

# 2018

## Fintech Disruptors Report

Nordic Edition

# THE FOUR SEAS

SETTING SAIL FOR  
FINTECH SUCCESS





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# FOREWORD

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## INNOVATION BY COLLABORATION

**A**t Mastercard, we believe we are stronger together, which is why partnership is at the heart of our business. By working together with established and new players in the paytech space we are better equipped to meet the future needs of both consumers, merchants and governments.

To collaborate with startups and fintechs is one very important part of this. Mastercard has been committed to fintechs for many years, fostering partnerships with pioneers who have grown into global brands. Mastercard currently supports over 30 emerging and established digital banks in Europe alone and is working with several fintechs in the Nordics and Baltics. Mastercard supported iZettle at an early stage acting as advisors when they were setting up their business and has been working with Zwipe in yet another advisory set up, testing their biometric fingerprint payment card.

In our Start Path Program, we partner with startups from around the world to help scale their businesses. The program enables companies to gain access to Mastercard's global ecosystem and to break new markets through relationships with Mastercard and our customers.

Accelerate is our new European initiative to drive growth at scale for the fast-evolving fintech industry. The initiative is designed to support the ambitions of players in the fintech sector through tailored support arrangements including access to insight, tools, technology and investment to support innovation.

In the Nordics and Baltics, we are engaging with fintechs in the recently launched Lighthouse Development Program aiming to find the next-generation fintechs in these markets, to help them develop by collaborating with us.

We hope you will enjoy this report and that it provides you with a lot of new insights for your journey ahead.



**Mats Taraldsson**

Head of Digital Business Development and Fintech Partnerships  
Mastercard Nordics & Baltics



## WHAT SUCCESS LOOKS LIKE ...

### MINDSET

**Twino:** To be successful, your business should constantly be looking for ways of growth and development. You find a potential improvement in your service or product, next you strive to find a new and better way to fix it. When it's done, you look for the next one, it's a never-ending cycle of improving, change and growth.

# CONTENT

---

## **EXECUTIVE SUMMARY**

2

---

## **INTRODUCTION**

4

---

## **1. NORDIC BANKS**

6

---

## **2. THE FINTECHS**

10

---

## **3. LOOKING FORWARD**

14

---

## **4. DEFINING SUCCESS**

19

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## **5. INTERVIEWEES**

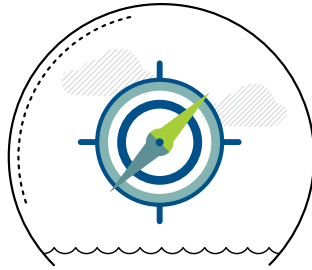
21

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## **PARTNERS**

22

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# EXECUTIVE SUMMARY

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## WHAT SUCCESS LOOKS LIKE ... THE REGION

**Fintech Disruptors:** Coordination between regional governments to tackle issues confronting the digital economy can unlock a generational opportunity for stronger growth and productivity by pioneering the world's first integrated regional economy.

**F**intech success is not in short supply in the Nordic and Baltic region. Having given birth to half of Europe's six fintech unicorns (over half as a proportion of current valuations), and on the fast track to being home to the world's first cashless economies, the scale of what's been achieved is rightly the envy of regulators and institutions around the world.

Despite some collaborative successes, driven by a powerful circle of banks that operate across the eight countries of the region, beneath the surface, financial services are still regulated at a local level, with limited intra-regional coordination. Leaving innovators caught in the crosswinds between the competing objectives of local and EU-wide rules. And creating perverse incentives for locally-founded companies to base themselves in other EU countries and 'passport' their licence back home, while sheltering the banking industry from competition.

### **SMALL IS BEAUTIFUL. BUT SO IS SCALE.**

The size and sophistication of the markets that make up the Scandinavian and Baltic regions, and their commitment to transparency and openness, are the bedrock of their success. Creating a unique testbed for innovators, big and small, to pilot leading edge innovation, with a pedigree of design excellence that

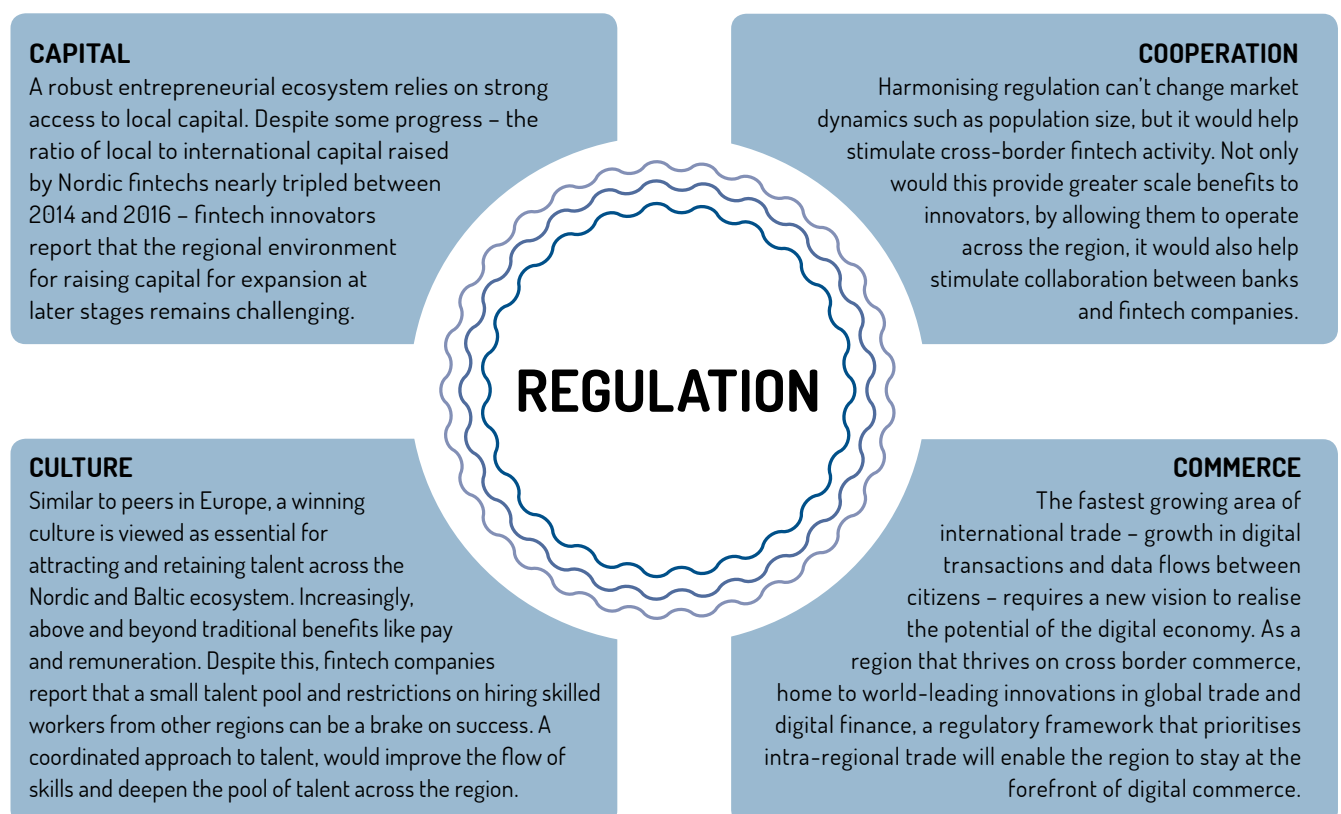
gives them a head-start in creating user experiences that customers love. Increasingly a deciding factor of digital success.

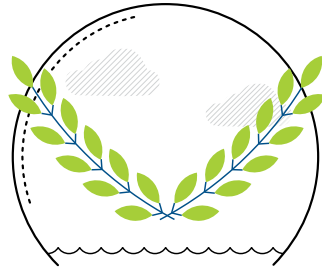
As the research explains, despite a strong track record, scale is also an important ingredient for the high frequency, low margin world of digital finance. And fragmented regulation, left unchecked, threatens to push more of the region's innovators to look elsewhere – in search of talent, opportunity or investment.

*The Four Seas* includes our most comprehensive review of Nordic fintech yet. Extended this year to include companies across the Baltic countries, it is the outcome of more than six months of interviews with banks and leading innovators alongside the results of an industry-wide survey.

