



FinTech:

**Louis, I think this is the beginning
of a beautiful friendship.**



The international perspective on the transformation of the financial sector with FinTech

Ank van Wylick

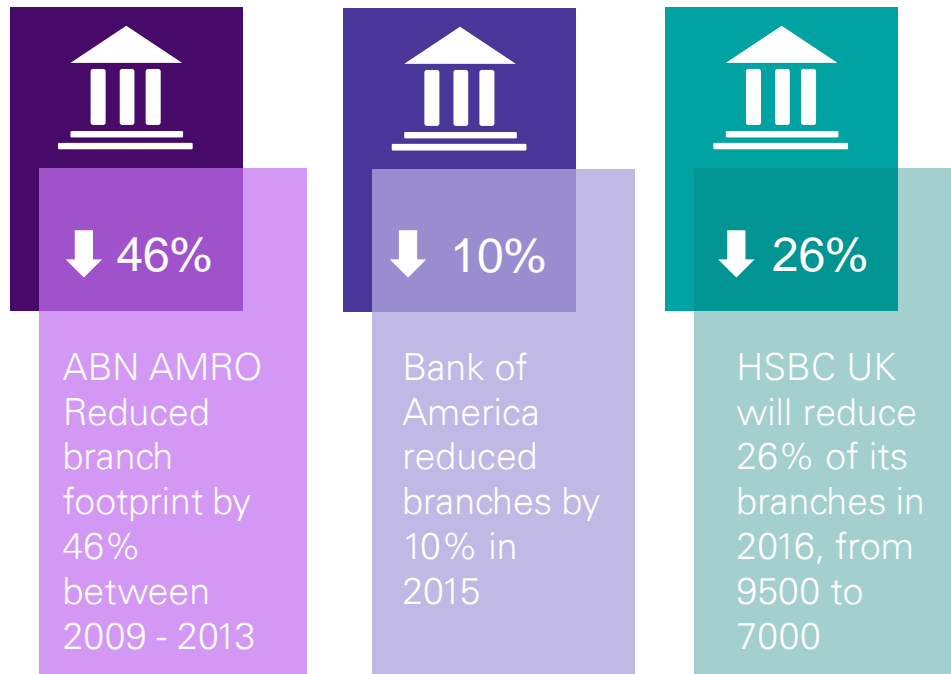
Partner FinTech & Innovation Execution

KPMG The Netherlands

March 2016

Number of physical branches have been substantially reduced

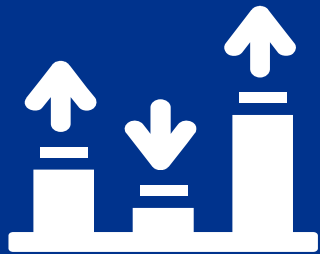
Global predictions; 1 in 3 banks are closing in 2016



Number of commercial branches per 100.000 adults	2010	2014
France	41,5	38,0
Germany	15,7	14,5
Israel	19,4	19,1
Netherlands	23,0	14,8
Switzerland	51,8	46,0
United Kingdom	24,7	n.a.
United States	35,3	32,4

Source: Bain & Co.; Worldbank febr 2016

Internal trends



17%
VS.
9%

Pre-crisis ROE versus post-crisis ROE showing reduced profitability for banking.



14.2%
VS.
5.4%

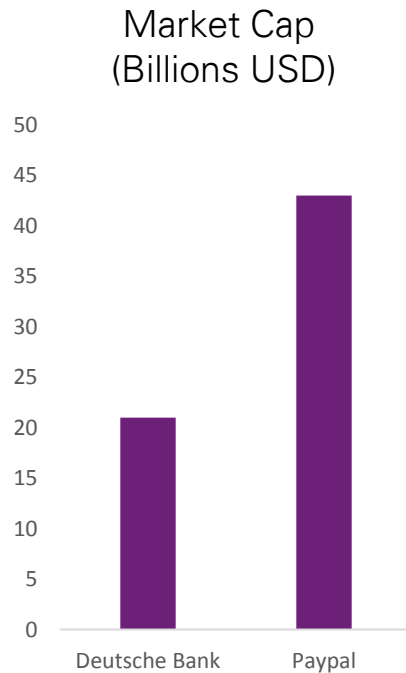
Three year revenue growth of banks excelling at customer experiences versus the average ftse -100 bank.



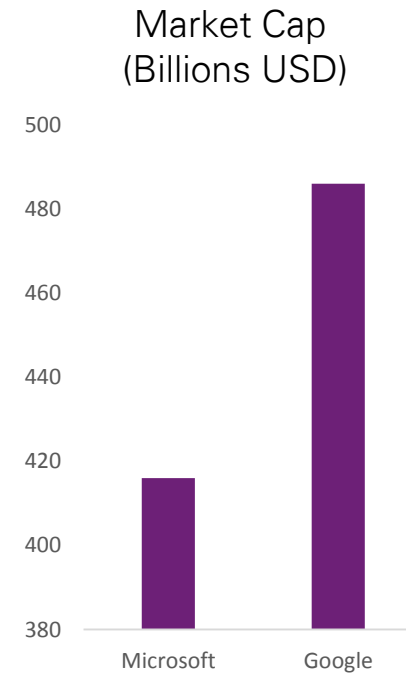
33%

Prospected closure of branches in 2016.

Are banks too big to fail?



Even a 'small' FinTech company is still valued twice as much as a 'big' bank.



While the 'big' tech companies are valued over twenty times more than a 'big' bank!

