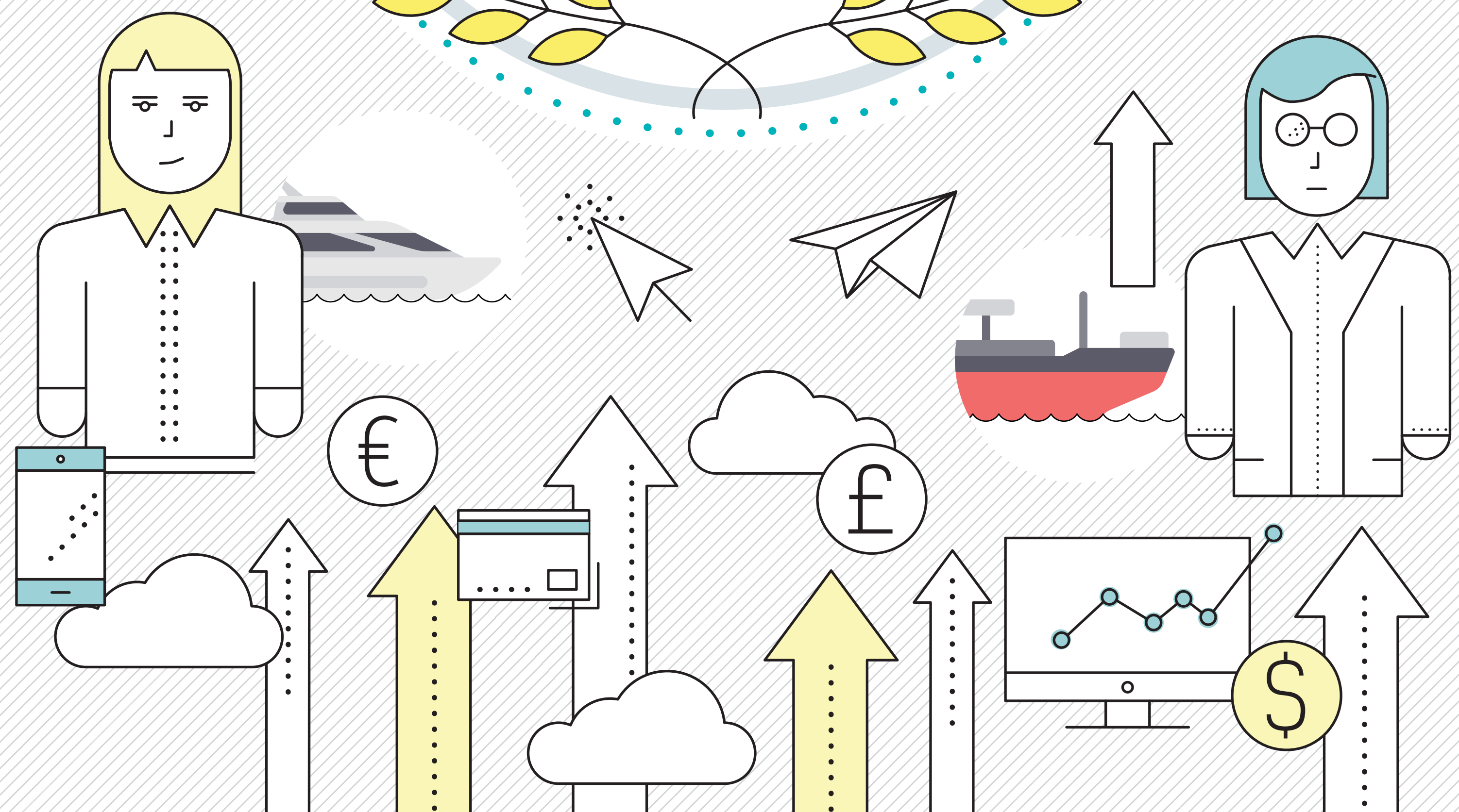
FINTECH DISRUPTORS EMEA

MagnaCarta

2018
Fintech Disruptors Report

PICKING WINNERS

DETERMINING SUCCESS IN DIGITAL FINANCE



METHODOLOGY

Fintech Disruptors Report EMEA 2018, 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, comprises a survey distributed to 5,000 professionals within banking, financial services and fintech across Europe, the Middle East and Africa. In addition, interviews have been conducted with 20 experts across the region.

CONTENT

WHAT SUCCESS LOOKS LIKE ...

in accelerators

Barclays' Rise accelerator programme has had over 4000 applications and nurtured over 100 companies from concept stage to investable businesses in three years.

EXECUTIVE SUMMARY

> "For our global business, we work on the basis of 3-6-9. 3 days to build a team and a plan; 6 weeks to create the solution and methodology incorporating insights ready to present to an internal committee; 9 months, like a baby, to take the product to market."
>
> Manrique Garcia, BBVA

A year is a long time in fintech. This year's research, the third in our series on the impact of fintech disruption across Europe, the Middle East and Africa, underscores some of the early gains made by banks and fintechs in some parts of the region, along the journey from electronic to digital finance. And reviews what success looks like in this brave new world.

