To 2020 and beyond

THE NORDIC FINTECH MANIFESTO

Lighthouse
Development Program

The Lighthouse Development Program is a joint venture between Mastercard and NFT Ventures. The idea is simple - to work alongside startups and explore how we can help them develop with our industry knowledge, resources, and time. We hope to learn just as much from the companies we work with as they do from us, and believe that opportunities for partnerships, investment, and more will present themselves— and if not, that's ok too.

www.mclighthouse.com

Contents

Research methodology

This report is published by MagnaCarta Communications and Fintech Mundi using a proprietary methodology combining an industry-wide survey of financial institutions and fintechs across the Nordic and Baltic region, together with in-market experience and conversations with leading fintech companies and banks.

Foreword

The Nordic Fintech Manifesto

The fintech landscape in the Nordic and Baltic region continues to be one of the most successful at producing unicorns. One recent example is TransferWise from Estonia that has become the most valuable fintech in Europe. Furthermore, the increased investments and new initiatives made by governments in the Nordic and Baltic region are set to facilitate the continued success of the fintech region in the years to come.

Mastercard is a technology company that operates within the payment industry, and we are constantly looking at how to improve and advance our products or services through innovation. The pace at which technology moves has only become more rapid however, and we understand that we cannot remain an industry leader without working together with the teams leading the change. In fact, partnership is one of Mastercard's four core values and is a testament to the belief that collaborative innovation is the best path forward.

In our global Start Path Program, we partner with start-ups from around the world to help scale their businesses. Accelerate is our European initiative to drive growth at scale for the fast-evolving fintech industry. In the Nordics and Baltics, we are engaging with fintechs in the Lighthouse Development Program aiming to find the next-generation fintechs in these markets, to help them develop by collaborating with us.

We are thrilled to see the level of financial innovation coming from the Nordic and the Baltic region that is second to none, and expect the Nordic and Baltic countries to continue to be one of the leading fintech hubs of the world.

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

Sincerely,

Mats Taraldsson

Head of Digital Business Development
and Fintech Partnerships

Mastercard Nordics & Baltics

Executive summary

> **"Today, our main challenge is to improve customer value – within the organization it's to change and adapt to digitalization."**
>
> Ted Scheiman, Managing Fintech partnership & investment portfolio, Swedbank

Fintech After 2020 – what next?

Since the first Nordic Fintech Disruptors Report was published in 2016, it has tracked a region growing in scale, sophistication and success. There is no question that the Nordic countries and their Baltic neighbours are a fintech powerhouse. Start-ups, scale-ups and unicorns cover the full spectrum of technologies and services. Challengers have become established players. Ideas that originated in Northern Europe can now be found in products, services and solutions around the world.

The region has all the building blocks in place to generate wealth and opportunities. Inherently open, transparent and internationally focused, the landscape is one of ambitious fintechs, cautiously enthusiastic banks, innovative ideas, and global vision. Capital investors, smart regulators, specialist accelerators, and even an engaged customer base are all present. The most important ingredient of all – confidence – can be found in abundance.

And yet… the region still has plenty of unrealised potential. Too many of the players are talking at cross-purposes. Viable, effective partnerships are the subject of much debate but little action. The ecosystem has not found a way to connect the various disparate component parts.

Banks and investors talk of their engagement with the fintech community, but the messages – and the support that comes with them – isn't hitting its target. Too many feel that banks have a stranglehold on customers that they are not willing to relax. The landscape is still one of fiefdoms that don't fully trust one another, rather than a united realm with a single, mutually beneficial purpose.

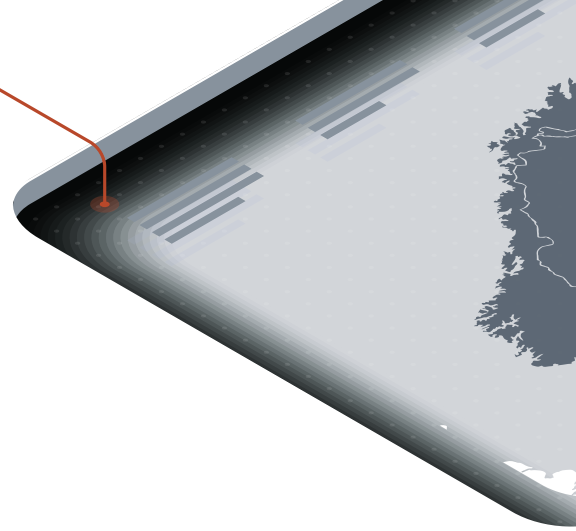
As the first fintech wave passes, the progress that has been made so far is at risk of stalling. And so, as 2020 approaches – this year's report is more of a manifesto: setting out a vision for how the region can fully realise its strengths and be ready to take advantage of a new era of integrated, digital finance.

The theme is collaboration, understanding that the only way to succeed in a connected economy is through cooperation, and that a better-connected fintech ecosystem therefore offers the best chance to:

- Attract the skills and talent needed to continue developing the marketplace.
- Bring more customers on board to create sustainable businesses.
- Serve and support new businesses to create more winners.
- Fertilise new ideas at scale, and shorten times to profit.
- Grow the region's reputation to create a virtuous circle of success.

As ever, the report is a comprehensive review of the current position and future trends in Nordic and Baltic fintech. It is the result of extensive interviews with banks, fintechs, regulators, accelerators and leading innovators, alongside the results of an industry-wide survey.

But it is also a call to arms. For banks, for regulators, for public bodies. And for fintechs themselves. The Nordic and Baltic regions are ideally placed to out-perform peers, particularly in Europe, but only if its constituent parts can focus and work together.



Start from here: understand the Northern powerhouse

No manifesto can ignore the circumstances in which it is launched. And the circumstances for Nordic fintech are strong. The foundations have been laid and have proved a solid and steady base to date. The seven biggest Nordic banks have a combined balance sheet of more than €2 trillion[1]; of total investment in the region, the greatest proportion goes to fintechs[2]; and in the first quarter of 2019, the total amount of capital raised by fintechs had already reached €162.8 million ($181.8 million)[3].

The Nordic and Baltic region is a major landmark not just in the European fintech landscape but the wider global marketplace, and there is every indication that the region is set for a period of further growth and expansion.

Fundraising has increased substantially

In the first three months of 2019, Nordic fintechs had already raised nearly 75 per cent of the total capital raised in 2018. That quarter's total was 70 per cent more than the amount raised in any quarter of 2018. Should the trend continue, 2019 will surpass the bumper capital-funding year of 2017, making the dip in 2018 an anomaly in a general upward trajectory.

What's more, the average size of each deal is larger than those seen in 2018. The largest funding round was for €50 million ($56 million), raised by Sweden's Tink, provider of account aggregation and payment initiation services. The next largest was raised by Bynk, provider of data-driven personal loans, which raised €43 million ($48 million)[4].

Figure 1: **Getting bigger - recent large fintech funding rounds**

Most recent				Most recent funding (€)	Total funding (€)
1	29/05/2019	**Kaching**	Sweden	4,000,000	12,000,000
2	14/05/2019	**Anyfin**	Sweden	8,000,000	13,000,000
3	14/05/2019	**Pleo**	Denmark	51,000,000	71,000,000
4	08/04/2019	**Klarna**	Sweden	93,000,000	698,000,000
5	18/03/2019	**Billogram**	Sweden	4,000,000	10,000,000
6	06/03/2019	**Tink**	Sweden	56,000,000	85,000,000
7	15/01/2019	**Dreams**	Sweden	5,000,000	17,000,000
8	14/01/2019	**Authenteq**	Iceland	5,000,000	7,000,000
9	07/01/2019	**Zwipe**	Norway	12,000,000	23,000,000

Source: Crunchbase

[1] Deloitte
[2] The Nordic Web
[3] FinTech Global
[4] FinTech Global

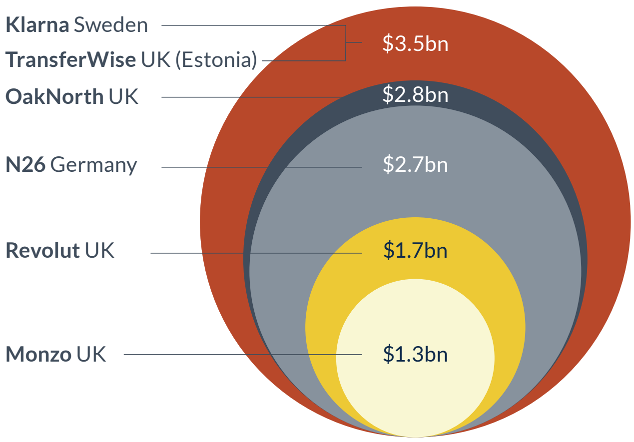
Investment success is more evenly spread

Sweden continues to drive much of the funding - 7 out of the 10 best funded fintechs in the region are Swedish. But Sweden's total share is below fifty per cent for the second year running, as Denmark, Norway, Finland and notably Iceland host a greater proportion of deal activity. In fact, Iceland attracted 7.7 per cent of deal activity, a much greater amount than any seen in the past five years[5].