As the report explains, there is a lot at stake. Better coordination between regional governments to tackle the issues confronting the digital economy would unlock a generational opportunity for stronger growth and productivity. Not to mention a chance to build on an emerging tradition of digital leadership by pioneering the world's first integrated regional economy. At the same time as it creates the right conditions to push forward the next batch of regional giants.

The research emphasises the following four key components to the future of the region's fintech success. All of which wash up, in some form, against the shores of regional policy and regulation.





# INTRODUCTION

## ENDANGERED SPECIES: THE BANK ROBBER

An article circulating online in May this year speculated what might become of bank robbers when cash finally dies out. The article was more than mere speculation. It referred to a recent spate of robberies in Sweden – where the number of bank heists has fallen to two in 2016 from 110 just eight years earlier – and that included thefts of large numbers of digital devices and even a rare species of owl, seemingly in replacement of the old-fashioned bank raid.<sup>1</sup>

As the largest of the Nordic economies, Sweden is perhaps the most famous outside the region for already being a virtually cashless society, although it's likely to be Denmark that gets there first. As any visitor to Scandinavia that has tried to buy a coffee with 'real money' while waiting in the departure lounge at one of the region's airports will know, as they wait for a confused cashier to find the key or the code to the cash drawer to give you your change, Scandinavians do not pay with cash.

They do innovate however. International surveys regularly count all four Nordic countries among the world's 10 most innovative nations. It's easy to see why. A reputation for design excellence and sophistication – a skill as valuable for manufacturing high value products in the physical world, as it is for user experience in digital goods and services – and a cast of regional champions that have become global successes in industries as diverse as home furniture, fashion, digital music and fintech mean the region has become a byword for innovation.

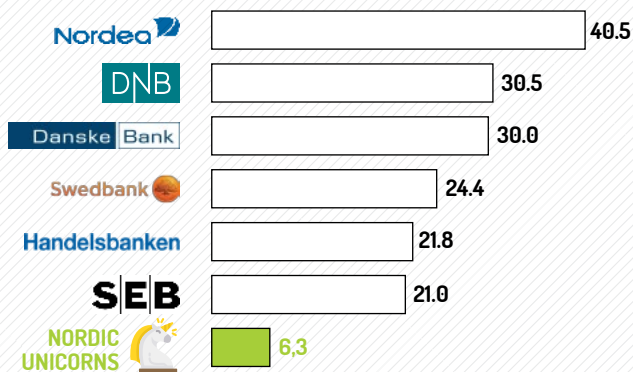
It's not just about raw talent either. The region's regulatory framework and infrastructure also makes them among the world's easiest countries to do business. Including Iceland and the Baltic states, only one country, Iceland – ranked 23<sup>rd</sup>, three places behind Germany – falls outside the top 20 in the World Bank's Doing Business Index.<sup>2</sup>

Within fintech the region's success is particularly startling.

<sup>1</sup> The Owl Thieves of Sweden, The Atlantic, June 2018, [www.theatlantic.com/magazine/archive/2018/06/stealing-owls/559136/](http://www.theatlantic.com/magazine/archive/2018/06/stealing-owls/559136/)

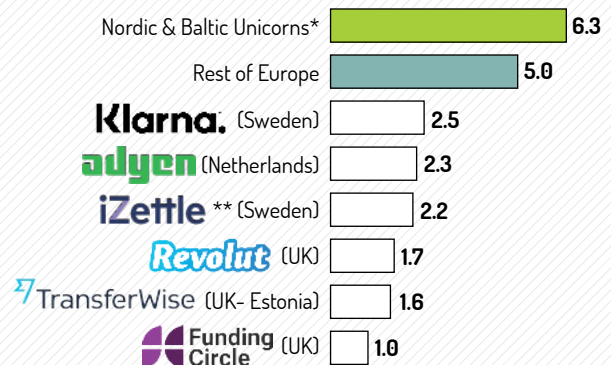
<sup>2</sup> Doing Business Index, June 2017, World Bank Group

CHART 1:  
NORDIC BANK VALUATIONS, Billion US\$



Source: MagnaCarta, May 2018

CHART 2:  
EUROPE FINTECH UNICORNS BY VALUE, Billion US\$



Source: CB Insights, Business Insider, MagnaCarta

\* Includes TransferWise  
\*\* bought by PayPal May 2018



## WHAT SUCCESS LOOKS LIKE ... ECOSYSTEM

Valuations of Nordic fintech unicorns (fintech start-ups valued in excess of \$1 billion) account for over half by value of all fintech 'unicorns' raised in Europe in the nearly four years since the fintech surge began.

**Copenhagen Fintech:** How can the Nordics be competitive as a 'single market' when trying to attract innovation? We should have one sandbox for the Nordic region which would be an advantage for competing with the rest of the world.

As this research shows, the successes from the first wave - where innovative consumer-facing, technology forced a radical re-think of the delivery of financial services to consumers helped establish several world-beating fintech pioneers. A second, more complex challenge now awaits - to embed digital into the core of the region's banks and financial system.

### WHY ARE WE HERE AGAIN?

With so much success it's hard to see what the region's entrepreneurs and banking incumbents have left to achieve as their gaining confidence, and deepening pool of local capital, catapults the region toward the status of global fintech hub.

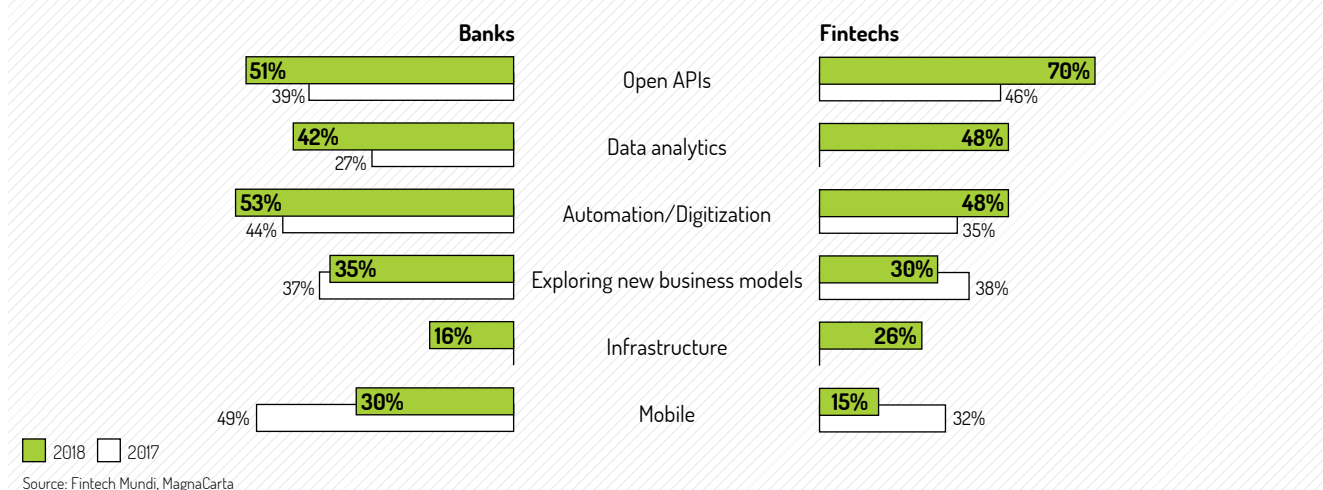
Looking at the lessons from the first wave of fintech, *The Four Seas* examines the keys to success in digital finance, and the remaining challenges still to be overcome, that will allow the region to resume its role as a pioneer at the crossroads of innovation, digital and design.

It's a worthy cause. Meeting the challenge will enable the region to seize a generational opportunity to build the world's first fully integrated, borderless regional economy - with perhaps unlimited benefits to national growth and regional productivity. A prize that will ensure the Nordic tradition of creating regional giants that can scale globally continues.

**Simon Hardie**

MagnaCarta Communications

CHART 3: PERCEPTION OF FINTECH OPPORTUNITIES





# NORDIC BANKS

## ENVIED BUT NOT TO BE EMULATED

### KEY FINDINGS

- Percentage of Nordic bank revenues at risk of disruption jumps 12 points from 2017 to 38%, 7% higher than among European banks.
- 84% of bankers view fintech partnerships as an important means of achieving bank goals, ten percent higher than 2017 and 11% higher than among banks across the rest of Europe.
- Mobile services have dropped from first to fifth place among Nordic banks, replaced by opportunities for automation and deep digitisation and open banking, as key opportunities in 2018.