The research reveals that the first phase of the fintech wave, characterised by recognition of the need for collaboration between ecosystem partners, is coming to an end and identifies two conflicting forces that need to be reconciled before the next phase can begin:

- Among banks, the existential angst of the first phase of the fintech wave has subsided, with comfort provided by the limited success of fintechs so far, and the strength of their balance sheets. As a result, some of the early enthusiasm has lost ground, with introspection replacing zeal for innovation, and concern at their ability to operate at two speeds – one institutional, and a second for innovation.

- Fintechs meanwhile are in a race for scale as the realisation dawns that their size and sales are constraining their ability to compete head-to-head with incumbents. Despite this, successful fintechs are already taking advantage of a digital dividend that is enabling them to expand globally with limited incremental cost to serve.

As the survey results show, the journey is far from complete. Indeed, as the tech industry culture of agile, always-on improvement takes hold, it may never be truly over.

There is cause for both celebration and concern however. Where fintechs celebrate and consolidate their success, banks appear to be stalling their innovation efforts.

The reality may be more nuanced. With banks and fintechs each trying to re-define their roles, and the terms of their relationship with each other – a relationship that, as the interviews reveal, is increasingly co-dependent.

Resistance is futile. The irrepressible momentum toward open-source, platform-centred delivery, dictates that success must rely on engaging with partners across the ecosystem. To that end, neither innovator nor institution can afford to abandon the progress they have made so far in bridging the differences between them.

INTRODUCTION

THE END OF FINTECH?

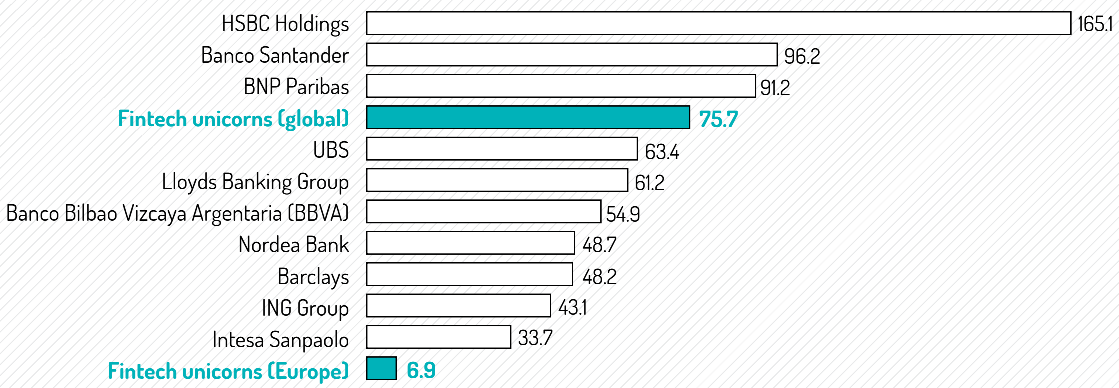
The year 2017 may go down as the year that fintech sank. News of the fintech revolution fired a shot that was heard in bank boardrooms around the world, helping to mobilise consumers and banking in the process. In reality however, their impact has barely dented banks dominance of the distribution and delivery mechanism of financial services. Much less their balance sheets.

> “We will move from talking about fintech to calling it financial services. If you do the ‘fin’ without the ‘tech’, you’re doing something wrong. Fintech is no longer a big deal.”
>
> Yoni Arbel, TransferWise

The combined valuations of all fintech ‘unicorns’ in Europe (companies valued at over one billion dollars) – one of few metrics currently available to measure performance – don’t even scratch the surface of the smallest of Europe’s ten largest banks (see chart 1).

The simplicity of the fintech story hides the deep challenges of the increasingly inter-connected world of financial services

CHART 1:
BANK VALUATIONS V FINTECH UNICORNS, Billion US$



Source: Banksdaily.com, CB Insights, MagnaCarta. Bank valuations, April 2017

Table 1:

TURNING THE TANKER

Announced branch closures in Europe 2016-17

RANK*	BANK	CLOSURES	
1	HSBC	117	UK
2	Santander	450	Spain
3	BNP PARIBAS	100	Italy (BNL)
4	ING GROUP	600	Belgium
6	LLOYDS BANKING GROUP	190	UK
7	BBVA	162	Spain
8	INTESA SANPAOLO	600	Italy
10	BARCLAYS	67	UK
11	SOCIETE GENERALE	300	France
13	RBS The Royal Bank of Scotland	240	UK

* Rank by market cap (Apr 2017)

Source: MagnaCarta

Table 2:

A-Z OF NEW BANKING LICENSES 2016-17

COMPANY	LICENSE STATUS
Adyen	2017
Atom	2016
Babb	2017
Cashplus	Applied November 2017
CivilisedBank	2017
ClearBank	2016
Klarna	2017
Monzo	2017
N26	2016
Orange	2017
Redwood Bank	2017
Revolut	Applied November 2017
Starling	2016
Tandem	2017**
Zopa	Applied November 2016

** Gained license through acquisition of Harrods Bank, August 2017 in the internet age. A challenge best reflected by the early, eager enthusiasm of fintech founders when the story took off. As one interviewee this year remarked, "being a bit naïve helped a lot. We took the view that 'we'll figure it out' but actually, the challenges are pretty big."