Unicorns are not the only story

Any discussion of successful Nordic fintechs has to mention Klarna, which has grown to become one of Europe's largest banks and which provides payment solutions to 60 million customers and 130,000 merchants in 14 countries. Klarna is one of the most valuable fintech unicorns in Europe as a whole, and the most successful fundraiser to date[6]. The glow shed by these rare unicorns, and the successes of firms like Bynk and Tink, also illuminates the smaller but equally dynamic players in the Nordic region.

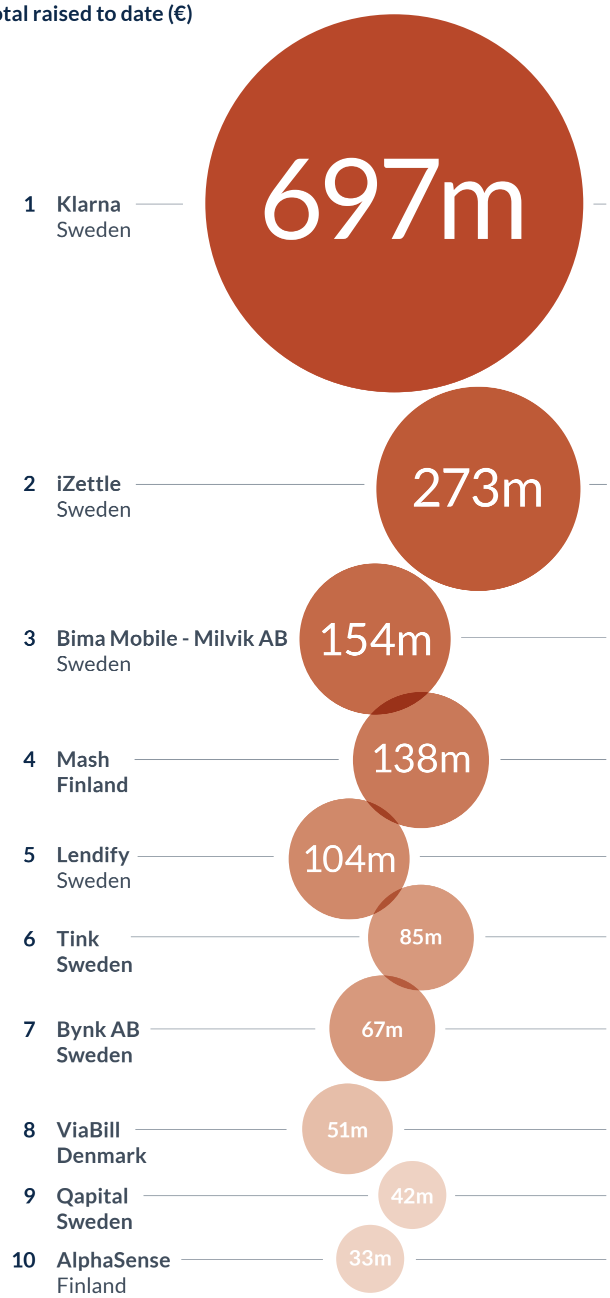
Figure 2: **Europe's fintech unicorns**



Source: CB Insights

Figure 3: **Nordic fintech funding**

Total raised to date (€)



Source: Nordic Tech List (at May 2019)

[5] FinTech Global

[6] CB Insights and Nordic Tech List (at May 2019)

The Nordics are scaling up

When it comes to scale-up businesses, the Nordic region punches above its weight. A total of 15 per cent of all European fintech scale-ups are located in Sweden, Denmark, Norway, Finland and Iceland. For comparison, 38 per cent are in the UK, and 13 per cent in Germany.

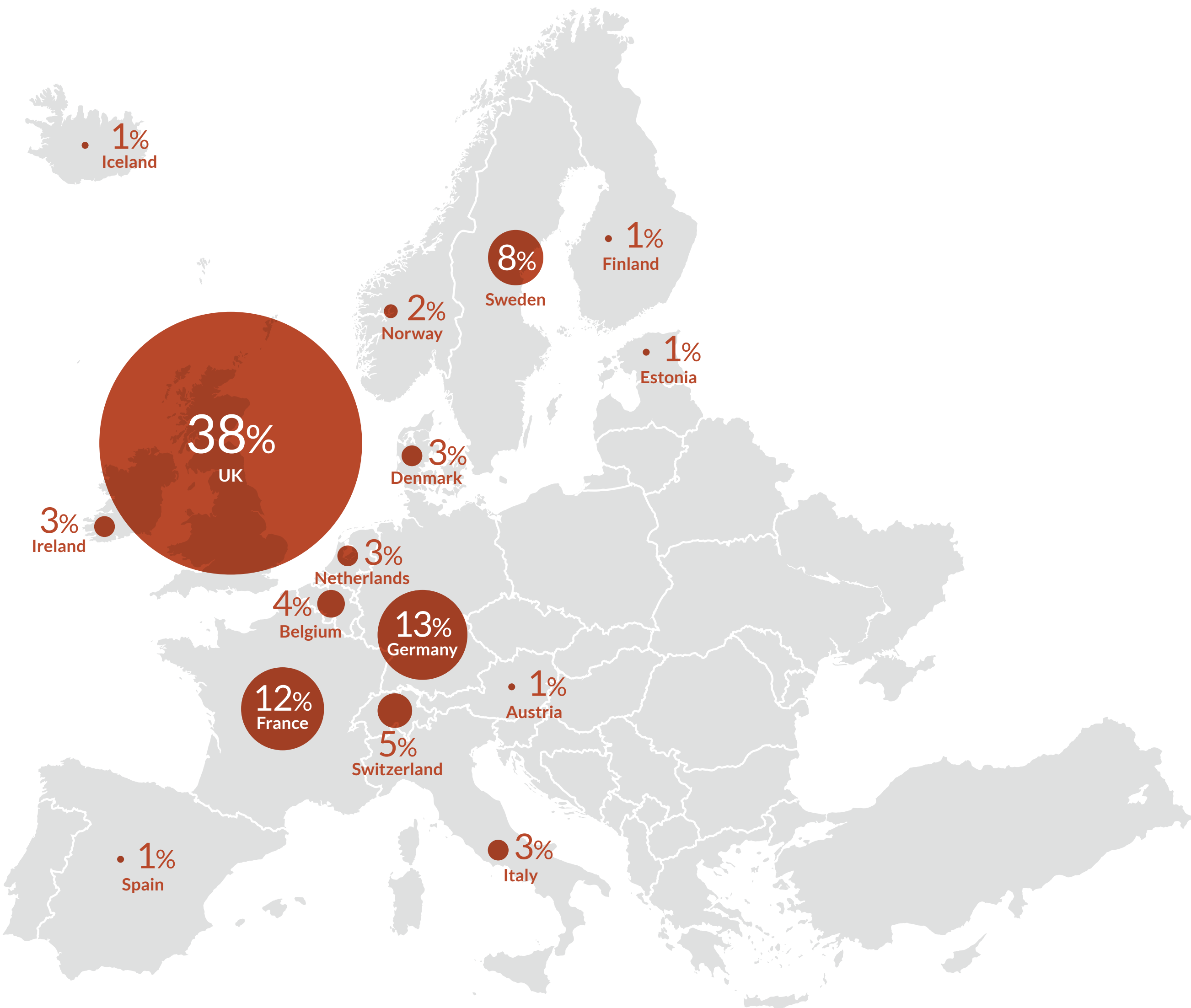
Take the size of population into account and the Nordic region is on a par with the UK and three to four times greater than Germany and France. What's more, in both Sweden and Denmark, the fintech sector accounts for more scale-up businesses than any other business field[7].

The region thinks ahead

The evidence also suggests that the Nordic region has stolen a march on the rest of EMEA when it comes to responding to PSD2. For example, 17 per cent of EMEA firms have neither completed any activities in preparation for open banking nor any activities under development. In contrast, only 12 per cent of Nordic and Baltic firms are that far behind the curve.

A greater proportion of EMEA firms are also only at early stage activities such as defining customer segments, new customer journeys, and value propositions. At the other end of the spectrum, Nordic countries are home to a greater number of firms that are ready to select partners and develop commercial or retail use cases.