In the years since the fintech shot was first fired, the banking sector across the Nordic region has seen its fair share of experimentation with fintech. As we've reported in previous editions of this report, often with enviable degrees of success.

The launch of new payment platforms like MobilePay, Swish and Vipps are an example. Widely adopted – and in the case of Swish in use by over half the population of Sweden – they have contributed to the region's dramatic reduction in use of cash for everyday payments.

They are also the sign, and symptom, of the key to much of the region's fintech success so far. Innovation and collaboration between the region's largest banks in the absence of a strong regional regulator, and as Mark Wraa Hansen, chief executive officer of MobilePay comments, often created to ward off external competition, "MobilePay was created to secure maximum competitiveness from Danske Bank towards expected new global players. And so it has developed. Today our services are free for users and transactions prices are a record low for our business."

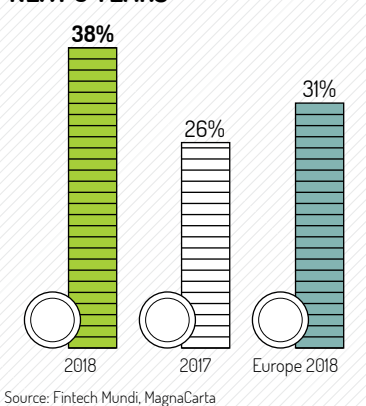
### ALWAYS THE STAR

Traditionally, banks, not regulators, play the starring role in attempts to harmonise regional innovation explains Bent Richard Eidem, executive vice president at Danske Bank, "For example it would be incredibly beneficial to build a common AML solution in the Nordics. This will require collaboration with authorities to find a solution. However, authorities will probably not take the initiative, so the banks should be proactive and realize the benefits."

Although use of new payment platforms like Vipps may have cannibalised revenues from other payment products, such as card fees, they have helped to keep customers within the walled garden of the banking ecosystem: "Peer to peer transactions in Nordic markets are free – so they're negative commercially but attractive in terms of brand building and traffic," explains Elisabeth Haug, chief operating officer at Vipps in Norway.

In a prolonged era of tight margins, low interest rates, and flat financial industry growth<sup>1</sup>, it's a strategy that has worked

**CHART 4: BANK REVENUES AT RISK FROM FINTECHS OVER NEXT 5 YEARS**



Source: Fintech Mundi, MagnaCarta

<sup>1</sup> FinTech in the Nordics, p.8, Deloitte 2017

## WHAT SUCCESS LOOKS LIKE ... COOPERATION

**Danske Bank:** We must build infrastructure between the Nordic banks that works. It will make it easier to build new digital financial services and reduce time to market.

well for the sector. Banking profitability is higher in the region than in much of the rest of Europe. Among large Nordic banks only SEB had a cost to income ratio above 50% in 2016<sup>2</sup>, compared to a European average of 67%<sup>3</sup>, and the combined capitalisation of Sweden's four largest banks is greater than Italy's – with an economy over three times bigger than Sweden. (see chart 1, Nordic bank valuations, page 4).

A strategy prioritising cost reduction and efficiency has worked well in the years since the Great Recession. But as the digital age advances, and continues to reshape consumer expectations of financial services providers, and the concept of banking, it can't be relied on if banks are to prosper during fintech's next wave and take advantage of a rising tide of digital commerce.

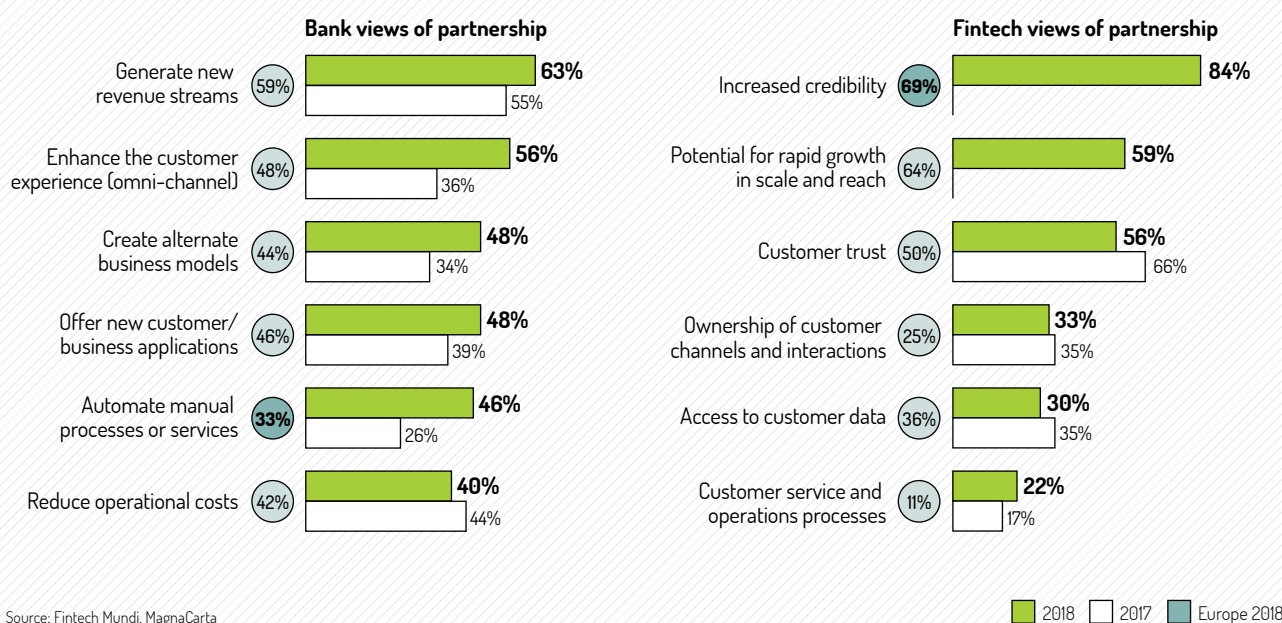
### A RISING (DIGITAL) TIDE

The next phase of fintech will witness growth in data flow between countries, displacing physical exports as the primary

<sup>2</sup> Nordic banks might not be the right model, Euromoney, July 2017

<sup>3</sup> Moody's Investors Service, October 2017

CHART 5: COMPATIBILITY OF PERSPECTIVES



definition of international trade <sup>4</sup>. As Mats Taraldsson, head of digital business development for the Nordic and Baltics at Mastercard reflects, collaboration will be essential. “We believe a key to success is collaboration between different partners with different competences and expertise to be able to build something strong and attractable that can be scalable also beyond the Nordic and Baltic region.”

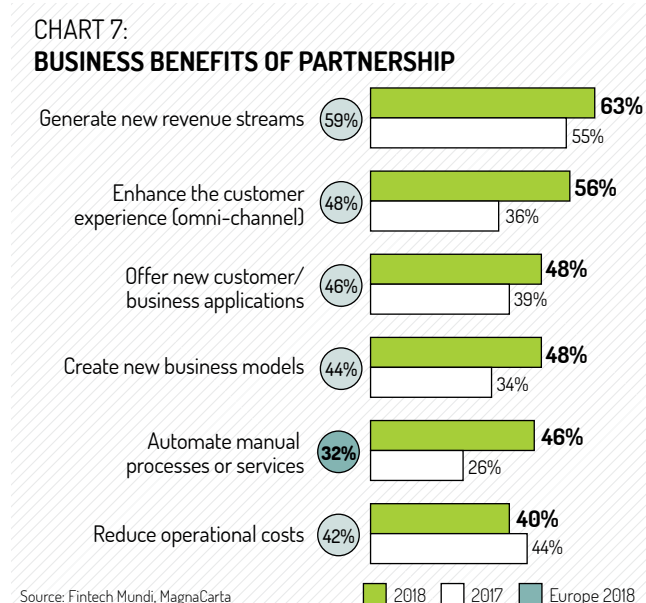
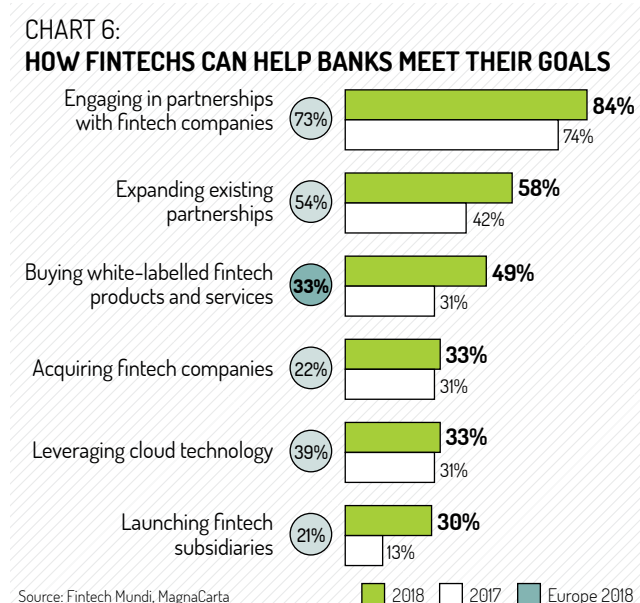
Seizing the opportunity to build a borderless, regional digital economy will not be easy. The announcement in February this year that seven of the region's largest banks are exploring a common payment infrastructure to help overcome the barriers to trade caused by fragmented national regulation will certainly help, although national regulators could do more to make it easier for fintechs to get regulatory approval (see fintechs section, chapter 2).

