

Fintech and
the evolving
landscape:
landing points
for the industry

High performance. Delivered.





Executive Summary

Venture capitalists, private equity firms, corporates and a number of other players have poured an unprecedented amount of money into global financial technology (fintech) start-ups. More than \$50 billion has been invested in almost 2,500 companies since 2010 as these innovators redefine the way in which we store, save, borrow, invest, move, spend and protect money.

While fintech is the poster child that continues to grab headlines, there are signals that the market is reaching the next level of maturity and moving into the mainstream. A cool down in investment growth in some geographies, expansion in others, increasing deal sizes, successful IPOs and the elimination of weaker players are all helping to drive more realistic investor expectations of fintech.

The ever-evolving start-up scene is not the only source of opportunity for investors.

Technology giants such as Google, Apple, Facebook, Amazon and Alibaba (GAFAA) are redefining the customer experience and increasingly playing around the periphery of financial services.

As banks face increased pressure to reduce costs and drive stickier, more profitable relationships with their customers, larger technology and platform players may offer a more attractive set of rails on which to deliver services to customers.

As such, incumbent banks are increasingly looking to fintech to enable them to continue operating a vertically integrated model, or find a specialist role as a platform service provider. Successful banks will rapidly make clear strategic decisions on the business model and use this vision to rally their talent around a more compelling journey, rather than the cost cutting downward spiral in which many players are now falling.



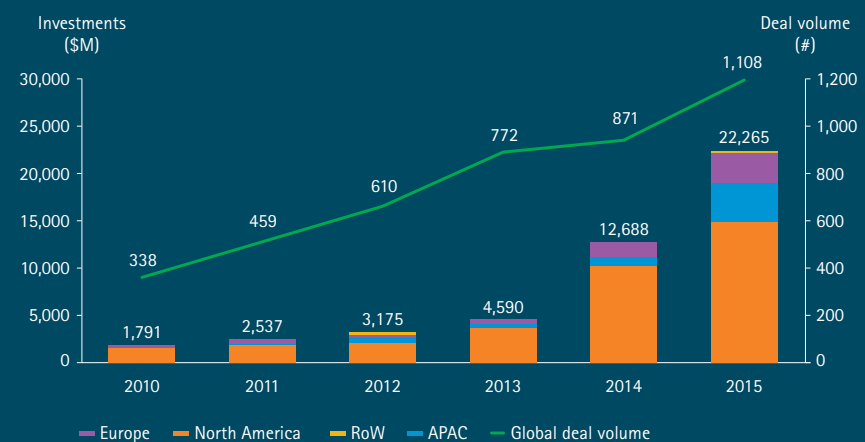
The Fintech landscape

The value of global fintech investment in 2015 grew by 75% to \$22.3 billion, driven by deal-flow across continental Europe and Asia-Pacific (APAC); the year-on-year growth affirmed the sector's position as the hot ticket item in financial services (Exhibit 1). However, while this stellar growth continues to outpace venture investment as a whole, which in contrast grew by only 29% in 2015, there were signs the fintech industry had reached a new level of maturity, with some regions cooling-off and a continued increase in larger deal sizes.

2015 will also be remembered as a year of successful fintech IPOs, with companies such as PayPal, Square, WorldPay and First Data achieving multi-billion-dollar market capitalisations, larger than many established financial institutions. In addition to these newly public firms, there are now twenty fintech unicorns – private companies with a valuation of over \$1 billion¹.

However, 2015 also saw the demise of some iconic industry players, most notably Powa, which built mobile payment products and was once considered one of the UK's brightest tech start-ups, valued at \$2.7 billion in 2015². Less than one year later, the business was put into administration after failing to satisfy the bold promises management had made to investors, leaving some questioning the value of the sector more broadly.

Exhibit 1: Global Fintech Financing Activity (2010 – 2015)



Source: Accenture analysis on CB Insights data

¹Accenture analysis on CB Insights data

²"Powa: The start-up that fell to earth", BBC News, March 21, 2016. Factiva, Inc. All Rights Reserved.

Early 2016, however, indicates a resurgence from Q4 in investor confidence with \$5.3 billion poured into the sector in the first quarter, largely driven by two Chinese deals each crossing the \$1 billion threshold. In fact, fintech companies in APAC received more than 50% of all investment in Q1. This 47% year-over-year growth in the first quarter is a sure sign that the sector could be poised for another stellar year.

A change in composition

Reversals of fortune such as the Powa collapse led some critics to question whether current fintech valuations are justified, or merely frothy. While it looks like Q4 may have reflected a dip in confidence, what we can see clearly is that the composition of the market is changing.