Figure 4: **Where are Europe's fintech scale-ups?**



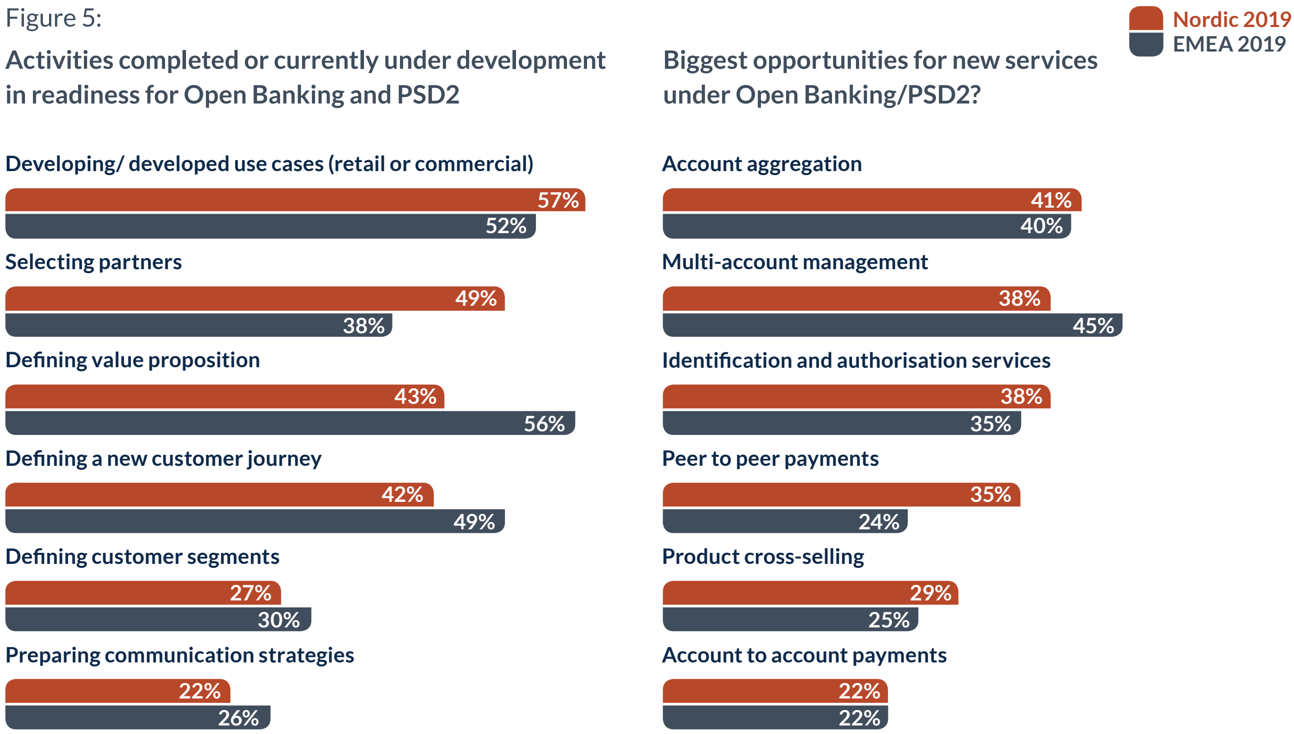
Source: Mohout, Omar. European Scale-up Report, Sirris 2018

[7] Mohout, Omar. European Scale-up Report, Sirris 2018

Figure 5:

Activities completed or currently under development in readiness for Open Banking and PSD2

Biggest opportunities for new services under Open Banking/PSD2?



Source: MagnaCarta, Fintech Mundi

Regulation is getting on side

All countries in the Nordic and Baltic regions feature highly as places that are easy to do business despite the overlapping demands of EU and local legislation in place. Lithuania in particular is regarded as one of the most attractive fintech destinations in the EU thanks to its progressive regulation and focus on prioritizing progress and helping fintech newcomers enter the market smoothly. The result is an above average number of licences issued for Payment Institutions (PIs) and Electronic Money Institutions (EMIs)[8].

> "PSD2 is creating massive opportunities for third parties, especially in terms of platform integration and APIs. PSD2 finally enables fintechs to look at platforms and customer channels and open them up in a structured way."

Thomas Jul, EVP, NETS

> "The banking industry uses and needs KYC and AML as they need to know a lot about their customers. We need to aim for a more common infrastructure for KYC between banks and have a common Nordic ID."

Berit Svendsen, EVP, Vipps

[8]Bank of Lithuania

Hope, scope and scale

> **"We have a Newcomer programme for new entrants to the financial market to help them understand our regulatory regime and licensing requirements. Any company can request a meeting or a call – it allows them to hear our expectations and find out whether we can work together. We've consulted with more than 350 companies from all over the world since the launch of the programme in 2016."**
>
> Jekaterina Govina, Head of Fintech and Innovation Strategy, Bank of Lithuania

A collection of smaller countries must, by necessity, look beyond national borders for growth potential. This is another area in which the Nordics and Baltics have achieved notable success – at least part of which can be attributed to the international vision within individual companies as well as the countries they call home.

For example, when asked to comment on Tink's success in the latest funding round, CEO Daniel Kjellén said it would be used to "accelerate our European roll-out" as well as for investing in data services. That sentiment was repeated by Bynk, which plans to use its funding for European expansion.

Even companies that are wholly or partly owned by much larger corporations show the same outward-looking mindset. Backed by BBVA, Finland's Holvi recently announced its plans to launch in Ireland, Italy, Belgium, France and the Netherlands, following year-on-year growth of 60 per cent. As CEO, Antti-Jussi Suominen puts it, the company is "setting our sights on the rest of Europe."

One of the most interesting manifestations of this international mindset is the role of financial inclusion in the Nordic financial community. A third of fintechs believe that improving financial inclusion is important to their company's growth in the future, while the same number believes financial inclusion is critical to the success of their business. This is seen to be an area in which the Nordic region can show true leadership.

So-called 'FinclusionTech' was the subject of the Financial Inclusion Summit in Oslo in March 2019. Organised for fintech founders, CEOs and stakeholders, the conference discussed, among other topics, the pivotal role played by Nordic firms in providing financial access to the 1.7 billion adults worldwide who are still either un- or under-banked.

The summit also highlighted certain strengths of the Nordic region overall: its commitment to transparency and openness; its experiences of building a cashless society; and its history of supporting humanitarian causes.

These strengths are considered essential for solving the ongoing challenges of financial exclusion. But equally, they are essential characteristics for consolidating the region's status as a fintech hub.

An honorary Nordic unicorn

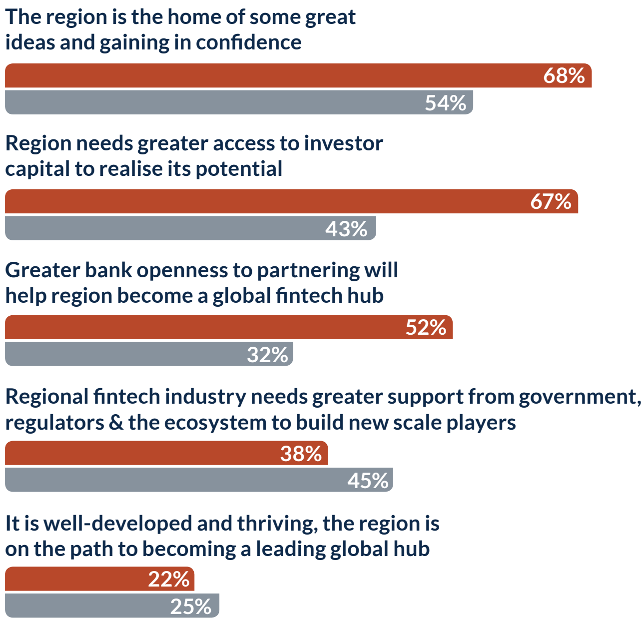
TransferWise, one of Europe's leading success stories, and a top five European unicorn, exemplifies the outward looking approach embodied by Nordic entrepreneurs. Founded by two Estonians living in London, it was designed to overcome its founders' current exchange issues as they managed salaries and bill payments in different currencies between London and Tallinn. The company is now "Europe's largest unicorn," just ahead of Klarna, with 11 offices and more than 1,300 employees in four continents. And although it calls London home, its Estonian founders and international outlook make it an honorary Nordic unicorn.

Confidence, ambition and realism

All these success stories have translated into a growing and justified confidence within the Nordic fintech sector. Nearly seven in ten firms believe that the region is home to some great ideas and is gaining in confidence – a big increase since 2018. Although only a fifth feel that the region is well developed, thriving and on the path to becoming a leading global hub, more than half believe that the Nordics and Baltics will dominate the fintech landscape after 2020.

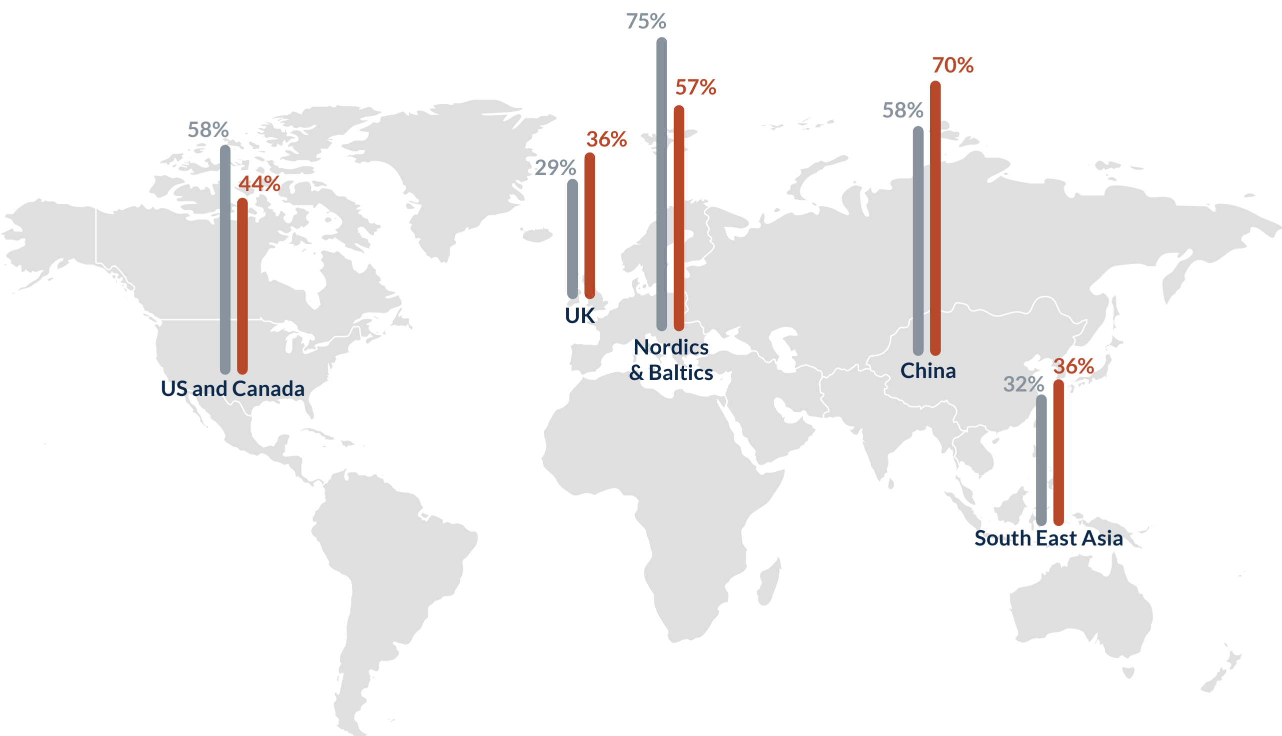
This is a drop since 2018. However, the bigger picture here is an increasing belief that China will be the dominant hub. It is worth noting that the proportion of firms that think that North America will dominate has also gone down.

