



FINTECH SECTOR PRIMER

Groundwork Intel
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GROUNDWORK INTEL



TABLE OF CONTENT

1 Industry Strategic Perspective

- I. Industry Overview
- II. Key External Drivers
- III. PEST Analysis
- IV. Porter's 5 Forces
- V. Key Emerging Themes

2 Industry Structure

- I. Industry Lifecycle
- II. Product
- III. Customer
- IV. Geographic Spread
- V. Key Success Factors
- VI. Ecosystem





Industry Strategic Perspective

- Industry Overview
- Key External Drivers
- PEST Analysis
- Porter's 5 Forces
- Key Emerging Themes

Industry Overview

Financial technology, also known as fintech, is an economic industry composed of companies that use technology to make financial services more efficient.

Fintech is the synthesis of technology and finance and the harmonic combination of two of the largest industries into a single field. Naturally, its impact is enormous. If five years ago, fintech solutions were still regarded as cutting-edge innovations, now they have become a daily reality.



Key External Drivers

Growth in Mobile Usage

Increasing use of mobile devices and similar devices are accelerating the demand for financial and banking solutions, accessible through personal devices. Banks and financial firms are investing heavily to cater to this



New Technologies

The new technologies that helped fuel innovation in this arena (e.g., artificial intelligence and cyber defenses) are also maturing.

A lot of funds that invested in the first generation of companies that tried to capitalize and build on top of the destruction caused by the financial crash in 2008 are reaching the end of their life, and are thus getting their houses in order to return money to their investors.



Booming e-commerce

E-commerce adoption has propelled the use of various digital payment and e-wallets, globally. Individuals are trusting fintech firms with their data for fund transfer, banking transactions, online purchases, and e-wallet usage



Regulatory Support

Changes in regulatory frameworks all over the world have been the key drivers in the recent past. Financial services technology is advancing with the help of regulatory support. It is pushing the ecosystem players to modernise and upgrade their legacy systems.



PEST Analysis

P

Political

- While Fintech promises to increase efficiency in delivering financial services, widen their range, increase competition and promote financial inclusion, on the other hand, policymakers must address a set of risks such as unregulated third-party providers leading to operational risks; new payment systems and instruments could compromise market integrity and, ultimately, the monetary system; new products may be mis-sold to consumers who do not understand their risks; and the business opportunities created by new technologies may erode privacy and encourage unethical conduct
- Regulators are generally supportive of this sector. As an example, the use of APIs has been promoted to facilitate open banking, in the European Union, Mexico and Singapore, among others.
- In some jurisdictions (such as Hong Kong SAR, India and Singapore), authorities have put in place a centralised platform that provides residents with a unique electronic key that can be used for verifying their identity in all types of transaction, with both the public and the private sectors

E

Economic

- While the fintech ecosystem has proved to be transformative, the demand for fintech services is dependent on the economic activity across the globe
- The transactional services and revenues from payments decline as spending decreases
- In the current Covid impacted economies, the business model of many fintechs who relied on scaling up their customer base and making small profit margins from money transfer and payment services will be negatively impacted
- In particular, fintechs that rely on cross-border transactions, e.g. from travel spending or international payments, will be more affected as travel is banned and commercial restrictions on international trade imposed

S

Social

- Greater digital finance when applied to the lives of people can improve their access to financial services, thereby leading to greater financial inclusion
- Fintech also improves access to finance for bank customers who cannot conveniently access banks due to age or health issues and long queuing. This will also reduce bank customers' presence in bank branches and reduce cost because bank would cost-efficiently maintain fewer branches