Despite some cooling down at the end of last year in some of the more mature fintech hotspots, such as Silicon Valley, New York and London, hubs in other parts of the world, such as Austin, Stockholm and Mumbai gathered pace. Indeed, fintech investment in APAC more

than quadrupled to \$4.3 billion in 2015. Given APAC's rich tech ecosystem, rapid economic growth trajectory and growing middle class, the region is tipped for major digital growth (see Sidebar 1). Furthermore, an increased interest in some of the newer fintech segments, such as InsurTech, RiskTech and RegTech, has helped spur on investment into the sector.

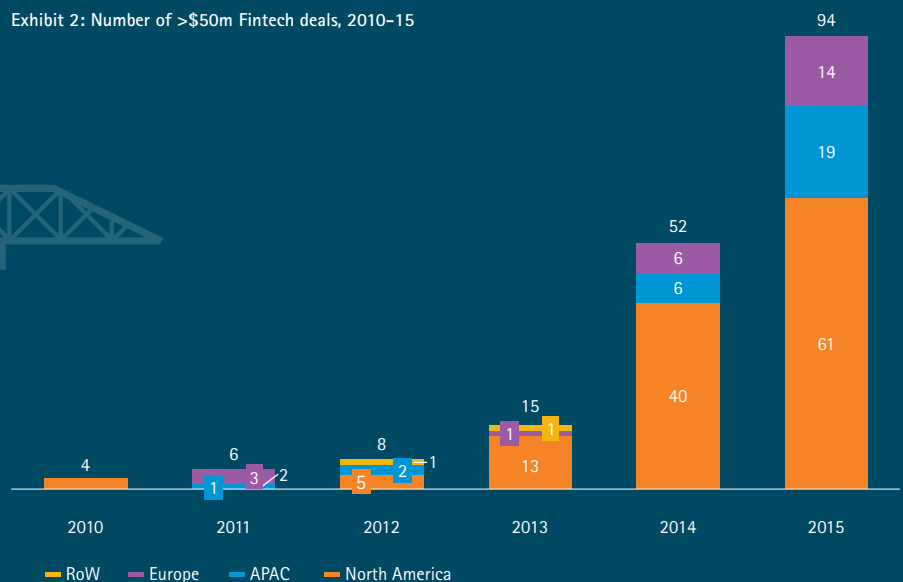
Another sign of maturity is the increasing number of big-ticket deals in the sector. In 2015, there were 94 fintech deals larger than \$50 million (Exhibit 2), including a number of megadeals like the \$1 billion financing round from SoFi, the online lending marketplace.

Over the course of the past five years, fintech investment has been largely focused around retail payments. However, maturity has brought much greater diversification, with innovators seeking to disrupt and enhance elements along the financial services value chain (Exhibit 3). Insurance, for example, is rapidly emerging as the next big thing in fintech, with investment into firms with InsurTech propositions more than tripling from 2014 to 2015 (see Sidebar 2).

The rise of APAC

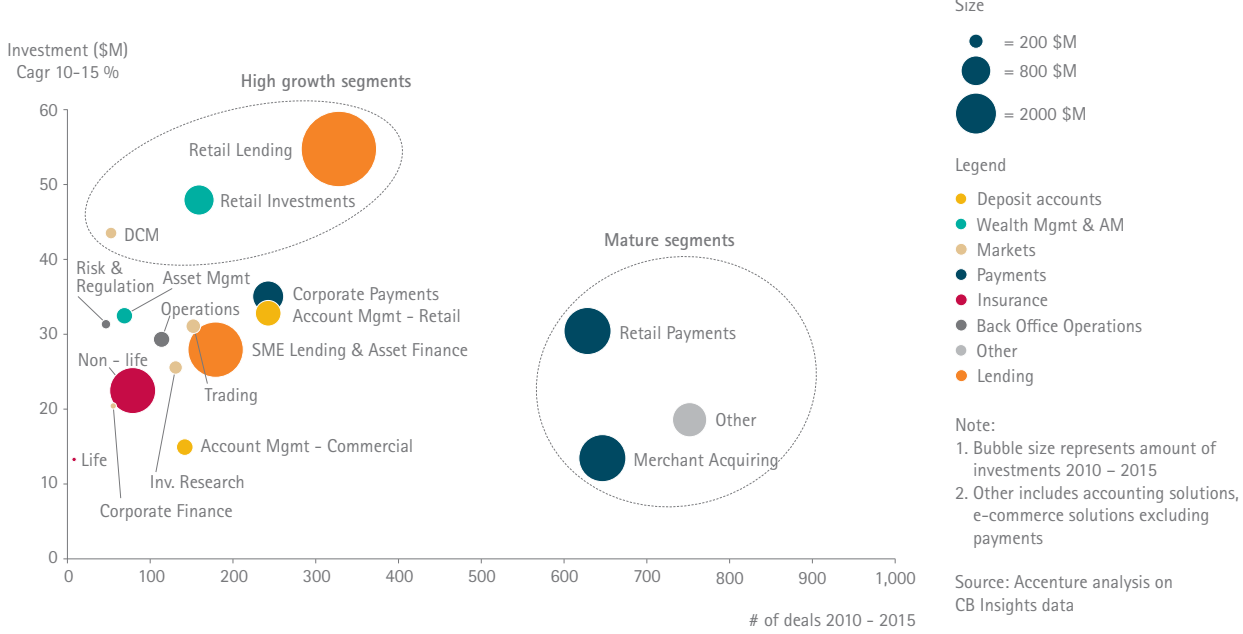
Fintech Investment in Asia-Pacific more than quadrupled in 2015 to \$4.3 billion. It is now the second biggest region for fintech investment after North America, accounting for 19% of global financing activity and up from just 6% in 2010. China has the lion's share of investment, accounting for 45% in 2015, but India makes up 38% and is growing fast. Mumbai, Bangalore, Tokyo and Beijing are the major fintech hubs in the region by the number of deals. Looking at deal volumes, 78% went to fintech companies targeting the banking industry, 9% to wealth management and asset management companies and 1% to the insurance sector. Payments is the most popular segment for fintech deals in Asia-Pacific, accounting for 38% of the total.