Figure 6: **Perceptions of the Nordic and Baltic fintech ecosystem**



Source: MagnaCarta, Fintech Mundi

Figure 7: **Regions likely to dominate the fintech landscape by 2020**



Source: MagnaCarta, Fintech Mundi

> **"Data analytics raises big questions about what we want as customers. We are more ambivalent towards banks sharing our data fully: that discussion will have to happen. Do we want to share more to get more? The customer has to be given options to decide."**
>
> Hedwige Nuyens, Managing Director, International Banking Federation

Confidence is tempered with realism and a greater recognition of the challenges still to overcome. Achieving scale and reach remain a key concern, as do regulatory issues. But it is notable that the proportion of fintechs who feel that gaining visibility and awareness is one of their biggest challenges has decreased substantially: **fintech is going mainstream and Nordic firms are at the heart of that.**

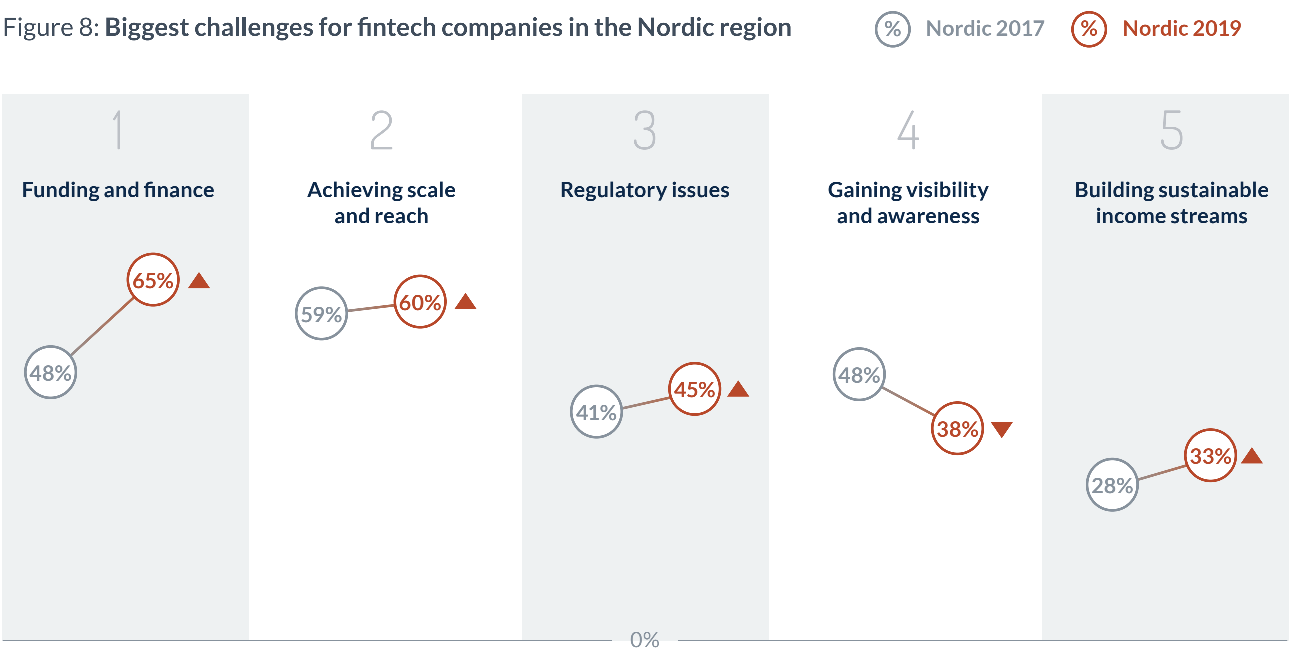
Instead, 2019's fintechs consider building sustainable income streams to be of greater importance. It all speaks to a sector with ambition, self-confidence, and sound understanding of business fundamentals.

This can also be seen in the way that the customer experience runs through the research and the interviews like a golden thread. Whether talking about the real needs of customers in developing economies or customers in European capitals, this is a sector that understands that this focus is essential to business growth.

To support this, the proportion of fintechs who use customer insight at the product design stage is higher in the Nordic region than it is in EMEA as a whole. The proportion of respondents saying that customer feedback is built into every stage of production is also substantially higher than in the rest of EMEA.

The percentage of Nordic fintech businesses also admitted that understanding which customer segments to pay most attention to is a challenge, is also notably lower than in EMEA as a whole. One interpretation of this number is that there exists a somewhat blasé attitude towards customer segmentation in the Nordics. But in the context of the research as a whole, it is far more likely that the Nordic region knows its audience better than the European average.

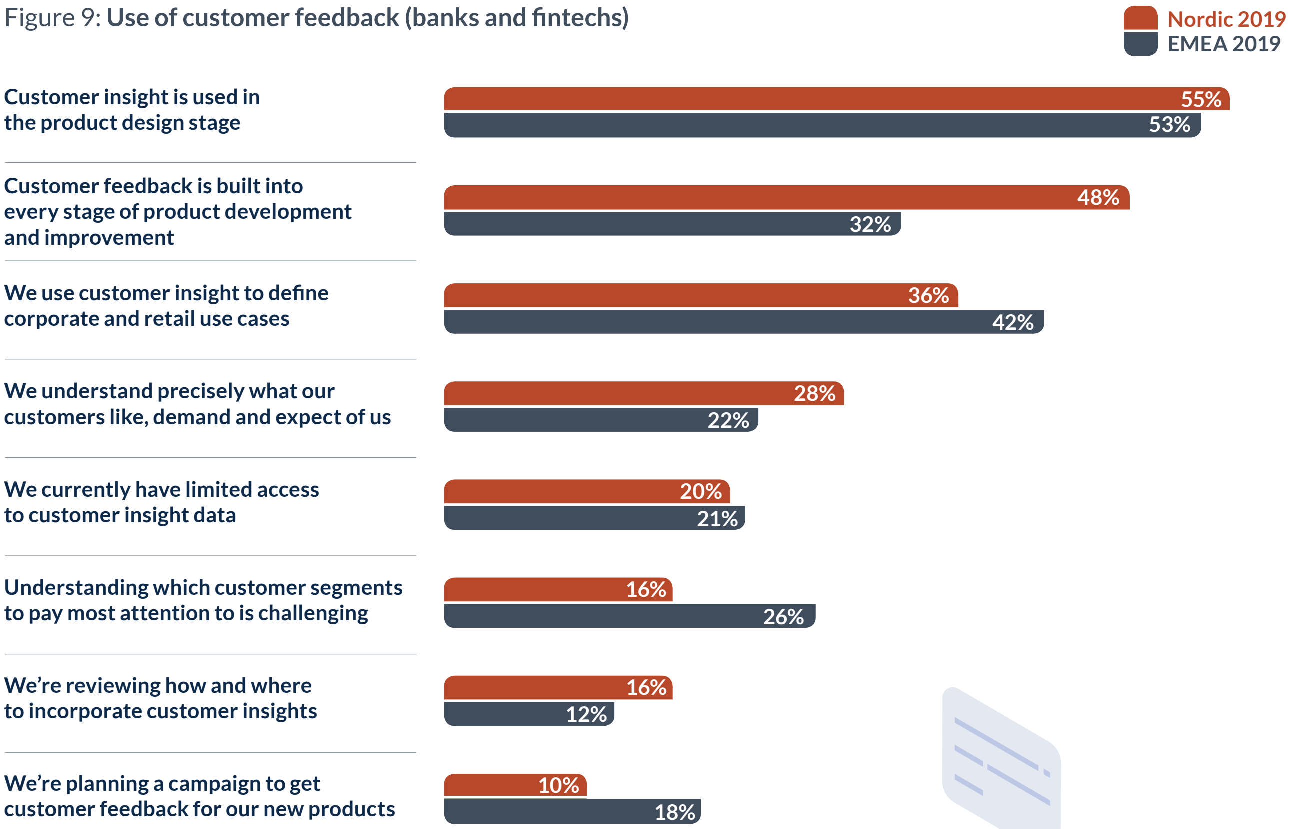
Figure 8: **Biggest challenges for fintech companies in the Nordic region**