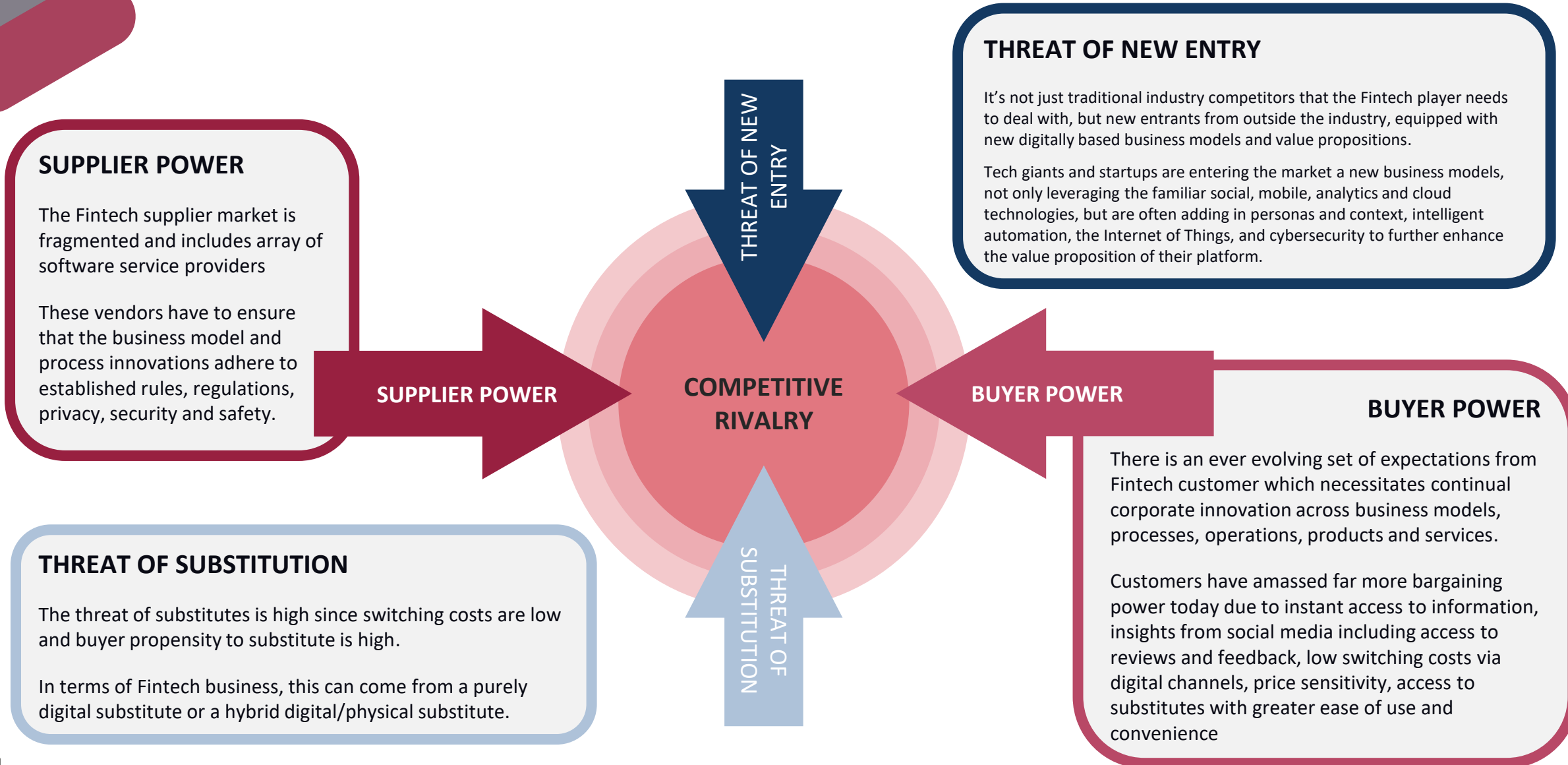
T

Technological

- Fintech has brought in a radical transformation in the banking sector. Adopting artificial intelligence has further altered fintech companies and has taken it to the next level, by enabling humans to converse with the bots and has improved the sectors by enhancing its productivity
- Companies are adopting advanced cybersecurity practices to gain customer's confidence, like biometrics, card tokenization and more
- Decentralized finance is already changing the transaction procedures. This would affect capital markets, trade finance, and lending, which is caused due to the urge of quicker services, minimal charges and more
- The existing Fintech services are gradually turning towards cloud services. This helps them accomplish improved agility and scalability as cloud reduces the time spend on infrastructure and data centres.
- Fintech organizations are also looking forward to implement Robotic Process Automation (RPA) in their firms. RPA would optimize cost, reduce human errors, improve customer experience and enhance overall fintech performance



Porter's Five Forces Model



Key Emerging Themes

KEY THEMES



**TECHNOLOGICAL
ADVANCEMENT**



**EMERGING
OFFSHOOTS –
REGTECH, INSURTECH,
PROPTech, WEALTHTECH**



**MERGERS AND
ACQUISITIONS**



CYBER SECURITY



**BIG TECH
PARTICIPATION**





TECHNOLOGICAL ADVANCEMENT

There is skyrocketing investment in new technological advancement that can improve and automate financial services sector. This surge in investment will also lead to significant reduction in cost of service to the customers along with customer convenience