<sup>4</sup> Re-drawing the Map: The changing landscape of cross border banking and payments, Banking Circle and MagnaCarta, April 2018

Mr Eidem at Danske Bank: “Most banks want help to build new solutions. We must be open to this as well as proactive, and we must also build infrastructure between the Nordic banks that works. It will make it easier to build new digital financial services and reduce time to market.”

It will also require an unprecedented level of cooperation with non-conventional providers that have the agility and focus to create new customer experiences while helping banks maintain relationships with existing customers. While this is starting to happen, it's still early. Danske Bank's announcement in 2017 that it will create a digital trade payment platform with Danish shipping and logistics firm Maersk is a taste of what might come next as banks and fintechs work together to build integrated solutions to meet specific industry challenges.<sup>5</sup>

<sup>5</sup> Maersk, Danske Bank partner on joint software venture, American Shipper, August 2017



### OUT WITH THE OLD...

"The move from old bank to new bank has taken the industry about three years to the point that everything we were talking about in 2014 is now the reality. It's still an immature market though – and banks will primarily work with some bigger fintechs and service providers," says Jonas Lagerstedt, head of fintech office at Swedbank.

### WHAT SUCCESS LOOKS LIKE ...

#### SECURITY

**Mastercard:** Digital payment solutions must be even more simple and secure. It's important to have the right balance between these two – simple and convenient without compromising security."

window-dressing and the challenges that come from resolving the mismatch between scale and start-up businesses. Expanding partnerships with third party vendors (58%), launching their own fintech subsidiaries (30%), and even building in-house technology have all displaced start-up incubation (23% down by nearly half since 2017) as a primary means of meeting their targets.

Survey responses this year also indicate that bankers across the region are getting the message – the percentage of bank revenues perceived to be at risk of fintech disruption in the next five years has jumped 12 points to 38% this year, 7% higher than among European banking peers, reflecting a change in understanding of the competitive landscape. "We're not competing with banks any more but with fintechs and new ecosystem partners. Now we have to be attractive to cooperation partners, and we have to be perceived as technologically advanced," says Zane Miltina, head of strategic digital initiatives at Luminor Bank, a new bank created from the merger of DNB and Nordea's Baltic operations.

84% of bankers also feel that partnerships with fintechs are an important means of achieving bank goals, ten percentage points higher than last year's survey (11% higher than among European banks).

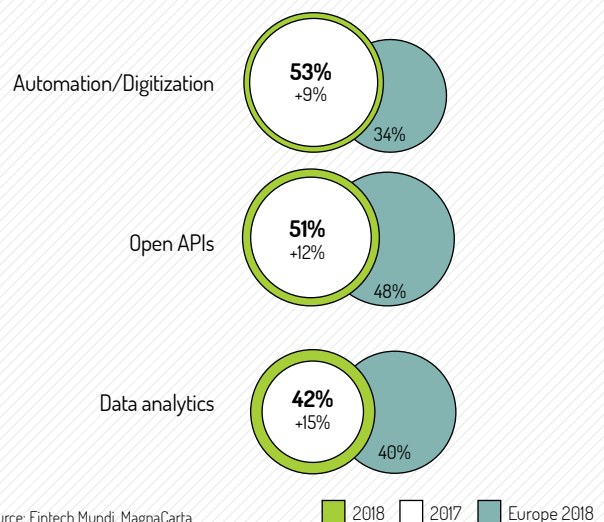
Similarly, reducing costs was ranked second among banks as a primary business benefit of fintech partnership in 2017. This year cost reduction has dropped to sixth place, with bank priorities shifting instead to generating new revenue streams (63%), enhancing the customer experience (56%) and offering new applications for customers (48%).

### FADING FROTH

Enthusiasm for experimentation with start-up companies may also have cooled, with banks looking for hard results over

Where banks feel the opportunities lie is also revealing. Among European bankers, mobile is ranked a number one priority. In a region where up to half of the national population already pays by phone, creation of mobile services has dropped from first to fifth place among Nordic banks and replaced by opportunities for automation and deep digitisation (53%, 19% ahead of banks in the rest of Europe), followed by Open APIs (at 51%).

CHART 8:  
BIGGEST OPPORTUNITIES FOR BANKS





# THE FINTECHS

## CAUGHT IN THE CROSSWIND

### KEY FINDINGS

- 70% of fintechs view Open APIs as the biggest opportunity in fintech this year – 50% higher than in 2017.
- Over 50% agree the region is gaining in confidence, 45% feel that Nordic and Baltic fintech needs greater support from regulators and the wider ecosystem.
- Biggest challenges for fintechs are the direct or indirect result of limited regulatory coordination across the region – 37% of respondents cited regulation directly, 67% find it difficult to achieve scale, competition jumped 19 percent from 2017.

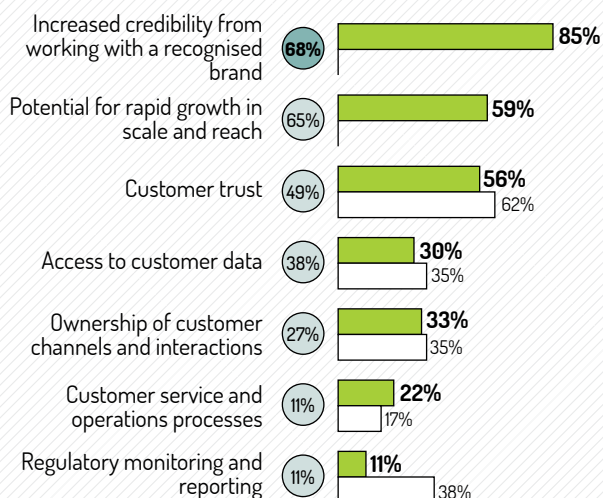
If the region's banks are at an inflexion point this year, their non-traditional banking counterparts in fintech are feeling increasingly caught in the crosswinds of the competing priorities of local and EU regulation.

By numbers regional fintech is thriving. There are now over 500 unique fintech companies across the Baltic and Nordic

countries, compared to under 300 in the whole of Germany<sup>1</sup>. Despite the vibrant ecosystem, supervision of financial services is still fragmented – managed at a local level, with little direct coordination between the region's regulatory authorities. Where it does occur, fintech collaboration is generally instigated by the

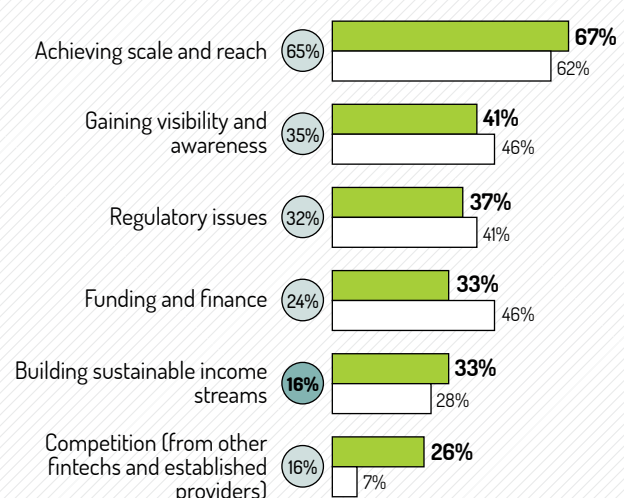
<sup>1</sup> Nordic Tech List, June 2017 & Germany Fintech Landscape, EY, September 2017

CHART 9: REASONS FOR PARTNERING WITH BANKS



Source: Fintech Mundi, MagnaCarta

CHART 10: BIGGEST CHALLENGES FOR FINTECHS



Source: Fintech Mundi, MagnaCarta



region's biggest banks that already operate across Scandinavia and the Baltic states.