Source: MagnaCarta, Fintech Mundi

> **“Latin America is still clearly underserved if you look at the middle and middle-lower income groups. As a Nordic fintech we really now, for the first time in history, can leverage technology to serve these people - people who have had no, or very little, domestic choice in the past.”**
>
> Rain Sepp, CEO, AskRobin

Figure 9: **Use of customer feedback (banks and fintechs)**



Source: MagnaCarta, Fintech Mundi

> **“Traditional business banking services are often complicated and cumbersome in providing a toolbox for large corporate customers, which does not work for smaller firms. There are plenty of roadmaps for ‘unbundling banks’, but that leads to distributed information and administrative issues. We believe in re-bundling bank services - not banks - based on customers’ actual needs.”**
>
> Per Christian Goller, CEO and founder, Aprila Bank

Don't lose sight of technology trends and trajectories

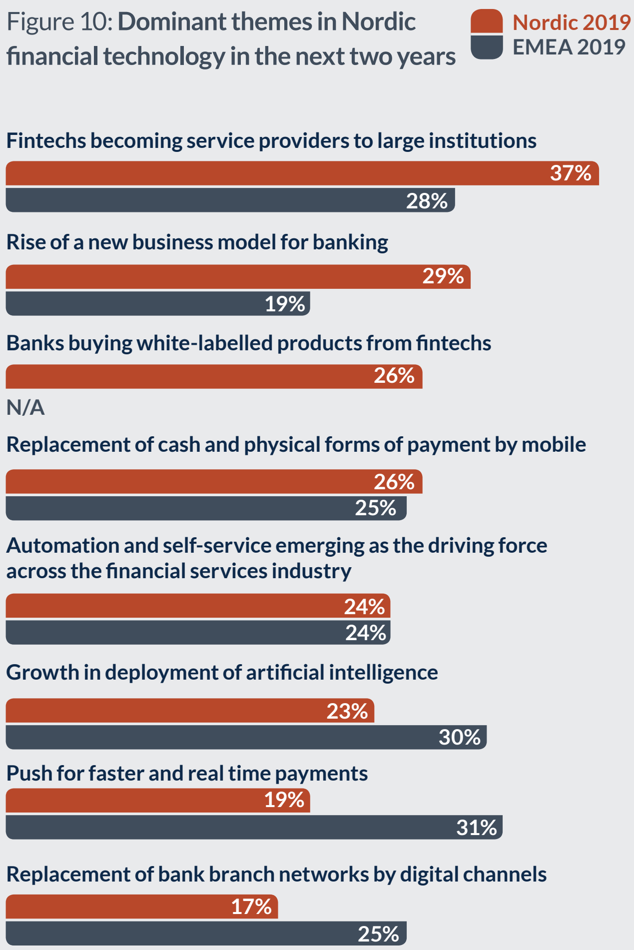
It is tempting to focus entirely on the next new thing, or the latest buzz. That's not necessarily helpful when building a sustainable ecosystem. Nonetheless, it helps to know where technology is going and what the latest thinking is.

Nordic fintechs and banks are far more confident than their EMEA peers that the biggest financial technology theme for the next two years is that fintechs will become service providers to larger institutions. The rise of a new business model for banking comes second. In contrast, European firms believe the push for faster and real-time payments will be the major theme, followed by the growth in the deployment of artificial intelligence. Either way, it remains a dynamic sector with no single theme really expected to achieve dominance.

In 2019, Nordic firms believe that the biggest technology opportunities are in Open APIs, automation, platforms and market places, new business models, and mobile. These are the technologies that impact the customer experience or use technology to deliver economies of scale: further evidence of the new realism.

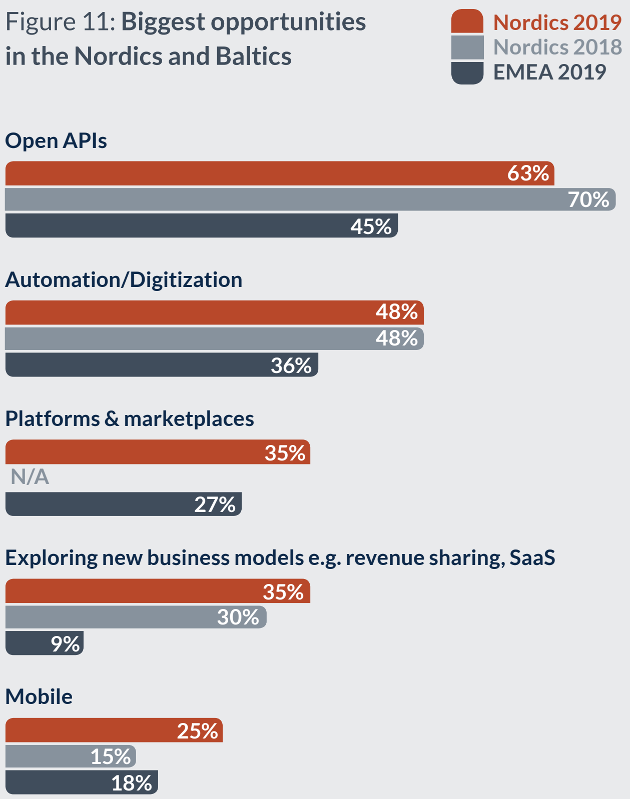
There has been a general decline in interest in blockchain – which appears to have hit and dropped off from peak hype. Security and authorisation, fraud management and infrastructure all appear to be considered hygiene factors now rather than growth opportunities. Businesses seeing opportunity in data and analytics, a key fintech strength, have also declined: again an indication that fintechs have achieved significant success in promoting and delivering data-driven services and business models to the sector.

Figure 10: **Dominant themes in Nordic financial technology in the next two years**



Source: MagnaCarta, Fintech Mundi

Figure 11: **Biggest opportunities in the Nordics and Baltics**



Source: MagnaCarta, Fintech Mundi

> "Coupled with human imagination and creativity, AI can be a very powerful and helpful instrument. One of the most important tasks for anyone in the fintech sector will be to utilise AI in differentiating offers to clients, and also employ it to facilitate exponential growth."

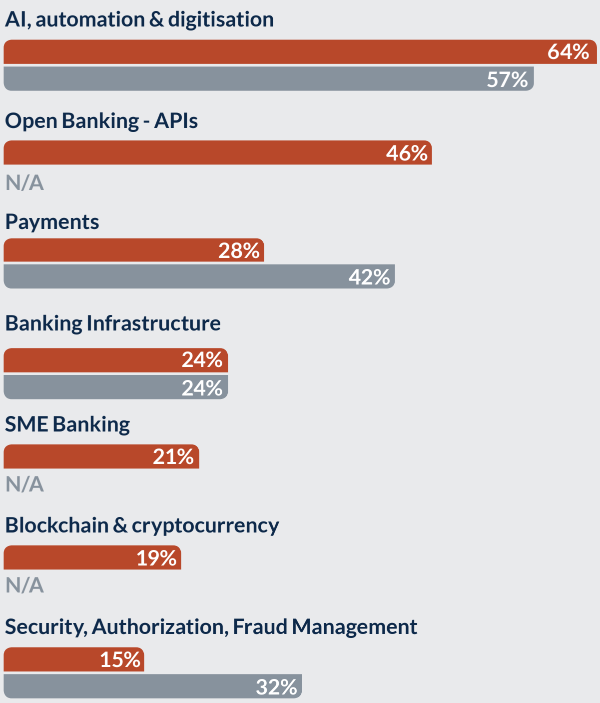
Nikolay Storonsky, founder and CEO, Revolut

In terms of investment trends, the market remains incredibly fluid, with new and shifting priorities compared to 2018. AI and automation is expected to attract the lions' share in 2019, followed at some distance by Open APIs. Adding weight to this belief, Tink (which received the largest funding round in Q1 2019) employs AI to deliver its services.

At the other end of the scale, the expectation is that investment in e-commerce and personal finance will drop substantially, as will security and fraud management. Payments has dropped significantly, while open banking/ APIs, blockchain, crypto currencies and SME banking are all new entries. As with the rest of EMEA, focus is fractured – with plenty of opportunities for strong business models and products to cut through.

Figure 12: **Areas that will see greatest investment by financial services industry and investors in 2019**

Nordic 2019
Nordic 2018



Source: MagnaCarta, Fintech Mundi

"We've always used AI for security purposes and monitoring unusual behaviours, patterns or transactions. But we are looking at AI even more closely now. It can be used for a range of things and I believe it should get more attention than blockchain. It will have a bigger impact."

Brian Larsen, CEO, Bancore

Sight unseen: fintech as the invisible man

A corporate card issuer and payment service provider, Pleo exemplifies a new trend that is rapidly emerging – invisible fintech. Pleo has followed a path taken by many fintechs: it is not trying to be a bank, but instead has zoomed in on a small piece of the value chain – making payments. Pleo has also attracted customers in its native Denmark, as well as Sweden and the UK and is set to accelerate its pan-European growth. So far, so fintech.