Blockchain

- Blockchain continues to be a hot topic in the Fintech sector
- **Facebook's** announcement of its Libra cryptocurrency raised a significant amount of discussion in June 2019.
- **JP Morgan** also announced a digital coin for payments February 2019
- **The People's Bank of China's** also announced of accelerated research and experimentation on digital currency and electronic payments
- Also late in 2019, blockchain-based cryptocurrency trading platform AliExchange was acquired by FoPay for \$2.1 billion

Mobile payment innovations

- Mobile payments industry has been on an upswing as consumers want payments to be instant, invisible, and free
- **Google, Apple, Tencent, and Alibaba** already have their own payment platforms and continue to roll out new features such as biometric access control, including fingerprint, and face recognition

Robotics and AI

- Leading financial services technology companies are using robotics and AI to address key pressure points, reduce costs, and mitigate risks. They are targeting a specific combination of capabilities such as social and emotional intelligence, natural language processing, logical reasoning, identification of patterns and self-supervised learning, physical sensors, mobility, navigation, and more. And they are looking far beyond replacing the bank teller

Conversational interfaces

- According to Gartner, by the end of 2020, chatbots will interact with the customers of 85% of banks and businesses. By eliminating human involvement in these interchanges, productivity, and speed improve
- Customers of financial institutions have come to rely on conversational interfaces to provide 24/7 service, instant responses to queries, and quick complaint resolution to improve personal banking significantly





EMERGING OFFSHOOTS

Regtech

The rising adoption of RegTech solutions will contribute to increasing volumes of data around regulatory compliance and will enable more granular reporting standards, scenario analytics and horizon scanning.

- **IBM** launched several RegTech solutions to combat financial crime and fraud, power financial risk management, redefine governance, risk and compliance, and detect and prevent cyber attacks
- **BNP Paribas** is using a fully-digitized MiFID II trade compliance engine for the financial markets – a service provided by Droit Financial Technologies, which expands the ability of financial institutions to comply with rigorous MiFID II regulations
- **BBVA**, Spain’s second-largest bank, has implemented Fenargo’s Client Lifecycle Management (CLM) solutions to streamline the onboarding & CLM processes, and ensure regulatory compliance across its corporate & investment banking divisions in various jurisdictions – namely Europe, the US, South America and Asia

Insurtech

“Insurtechs” are technology-led companies that enter the insurance sector, taking advantage of new technologies to provide coverage to a more digitally savvy customer base. In some locations, regulatory barriers have been lowered.

- In Australia, Singapore, and the UK, insurtechs have been encouraged to test their innovative business plans on specific client segments without the need to conform to the full regulatory frameworks that apply to incumbents
- Like fintechs, insurtechs are extending innovation throughout the sector, creating a competitive threat to incumbents but also potentially valuable opportunities for partnering on the changing terrain
- While insurtechs have not yet made deep inroads into the sector, they are growing fast and stand to capture a meaningful share of value pools within a few years

Wealthtech

In 2019, wealthtech continued to be a growing area of interest for fintech investors around the world.

- Data management and analysis is a key focus for investment, with companies looking for more effective ways to assess and report on real-time data
- Financial advisors put increasing pressure on asset managers to create very specific tech products and investment solutions focused on the needs of niche groups of clients such as customers interested in making sustainable investments