Exhibit 2: Number of >\$50m Fintech deals, 2010-15



Note: only deals with amount reported by CB Insights
Source: Accenture analysis on CB Insights data

Exhibit 3: Global Fintech Financing Activity by Product Segment, 2010-15



From competition to collaboration

Broadly speaking, there are two different types of fintech companies: the competitive, which we define as direct challengers to the incumbent financial services institutions, and the collaborative, which offer solutions to enhance the position of existing market players (Exhibit 4).

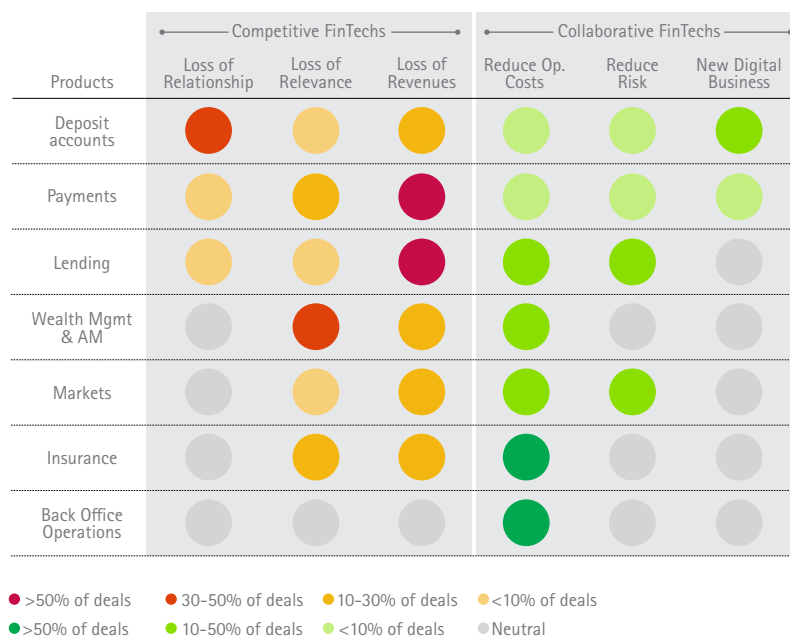
Competitive fintech companies have enjoyed some success, targeting less profitable segments by delivering better experiences directly to customers. For example, On Deck Capital provides faster loans for SMEs, Square offers card services for micro merchants and eToro offers professional trading strategies for retail investors, frequently at a discounted price.

Many financial services institutions recognise the role collaborative fintechs can play to help drive their own evolution. Meanwhile, fintechs – from those who began as collaborative players, to those who turned to collaboration after failing to compete effectively – are increasingly viewing incumbents as

potential partners. Last year, the level of investment into fintechs wishing to collaborate with the industry increased by 138%, now representing 44% of all fintech investment, up from 29% last year. Whereas investment into fintech

companies looking to compete only increased by 23% (Exhibit 5). So while there is still more investment going into competitive fintech companies, there is a clear and growing appetite, from both sides, to collaborate.

Exhibit 4: Fintech heat map – Threats and opportunities (# of deals 2010 – 2015)



This is one reason the FinTech Innovation Lab, sponsored by Accenture and the Partnership Fund for New York City, which brings leading financial services firms together to identify and mentor the most promising fintech innovators, is such an important part of the growing ecosystem (see Sidebar 3). Now in its sixth year, The FinTech Innovation Lab has produced many successful collaborations for banks, with more than 90 graduates across the four Lab locations: London, New York, Hong Kong and Dublin.