But Pleo's founders prefer to compare the company with communication tools and apps such as Slack, Asana, and Trello rather than other fintech companies. In the words of Jeppe Rindom, co-founder and CEO, "We don't see ourselves as a fintech company. We are about helping companies lead and have better workflows and automation. It just happens to be that we need to be a financial institution to solve that problem." In other words, payments are just subsumed into a wider, fully automated workflow.

"We are moving into a world where payment terminals are disappearing and where the payment process itself is eliminated, or hidden. We think of it as softPOS, a software terminal running on mobile devices and 'Pay without Paying', by designing payment out of the buying process. It won't happen overnight. But it will bring big changes to how we think about customers when it does."

Davíð Guðjónsson, CEO, Handpoint

Dig deeper: what and where are the remaining challenges?

As with every beautiful picture there are areas of shade and darkness. Challenges remain in the Nordics. Not least the thorny issue of the relationship between fintechs and financial institutions.

If the Nordic and Baltic regions are to build on their claim to being a major fintech hub, these challenges must be understood, overcome and prevented from spreading.

Many fintechs believe that greater bank openness to partnering will help the region fulfil its potential of becoming a global fintech hub. In fact, there has been a substantial increase in the number of fintechs who feel this way since 2018. To give that some perspective, less than a quarter of fintechs feel that they need greater support from government regulators and the ecosystem, compared to almost half who felt that way in 2018. Regulators are seen to be doing what is needed, while faith in banks appears to be declining in comparison.

This is a complex area, and to ensure that an effective solution is found, it does require some unpacking.

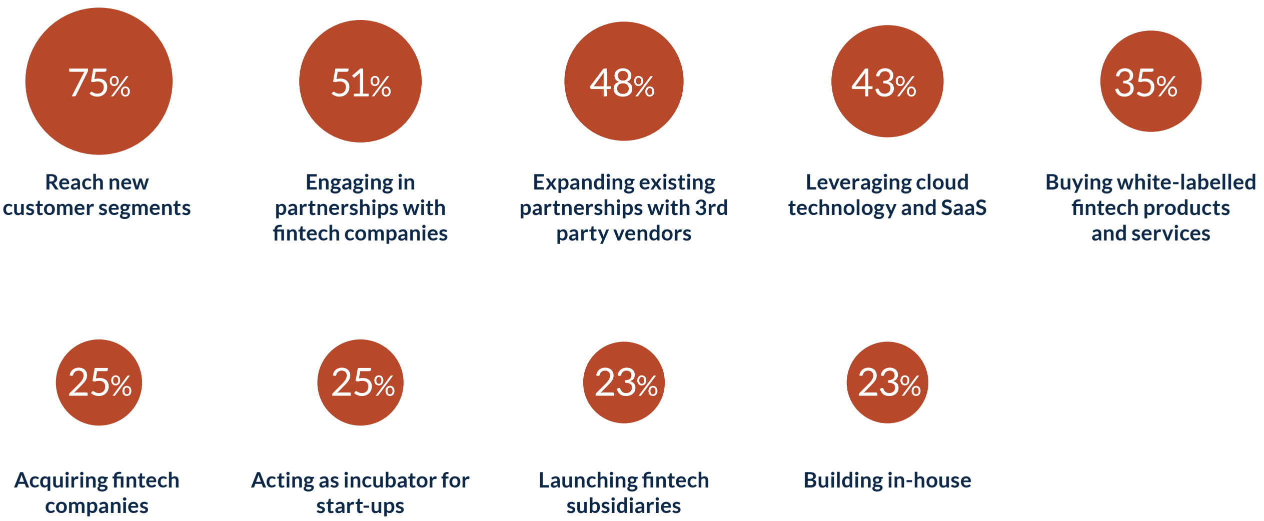
Certainly, banks are active in the fintech sector; they also recognise the need for partnership – even if that has yet to turn into truly fertile relationships. Among the established financial institutions, engaging in partnerships with fintech companies is by far the most popular means of achieving corporate goals faster and more cost effectively.

Partnership with fintechs is also notably more popular than expanding existing partnerships with third-party vendors of payments, core, or back-office systems. Buying white-labelled fintech products and services, acquiring fintech companies directly, and acting as an incubator are significantly less popular.

These different models of fintech relationships have all been the subject of heavy promotion and debate by banks and industry analysts in the past five years. In 2019, it appears that popular opinion at financial institutions is coalescing around the partnership model.

Figure 13: **What would help you achieve your goals faster and more cost effectively?**

Nordic 2019



Source: MagnaCarta, Fintech Mundi

"The big question is how much the banks are developing their own technology or only ordering from technology providers. Fintech companies own the whole technology stack – so they are much faster. The ways banks are organised makes the process slow and expensive."

Mattias Eld, CEO, Fidesmo

Banks recognise that there are good reasons for partnering with external providers or fintechs. The most popular driver is to reach new customer segments – which suggests that banks recognise the ability of fintechs to capture digital-native millennial and Generation Z customer cohorts, among others. Banks also recognise that if they want to offer the latest or leading innovations and generate new revenue streams, then a fintech partnership is the way to go.

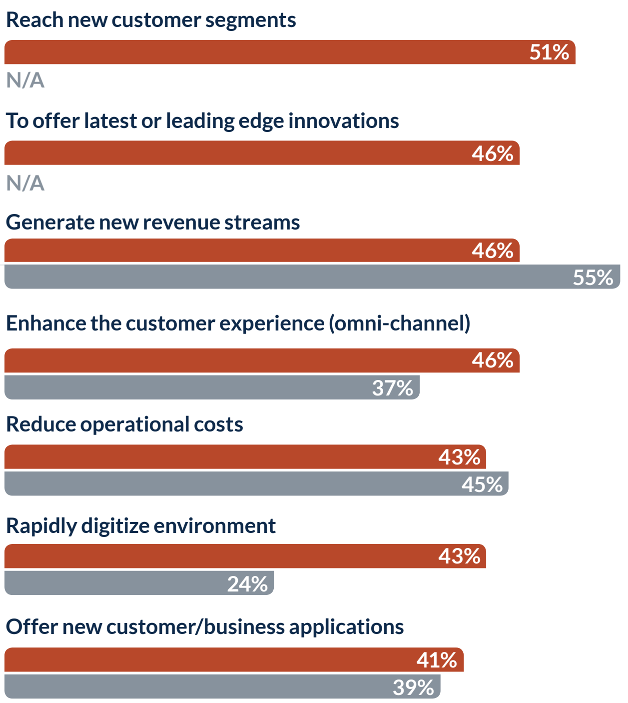
There is a subtle but important shift here from the 2017 survey, in which generating new revenue was given as the key reason for partnership with fintechs. Today's drivers appear to be more about growth and expansion: innovation and making inroads into a key customer base top efforts to save costs and consolidate existing positions.

"Banks can facilitate their clients access to other services and provide due diligence. The consumer will accept that. But I'm not seeing any banks really doing that. They need to accept the new status quo and redefine themselves. No one is taking that step yet."

Brian Larsen, CEO, Bancore

Figure 14: **Banks' primary drivers for partnering with external providers or fintechs**

Nordic 2019
Nordic 2017



Source: MagnaCarta, Fintech Mundi

> **"We are talking about AI internally a lot and it will play a bigger role in the future in our products, processes and solutions. Intelligent AI will come in time, but we will not want to lose the personal touch with our customers."**

Dag Tjernsmo, EVP and MD Norway, Handelsbanken

However, both fintechs and banks believe that the Nordic fintech landscape will be characterised by fintechs becoming service providers to large institutions or offering white-labelled products. Both these ideas are much less dominant in the rest of EMEA. This raises the question of whether the Nordic region is ahead of the pack or playing catch-up when it comes to new banking models, and whether the region's banks are too dismissive of fintechs overall.

> **"The banks will not disappear: trust is essential for the existence of the bank and confidentiality and data protection are important to customers. Fintech companies are challenging us, but they are also partnering with us. The rate of digitalisation is becoming much faster."**

Claudine Smith, MD Norway, BNP Paribas

Certainly, the perceived risk from fintechs to banking businesses has declined slightly over the past two years, with Nordic banks less likely than their EMEA counterparts to feel that threat. Banks are also aware of the challenges around partnering with fintechs, based on their experience so far.

Cultural fit is seen as key: the need to understand the impact of different ways of working at large banks and fast-growth companies remains problematic – and the most common experience. That a third of banks also say that it is important to align vision and market approach before agreeing to partner and to invest time in deciding who to partner with, and how, suggests more than a few have been burnt by previous efforts.

Whatever the reason, banks and fintechs are not communicating well with each other about collaboration and partnership. This is clearly an issue that both groups need to address.

Figure 15: **The reality of partnership for banks and financial institutions**

Nordic 2019

Source: MagnaCarta, Fintech Mundi

Funding and finding talent for the future

"Finland's fintech ecosystem is setting the scene for tomorrow's financial services ecosystem and future co-operation between traditional players and fintechs. Our aim is to develop innovative, value added services for end-customers in collaboration."