Proptech

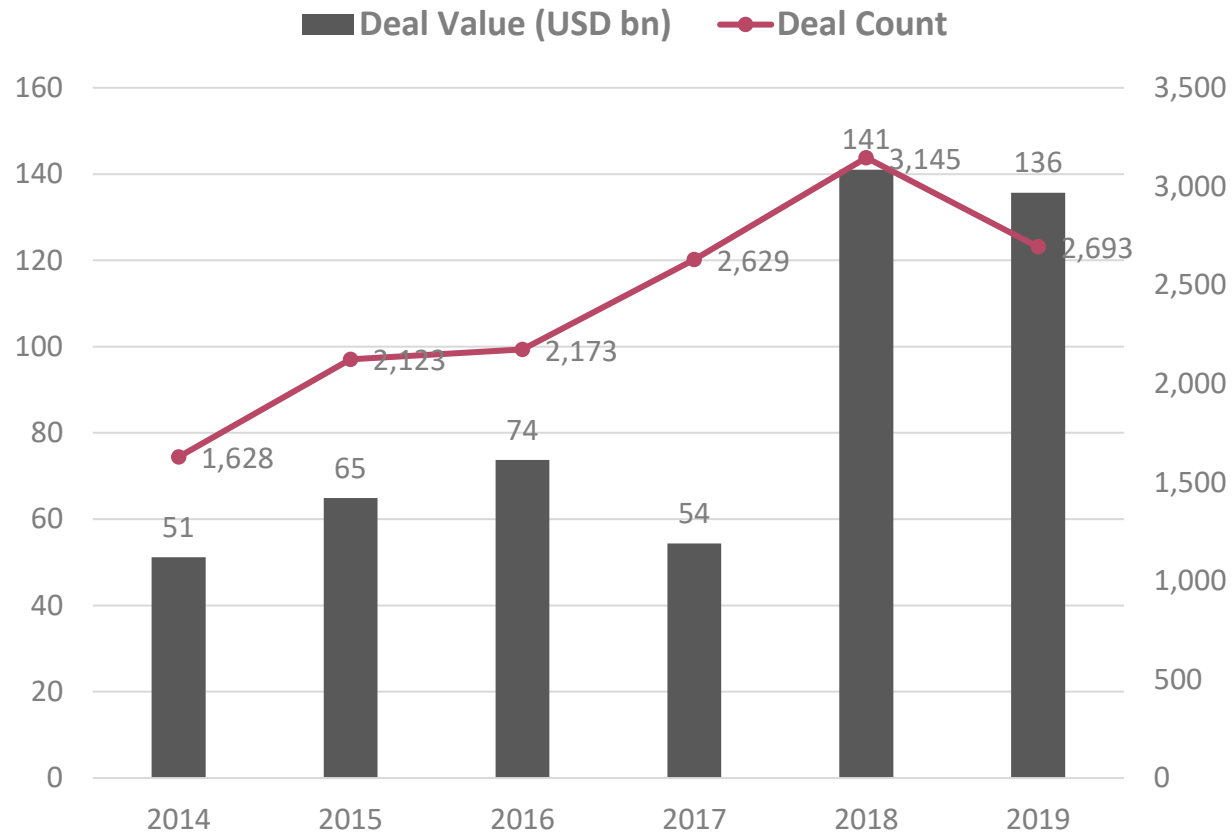
Proptech broadly includes innovative technology solutions focused on real estate asset and property management.

- Over the past year, there are more real estate firms globally focusing on identifying innovation and proptech opportunities and incorporating digital solutions within their primary business processes
- Data and data management is a major focus for proptech investments given that data is essential for improving efficiencies and for making even better strategic decisions
- AI and automation is also key areas of interest as it relates to monitoring and optimizing assets
- Over time, investment in proptech will likely continue to grow as traditional real estate market players begin realizing the value associated with such solutions



MERGERS AND ACQUISITIONS

Total Investment Activity in Fintech



Data provided by PitchBook
Includes VC, PE and M&A

- After a significant high with the investment of USD 141bn in 2018, total global fintech investment remained elevated in 2019 with over **USD 135.7bn invested globally** across M&A, PE and VC deals
- While the total number of deals declined from 3,145 in 2018 to 2,693 in 2019, the **average deal size grew** from USD 44.8bn in 2018 to USD 50.4bn in 2019
- Two deals drove a significant proportion of investment: the \$42.5 billion acquisition of Worldpay by Fidelity National Information Services (FIS) and the \$22 billion acquisition of First Data by Fiserv
- Despite the ongoing Covid-19 pandemic, US-China trade tension and geopolitical uncertainty in a number of key jurisdictions, the outlook **for 2020 is likely to be stable for fintech sector**
- As more fintechs look for expansion, the payments industry is only expected to scale up. Corporate investment is also expected to remain high as traditional companies look to improve their customer-experience and embrace innovation within their operations and product offerings





CYBER SECURITY

- Financial services executives are finding it challenging to deal with the impact that cyber-threats have had on their industry
- Fintech-focused cybersecurity investment continues to grow, driven by the increasing importance of cybersecurity to both traditional financial institutions and fintechs. Part of this relates to the move towards open banking
- With data flows opening between different institutions, the ability to protect the data in transit or in the cloud is critical. Another driver of cybersecurity investment has been the need for more effective and customer-centric access controls. Financial institutions are beginning to recognize the importance of providing an exceptional client experience

Some of the trending cybersecurity challenges are...