That eager enthusiasm shouldn't be discounted. Beneath the still waters of the balance sheet, the psychological impact on banks and their customers in boosting awareness of the potential, and possibilities, of digital finance has been deep. There are also early signs, in some regions, of fintechs' ability to scale and absorb revenues from new products and services that are being created as different digital worlds collide.

In a global study, more than half of consumers were customers of at least one non-traditional firm[1]. "Look at revenue taken by new companies in new products - what percentage of revenues have the new entrants taken? Look at China – Alibaba and Tencent have taken 80% of payments traffic – is there anyone capable of doing that in Europe or the US?" says Michael Harte, head of innovation at Barclays'.

In some areas banks have made significant strides in transformation, although momentum this year appears to be slowing. Perhaps not surprising, given the challenges of servicing customers across an ever-increasing number of channels, and an institutional template that is risk averse by design. Against this backdrop, changing, or even modestly altering course, is much like trying to manoeuvre a container ship through a pleasure-boat marina.

WHAT SUCCESS LOOKS LIKE ...

in building the ecosystem

Nordea: The Scandinavian bank's open banking initiative which it uses to drive co-innovation now offers solutions from over 800 third parties.

Despite this, and the challenges of European tech companies achieving the scale of their peers in the US or Asia, Europe and the adjacent regions of the Middle East and Africa, are well-placed to play a pivotal role in the realisation of the digital financial services marketplace. Taken together they are home to more than half of all fintech hubs in the Global Fintech Hubs Federation, an industry association, and 7 of 16 planned or live 'regulatory sandboxes' hosted by regulators and central banks around the world to foster responsible innovation[2].

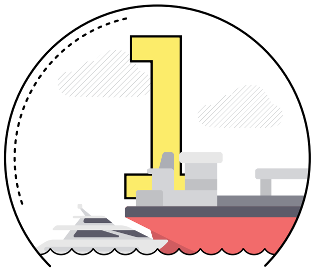
The mix of institutions, innovation and entrepreneurial talent, and consumer diversity, provide powerful, complementary forces that the region will need to call on to be at the centre of progress toward a fairer, better-connected, immediate payments and banking landscape. The prize may include potentially unlimited efficiencies, benefits to growth, and increased productivity from the synergies they unlock.

This year's results show signs of a bank-fintech impasse as successful fintechs consolidate early gains, and banks look inward to redefine themselves for the digital age. As the survey underlines however, successfully re-designing the hull of 'good ship finance' will require unprecedented levels of cross-industry co-ordination and collaboration. And commitment from traditional providers to steer deeper into uncharted digital waters. When that is achieved, fintech's promise will have been delivered and the fintech story can finally be set adrift.

Simon Hardie
MagnaCarta Communications

1 World Fintech Report 2017, CapGemini, LinkedIn and Efma, 2016

2 A tale of 44 cities: Connecting Global FinTech: Interim Hub Review 2017, Deloitte, April 2017



CHANGING COURSE

MATCHING SCALE WITH SPEED

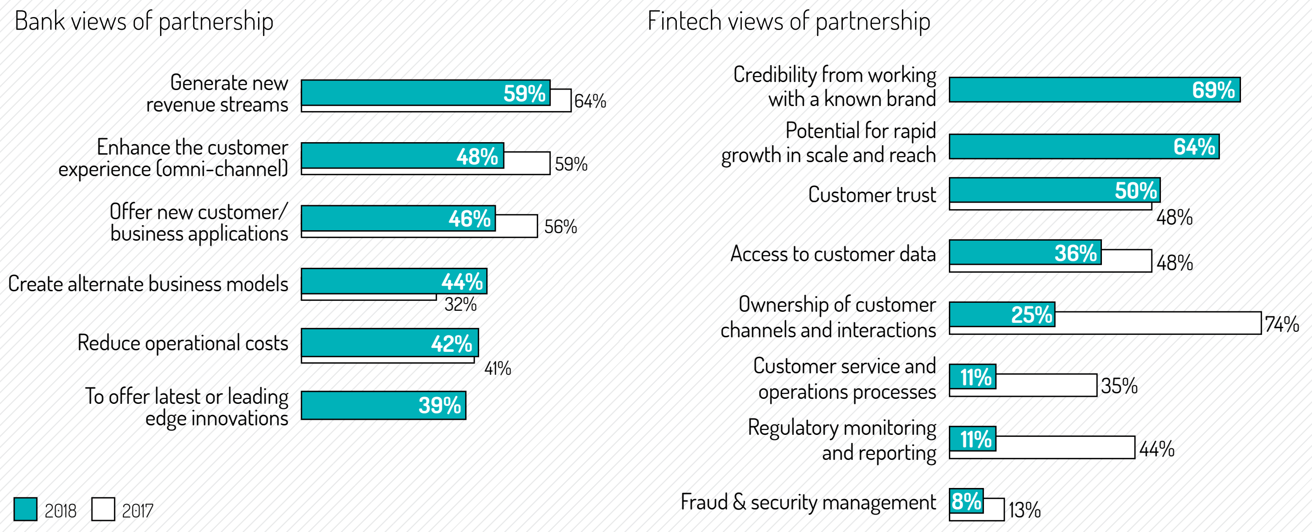
KEY FINDINGS

- 73% of banks in the survey view partnership as the best way to achieve their goals, slightly down from 78% in 2017, but the reasons for doing so are changing.
- 44% of bank respondents (compared to 30% in 2017) view the opportunity to create alternative business models as a primary driver to partner, up two places to fourth position from 2017.
- 69% of fintechs view the advantages of working with a recognised brand, and 64% the potential for rapid growth in scale as the main reasons for partnerships with traditional institutions.