FinTech is already big business

\$20bn

Global FinTech investment in 2015

\$45bn

Revenue from 20 largest FinTechs in 2014

\$11bn

Banking profits at risk due to P2P

230.000

People working in FinTechs in Top7 countries

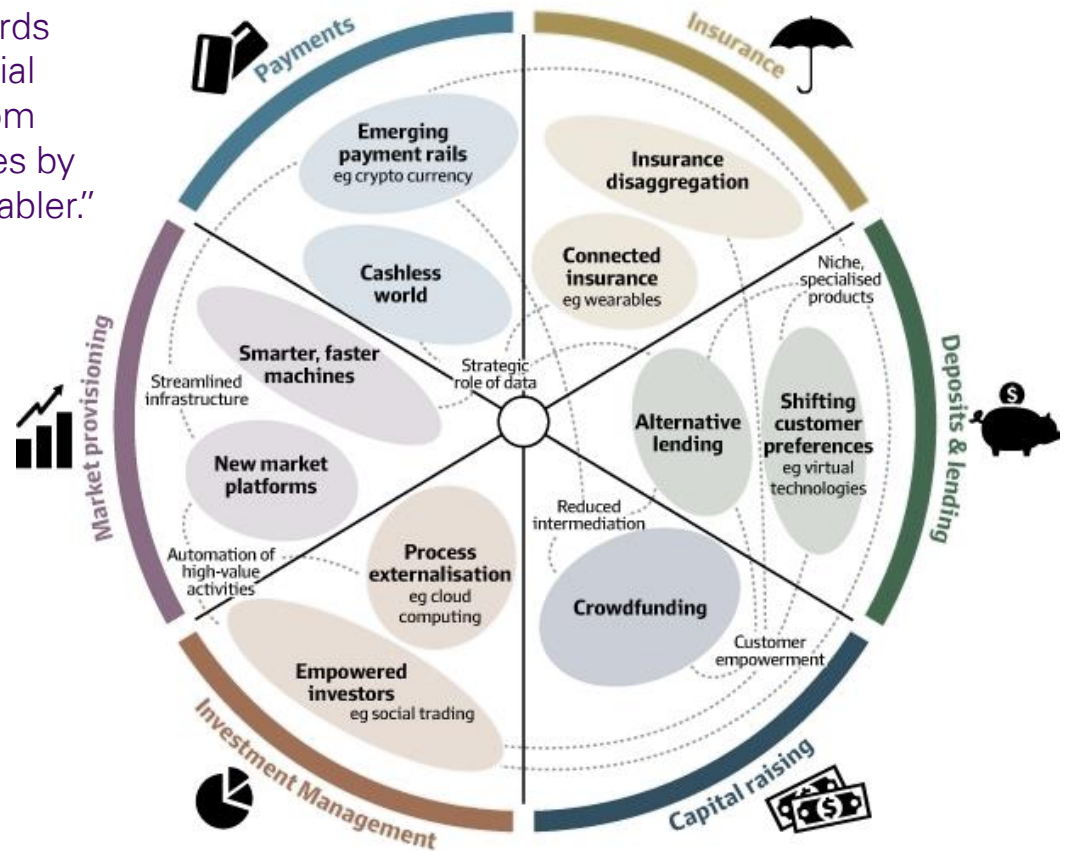
Source: KPMG, Goldman Sachs, HM Treasury/EY

What is fintech?

Definition of FinTech: “A contraction of the words ‘Financial’ and ‘Technology’, innovation in financial services, whether that means new products from new startups, or the adoption of new approaches by existing players where technology is the key enabler.”

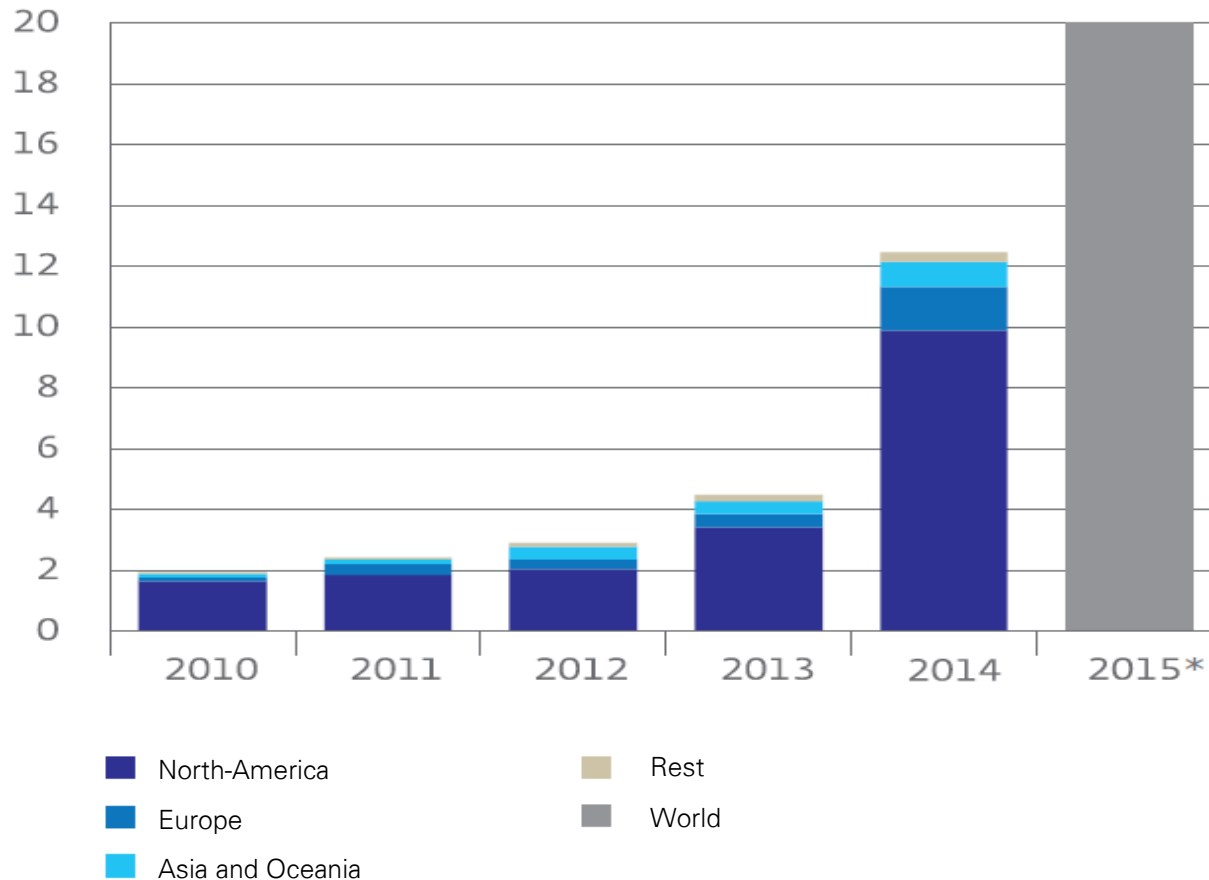
Six core functions of financial services innovation

- Payments
- Market Provisioning
- Investment Management
- Insurance
- Deposits & Lending
- Capital Raising