BIG TECH PARTICIPATION

- Having started with payments, big techs (such as Amazon and Google) are looking to expand into the financial services arena, offering services such as lending, insurance and wealth management, in markets across the world
 - Big-techs have vast reach, deep roots into their customers' lives, and robust customer data
 - Big techs are also constantly looking for ways to provide their customers with more value, to enhance customer loyalty by providing a more integrated payments ecosystem
 - However, there are no strong indicators that the big tech companies want to become banks. The regulatory burden is so far considered too high for their appetite

There have been a number of strategic business relationships announced, such as **Google's** partnership with Citibank and Stanford Federal Credit Union, to offer smart checking accounts.

Apple's announcement of a partnership with Goldman Sachs to offer the Apple Card credit card

Tencent led a \$35 million investment in open banking focused TrueLayer in the UK in 2019 . What they are realizing that partnerships don't have to be limited to start-ups — working together with established institutions can create value

Facebook's new Libra cryptocurrency is set to start trading soon, with the aim of building a more inclusive global financial system

From payments to lending to insurance to checking accounts, **Amazon** is attacking financial services from every angle without applying to be a conventional bank. The company remains focused on building financial services products that support its core strategic goal: increasing participation in the Amazon ecosystem. Today, **Amazon Pay** has evolved to include a digital wallet for customers and a payments network for both online and brick-and-mortar merchants.

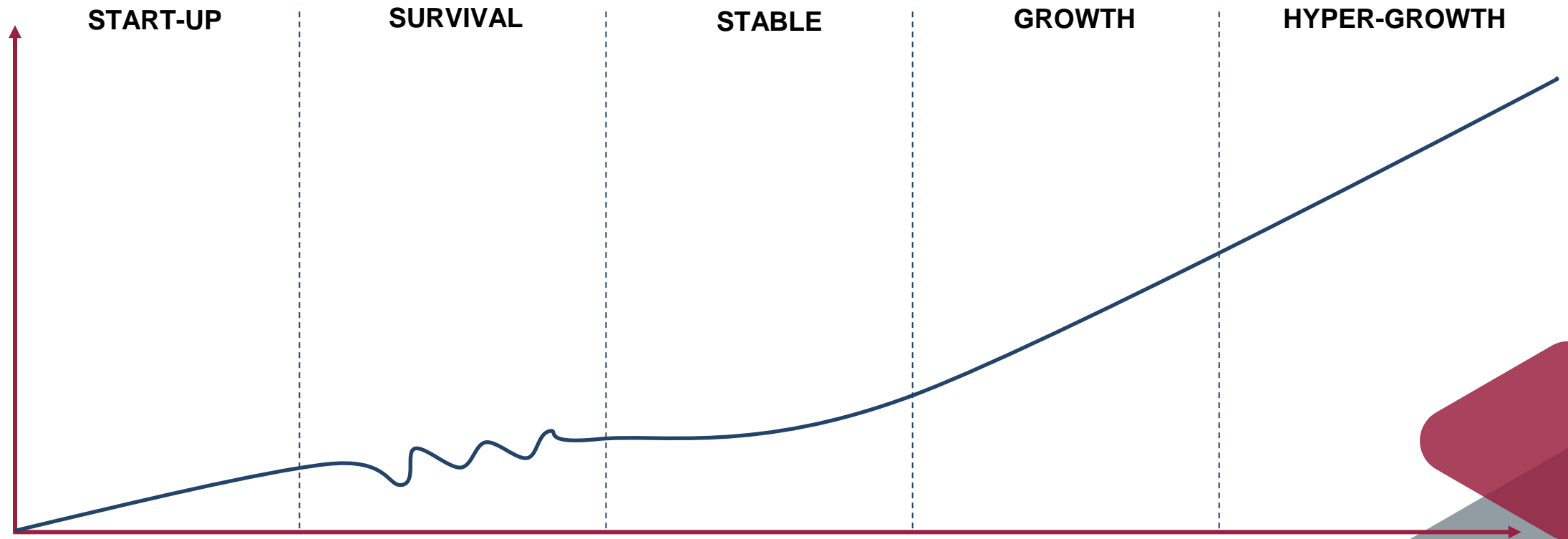




Industry Structure

- Industry Lifecycle
- Product
- Customer
- Geographic Spread
- Key Success Factors
- Fintech Ecosystem

INDUSTRY LIFECYCLE



The lifecycle of a Fintech may start with an innovative and digital first concept, but must be underpinned with regulation, governance and a strong growth strategy