Kirsi Larkiala, Founding Partner,
Finnish Fintech Ecosystem

Figure 16: **Top ten corporate VCs in Europe**

- =1 — BNP Paribas, AXA
- 3 — Crédit Agricole
- =4 — Google, Microsoft
- =6 — ABN AMRO, Allianz, Axel Springer, Bonnier, ING

Source: MagnaCarta, Fintech Mundi

This disconnect between banks and fintechs can also be seen in the next challenge to be addressed. Fintechs report that one of their biggest difficulties is attracting sufficient investment. Sixty-seven per cent of fintechs believe that the Nordic region needs greater access to investor capital to realise its potential – despite the recent investment rounds. This is a substantial increase from the 43 per cent who said the same in 2018, a year in which overall investment hit something of a slump.

How to explain this apparent disparity? Finding the right kind of capital at the right time is certainly difficult for businesses of all sizes, and successful funding rounds do not show the number of firms that were unsuccessful. What's more, the skills required to develop products and solutions are not necessarily the same as those required to grow a business, and smaller businesses need effective external support to navigate the world of capital investment.

Another area to look at is the activities of corporate venture capital and the role they play in scale-ups in the region. Corporate VCs are involved in 21 per cent of all European funding deals for scale-up businesses, and it has become the second most important source of finance for scale-up businesses overall[9].

Of the top ten corporate VCs, six are major financial institutions and a further two appear in the top 20[10]. This sounds like very positive news for fintechs. However, none of the most active VCs in Europe (whether they are government agencies, private equity firms, corporate VCs, or family offices) are based in the Nordic region – despite the disproportionately high number of scale-up businesses located there.

A further indication that communication between the various members of the ecosystem is not functioning well.

Finally, fintech's ability to attract and retain the right people must be addressed. There is no question that talent is crucial for fintechs and for banks; two thirds of survey respondents said it was extremely important to their business success.

Interestingly, when it comes to talent competitiveness and talent ranking in Europe, Denmark is second only to Switzerland; Norway takes third place; and Finland and Sweden are seventh and eighth. Only Iceland is ranked outside the top 10 (in sixteenth place)[11]. Given the outward-looking nature of the sector, it is perhaps not surprising that the rest of Europe is already considered a top recruiting ground, particularly the UK and Germany.

The Nordics and the Baltics also have above average amounts of tech talent available per capita. Nonetheless, remaining a competitive place where talent can be nurtured, developed and encouraged to succeed is critical.

One of the biggest hurdles is overcoming the high-tax environment – despite the relatively high salaries in the region. This too is an area that greater investment can help, and where carefully considered partnerships can create mutually beneficial talent-development programmes.

[9] Mohout, Omar. European Scale-up Report, Sirris 2018

[10] Zürcher Kantonal Bank and CommerzBank

[11] IMD World Talent Ranking, 2018

The Baltics: Blast-off to the future?[12]

> **"In the Baltics we are helping fintech companies to build strong use cases before they scale outside the region. At the same time PSD2 and open banking are incentivizing the fintech companies to go cross border."**
>
> Siim Lepisk, Innovation Manager, SEB

Learning from the neighbours can be a winning strategy. Sweden, Norway, Denmark, Finland and, to a lesser extent, Iceland, still attract the lion's share of attention when it comes to fintech and the digital economy. But it's a mistake to allow that to obscure the dynamism of the Baltic countries: Estonia, Latvia, and Lithuania.

This is a region that the European Institute of Innovation and Technology (EIT) describes as one of the most actively developing in recent years. It attributes this success to the Baltic ecosystem, which it describes as "Quite advanced and in a stage where all the actors needed are there… the VCs, the banks, the founders, the universities, and you've got markets where you can test-trial any viable products."

All three Baltic countries also rank in the top ten for ease of doing business and ease of paying taxes - above the EU average in both cases[13].

Fintech, crypto and blockchain

When it comes to fintech, businesses in the Baltics have shown themselves to be adept at raising funding via initial coin offerings (ICOs). This is partly attributable to Estonia's blockchain-based e-residency system, and Lithuania's crypto-friendly fintech regulations.

Each country also has its own initiatives to support the fintech industry and regulate it with a view to creating trust, transparency and safety. For example:

- Estonia has developed a specialist P2P lending policy as well as ICO frameworks
- Latvia has reduced the licencing fee for innovative payment services from €5,000 to €450
- Lithuania has cut the capital required for bank foundation from the €5 million needed by standard banks to €1 million needed by specialist challenger banks, has developed a blockchain sandbox, and offers a newcomer banking licence package.

What's more, the finance ministers in all three countries have signed a joint MoU, announcing their combined commitment to blockchain initiatives, a rare move when other countries are denouncing it and even banning crypto-currencies.

[12] Baltic Start-up Scene, report 2017-2018; EIT Digital & Startup WiseGuys, 2018

[13] Doing Business Index, October 2018, World Bank Group

Figure 17: **Number of start-ups (all sectors)**

Figure 18: **Start-ups per 10,000 population (all sectors)**

Figure 19: **Investment raised per capita (all sectors)**

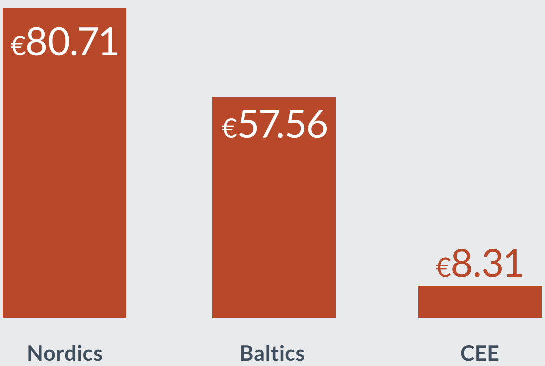


Figure 20: **Tech developers per 10,000 population**

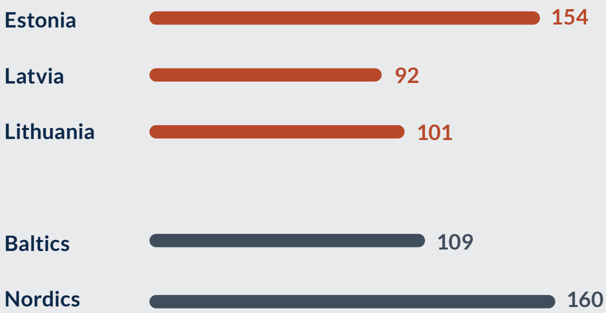
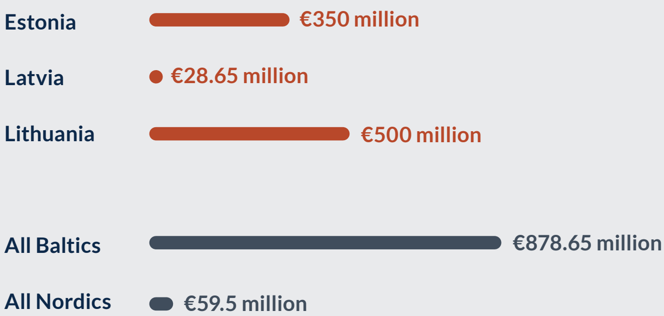


Figure 21: **Funds raised through ICOs to May 2018**



Source (all): Baltic Start-up Scene, report 2017-2018; EIT Digital & Startup WiseGuys, 2018

Open talks: a virtuous circle requires communication

How to overcome challenges without compromising the strengths of the region? All the components are there to create a self-reinforcing ecosystem where talent, funding and innovation find their natural homes.

It may be tempting to simply carry on as before, and hope that self-confidence and a bit of swagger work their self-perpetuating magic.

But magic is famously unreliable, and so a more strategic effort is required to allow entrepreneurship and cooperation to bloom and alliances to blossom. Government bodies, industry regulators, academia and research institutes all have a role to play alongside businesses, banks and investors if the potential for mutual benefit is to be realised.

This then is the Nordic Fintech Manifesto. It is based on a single premise: join up, connect and interconnect the various independent, and occasionally isolated, islands of fintech innovation so that the region becomes far greater than the sum of its parts. To put it more succinctly: collaboration is the new innovation.

> "The financial industry is a global, complex, high-value marketplace. We appreciate the need for a conservative approach, but it is moving too slowly. There is a lack of willingness to support sandboxing of new ideas that could revolutionise the way the entire ecosystem functions."