In three years fintech has moved from niche curiosity to global phenomenon with the perceived potential to transform delivery of banking services everywhere and direct implications for a host of adjacent industries. Not to mention the threat posed to the world's banks, who were deemed at risk of enormous disruption, or worse.

The story played well in the newsroom but the reality is more nuanced. Psychologically, the advance of fintechs on the walls of fortress finance inflicted a direct hit that penetrated bank boardrooms in London to Wall Street and Shanghai, and everywhere in between.

CHART 2: **COMPATIBILITY OF PERSPECTIVES**



Source: Fintech Disruptors 2018, MagnaCarta

Three years on however, evidence of fintech disruption is still largely more a product of media perception than business reality. In the UK, a market where consumer and regulatory pressure has created the conditions for the launch of a series of new challenger banks, more than 70% of consumers still bank with one of the four largest retail banks [1]. Globally by volume, mobile payments – that great disaggregator of fortress finance – are largely sent, routed or originated using mainstream, bank-owned rails, and with the exception of a few countries in Europe and South Africa, the ratio of cash in circulation to GDP has increased [2]. Hardly a winning report card for the advance of digital finance.

In the second year of our industry survey of trends in fintech and traditional finance across Europe, the Middle East and Africa, whispers of this "return to a new normality" echo across this year's results. While many banks and fintechs remain keenly aware of their mutual dependence, survey respondents show signs that they're coming to terms with the limitations of their alliance, and returning to a more opportunistic approach to the market and their relationships with each other.

WHAT SUCCESS LOOKS LIKE ...

in savings and investments

Raisin's deposit marketplace, launched in 2014, totals €4.5 billion in assets with 90,000 customers across 37 banks in 31 countries.

Banks and incumbents are still eager to partner – 73% of banks in the survey view partnership as the best way to achieve their goals, slightly down from 78% in 2017 - but the top three reasons for doing so – to generate new revenue streams, to help enhance the customer experience or offer new customer or business applications – have all declined in importance (see chart 2). In contrast, 44% of bank respondents (compared to 30% in 2017) viewed the opportunity to create alternative business models as a primary driver to partner, up two places to fourth position from last year.

Among fintechs, the change of heart has been even more drastic. Of the five top reasons for partnering with banks or traditional institutions in 2017, only three remained as important drivers this year. In a sign of growing commercial confidence, and ambition, among the fintech community, 'regulatory monitoring and reporting', and 'customer service operations' were edged out by the perceived advantages of working with a recognised brand, and the potential for rapid growth in scale, both of which appeared as the top two choices for the first time this year among 69% and 64% of respondents.

Looking ahead, this dose of reality is also reflected among the views of both camps about the biggest opportunities in 2018. As the deadline for the implementation of PSD2 in Europe approaches, both sides are gearing up for the opportunities this will

1 FT.com, November 2015 https://www.ft.com/content/1076be76-813b-11e5-8095-ed1a37d1e096 and Chris Skinner, The Finanser, November 2017, https://thefinanser.com/2017/05/23268.html/

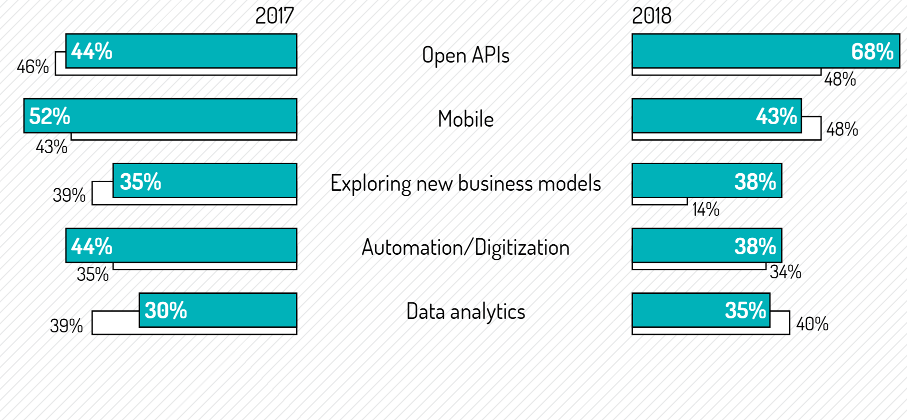
2 World Payments Report 2017, CapGemini, LinkedIn and Efma, 2016

bring. Open APIs appeared in first place as the biggest market opportunity, jumping up the ranking to first place this year among fintechs. Itself, perhaps a sign of the agility of fintech to respond to changing market conditions (see chart 3).