The ratio of competitive versus collaborative investment throughout the world differs dramatically from market to market. For example, the shift to collaboration has been particularly strong over the last five years in New York, where the proportion of investment in collaborative fintech companies has grown from 37% in 2010 to 83% in 2015. However, in the UK, where the regulatory environment is more favourable for those looking to compete directly with the industry, this trend is reversed, with more than 90% of investment going to would-be competitive fintech companies. Whilst the UK does not explicitly favour

competitive fintech companies, initiatives such as the FCA's Project Innovate³ have helped to lower the barriers to entry for these firms. Interestingly, although not as pronounced, these trends are reflected regionally whereby the investment dollars have moved towards more competitive firms in Europe and more collaborative firms in North America, and to a lesser extent in APAC (Exhibit 6).

Even though investment dollars still tend to favour those looking to compete with the industry, many are quickly acquired by or take significant investment from incumbents once market traction has been proven, and even sometimes before. For example, Atom bank – a UK mobile-only bank – will launch in 2016 after receiving a \$68 million investment in exchange for a 29.5% stake from BBVA⁴.

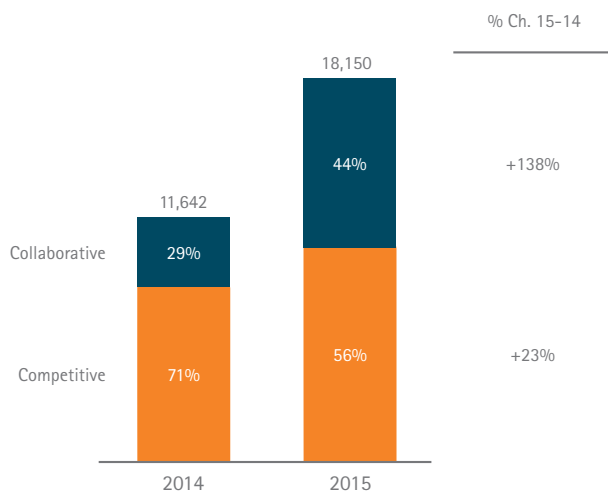
Nevertheless, while more fintechs wish to cater to the needs of the banking industry, they are not seeing reciprocal investment from banks in their businesses. Last year, banks participated in less than 10% of all reported fintech deals, totalling less than \$5 billion. This

pales in comparison to the \$50 billion these banks spent on new technology investment during the same period (Exhibit 7).

It is not possible to analyse how much of this \$50bn is being spent on new forms of financial technology, or indeed invested in new home-grown bank intellectual property, but we believe from anecdotal evidence that much of bank investment remains tied up with adjusting legacy technology. Furthermore, banks continue to employ a static method of annual investment allocation for activities designed to 'Change the Bank'. As a result, we observe that bank employees are encouraged to protect their existing multi-year programmes rather than adopting new technologies as quickly as those in specialist processing companies and other competing business models.

This relatively low participation in external investment, combined with constraints on 'Change the Bank' internal investment now poses a significant risk to incumbent banks. subsequently hindering their ability to win the battle for customer relevance and radically improve the efficiency of banking transaction platforms.

Exhibit 5: Collaborative Fintech Investments vs. Competitive Fintech Investments, 2014/15 (\$M)



Note: total excludes Other segment
Source: Accenture analysis on CB Insights data

³<https://innovate.fca.org.uk/>
⁴"UK Mobile-Only Atom Bank Picks Up \$128M Led By BBVA, Owner Of Simple In The U.S.", Techcrunch.com, November 24, 2015. Factiva, Inc. All Rights Reserved.



The rise of InsurTech

While fintech is relatively pervasive in banking and capital markets, it is still nascent in insurance. In 2014, tech companies targeting the insurance space received less than \$800 million in funding, but in 2015 insurance tech start-ups attracted more than three times that, receiving approximately \$2.6 billion. Most insurers are still tied to a business model based on pooling risk, calculating average pricing and generating gross premium income, which is increasingly threatened by digital technologies, such as wearable devices, smart objects and connected cars. However, these technologies also offer insurers a new, rich data source, providing new possibilities for underwriting, enhancing the customer experience and cutting costs. For example, Oscar Health Insurance partners with wearable-device company, Misfit, reward fit customers by automatically linking their biometric information to their health insurance. Meanwhile, Censio has developed software that automatically monitors and measures drivers' data for auto insurers, which has been adopted by Progressive, a US-based insurer.