Source:
World Economic Forum

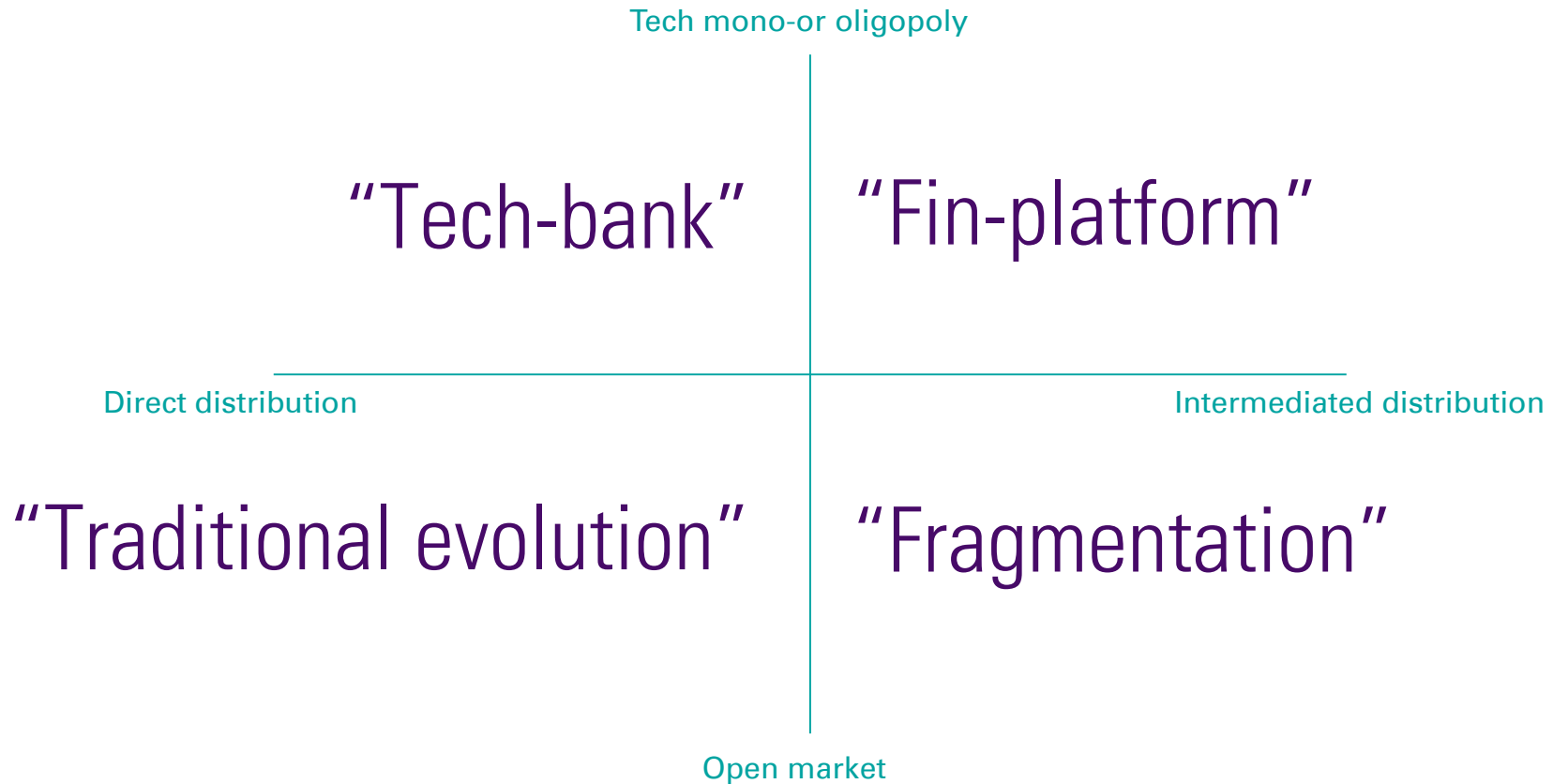
Investments in FinTech are growing sharply



* Estimate

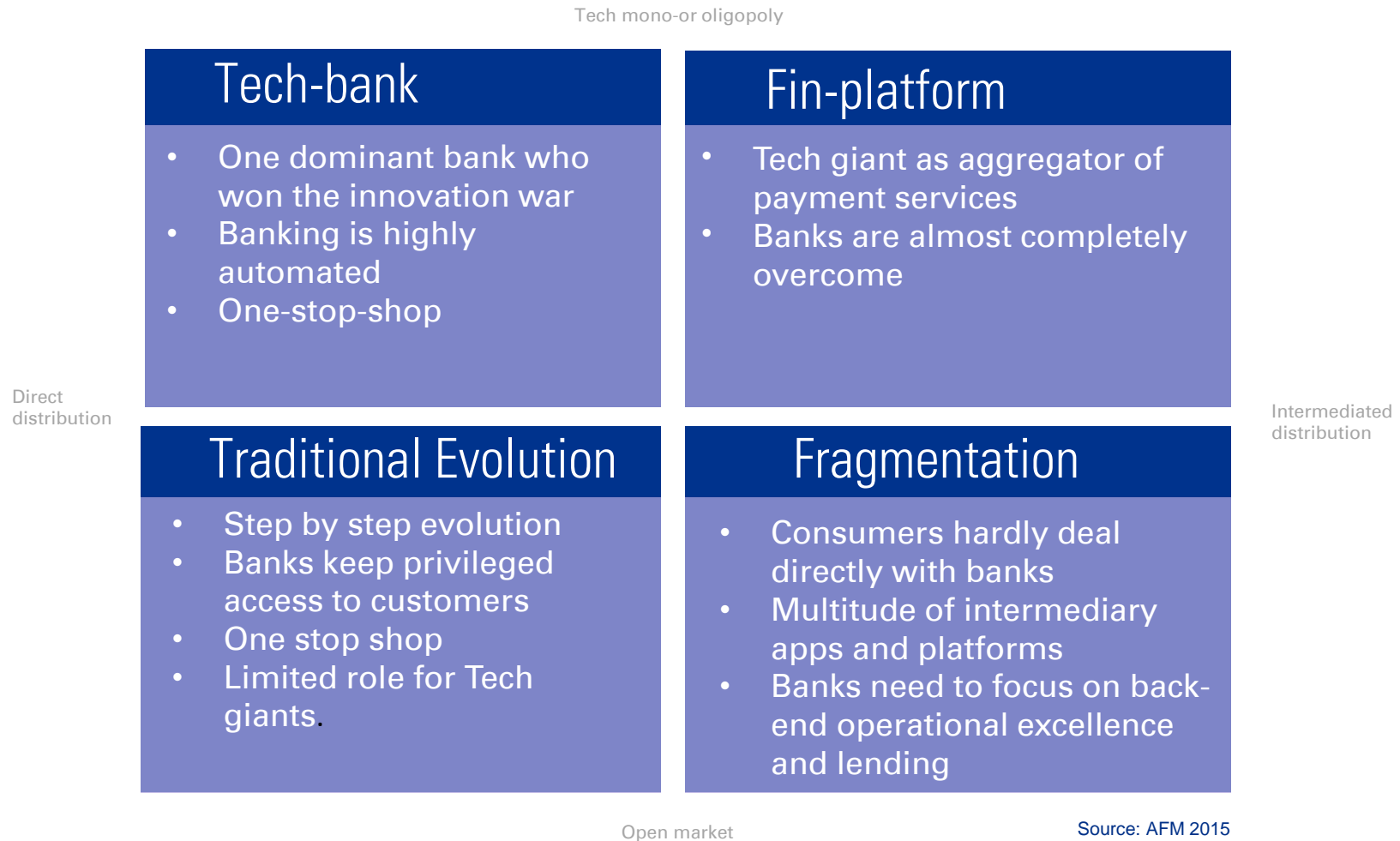
Source: CB Insights, Accenture & KPMG

How will the FinTech revolution unfold?