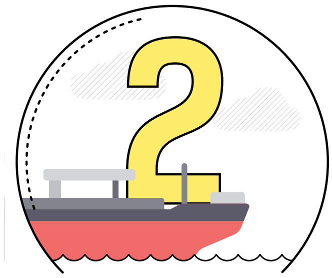
> We've spent a lot of time thinking of our culture and have made substantial progress in setting of our values. These values have been set by the team rather than by the management and then handed down to the employees.
>
> Todd Latham, Currency Cloud

Bank priorities meanwhile seem to be shifting towards dealing with practical realities such as embedding mobile into the business (48%, up from 43% in 2017); making better use of data and analytics (40%, up from 39% in 2017) and use of artificial intelligence (39%) to drive automation, over exploring new ventures or experimentation. Exploring new business models dropped out of the ranking among banks from third place to ninth this year (14% down from 39% in 2017).

CHART 3:
PERCEPTION OF FINTECH OPPORTUNITIES



Source: Fintech Disruptors 2018, MagnaCarta



BANKS

TURNING THE TANKER

KEY FINDINGS

- The panic of the first fintech wave has subsided, and the protection afforded by strong balances sheets is giving banks more confidence, but the challenge remains as great with up to 31% of revenues at risk over the next 5 years (up from 27%).

- Enthusiasm for experimental innovation initiatives is subsiding. Banks are keen to work with fintechs to look the part but are increasingly focussed on internal transformation programmes.

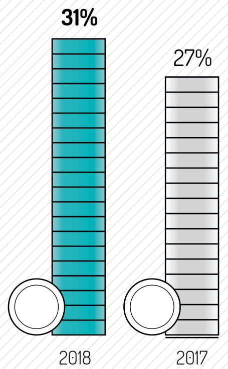
- Mobile services, artificial intelligence and data analytics are viewed as essential tools for banks to build leaner, more responsive, cost efficient organisations.

A year may be a long time in fintech, but what's changed for the banks over the last year? For most, the challenges of legacy infrastructure, slow decision-making and internal processes, and grappling with the herculean task of digital transformation remain unchanged.

If anything, as PSD2 approaches, the challenges have increased. Among bank respondents the awareness of the potential for fintechs to impact their revenues certainly continues to rise. The consensus among respondents this year is that up to 31% of revenues could be at risk from new entrants over the next five years (up from 27% in last year's survey).

Despite this, the existential threat posed by the early days of the fintech revolution has subsided – although real, the threat has proven to be largely psychological. At the same time, there's a growing confidence about the future role for banks and, despite the challenges ahead, an ability to confront them or acquire the solutions, technologies or fintechs that will allow them to thrive as the digital age takes hold.

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



Source: Fintech Disruptors 2018, MagnaCarta

This is not to say that the last three years have left the financial services landscape unchanged however. If 2017 revealed the depth of how seriously banks and traditional players viewed the fintech incursion on to their turf, 2018 looks set to create the foundations for a new normal – embedding the gains of those fintechs that have succeeded, with banks accepting that cooperation with third parties, increased data-sharing and digitisation are essential ingredients to their success in the future.

In 2018 the routes to achieving the banks' transformation objectives are likely to remain largely the same as 2017. In the survey results, there has been no movement in the five key strategies for meeting their goals (see chart 5). As last year, partnerships with fintechs came in at first place, with 73% of bankers viewing this as the most important strategy (down from 78% in 2017).

WHAT SUCCESS LOOKS LIKE ...

in reg-tech

ComplyAdvantage: In three years, ComplyAdvantage's anti-money laundering screening technology has grown to a team of 75 people in Europe and the US, with over 200 global customers.

While partnership with fintechs and third parties remains top of mind for traditional players, the widespread enthusiasm for incubating and acquiring fintechs appears to be wearing off. Acquiring fintech companies, or acting as incubators for start-ups dropped to the bottom of the table. Barclay's Rise incubator is a case in point, after welcoming more than 100 startups since the launch of the programme in 2014, the organisation is now shifting focus to attract later-stage businesses that can be scaled more quickly, with the resources to meet the challenges of working with a large, global institution.

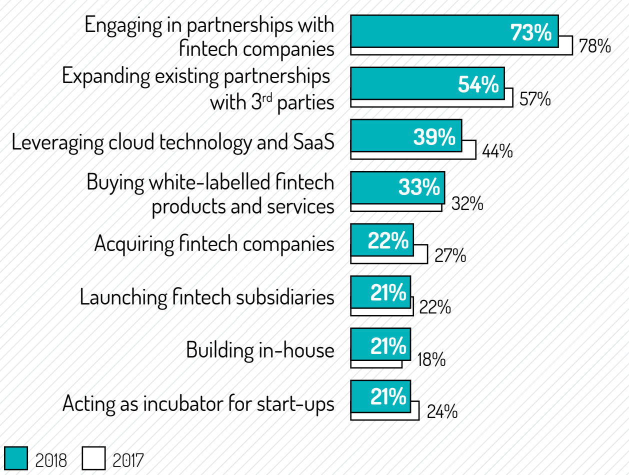
While it's too early to call a retreat, this dose of reality also seems to be impacting incumbent institutions' perceptions of what they are capable of. Whereas the prevailing view in the marketplace is that building proprietary solutions is a thing of the past for agile, digital-ready organisations, building in-house jumped to fifth place in importance, from the bottom of the table in last year's survey.