At the same time, for fintechs that are providing internal systems for banks to help them digitise, and not competing with them for customers, the changing regulatory framework introduced by the EU through PSD2 and now GDPR is creating new opportunities.

The region's fintech founders have switched on to the opportunity. Similar to their peers in the rest of Europe 70% of respondents ranked Open APIs as the biggest opportunity in fintech this year (over 50% higher than 2017).

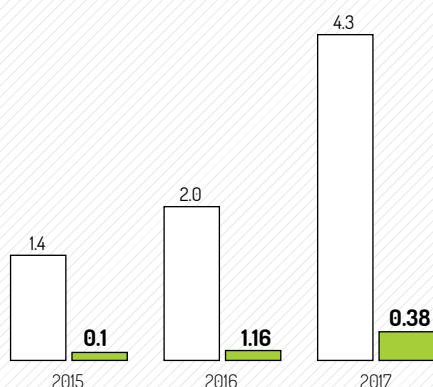
### THE GIFT OF REGULATION

"Our products are in high demand. This has partly been driven by PSD2 and banks' strategic responses to the new rules.

They're investing more than before in user experience and digital banking. They're investing more in high-quality engagement, which is exactly what we are providing." remarks Georg Ludviksson, chief executive of Meniga, a personal finance platform used by banks across Europe and worldwide.

For fintechs competing for customers however, the region's conservative approach to local regulation can be costly, with the same capital and reporting requirements for early stage financial businesses as fully-fledged banks. An unnecessary extra burden for a region where access to local venture capital is challenging, and a useful means for incumbents to maintain control of the competitive environment. As Thomas Nielsen, director at BDO in Norway explains: "I anticipate that established financial companies and payment solutions in the future will use government requirements and expectations as a basis for preventing competitors accessing financial systems."

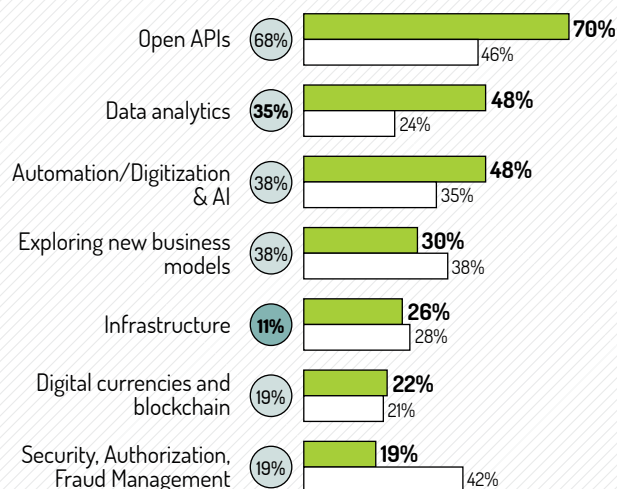
CHART 11:  
**FINTECH INVESTMENT - NORDICS V EUROPE, Billion US\$**



Source: CB Insights, Deloitte, KPMG, MagnaCarta

■ Nordics □ Europe

CHART 12: **BIGGEST OPPORTUNITIES FOR FINTECHS**



Source: Fintech Mundi, MagnaCarta

■ 2018 □ 2017 ■ Europe 2018

## WHAT SUCCESS LOOKS LIKE ...

### CUSTOMERS

**Bank Norwegian:** "Success should mean meaningful services for customers that solve their problems and not just a focus on technology."

The need for more proactive regional regulation is a sentiment felt across the banking and fintech ecosystem this year. Over half of those polled this year agree the region is gaining in confidence and the source of great ideas, but 45% of respondents feel that Nordic and Baltic fintech needs greater support from regulators and the wider ecosystem. "EU regulation has to be nationalized and localized in Iceland. We have a tendency to make regulation in Iceland stricter," remarks Rakel Óttarsdóttir, chief information officer at Arion Bank in Iceland.

Among respondents to the survey the three biggest challenges for fintechs are the direct or indirect result of limited regulatory coordination across the region – 37% of respondents cited regulation directly, slightly fewer than in 2017, and 67% finding it difficult to achieve scale and reach, while competition from other fintechs or established providers jumped 19 points to sixth place at 26%.

### DIS-INCENTIVISING INNOVATION

Conservative regulation might sound prudent where the memories of a regional housing-induced credit slump in the 1990s and the impact of the Great Recession everywhere else live strong, but its unintended consequences fail to protect either consumers or the region's economic future. Region-wide acceptance of EU rules means Nordic fintechs can launch in another EU member country and then 'passport' back to their home state. Potentially cutting their home nation off from valuable job creation opportunities and a stake in the next generation of Nordic giants in the process.

As Thomas Krogh Jensen, chief executive of Danish fintech accelerator, Copenhagen Fintech says: "How can the Nordics be competitive as a 'single market' when trying to attract innovation? We should have one sandbox for the Nordic region which would be an advantage when it comes to competing with the rest of the world."

There are signs that the culture is beginning to change. In February Denmark's regulator announced the region's first fintech sandbox, FT Lab, allowing innovative financial services businesses to test their products. But as Lasse Mäkelä, chief executive of crowdfunding marketplace Invesdor remarks, greater regional coordination is still badly needed, "[There are substantial] legal hurdles in this region with two layers of regulation in general. The securities act is harmonized across the EU [for example], but corporate law is not and this brings with it lots of country-specific challenges."

### BALTIC BRAIN GAIN

In contrast, the Baltic countries have woken up to the problem, and the opportunity. Jumping on the opportunity of an anticipated fall-out from the UK's Brexit vote, last year the Bank of Lithuania announced a maximum processing time of three months for banking license applications for financial businesses with a base in the country that, when granted, let them trade across the 28 countries of the EU.

Estonia, with a national focus on exploring opportunities in blockchain technology and in digitising all areas of government has taken a different, but no less radical, approach by allowing anyone based anywhere in the world to apply for 'e-residency,' to set up a business in the country for a €50 fee.

The programme has contributed to a boom in fintech and other tech start-up activity. With a resident population of just 1.3 million Estonia is now home to over 450 start-up companies (the highest number per capita in Europe), including a booming fintech sector that counts LHV Bank, Pocopay and TransferWise among them.

Population size is an important factor. With small home markets the region's biggest non-bank fintech successes prioritised scaling internationally as highly as serving local customers. TransferWise, though founded by two Estonian partners, is headquartered in



London. Similarly, iZettle and Klarna (see box: Nordic fintech goes global, page 13) set their sights early on expansion to markets outside the region – iZettle focussing on the rest of Europe and Latin America, Klarna on Europe and the US.

### DEEPENING THE MONEY POOL

Commercial opportunism may have been at the core of their plans for growth from inception, but their approach is also pragmatic. Besides regulation, access to talent and local capital remain key challenges for fintech businesses this year. While interviewees reflect that the situation is improving, fragmented regulation does not help solve the problem. “It’s hard to raise money and get investment in Norway and the Nordics as a startup with an international mindset. It’s

expensive to start up in the Nordic countries. We are starting to see some incentives [for investors], but they’re very limited and it’s too bureaucratic,” explains Christoffer Andvig, chief executive of BankBridge and Monifair in Norway.

Closer coordination of financial regulation between the countries of the Nordic and Baltic region can’t change local dynamics like population size or depth of regional capital pools directly. As the survey and interviews underline however, a more holistic approach that addresses the challenges of compliance, and access to talent for early-stage fintechs would create a larger, more unified platform for regionally-founded businesses, and improve the chances that more of them go on to become global winners.

## Klarna®

### NORDIC FINTECH GOES GLOBAL

Headquarters: Stockholm, Sweden  
Countries of operation: 14 (Europe, US)  
Merchants: 89,000  
Consumers: 60 million



**MICHAEL ROUSE**  
Klarna

If there’s one company that this year’s interviewees universally look up to as a marker of regional fintech success, it’s Klarna. Launched in Sweden in 2005 to remove some of the risk in merchant payments, the company now has operations in 14 countries, serves 60 million consumers, and is the region’s, and Europe’s, largest fintech business with a valuation of \$2.5 billion.