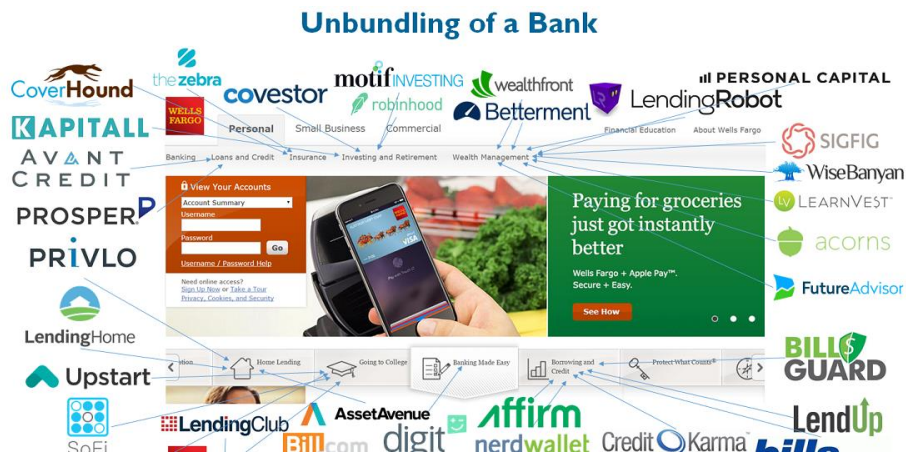
Source: AFM 2015

The four scenario's for retail banking



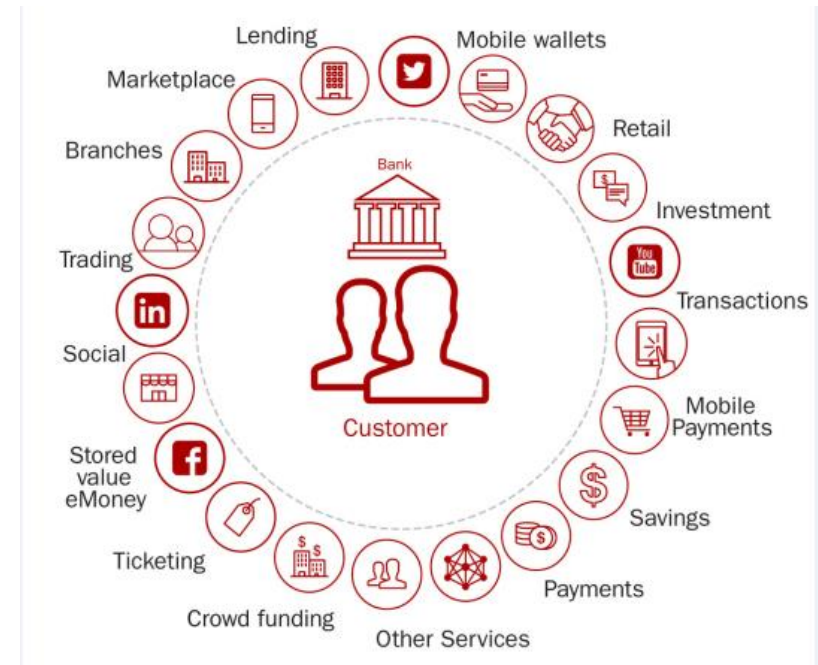
How will the future banking landscape look like?

UNBUNDLING



&

PLATFORMIFICATION

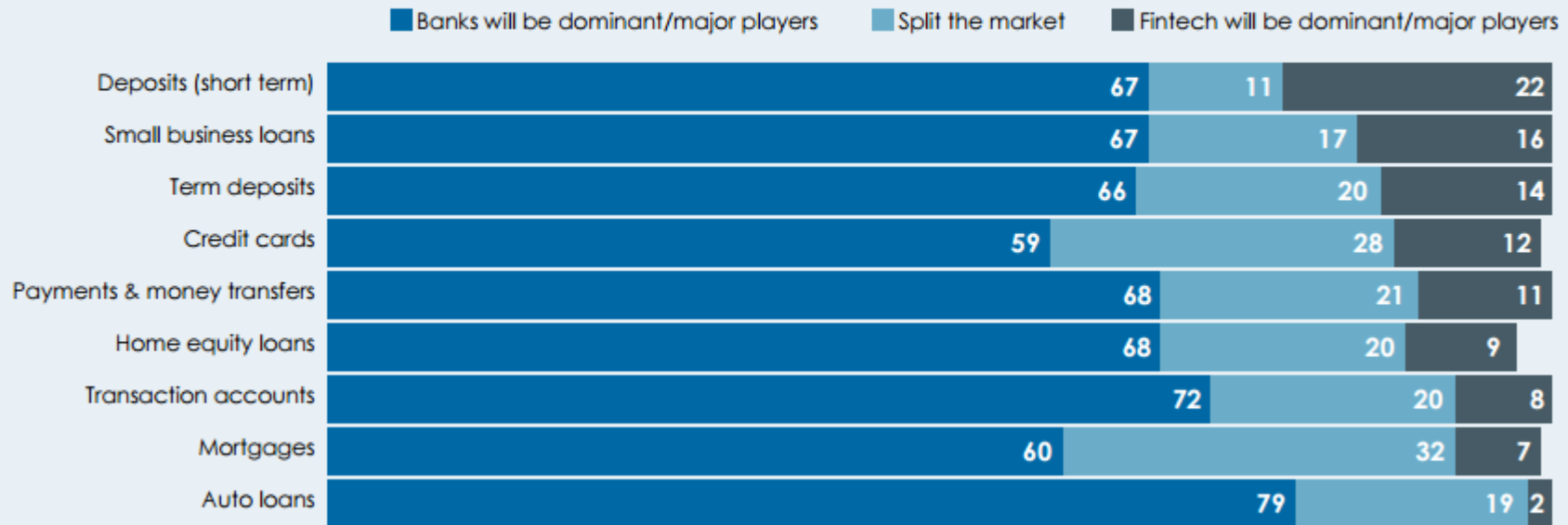


Source: CBInsights, Shevlin

FinTechs might take bigger pieces of the pie in some areas

The future landscape—balance of banking and Fintech by product

For each banking product, what is the most likely competitive balance between banking and Fintech in five years?



Source: The Economist Intelligence Unit survey, 2015.



What are Startups doing (better)?

Startups adapt faster



Rapid experimentation: setup experiments and test new products and services quickly without heavy investments.



Applied creativity: startups provide inspiration for new products, services and business models.



Technology: startup technology enables organizations to radically optimize existing operations or develop new value propositions.