PRODUCT

Significant Impact

Limited Impact

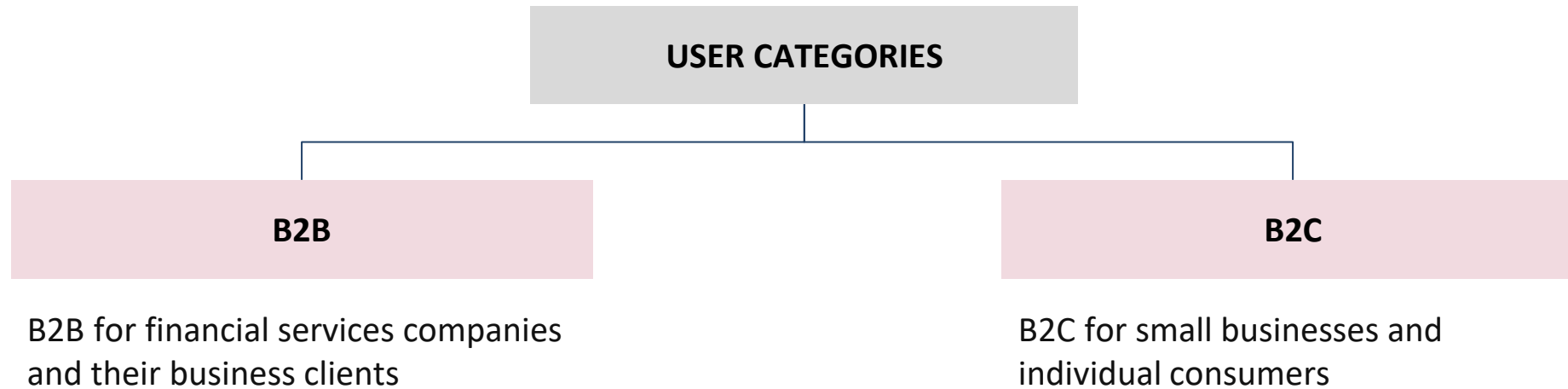
IMPACT OF TECHNOLOGIES ON FINANCIAL SERVICES

	Capital Markets	Insurance	Investment Management	Payments	Lending
Advanced Analytics	Significant Impact	Significant Impact	Significant Impact	Significant Impact	Significant Impact
AI (RPA)	Significant Impact	Significant Impact	Significant Impact	Limited Impact	Significant Impact
Blockchain	Significant Impact	Significant Impact	Significant Impact	Significant Impact	Significant Impact
High Frequency Trading	Significant Impact	Limited Impact	Limited Impact	Limited Impact	Limited Impact
Internet of Things	Limited Impact	Significant Impact	Limited Impact	Limited Impact	Limited Impact
Platforms	Limited Impact	Limited Impact	Limited Impact	Significant Impact	Significant Impact
Transversal Technologies	Significant Impact	Significant Impact	Significant Impact	Significant Impact	Significant Impact

(APIs, Cybersecurity, Cloud, Electronic Authentication, Regtech)