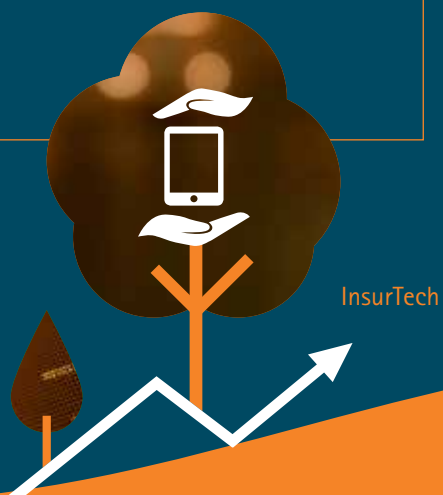
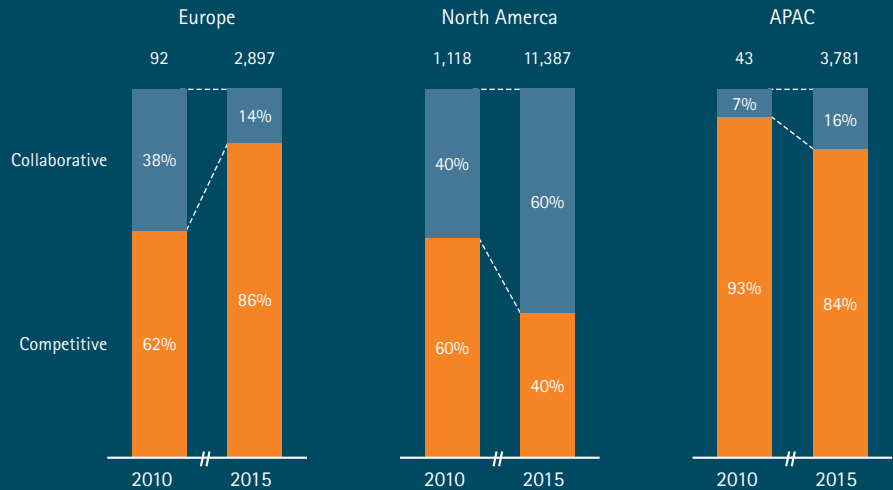


Exhibit 6: Collaborative Fintech Investments vs. Competitive Fintech Investments, 2010/15 (\$M)



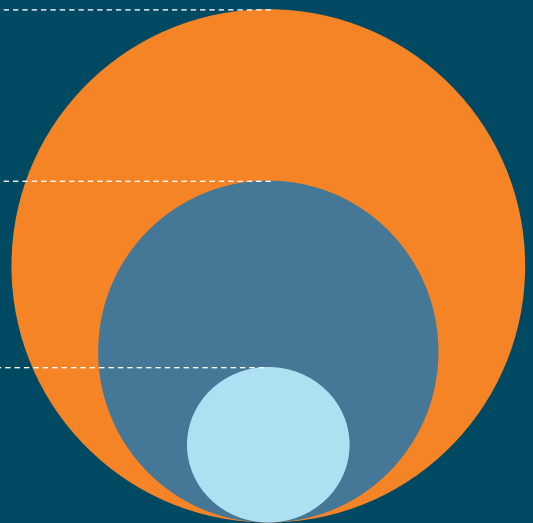
Note: total excludes Other segment
Source: Accenture analysis on CB Insights data

Exhibit 7: Global Banks' IT Investment by Type, 2015

Bank IT spending for new investments
~ \$50Bn

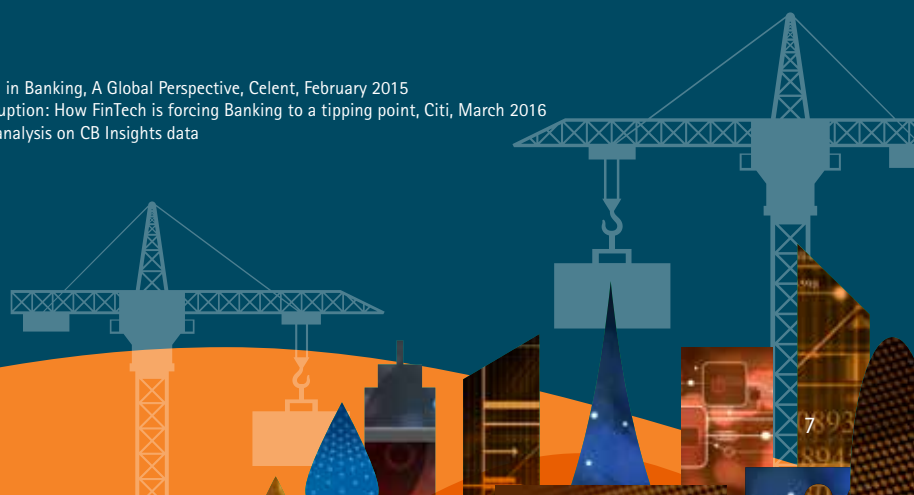
Fintech Investments
~ \$22Bn

Value of fintech deals with banks as investors
~ \$5Bn



Source:

1. IT Spending in Banking, A Global Perspective, Celent, February 2015
2. Digital Disruption: How FinTech is forcing Banking to a tipping point, Citi, March 2016
3. Accenture analysis on CB Insights data



A complex battlefield

Banks are now recognising that fintech companies typically pose more of an opportunity than a threat. Yet, despite this, banks still find themselves confronted by a wide range of related challenges across several fronts.