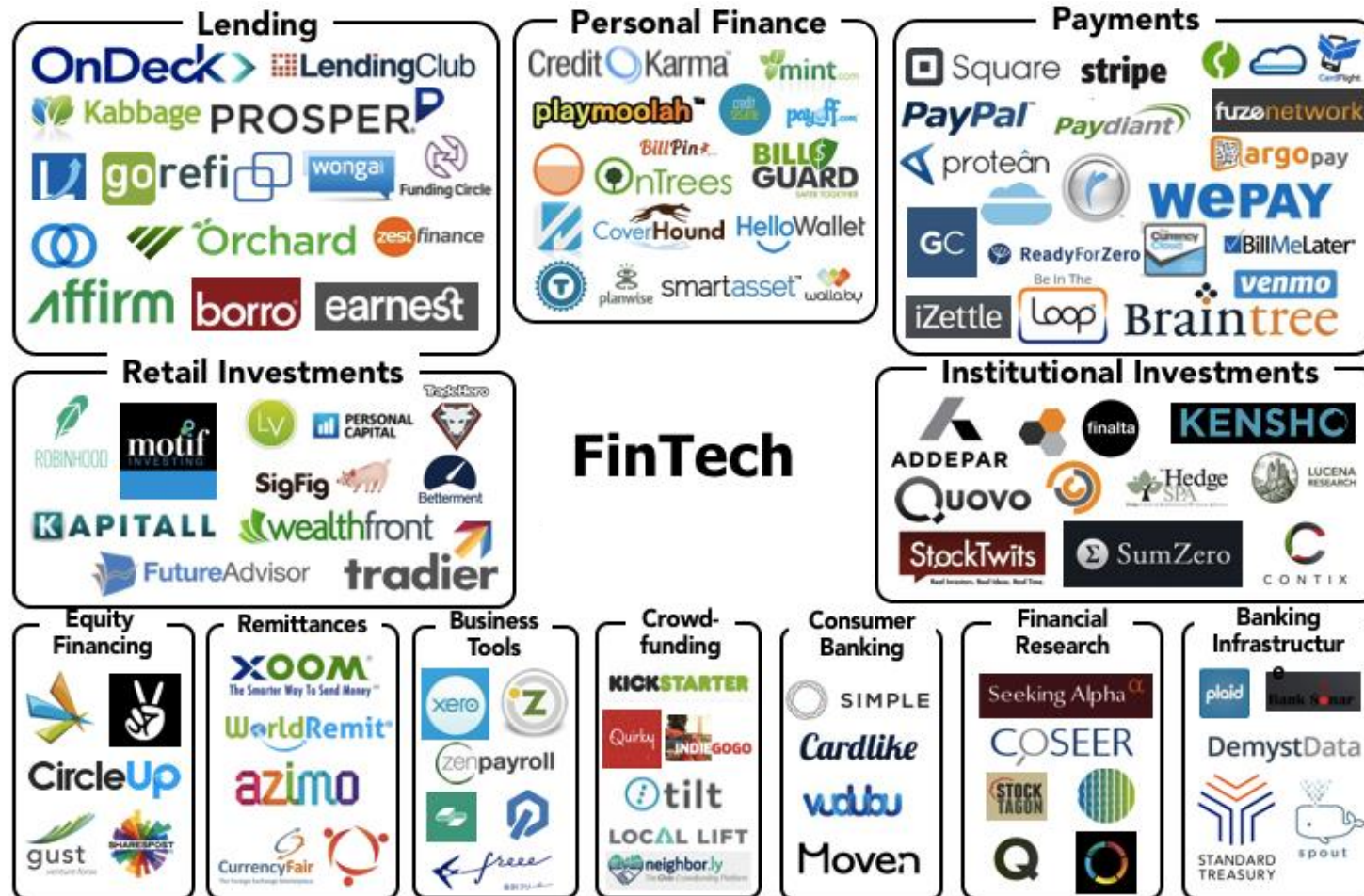


Identify game changers: discover potential disruptive, investor backed, concepts in an early stage.



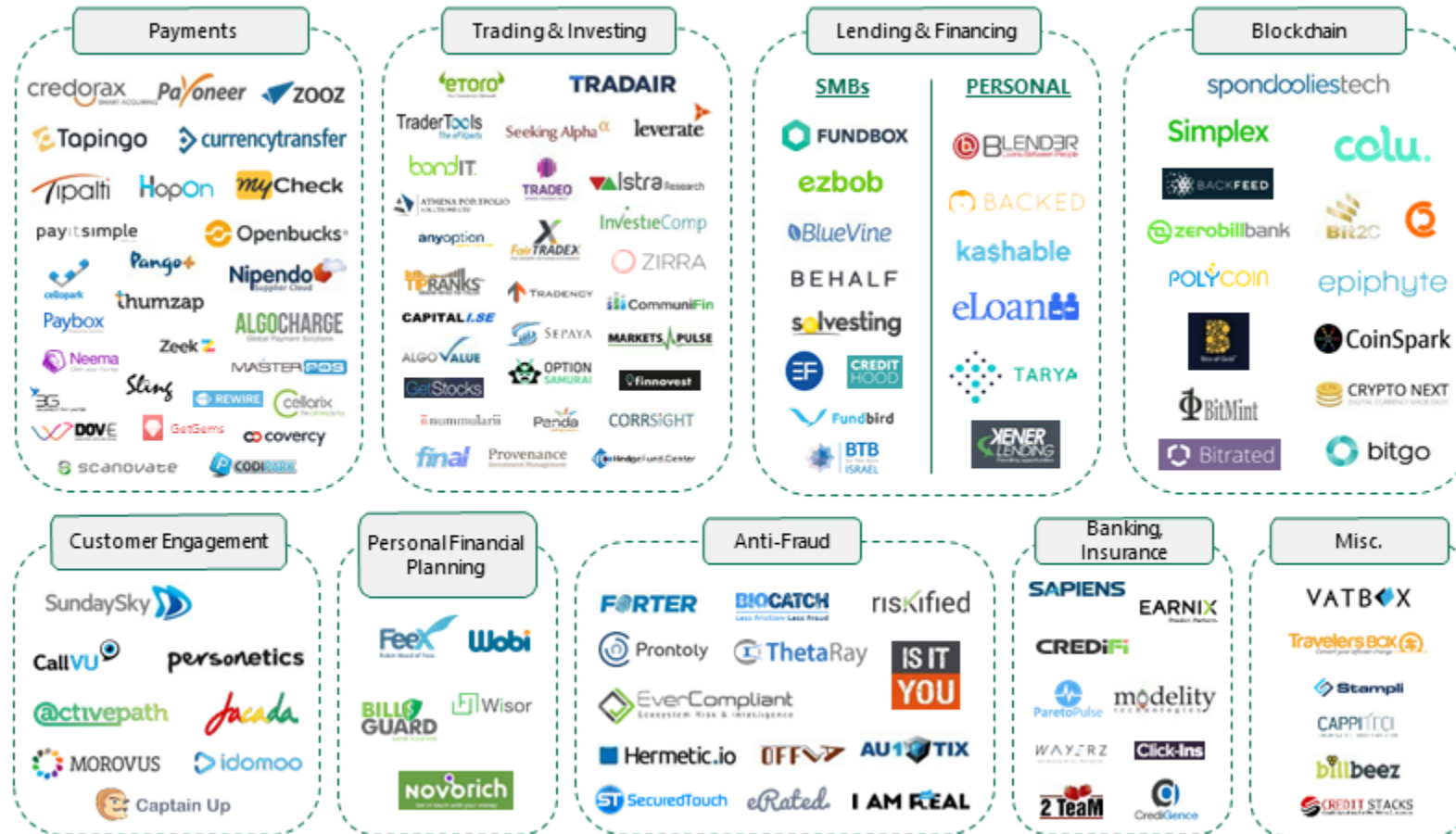
Mindset: startups bring a fresh perspective and a can-do-mentality towards organizational challenges.

