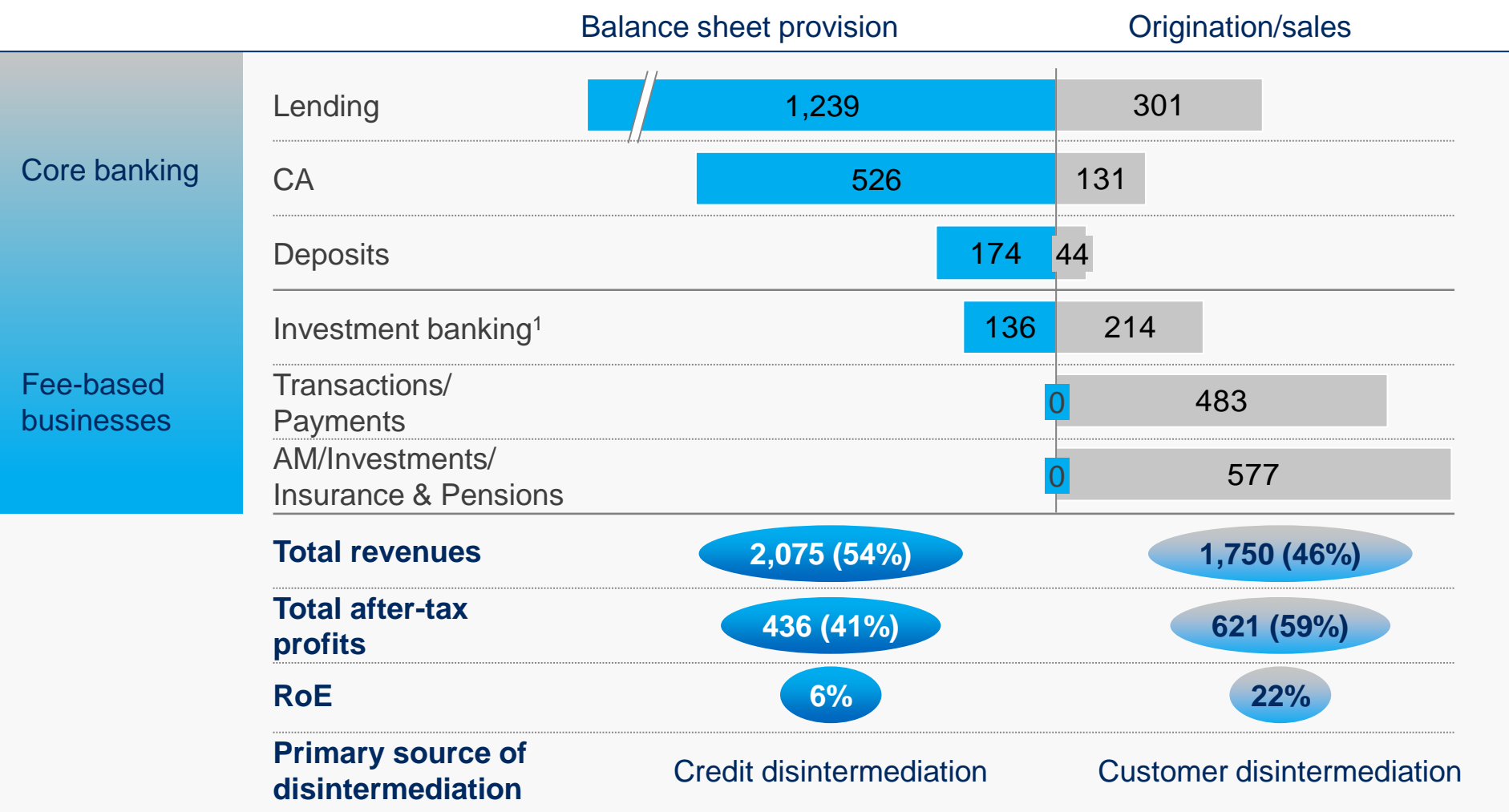
¹ Based on a survey covering the top 100 banks; Percentage includes all banks that have initiatives in a certain category
² Based on a sample of ~ 600 FinTechs included in the database

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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