DROWNING, NOT WAVING?

In truth, this may or may not be significant. The acute challenge of keeping legacy systems ticking – for traditional banks as well as the technology old guard – means that building solutions in-house, is sometimes the only solution.

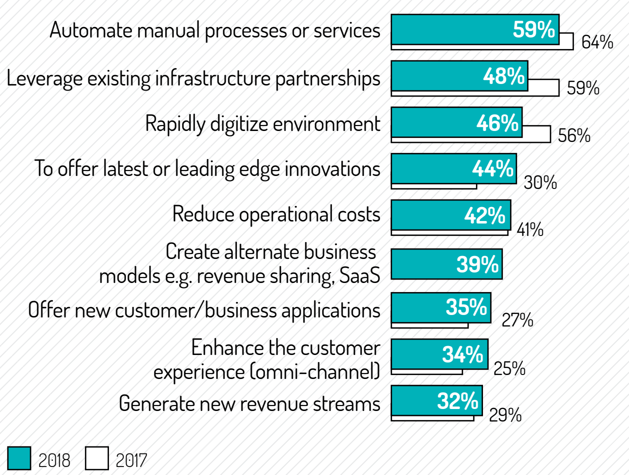
Digital transformation and the process of instilling a digital culture across all areas of a complex matrix organisation requires a basket of strategies to help banks adjust to the new normal. As one interviewee from a leading UK retail bank told us, "it's difficult to do all things to all customers – we're thinking about which segments we want to be seen as market leader in."

CHART 5:
HOW FINTECHS CAN HELP BANKS MEET THEIR GOALS



Source: Fintech Disruptors 2018, MagnaCarta

CHART 6:
BUSINESS BENEFITS OF PARTNERSHIP



Source: Fintech Disruptors 2018, MagnaCarta

Engaging and working with fintechs remains high on the agenda but is increasingly only one dimension of a much broader, fundamental shift taking place within banks across the region. And is certainly not the long-term alternative to bank-wide digital transformation.

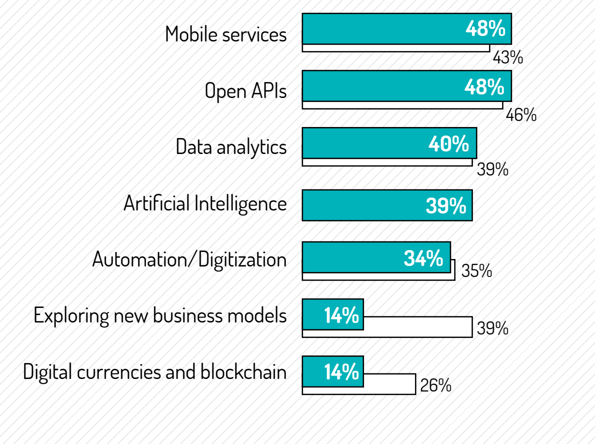
> “We make sure to look for partners who not only align with our brand and align with having good service, good customer support, but we also carry out due diligence on them to make sure they have the same integrity as we do.”
>
> Megan Caywood, Starling

Fintech alliances continue to be viewed as an important strategy in enabling banks to speak the language of digital and ‘look the part’ in front of their customers, to offer latest or leading-edge innovations (39%) and reduce operational costs (42%). Much needed, high value capabilities however - such as generating new revenue streams; offering new applications, or enhancing the customer experience – all notably dropped in prominence this year as primary reasons for banks to partner with them (see chart 8).

WHO AM I, WHAT AM I?

Unlike fintechs where focus on a specific problem area or point of friction is critical to their success (see steps to success, page 22), banks are asking themselves deep questions as they seek to define their identity, and their role, in the new digital landscape. Some with (sometimes astonishingly) better results than others. BBVA’s combination of internal leadership and determined focus on designing products that are in-step with today’s digital customers has few equals among large banks currently, but is proof of what’s possible with the right level of commitment. In November, the bank announced that the new mobile app had contributed to an 80% rise in new credit card applications, an increase in current account opening of 20% and an increase in sales of investment funds of 50%[1].

CHART 7:
BIGGEST OPPORTUNITIES FOR BANKS



Source: Fintech Disruptors 2018, MagnaCarta

STICKING TO THE (DIGITAL) KNITTING

So where are banks focussing and what will hold their attention in 2018? With the deadline for PSD2 approaching, perhaps unsurprisingly Open APIs were viewed as the biggest opportunity for banks in the coming year, and by a larger margin than in 2017.

Other than that, it’s a case of continuing the slow process of transformation by focussing on integrating mobile into the business, and driving down the cost to serve. Just under half of bank respondents selected mobile services as a leading opportunity (up from 43% in 2017), followed by artificial intelligence (39%), and data analytics (38%) – key areas that are essential for banks as they strive to create leaner, more efficient organisations.

Areas of opportunity, such as exploring new business models, digital currencies and blockchain, that last year appeared to be at the centre of the coming digital storm for banks, have almost dropped off the table. Just 14% view digital currencies and blockchain, and 13% view exploring new business models as leading opportunities for 2018 (see chart 7).