Global FinTech landscape



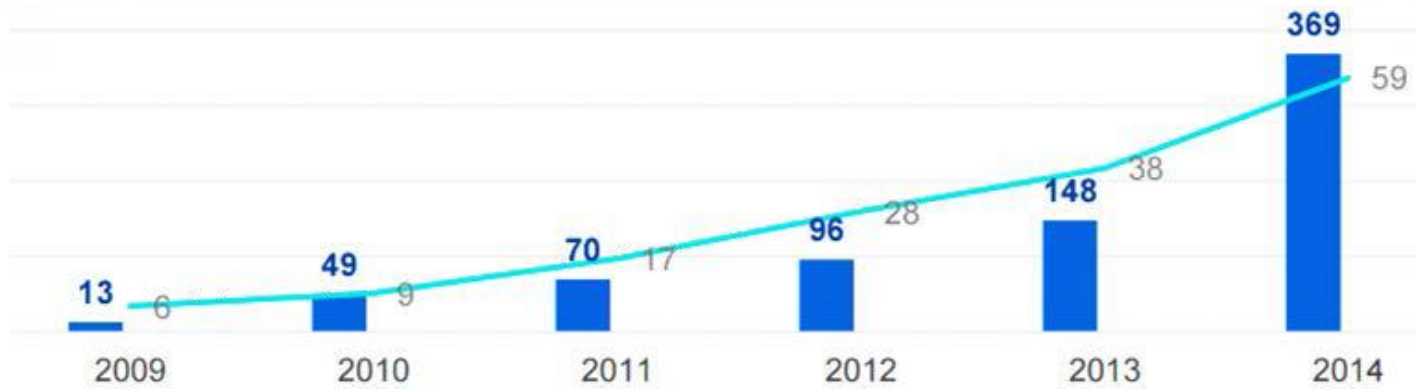
Venture Scanner

The FinTech landscape in Israel is booming

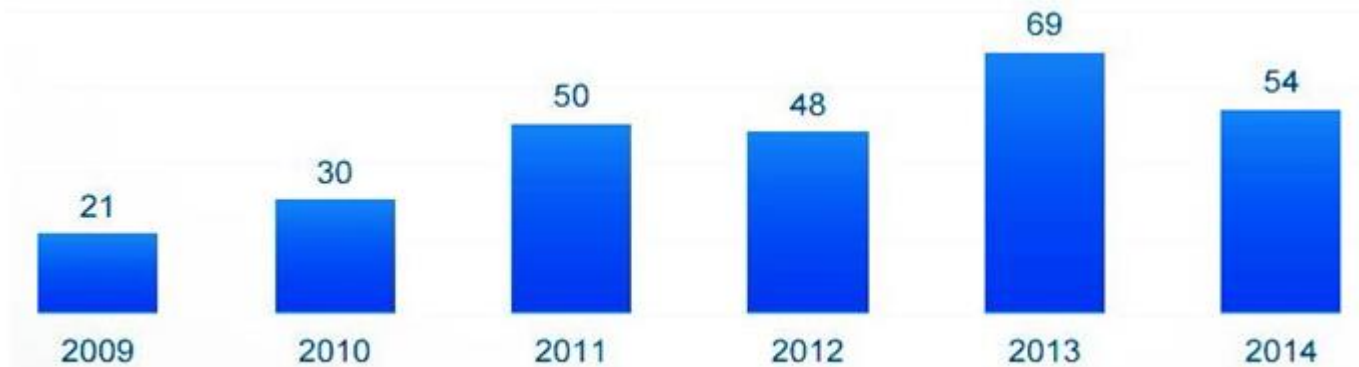


Source: Carmel VC

FinTech in Israel



Investments in Israeli FinTech startups



Newly established FinTech startups



FinTechs & Innovation at banks: a fine combination

FinTech startups: Many and growing number of FinTech Enablers



Source: KPMG/H2

FinTech Capitalise: the 'best of show' at Finnovate London 2016



Capitali.se simplifies the investment process by taking your words and translating them into investment scenarios that everyone can understand.

FinTechs are teaming up



- 1 Other banks profit by hiding their unfair exchange rates.
- 2 TransferWise applies the real market exchange rate.
- 3 The NUMBER26 current account is free. TransferWise charges a small fee that's shown upfront.

Source: Venturebeat febr 2016

...and new FinTechs are to be expected from perhaps lesser known areas



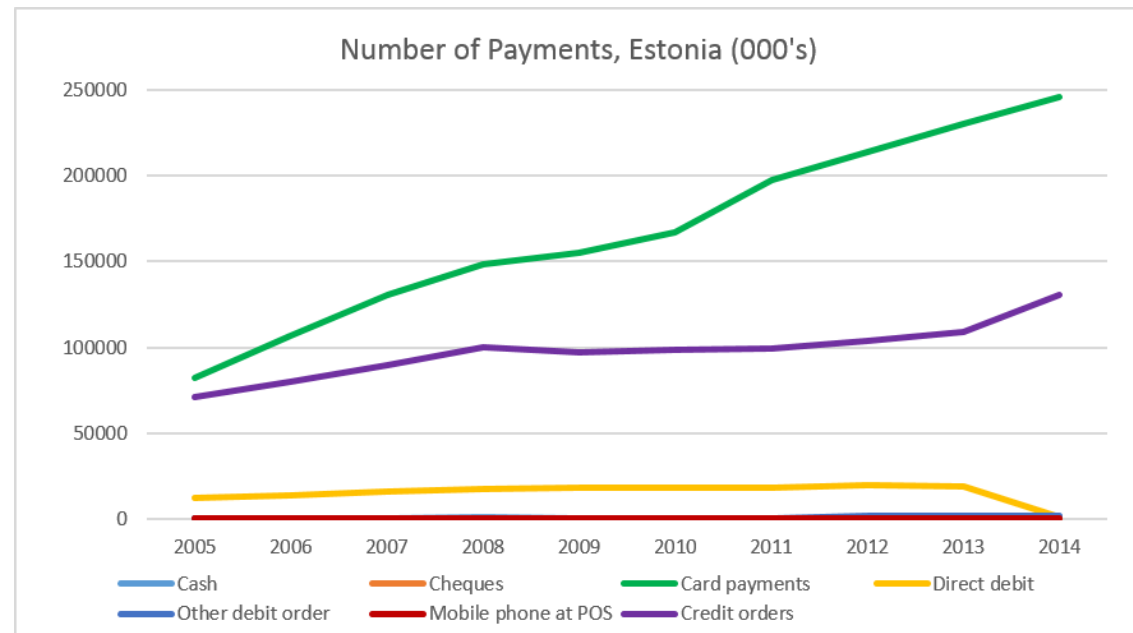
e- government

e- voting

e- Contracting

Front-runner in Blockchain/
e-currency

99.8 percent of all banking transactions are digital
12,4 bankbranches per 100.000 adults