Michael Rouse, Klarna’s chief commercial officer, talked to Fintech Disruptors about their success, and the company’s perspective on digital finance.

#### **FD: What do you attribute Klarna’s success to, so far?**

**Klarna:** Being founded in Sweden was a great test-bed for us. We developed a solution that takes on the risk for merchants and offered the consumer the option of paying by instalments with a revolving balance. This gave the consumer a great experience, and helped merchants feel more secure, knowing they were getting paid.

#### **FD: What’s the key to success in fintech?**

**Klarna:** The core element of fintech is much the same as any other business – listening to customers and understanding their needs. As a management team, we spend far more time on solving problems for customers than we do looking at financial issues and regulation, even

though these are still important, of course. Those who understand how the market is changing, because they understand the customer, and who have the courage to act and change things, are going to be the ones that are successful.

#### **FD: What will be the main drivers of change in banking in the years ahead?**

**Klarna:** Returning to the example of Sweden, where Klarna started – ten or fifteen years ago, the consumer in most Nordic countries was not served well and there was an air of complacency in the financial services business. Notwithstanding the great growth we’ve seen in Sweden and other markets, the real interest going forward is going to be the expansion of market opportunities as the physical barriers to doing business disappear. There’s an amazing opportunity out there to blow up the back end of the banking business and effect real change in servicing customers and their needs.



# LOOKING FORWARD

## NAVIGATING THE FOUR SEAS

### KEY FINDINGS

- Survey shows 2018 will be the year of AI and machine learning for banks and fintechs.
- Payments – the primary investment opportunity across the Nordic region and the rest of Europe last year – has been pushed to second place among regional banks and fintechs.
- Double the number of survey respondents feel financial inclusion is critical to the future of their business compared to the rest of Europe.

Similar to the sentiment across the rest of Europe, this year's research makes it clear that the froth of the first wave of fintech is fading. In its place is a harder-nosed pragmatism where the priority is placed on fintech ideas with a proven business model or that address a specific need. "Investors will value a driven team with sustainable and realistic business models higher than previously" in the words of Mastercard's Mr Taraldsson.

Increasingly that implies a focus on fixing internal industry problems over launching new consumer-facing services. "In the near future, we'll see increased investment in b-to-b solutions while some b-to-c companies will go bankrupt," predicts Johan Lundberg, chief executive of NFT Ventures in Sweden, one of the region's largest fintech focussed investors.

CHART 13: BENEFITS OF BANK FINTECH PARTNERSHIP

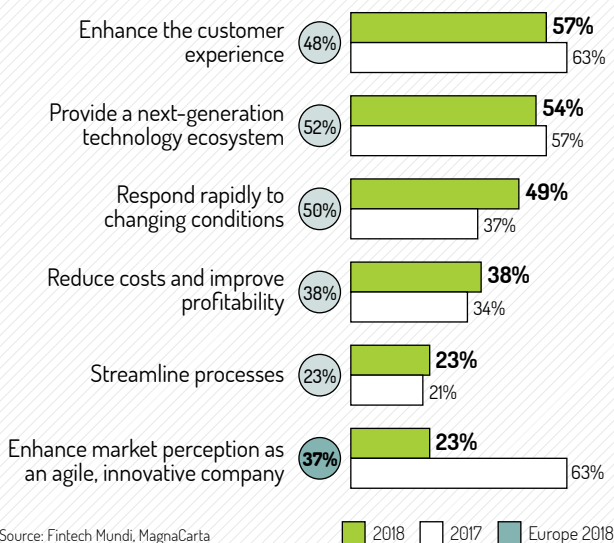
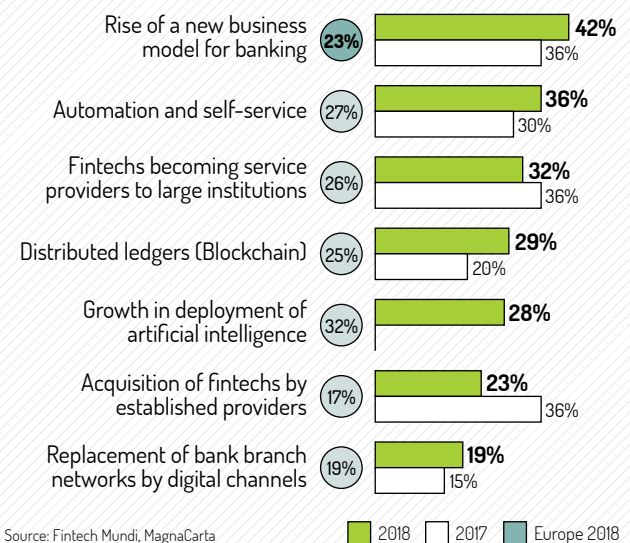


CHART 14 : DOMINANT FINTECH THEMES IN NEXT 5 YEARS





For fintechs that might mean a gradual shift to becoming service providers to banks, and assisting them with automating manual and legacy processes, while for banks themselves it's about working with fintechs to navigate a path to a new business model for banking – the top three themes expected to dominate the industry among survey respondents. A contrast to the rest of Europe, which is placing greater focus on replacing cash and real-time payments.

and automation – a new addition to the top five investment themes among respondents of this year's survey. E-commerce has dropped from fourth to seventh place (down to 15% from 33%). "2018 will be the year of AI and machine learning for financial companies. We will see more AI evolving in fintech and we will have to distinguish between AI and machine learning and distinguish between machine learning and big data," says Espen Einn, chief executive of Payr.

## ROBOT WARS

Regional views on the focus of investment in 2018 reflect the dynamic nature of the fintech environment. Payments, viewed as the primary investment opportunity across the Nordic region and the rest of Europe last year, has been pushed to second place among banks and fintechs, replaced by opportunities in AI

The region has much to celebrate from what it has achieved from fintech's first wave. Three years since the launch of the Fintech Disruptors Nordic series, Nordic and Baltic entrepreneurs have raised two regionally headquartered unicorns, and a third if you include London-based TransferWise – half the total across all of Europe.

CHART 15: FINTECH INVESTMENT AREAS 2018

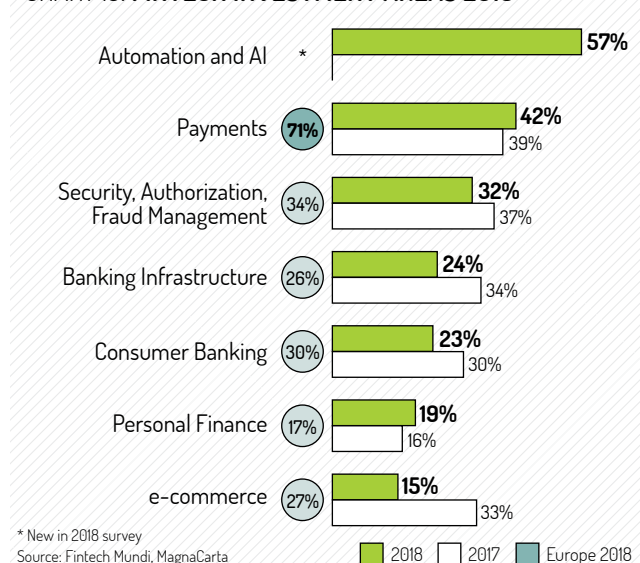
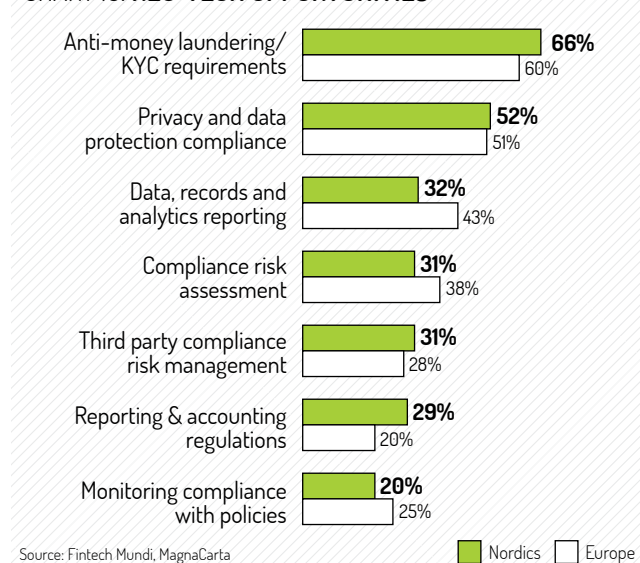