1 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

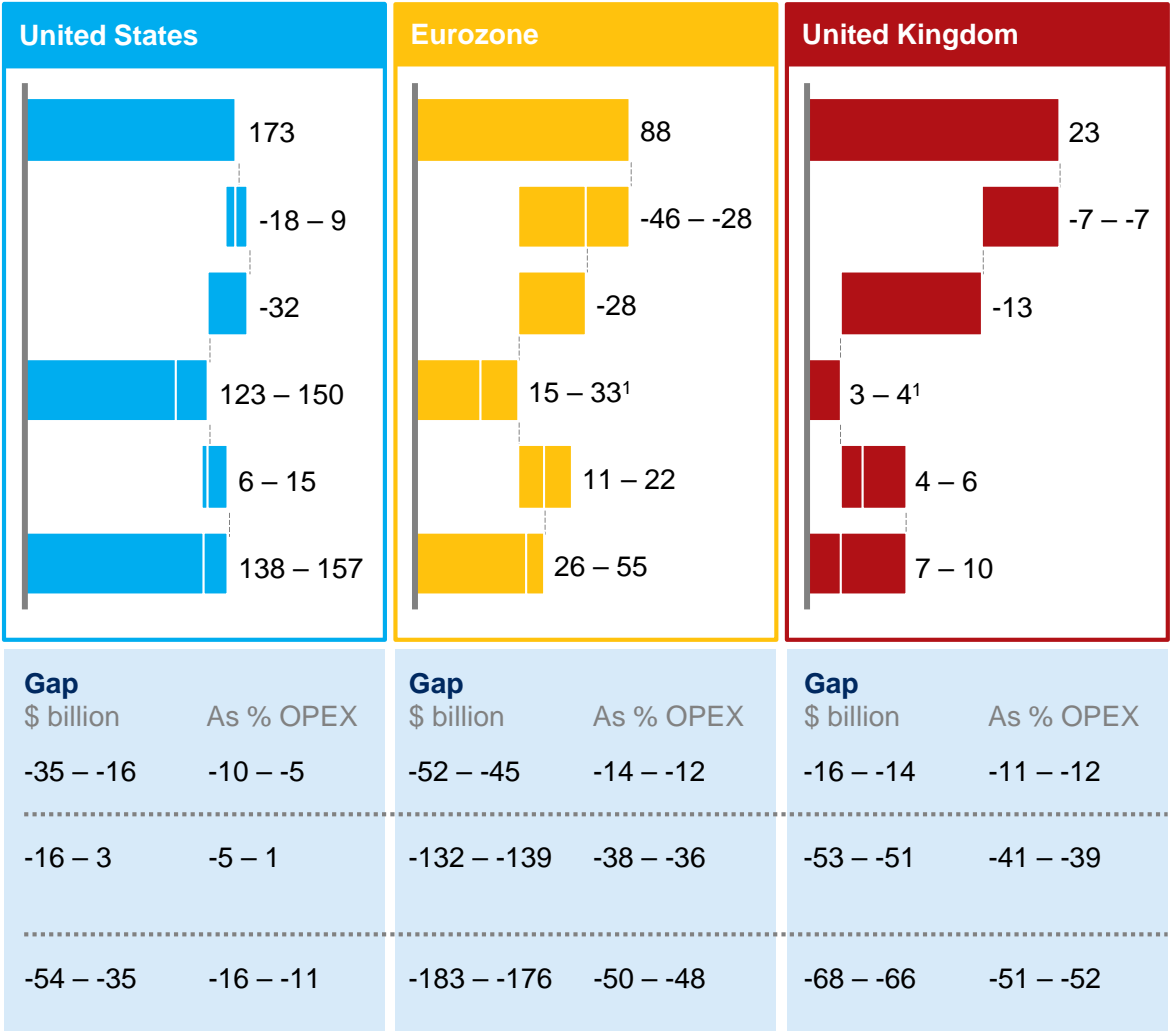
0-3% 3-10% 10-20% 20%+

		U.S.	U.K.	China	Japan	Eurozone	Other developed	Eastern Europe	MEA	Latin America	Other EM Asia
Retail	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
Corporate	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
Payments	Payments	17.3	23.6	8.6	23.6	18.1	18.0	8.6	2.3	3.6	3.6
WM	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



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

2 Pro-forma 2020 profit is 2015 profit net of interest-rate and digital effects. Should profits grow strongly, banks will be better able