CUSTOMER

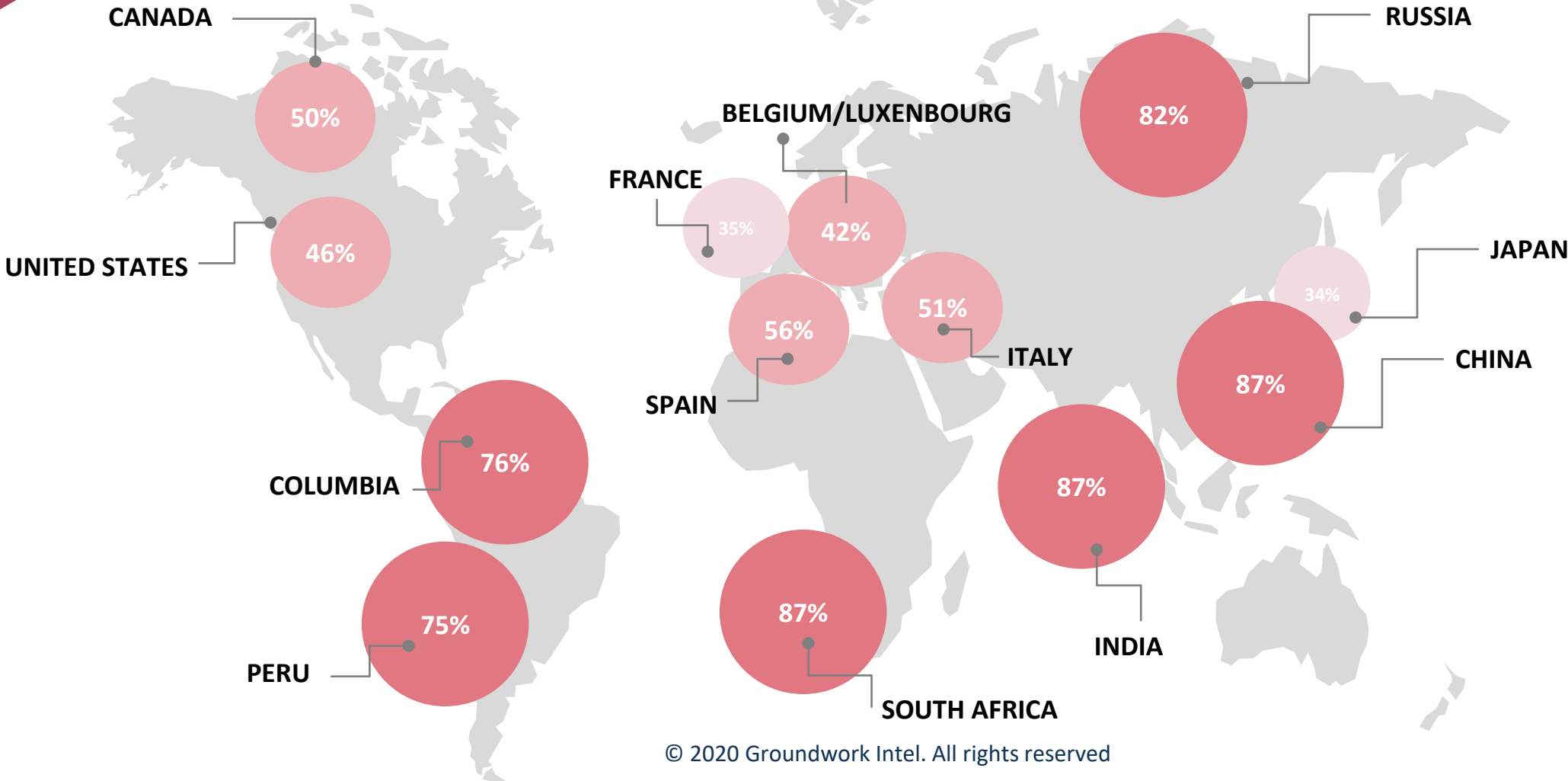


- Trends toward mobile banking, increased information, data, and more accurate analytics and decentralization of access will create opportunities for all four groups to interact in heretofore unprecedented ways
- As for consumers, as with most technology, the younger you are the more likely it will be that you are aware of and can accurately describe what Fintech is. The fact is that consumer-oriented fintech is mostly targeted toward millennials given the huge size and rising earning (and inheritance) potential of that much-talked-about segment
- When it comes to businesses, before the advent and adoption of Fintech, a business owner or startup would have gone to a bank to secure financing or startup capital. If they intended to accept credit card payments they would have to establish a relationship with a credit provider and even install infrastructure, such as a landline-connected card reader. Now, with mobile technology, those hurdles are a thing of the past.