The impact of GAFAA

Customers are accustomed to higher levels of digitally enabled customer service in other industries. This is particularly true with firms such as Google, Apple, Facebook, Amazon and Alibaba (GAFAA). This group is resetting the benchmark for customer experience. Recognising the inherent value of financial data, they are increasingly offering banking-style services to customers. This in turn, leaves traditional banks at a disadvantage as their view of the customer cannot match the 'high definition' picture available to GAFAA.

The challenge for banks here is what Fjord refers to as "liquid expectation"⁵, whereby customers measure the quality of service they receive from players in one sector, against their experience from another. If, for example, Google can offer a fully integrated customer experience, with a single log-in, across multiple devices and products

– from Play Store to Mapping to Search – with no fuss and no cost, customers may perceive this gap from their bank as a service failure.

With their prevalence amongst consumers, GAFAA are starting to offer targeted financial services that satisfy specific needs. Amazon, for example, is making loans to small businesses trading in its Marketplace through a service called Amazon Lending. The service uses trading data and vendor reviews to make highly reliable credit decisions. Google Wallet allows customers to make online purchases via email, and Apple has integrated payments into its new touch authentication devices, such as the iPhone 6 and iPad Air 2. Also, Facebook has launched its free 'Friend-to-Friend' payments service. Given how fast the digital financial ecosystem is evolving, learning from and collaborating with GAFAA will be high on the agenda for bank leadership.



The rise of the platforms

The banking landscape is not only changing in the front office; core processing functions are changing too. Traditionally, banks have controlled most end-to-end processing themselves, but with the increasing divestment of their processing operations – either through choice or under regulatory pressure – this model is starting to change.

In 2009, the European Commission ordered RBS to sell its payments processing company, RBS Worldpay, as part of a larger state aid ruling⁶. This year, the UK regulator has opened up the UK payments system to further competition by compelling Lloyds, Barclays, HSBC and RBS to divest their joint stake in VocaLink, the company providing the UK's payments infrastructure⁷. By the time Payments Services Directive (PSD2) rolls out in 2018, the UK payments market may look very different.

Previously, such back office functions were not a revenue generating part of the business model and seen instead as pure processing functionality. However, through divestment, a new breed of free-standing, profit-hungry businesses are being created, which could pose a threat to the status quo for banks. Elsewhere, in investment banking, companies like Markit are looking to significantly expand the services offered on an industry basis, by pooling data

from multiple banks and building greater efficiency into non-value-adding, yet essential processes such as customer identity checks. This starts to question the current industry data model where each bank attempts to control and own data to support services they offer.

Tech players may provide some platform services more efficiently than banks. However, they will truly begin to compete with the banks once they achieve the scale and capabilities required to serve the industry as a utility, rather than as fragmented players scattered between individual banks. Banks that hang on to platforms, rather than sourcing them from better providers, will struggle to compete, while others will efficiently orchestrate a set of best-of-breed services.

Likely Landing Points

We see one of the following three scenarios as the most likely to emerge:

- Banks remain relevant to their customers and adopt fintech much more aggressively, enabling radical productivity improvements. This would happen quickly enough to pass efficiencies on to customers through lower transaction fees
- Banks become less directly relevant to customers, but retain end-to-end platform service provision by creating value-added,

open, secure and resilient services that can also be integrated with other customer solutions

- Banks lose their customer-facing relevance and their industry foothold as more-nimble tech / processing companies create better platforms, but retain a core role as highly regulated entities that integrate complex supply chains of platform providers

There is no reason why different areas of banking will follow the same scenario – the competitive dynamics for retail banking are different, for example, from those in corporate banking and more different still for prime brokerage.

Banks must learn lessons from GAFAA about how to reach, interact with and delight their customers. By forming partnerships with these firms, they can access their deep pools of customer data and drive future products and services. If banks surrender parts of their supply chain that they possess neither the appetite nor the capability to run efficiently, they could concentrate instead on driving higher returns from other, more valuable parts of their business.

⁶<https://livingservices.fjordnet.com/media-files/2015/09/living-services.pdf>

⁷RBS to sell WorldPay to Advent", Domain-B, August 7, 2010. Factiva, Inc. All Rights Reserved.