CHART 16: REG-TECH OPPORTUNITIES



## FINTECH HUBS IN 2020

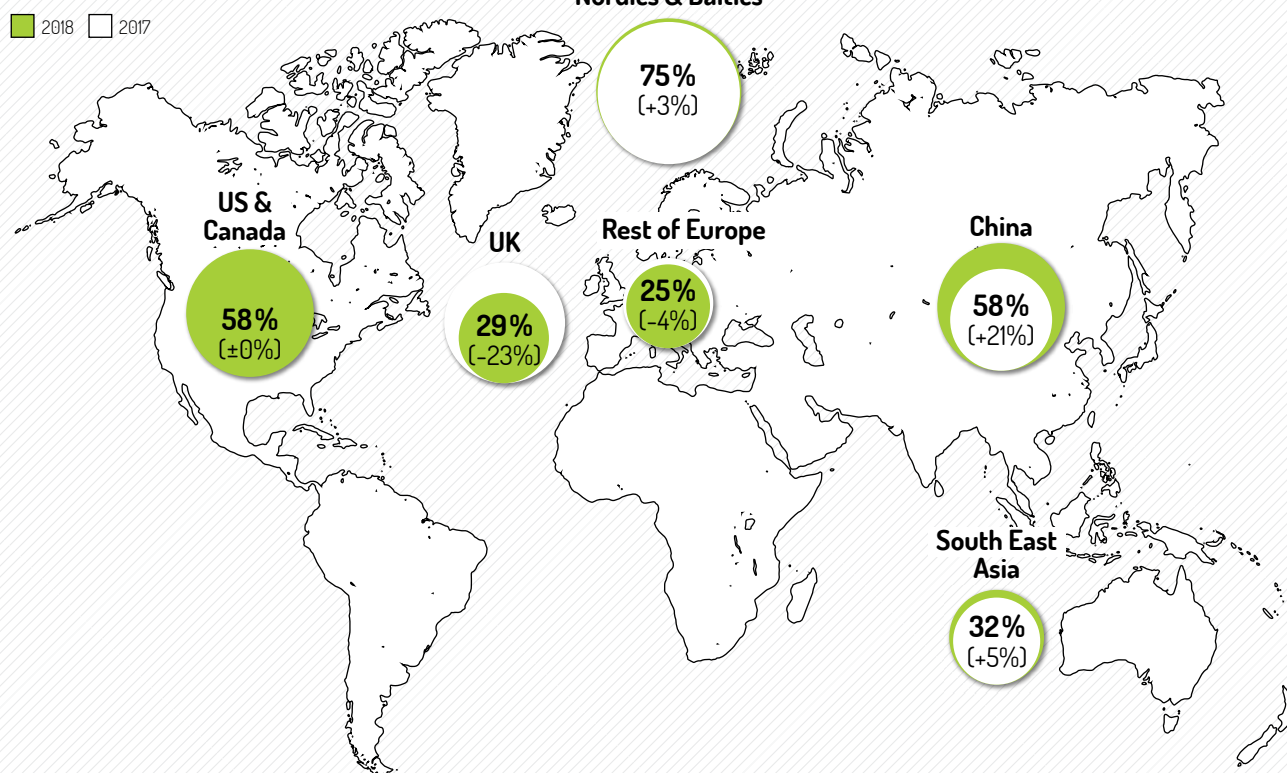


CHART 17: VIEWS OF FINANCIAL INCLUSION

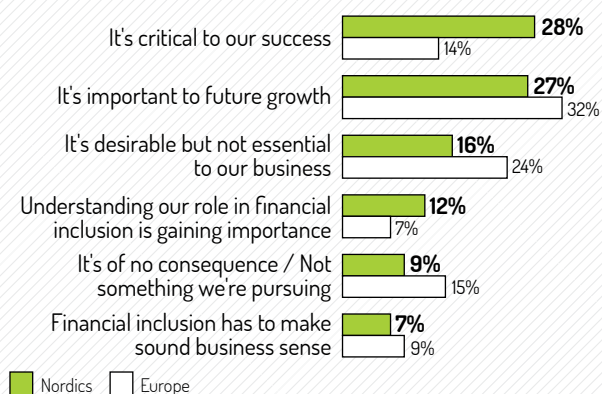
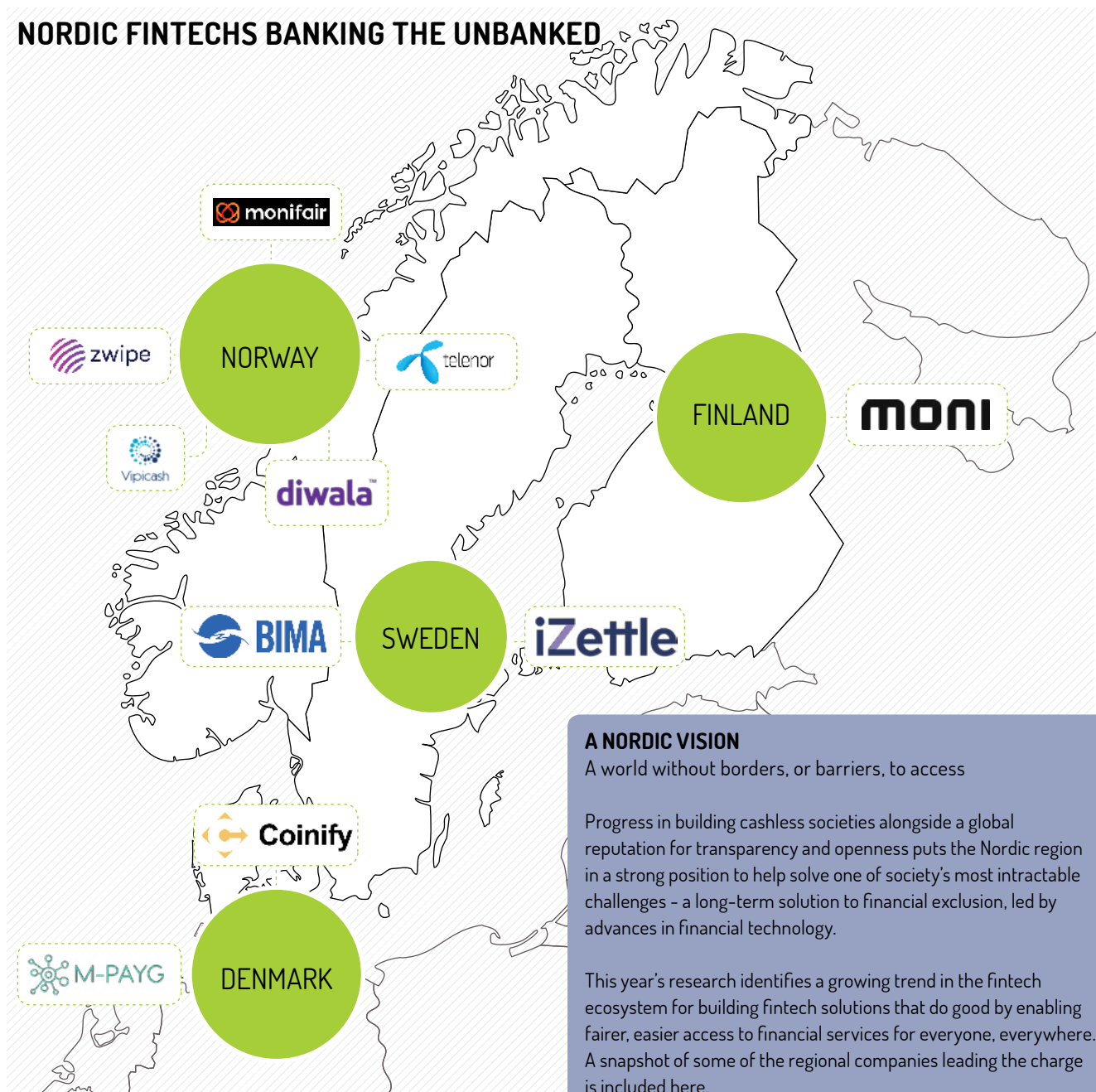


CHART 18: HOW DOES THE NORDIC AND BALTIC REGION COMPARE TO THE REST OF EUROPE?