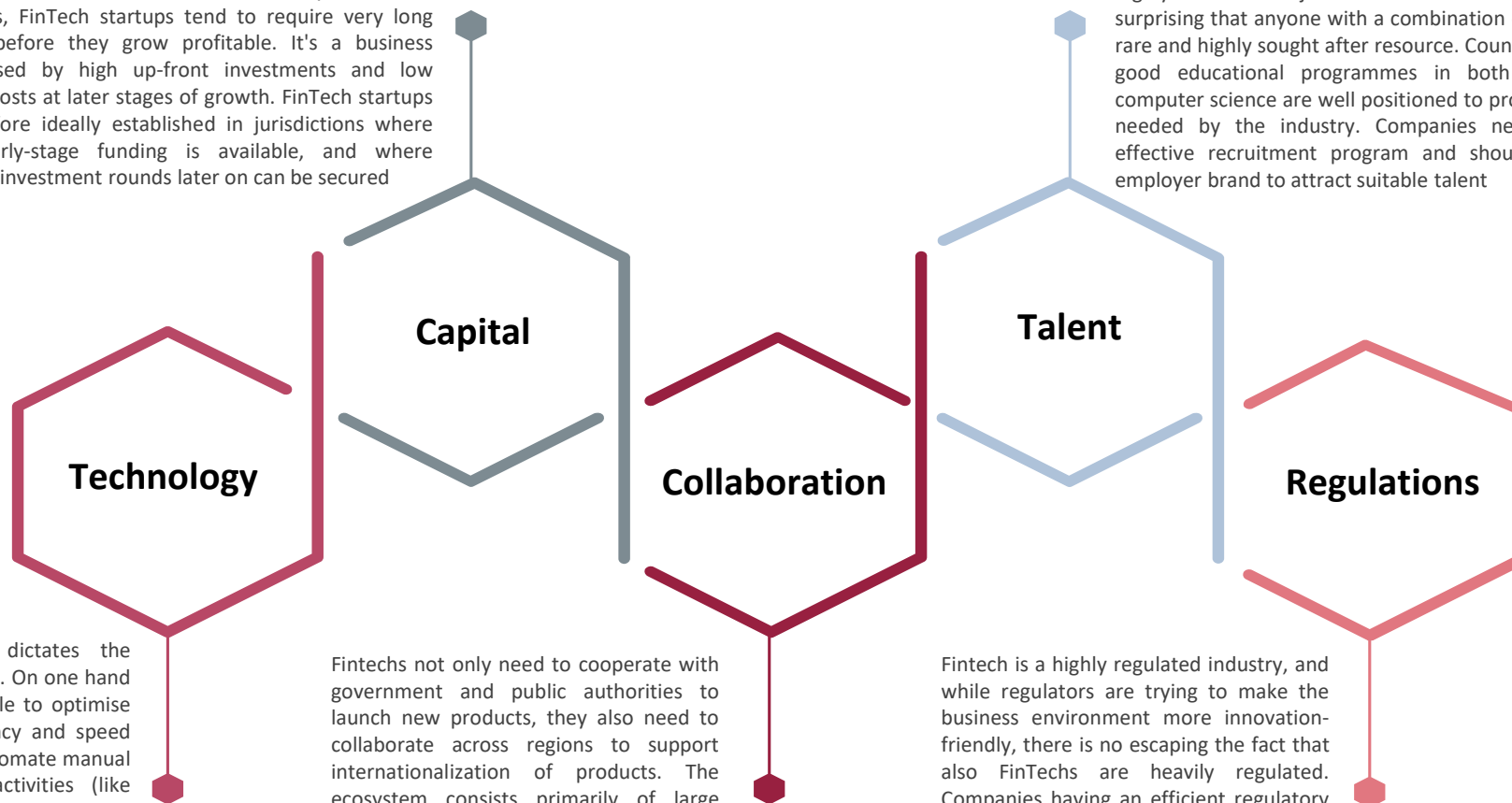
GEOGRAPHIC SPREAD

Survey of 27,000 consumers in 27 countries; percentage of who had used at least one Fintech product



KEY SUCCESS FACTORS

Because its business models often rely on scale economies, FinTech startups tend to require very long runways before they grow profitable. It's a business characterised by high up-front investments and low marginal costs at later stages of growth. FinTech startups are therefore ideally established in jurisdictions where ample early-stage funding is available, and where ambitious investment rounds later on can be secured



Technology shapes and dictates the operations in Fintech sector. On one hand technology makes it possible to optimise processes, increase efficiency and speed of financial services and automate manual and resource intensive activities (like RPA). On the other hand, tech fosters disruption and disintermediation of the financial services value chain and create new business models

Fintechs not only need to cooperate with government and public authorities to launch new products, they also need to collaborate across regions to support internationalization of products. The ecosystem consists primarily of large incumbent firms, as well as of other related actors in the value-chain, such as vendors and distributors.

Fintech is a highly regulated industry, and while regulators are trying to make the business environment more innovation-friendly, there is no escaping the fact that also FinTechs are heavily regulated. Companies having an efficient regulatory controls department have an edge

The skill set needed in FinTech is a cross-section of finance and computer science. Each of these domains is highly valued in the job market in its own right, so it's not surprising that anyone with a combination of the two is a rare and highly sought after resource. Countries that have good educational programmes in both finance and computer science are well positioned to provide the skills needed by the industry. Companies need to devise effective recruitment program and should have solid employer brand to attract suitable talent



FINTECH ECOSYSTEM





Thank You!



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