André Løvestam, CEO, Zwipe

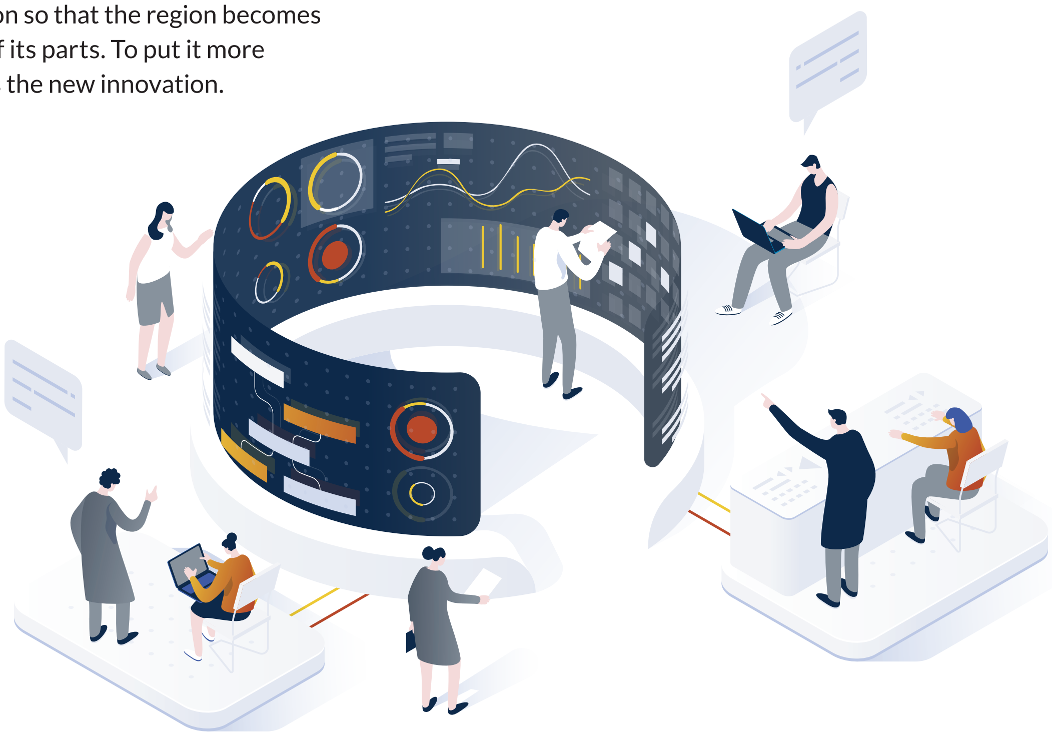


Figure 22: **Scale-up cities by number of deals**

Source: Mohout, Omar. European Scale-up Report, Sirris 2018

1: Encourage investors to value proximity

Working together to attract more capital is the way forward. Stockholm, Copenhagen and Oslo are all in the top ten for number of scale-up financing deals per city. Both Copenhagen and Stockholm are also in the top ten for the amount of capital raised in each city. Because of this proximity, an investment in a single fintech is likely to have valuable follow-on consequences in terms of seeding talent, sharing skills, attracting auxiliary service providers, and creating new opportunities for investment.

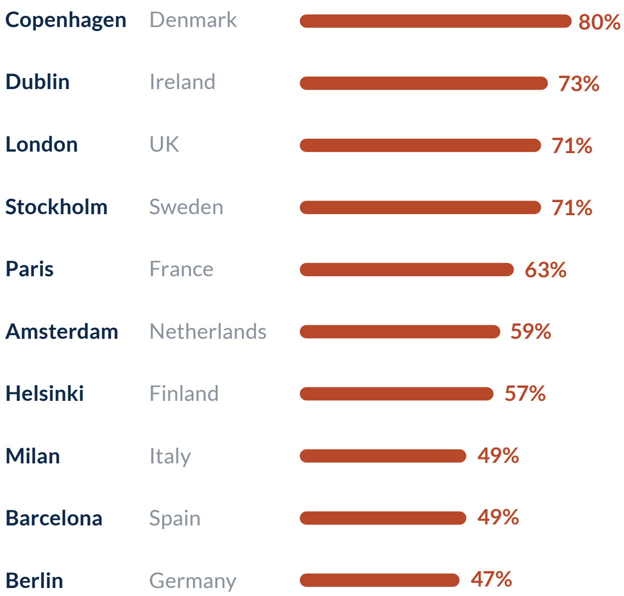
"When it comes to scaling a business, experience is crucial, so access to mentoring is very important - the people who sail a boat into the harbour are not always the right people to sail it into the ocean, which is why we work to connect startups with senior level entrepreneurs with experience of scaling businesses, including internationally.

Jeanette Carlsson, Founder, Tech Nordic Advocates

2: Work together to attract talent

There is plenty to attract the best developers and business builders to the region but more can still be done. Copenhagen, Oslo, Stockholm, Helsinki, Riga, Tallinn and Vilnius are all in Europe's top 40 of Mercer's annual list of most liveable cities. What's more, developers do not live in isolation: Denmark has Europe's highest percentage of scale-up companies concentrated in one city, with Stockholm and Helsinki also featuring in the top ten 'concentrated' cities. Build mentoring programmes and expand the potential talent pool by looking for more diverse candidates. Make it clear that the Nordics are a place to build and develop a career.

Figure 23: **Concentration of scale-up businesses in a single city in each country**



Source: Mohout, Omar. European Scale-up Report, Sirris 2018

3: Create open and inquisitive internal cultures

As we have seen, the Nordic region is renowned for its international, open and transparent outlook. That culture has to be matched in the financial sector, so that established institutions and new fintechs can benefit from working together, sharing the deep well of skills, knowledge and experience that exists, and building stronger bonds between them. The more experience of partnership is shared – on the basis that it is a common good from which everyone benefits – the better future partnerships will be.

"Banks should look at start-ups as a playing field in those areas they don't want to take risks in themselves early on but see as exciting innovations or future opportunities. Banks are mostly unwilling to look at something completely new that can fundamentally change their business or the products they offer."

Cristobal Alonso, CEO, WiseGuys accelerator

4: Redefine what it means to put customers first

Customer loyalty is a valuable commodity, but in in a connected economy it's unrealistic to expect an exclusive relationship. Understand that customers are looking for the right service from the right provider first and foremost. It sounds paradoxical, but financial institutions need to loosen their grip on customer relationships in order to keep those customers on side.

> **"It is all about customers and human engagement, and building context around what are often very similar products. Competition is no longer about price comparison: it's more about convenience and services. Banks have the data – they should use it to build services that really service specific customers."**

Rune Mai, CEO, Spiir & Nordic API Gateway

5: Add greater diversity to the ecosystem

The second biggest VCs after financial institutions? Pure-play technology companies. Some of the most important sources of new ideas are academia and research institutes. Two Nordic universities are already among Europe's best for spinning off scale-up companies. More can be done to bring relevant bodies into the ecosystem to maintain a fertile environment for skills, people and finance to circulate and expand. It's also essential to consider where developments in RegTech, WealthTech, InsurTech, e-commerce and other tangential areas cross over into FinTech. They may not be central players in the ecosystem, but they too are potential partners.

6: Refine regulation at a regional level

Denmark and Norway are considered among the top ten countries for doing business, and all but Iceland feature in the top 20 (Iceland is number 21)[14], so regulators recognise that the right rules can create the right environment for new products and new businesses to be developed, trialled, and scaled. Initiatives from regulatory sandboxes for testing new solutions to support for more RegTech all have a role to play. Regulators should also consider how best to create a level playing field for newcomers and established players alike, and explore ways to achieve better coordination between national governments to unlock regional opportunities for growth and productivity. Estonia, Latvia and Lithuania have collaborated in the Baltics: it can be done on a wider scale.

> **"We're committed to being more a guide dog than a watchdog for financial markets."**

Jekaterina Govina, Head of Fintech and Innovation Strategy, Bank of Lithuania

[14] Doing Business Index, October 2018, World Bank Group

Interviewees


Cristobal Alonso,
WiseGuys


Hans Christian Bjørne,
TheFactory


Sofie Blakstad,
Hiveonline


Jeanette Carlsson,
Tech Nordic Advocates


Mattias Eld,
Fidesmo


Per Christian Goller,
Aprila Bank


Jekaterina Govina,
Bank of Lithuania


Davíð Guðjónsson,
Handpoint


Johan Hedén Hultgren,
Swiftcourt


Thomas Jul,
NETS


Liudas Kanapienis,
Ondato


Kirsi Larkiala,
Finnish Fintech Ecosystem


Brian Larsen,
Bancore


Siim Lepisk,
SEB Baltic


Monika Liikamaa,
Enfuce


André Løvestam,
Zwipe


Rune Mai,
Spiir


Gisele Mwepu,
Okapi Finance


Hedwige Nuyens,
International Banking Federation


Thomas Rex,
Fingerprints


Joachim Samuelsson,
Crunchfish


Ted Scheiman,
Swedbank


Rain Sepp,
AskRobin


Jan Åge Skaathun,
Quantfolio


Ådne Skjelstad,
Lendo


Claudine Smith,
BNP Paribas


Nikolay Storonsky,
Revolut


Berit Svendsen,
Vipps


Mats Taraldsson,
Mastercard


Dag Tjernsmo,
Handelsbanken

MagnaCarta

MagnaCarta Communications is the strategic research, communications and marketing consultancy for global fintech and digital finance.

The publisher of the Fintech Disruptors Research Series tracking global and regional fintech trends, the firm provides strategic communications and intelligence services to help clients scale and develop market-beating brands in the rapidly-evolving fintech ecosystem.

www.magnacartacomms.com

Contact

Simon Hardie
MagnaCarta Communications
simon@magnacartacomms.com

FINTECHMUNDI

Fintech Mundi helps high potential financial technology companies to develop their ideas, commercialize their products and grow their businesses internationally. The company has unparalleled expertise in global financial technologies, and works with international partners and experienced mentors within fintech. As a trusted industry network, we have a proven track record for scaling and launching companies in global markets and provide a unique ecosystem for global fintech growth.

www.fintechmundi.com

Contact

Susanne Hannestad
Fintech Mundi
susanne.hannestad@fintechmundi.com