⁸UK regulator urges banks to sell stakes in VocaLink to increase payments competition", Banking Service Payments, February 26, 2016. Factiva, Inc. All Rights Reserved.



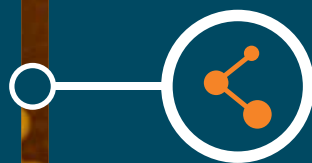
The emerging bank reactions

In our report "The Future of Fintech and Banking"⁸, we identified three critical behaviours of banks that would successfully seize the opportunities presented by the digital revolution. These were:

Act Open



- Act Open
- Collaborate
- Invest



Collaborate

Over the past year, we have seen successful financial institutions continue to pursue these behaviours. However, building out a set of strategies to stay relevant and endure the pace of change will help banks emerge as digital winners. While no strategy can be dogmatic, as the landscape will move quickly, banks need to take a position on what the future looks like and act accordingly. Below we have outlined an emerging set of strategies for the near, medium and long-term.

year technology scanning, investment and adoption programme. Banks should also place themselves closer to the centre of their customers' digital lives; embedding customer-centric thinking at the core of the corporate strategy. New technologies require new skills, so banks must invest in their people to ensure they have the right skillsets for their new digital environment at every level of the organisation

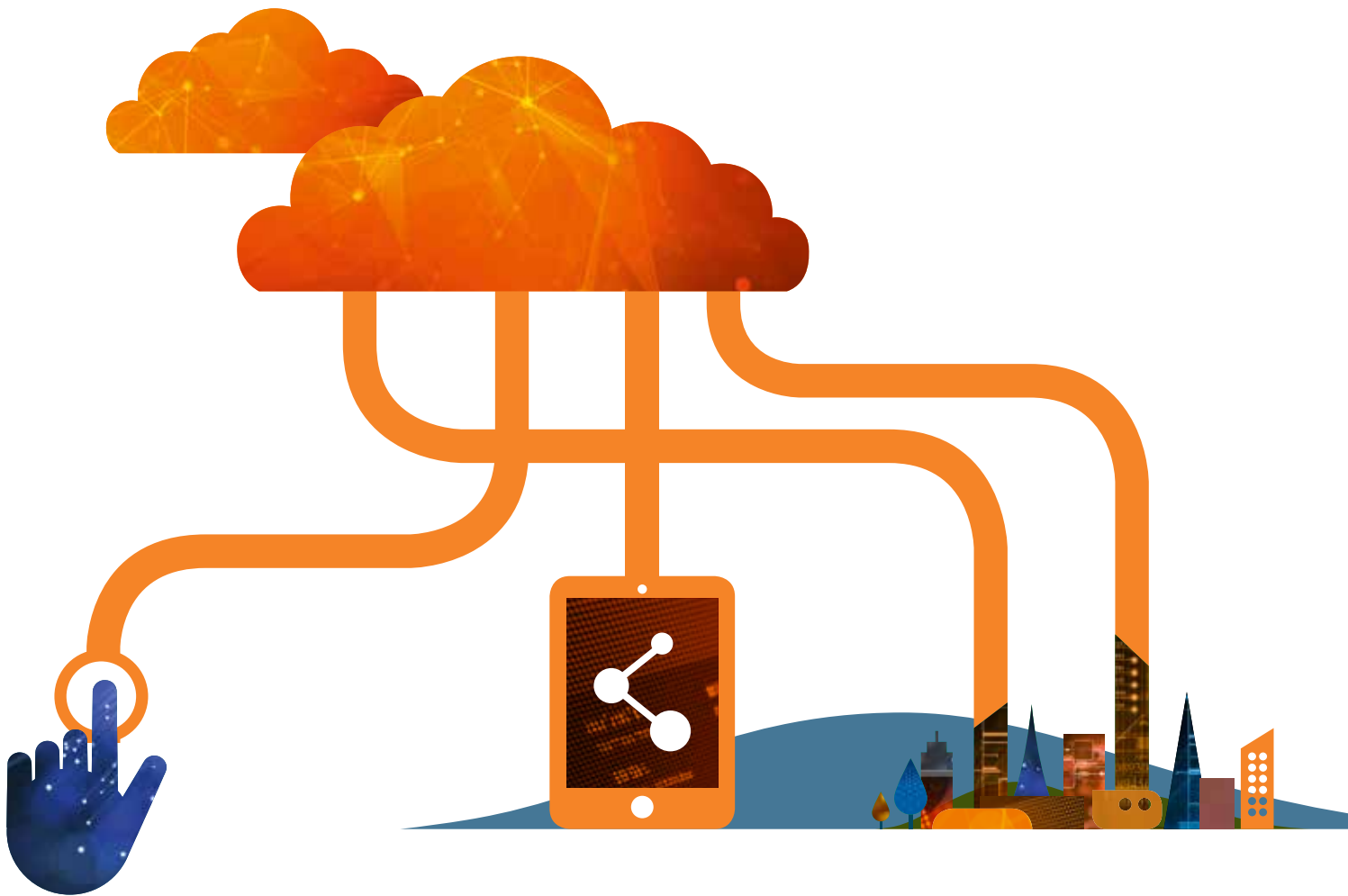


Invest

- **In the near-term:** banks are starting to look at tactical ways to improve their business models by investing in easily adoptable technologies within the industry. No regret actions, such as RPA, and ensuring that the digital disruption message is amplified across the agenda of banks' leadership are imperative to addressing these industry dynamics
- **In the medium-term:** banks will benefit from developing a multi-

- **For the longer-term:** banks will need to consider how they will expand their franchises to develop a service ecosystem around their customers. They need to challenge their own business models, potentially cannibalising short-term revenue in order to be become more relevant to their customers and access longer-term, but larger, revenue pools. Banks will also need to make higher risk investments in innovation and not wait until the return on these

⁸<https://www.accenture.com/gb-en/insight-future-fintech-banking.aspx>



investments is as clear as historically demanded for ordinary 'Run' or 'Change the Bank' projects or investments. Using historical investment assessment criteria may optimise the bank, but it will not truly challenge or change the business model

The approaches to execution and strategies for investment that are currently being deployed amongst banking incumbents suggest that many, though not all, have yet to develop a clear 'house view' on the likely outcomes for themselves or for their respective markets. They are also unconvinced about their ability to drive their own destiny. We believe this lack of strategic clarity is the biggest threat to the future of incumbent players.

For some, this is leading to confused execution whereby top level statements of bold intent, investment and innovation-driven change are not matched by actions on the ground. This risks leading to a knock-on constraint

where talented people who are best able to adopt innovation, no longer see the bank as an attractive place to work.