## NORDIC FINTECHS BANKING THE UNBANKED



### A NORDIC VISION

A world without borders, or barriers, to access

Progress in building cashless societies alongside a global reputation for transparency and openness puts the Nordic region in a strong position to help solve one of society's most intractable challenges – a long-term solution to financial exclusion, led by advances in financial technology.

This year's research identifies a growing trend in the fintech ecosystem for building fintech solutions that do good by enabling fairer, easier access to financial services for everyone, everywhere. A snapshot of some of the regional companies leading the charge is included here.



The shortage of local capital that has traditionally plagued the region's start-up efforts has also improved. The source of Nordic versus international capital raised by regional fintechs jumped from 32% to 80% between 2014 and 2016<sup>1</sup>.

On that basis the region's confidence, as displayed in this year's survey results is not surprising. Fully, three quarters of respondents feel the Nordic region will become a global fintech hub by 2020, up from 72% last year. Over two and a half times the proportion that think the UK will maintain its status as Europe's primary fintech centre.

## READYING FOR THE NEXT WAVE

The confidence is well-deserved but as the next wave approaches, achieving the region's potential will take more than good timing in a rising market. Instead it will require a concerted effort by government, regulators and institutions across the region to remove barriers to intra-regional trade and foster an environment that incentivises incumbents to work with early

stage innovators. There is still a lot of work to be done. Mergers and acquisitions activity between Nordic companies accounted for just 15% of all deals in the region in 2017<sup>2</sup>.

The visionary nature of the ecosystem is already in place. Double the number of survey respondents feel financial inclusion is critical to the future of their business compared to the rest of Europe (see chart – A Nordic vision, page 17), and regional progress in replacing cash is proof of what can be achieved – and how quickly – through collective action.

As the research explains, navigating the four C's offers a generational opportunity for the region to continue its pioneering legacy. With potentially unlimited benefits to growth and productivity, by creating the world's first digitally-integrated, regional economy. Achieving this will require mutual recognition of the value that innovators, institutions and incumbents each bring. The future of regional fintech success, and much more besides, will depend on it.

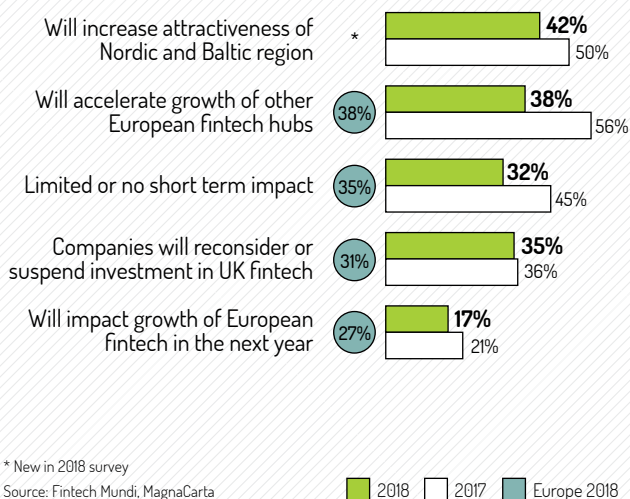
<sup>1</sup> The Nordic Web and FinTech in the Nordics, p.17, Deloitte 2017

<sup>2</sup> Nordic Capital Markets Insights, EY, January 2018

### CHART 19: READY FOR PSD2?



### CHART 20: THE BREXIT EFFECT





# DEFINING SUCCESS

## WHAT SUCCESS TAKES IN THE AGE OF DIGITAL FINANCE

As the fintech Nordic and Baltic ecosystem matures, this year's interviewees display growing recognition of the individual attributes and institutional support that will be essential for the region's fintech success in the future. Among those prioritised by regional innovators and incumbents, are the following:

### 1 Have a winning mindset.

**BankBridge:** "Norwegians need to take back the Viking mentality, we've become too comfortable with oil and marine technology, and lack international ambition."

### 2 Incentivise cooperation between incumbents and innovators.

**BDO:** "Smaller payment companies must convince major financial corporations and settlement banks to trust them. Strict requirements for customer intervention and control by financial companies are handled randomly and pose a risk that start-ups cannot take advantage of PSD2."

### 3 Focus, focus. Focus.

**Twino:** "How profitable and successful digital banks will be, will depend on their ability to find their focus area. Whether it is choosing to focus on virtual currencies, or choosing a specific customer segment, finding a field of expertise is crucial."

### 4 View the fintech threat as an opportunity.

**Swedbank:** "Fintech is not a threat, but a possibility. At Swedbank we want to co-create services together with fintech companies."

### 5 Identify solutions to real problems.

**Klarna:** "For banks success is about shareholder returns. It should however be about solving customer problems. At Klarna it is less about margins and profits. We don't spend time as a management team pouring over our financials. Instead, our first task on a Monday morning is, what are the current problems of our customers and how we can solve them faster."

### 6 Think customer first, not profits.

**Telenor:** "The number of customers is the KPI, not profitability – it's not about the bottom line. The value of the company is most important and valuation is as much driven by customer numbers as profitability so we're focusing on growth in self-serve customers."

<b>7</b>	<b>Build strong partnerships.</b>	<b>Swish:</b> “Swish is only 10 people – we outsource many of our back-office processes. We demand stability for a large-scale system, with the scalability to grow, so it’s important to have partners who realise what this means.”
<b>8</b>	<b>Simplicity sells.</b>	<b>TransferGo:</b> “We’re in the business of changing behaviour – there is no upside in standing in a queue. The more complex our product is, the more we will become a legacy ourselves.”
<b>9</b>	<b>Talent is critical. Nurture it.</b>	<b>Meniga:</b> “It’s never been more challenging to attract talent. The competition is intense, but we’ve been successful in finding and retaining world-class people and our turnover rate is much lower than the industry average. We actively measure employee satisfaction as well as workload, which is often high at times but we want to make sure it stays at a sustainable level. Keeping Meniga a fun and motivating workplace is a key success factor and a top corporate priority.”
<b>10</b>	<b>Remove barriers and borders.</b>	<b>Vipps:</b> “Cross-border collaboration between banks is a must – there’s no reason for these processes to be so closed or slow. This is not something that will define the winners but it’s kind of a hygiene factor and inter-operability is in that access.”
<b>11</b>	<b>Innovation needs freedom.</b>	<b>MobilePay:</b> “More or less from the outset [MobilePay] was a separate unit with little interference from our owners. This gave us the freedom to redesign the logic of the business at the same time as protecting the bank.”
<b>12</b>	<b>Regulate to stimulate, not suppress, the ecosystem.</b>	<b>Valitor:</b> “We need collaboration between business and infrastructure providers, together with the government.”



# INTERVIEWEES

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**CHRISTOFFER  
ANDVIG**  
BankBridge/  
Monifair



**YONI ARBEL**  
TransferWise



**ROAR BJÆRUM**  
Telenor



**ARMANDS  
BROKS**  
Twino



**DAUMANTAS  
DVLINSKAS**  
TransferGo



**BENT RICHARD  
EIDEM**  
Danske Bank



**ESPEN EINN**  
Payr



**JENS GLADSØ**  
Blockbonds



**ELIZABETH  
HAUG**  
Vipps



**KIM  
HUMBORSTAD**  
Zwipe



**MARK  
HØJGAARD**  
Coinify



**STIG  
JOHANSSON**  
FSA Sweden



**ILKKA  
KORKIAKOSKI**  
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**LASSE MÄKELÄ**  
Invesdor



**ZANE MILTINA**  
Luminor Bank



**CLAES MIKKO  
NIELSEN**  
Nordic BAN



**THOMAS  
NIELSEN**  
BDO



**RAKEL  
ÖTTARSDÓTTIR**  
Arion Bank



**MICHAEL  
ROUSE**  
Klarna



**MARTINS SULTE**  
Mintos



**MATS  
TARALDSSON**  
Mastercard



**VIDAR  
THORKELSSON**  
Valitor



**TINE  
WOLLEBEKK**  
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## MEDIA PARTNERS



# METHODOLOGY

Fintech Disruptors Report 2018 Nordic Edition, in its third year, is a temperature check on the status of digital financial services and the role of traditional financial institutions and fintechs in providing consumers with secure, easily accessible and value-for-money services and products. The report, carried out by MagnaCarta Communications in collaboration with Fintech Mundi, comprises a survey distributed to 5,000 professionals within banking, financial services and fintech across Nordic and Baltic region. In addition, interviews have been conducted with 32 experts across the region.



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