1 BBVA press release, November 2017 https://www.bbva.com/en/bbvas-customer-designed-new-mobile-app-delivers-astonishing-results/

FINTECHS

THE RACE FOR SCALE

KEY FINDINGS

- Successful fintechs are rapidly gaining commercial confidence. Partnering with banks remains an essential ingredient to success, and is often at the core of their business model, as a means to scale and drive sales.

- Support for regulatory monitoring and reporting, and customer service operations and processes were high on the agenda in 2017. These have been replaced by the opportunities created by working with a recognised brand.

- Fintechs are finding it easier to build trust among consumers, build sustainable income streams and get access to customers and their data.

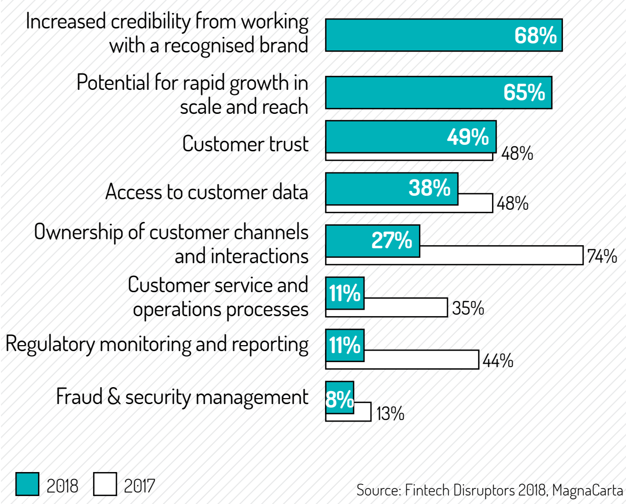
If banks have beaten a retreat from ambitious digital initiatives as they look internally to redefine themselves, their fintech peers are rapidly gaining commercial zeal. Fintechs surveyed this year are less misty-eyed about the potential, or the reality, of partnering with traditional financial institutions. Partnering with banks remains an essential ingredient to success, and is often at the core of their business model, but hard-headed pragmatism now prevails.

In 2017, fintechs were most concerned with gaining access to customer channels and customer data, and building trust with customers, as the primary perceived benefits of partnership. In 2018 the sentiment has shifted toward an emphasis on opportunities to work with a well- known brand, and to build scale.

Channel ownership and customer interactions were ranked as important by only 27% of respondents this year, compared to 74% in the 2017 survey. In contrast, 68% of respondents view credibility from working with a recognised brand, and 65% view potential for rapid growth in scale and reach as primary benefits of collaboration with intermediaries or financial institutions.

In step with their growing confidence, the fintech scene has also matured. In 2017, support for regulatory monitoring and reporting, and customer service operations and processes were high priority areas for fintechs looking to partner. In 2018, both areas have dropped to the bottom of the table, (see chart 8).

CHART 8:
REASONS FOR PARTNERING WITH BANKS



Source: Fintech Disruptors 2018, MagnaCarta

FINTECH IS WORKING

The results also indicate how the nature of the challenges that fintechs face are changing. Building scale and reach continues to be the primary challenge this year, and has increased slightly on 2017, but elsewhere the dust seems to be settling. The remaining four of the five biggest perceived challenges in 2017 – gaining visibility and awareness; access to funding and finance; building sustainable income streams, and access to funding and finance, have all declined substantially in importance.

The results also indicate the success fintechs are having in building trust, building sustainable businesses, and winning customers as the age of digital finance gathers pace. Gaining customer trust was cited as a primary obstacle by 16% of fintechs (down from 26% last year); building sustainable income streams dropped to 16% (down from 35%) and access to customers and customer data to 14% down from 30% (see chart 9).

UNDERSTANDING THEIR VALUE

Their understanding of the opportunities ahead for them are also changing as the foundations of the digital finance ecosystem take shape. As one retail banker in South Africa told us, "fintech opportunity has always been much more in the value chain space, and in understanding what technology can enable in terms of new connections between the different points of the value chain."

This year's results reflect that trend, and true to form for an industry founded on agile principles that can move with the times, there's a considerable shift to viewing Open APIs as the primary opportunity in 2018 (68% of respondents, up from 44%) as fintech entrepreneurs seek out opportunities from the implementation of PSD2. Exploring new business models (38%) and data analytics capabilities (35%) also rose in prominence this year.

In contrast, the attractions of e-commerce (at 14% down from 40%); blockchain and digital currencies (19% down from 26%), and infrastructure (11% down from 17%) are wearing off. There was also a noticeable decline in the importance given to mobile and automation and digitisation – a reflection that among fintechs these are inherent attributes of digital finance, rather than separate areas of specific focus (see chart 10).