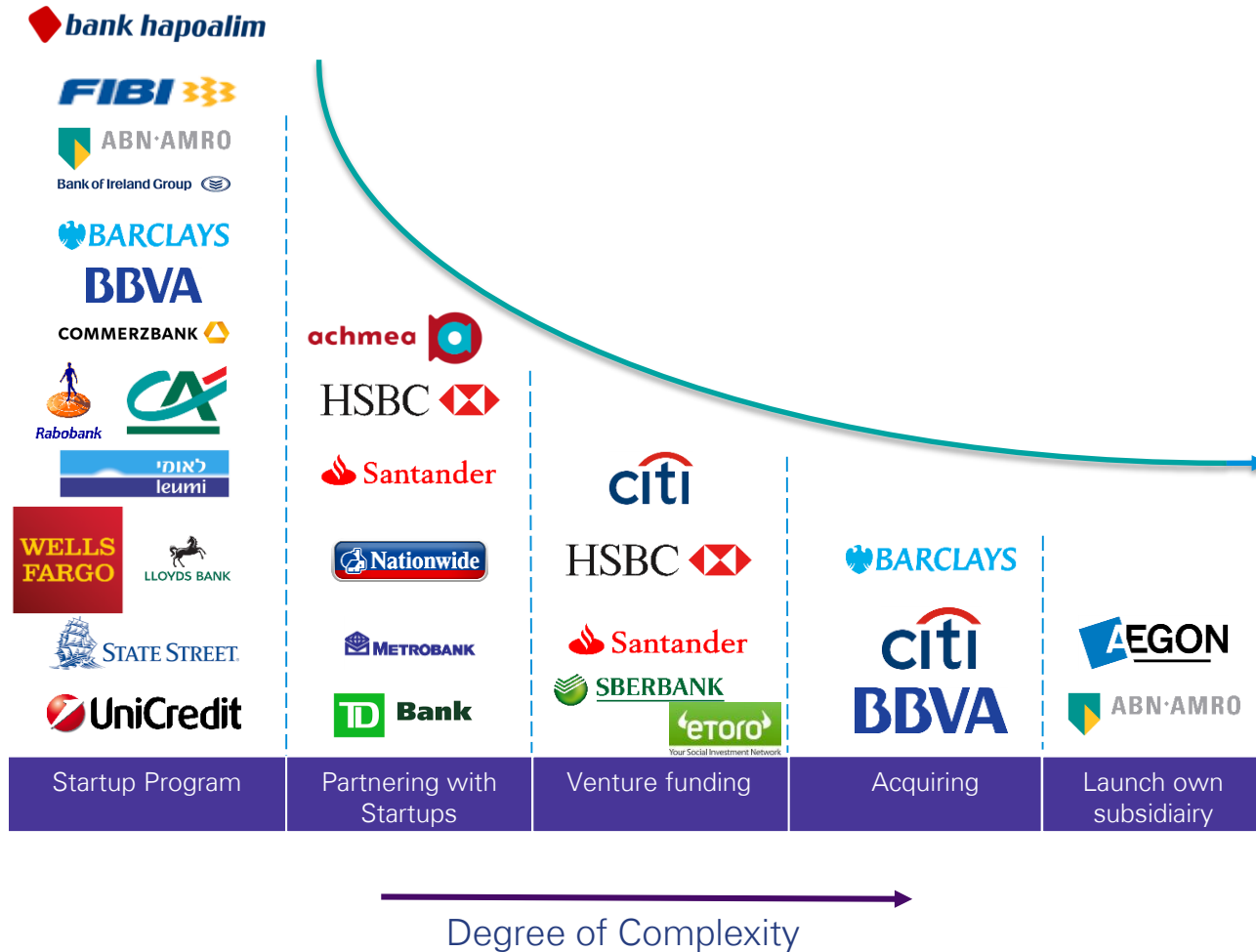


Source: e.Estonia.com, worldbank

Global banks are responding with various actions

Start up program	Partnering with startups	Venture funding	Acquiring	Launch own subsidiary
First steps to get in touch with the startup ecosystem by, for example, organizing awards, challenges, and clinic programs	Partnering up with specific startups, for instance by means of joint ventures, to accelerate innovation for both parties	Corporates providing funding for startups in order to accelerate innovation and enhance cooperation	Acquisition of an innovative startup in order to encapsulate its innovativeness and technology	The addition of an own innovative subsidiary to your organization competing with other startups and corporate competitors

What are banks currently doing?:



Large VC's funds have been made available by banks

HSBC 



\$200M

 Santander



\$100M

AMERICAN
EXPRESS



\$100M

BBVA



\$100M

Collaboration is the key

Globally, institutions are taking a wide range of approaches in trying to keep up with the wave of technology innovation that is threatening to disrupt their sector.



Innovation Examples



Channel innovation

Bank of East Asia

Bank of East Asia installed digital branches, which are paperless, efficient and attractive omnichannel versions of normal physical branches. The branches are equipped with state of the art communication tools and have a much smaller back-office area reducing its footprint.



Product innovation

Fidor Bank

Fidor Bank created its savings account around an open API. This API can be used by third parties to greatly extend the product and service line Fidor is offering by itself.



Process innovation

Deniz Bank

Deniz Bank created a platform that integrates predictive analytics, CRM strategies, an intelligent interface and streamlined processes to optimize contact between employees and customer regardless of the channel used.

BBVA Case: Innovation Strategy

BBVA Open Innovation

Innovation efforts driven at developing an Innovation Community (non-exhaustive):

- **Innova Challenge & Innova Apps:** Initiatives making use of **Hackathons** and **Datathons** to develop new ideas/prototypes and stay close to Digital talent
- **BBVA Open4U.com:** Digital environment to interact with developers and potential partners for **co-creation** through exposure of **BBVA's assets & means**
- **BBVAbetatesting.com:** Platform to get **product improvement** suggestions and product debugging

BBVA's Living Lab shows the center's visitors our main innovation projects, whilst also serving as a laboratory for testing new products and services with real users in an environment recreating specific scenarios from everyday life.



Innovation strategy boosted through investments in payments, wealth management, bitcoin, and lending startups

Innovation provides a unifying theme for all the workshops, conferences and seminars held, enabling BBVA to work closely with entrepreneurs, opinion leaders, institutions and companies.