The analysis of the outcome scenarios and the management of execution risks can seem daunting, but we believe that for now, the incumbent banks remain in a strong position to influence and determine their own destiny. The current wave of disruptive innovation will be seen in five years' time as having delivered safer, more transparent, efficient and responsive banking services to retail consumers, businesses and market participants alike.

Fintech start-ups themselves are not emerging as the main competitive threat for most areas of banking. Banks that can assess, adapt and adopt these new technologies most quickly will be best positioned to achieve their desired position in the new industry structure.

The FinTech Innovation Lab



The FinTech Innovation Lab is an annual mentorship programme for entrepreneurs and early-stage companies that are developing cutting-edge technologies for the financial services sector. The Lab brings senior executives from the world's leading financial services firms together to identify the most promising financial technology innovations, mentor a handful of aspiring entrepreneurs, and help them refine and test their propositions over a three-month period. The FinTech Innovation Lab began in New York in 2010, founded by the Partnership Fund for New York City and Accenture. In 2012, Accenture launched the programme in London, and then Hong Kong and Ireland in 2014. More than 50 financial institutions participate in the programme globally.

About Accenture

Accenture is a leading global professional services company, providing a broad range of services and solutions in strategy, consulting, digital, technology and operations. Combining unmatched experience and specialized skills across more than 40 industries and all business functions—underpinned by the world's largest delivery network—Accenture works at the intersection of business and technology to help clients improve their performance and create sustainable value for their stakeholders. With approximately 373,000 people serving clients in more than 120 countries, Accenture drives innovation to improve the way the world works and lives. Visit us at www.accenture.com.

Methodology

This report used investment data from CB Insights, a global venture finance-data and analytics firm. The analysis included global financing activity from venture capital and private equity firms, corporations and corporate venture-capital divisions, hedge funds, accelerators and government-backed funds. The investment figures exclude global exit activities of fintech companies – M&A and IPOs – and a number of regional tracking dimensions however analysis has been conducted on these activities. Fintech companies are defined as those that offer technologies for banking and corporate finance, capital markets, financial data analytics, payments and personal financial management. The list of deals included are dynamic and constantly changing, as new companies are added to the database. All publicly known fund raising for a company, which can include earlier rounds, are back filled into the database.

Acknowledgements

This report and the research would not have been possible without the generous participation of many people from the financial services industry and beyond.

Authors

Julian Skan
Managing Director
Accenture Financial Services

James Dickerson
Accenture Financial Services

Luca Gagliardi
Accenture Research

Key Contacts:

Loren Naish
Marketing
Accenture Innovation
loren.naish@accenture.com

Petra Shuttlewood
Media and Analyst Relations
Accenture Financial Services
petra.shuttlewood@accenture.com

www.fintechinnovationlab.com
✉ fintechlondon@accenture.com
🐦 @FinTechLabLDN