ING agile way of working

A large financial institution working like a start up



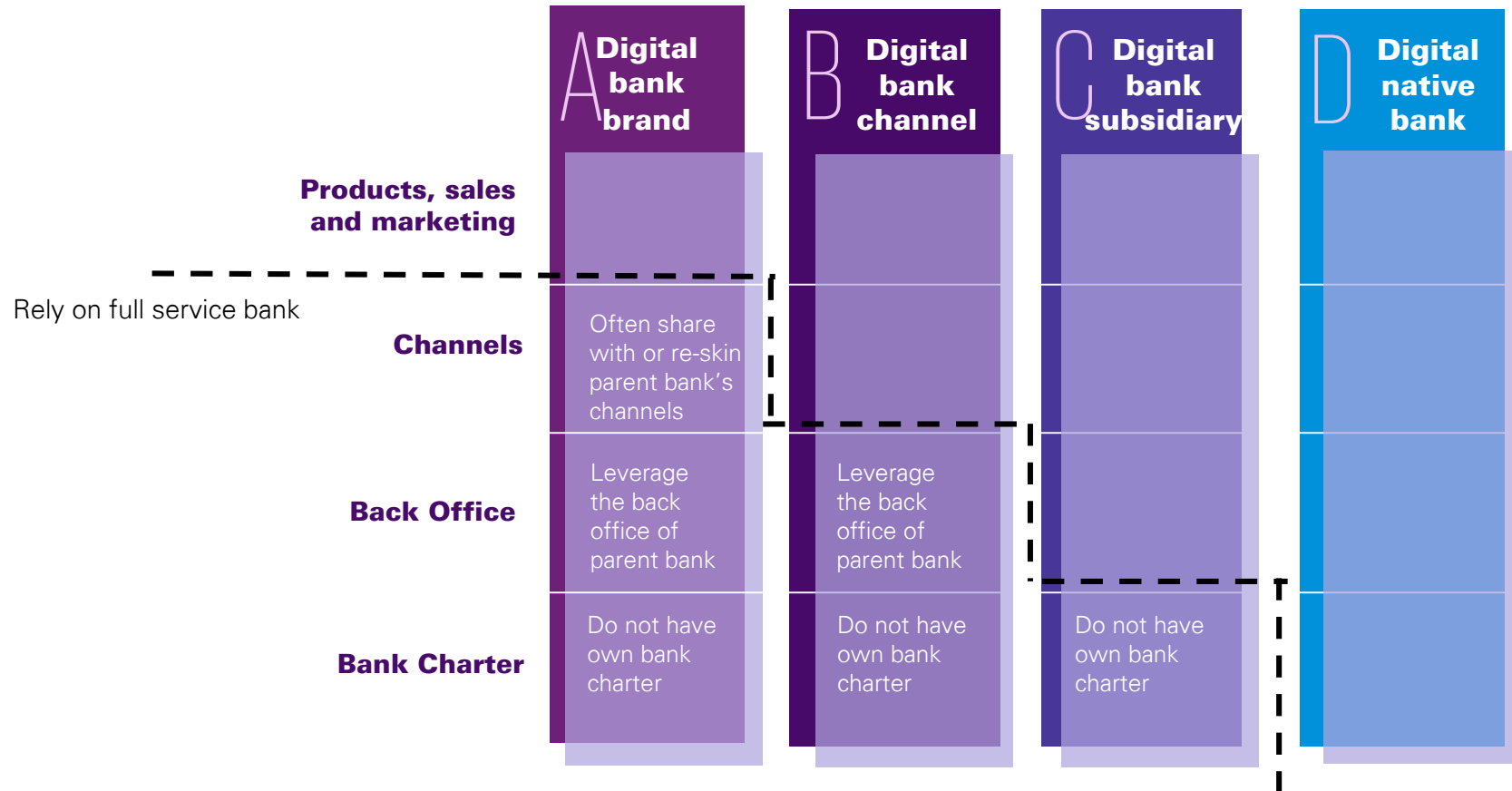
New Digital bank innovation models

some with a role for traditional banks

FRANK
BY OCBC



SIMPLE



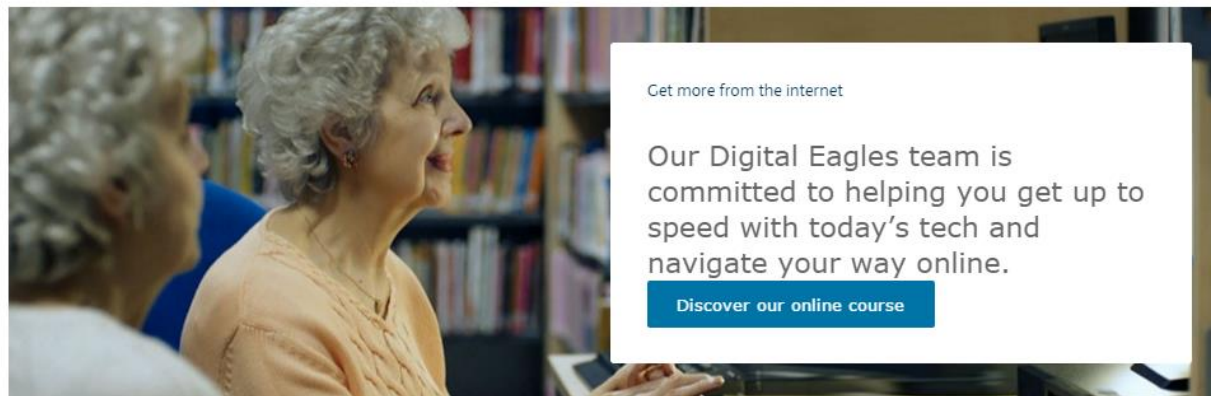
Example of giving attention to who are "new" in the digital space



Digital Eagles

Build your internet skills with our Digital Eagles

There's an easy way to get more from technology – and we'd be happy to show you how.



Some banks aim to create memorable customer experiences

Customer Experience



Empathy



Personalisation



Time & Effort



Resolution



Expectations



Integrity

first direct

First Direct – the unexpected bank:
if you switch they pay you GBP 125
if you like them
and GBP 100 if you don't



14.000 employees got an empathy
training to help create memorable
customer experiences

Source: KPMG Nunwood 2016

Making the difference with customer experience

Umpqua and the future of bank branches



Innovation is not only Digital



Barzahlen allows customers to buy anything online and pay later in a physical partnerstore.



The Regulators perspective on the transformation

Regulators are supporting acceleration of innovation

Examples



Australian Securities and Investments Commission (ASIC) has started an Innovation Hub.

English FCA
Project Innovate:
They helped over 175 innovative businesses; 5 new businesses have now been authorized

The regulatory sandbox is a 'safe space' in which businesses can test innovative products, services, business models and delivery mechanisms

UK Open Banking Group built 15 APIs

Source:
World Economic Forum, FCA

Conclusion

The financial sector has been seriously affected by technology & FinTechand there is more to come

The FinTech sector is growing fast; next to payments and lending; robo advice and data related FinTechs are now coming to the market

The Israeli FinTech market has a strong position: e.g. in payments, lending, and security

International banks are gearing up with various initiatives ranging from working with FinTechs, Funds and increased attention to Innovation

FinTechs and Banks can form a strong coalition in the transformation of the financial sector

A black and white photograph of two men in suits and hats walking away from the camera on a dark, reflective surface under a starry sky. The men are silhouetted against the bright sky, which is filled with numerous stars. The ground they are walking on is dark and highly reflective, mirroring the stars above. The overall mood is mysterious and cinematic.

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