CHART 9:
BIGGEST CHALLENGES FOR FINTECHS

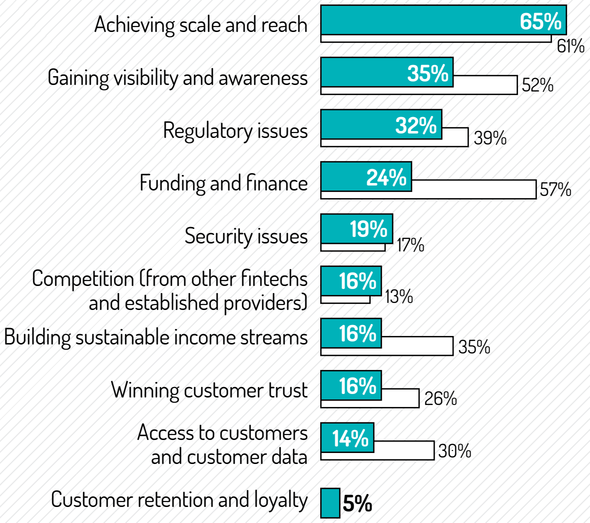
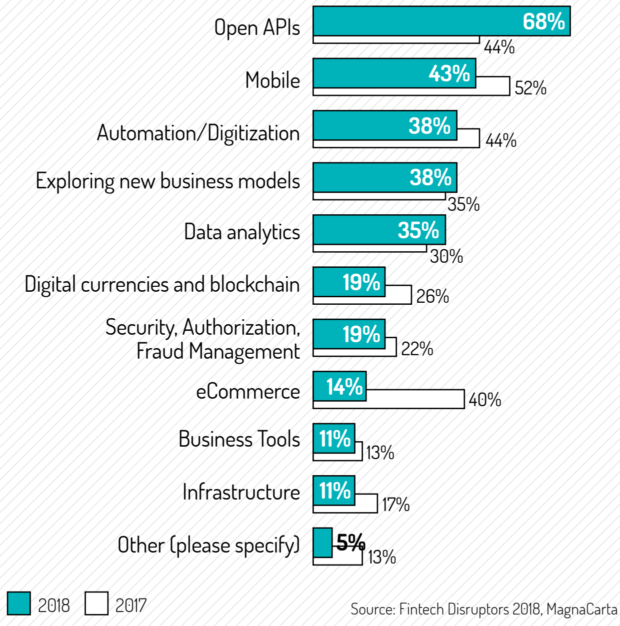


CHART 10:
BIGGEST OPPORTUNITIES FOR FINTECHS



Source: Fintech Disruptors 2018, MagnaCarta

LOOKING AHEAD

READYING FOR THE NEXT FINTECH WAVE

KEY FINDINGS

- Payments increases its lead as the primary focus of investment in 2018 among 71% of respondents (up from 57% in 2017), followed by security and authorisation solutions.

- Opportunities for technology that supports KYC and anti-money laundering compliance (59%), adhering to privacy and data protection regulation (50%), and record and data-keeping (41%) are gaining in importance .

- The impact of Brexit on fintech was largely dismissed in 2017. In 2018, sentiment has shifted to concerns that it may impact the rest of Europe as much as the UK on its own. The percentage of respondents feeling that it would have no direct impact has dropped from 52% to 35% this year.

With the continuing drumbeat of digitisation, this year's survey shows that it's really back to work for banks and fintechs as some of the froth of the last two years disappears.

Commercial realities like increased emphasis on Open APIs to take advantage of regulatory changes in Europe, and the need to focus on internal transformation are taking precedence over longer-term bets on transformative infrastructure, digital currencies and blockchain among banks and fintechs. In place, a new commercial pragmatism has taken hold. Banks are making alliances where they make sense - to help improve market perceptions or fill gaps in service provision - and for fintechs to improve their credibility in the market and help them scale more quickly.

WHAT SUCCESS LOOKS LIKE ...

in payments

Yoco: Since launch in 2013, the South African point of sale solution provider is used by over 10,000 SME's and signing up over 2,000 merchants every month.

Industry views of the focus of investment in 2018 support this with solutions that take advantage of the digital value chain likely to remain the priority of investors. Once again, payments holds on to first place (up to 71% from 57% last year) with security and authorisation solutions in second (34% up from 28%).

In comparison e-commerce and remittances both decline in importance as the focus for investment in 2018, with wealth management (10%) replaced by personal finance (17%); suggesting that the focus of technology in the investments and wealth management space is shifting toward higher volume consumer segments over affluent customers.

> “Design is really important for us. When we create a product, we build a workgroup that includes design, marketing, digital and IT areas, as well as legal and security, that are all really involved to take care of the product and the service. Design has acquired the same level of importance as Business and IT. We view it as a triangle (Business-Engineering-Design).”
>
> Manrique Garcia, BBVA

REGULATED OPPORTUNITIES

Opportunities for technology that supports regulatory compliance or reg-tech are also widely recognised. Most prominently for supporting KYC and anti-money laundering (59%), adhering to privacy and data protection regulation (50%), and record and data-keeping (41%).

The second EU Payment Services Directive (PSD2), which comes into effect in January 2018, also features heavily on the minds of fintechs and bankers this year. Although both sides are largely adopting a wait-and-see approach, instead of deciding on a firm course of action. Over half of respondents are either exploring opportunities or have not yet decided a formal strategy. In contrast, fewer than one fifth of respondents have a formal strategic plan (see chart 15) for implementing and adjusting to the new rules.

CHART 11:
BENEFITS OF BANK FINTECH PARTNERSHIP

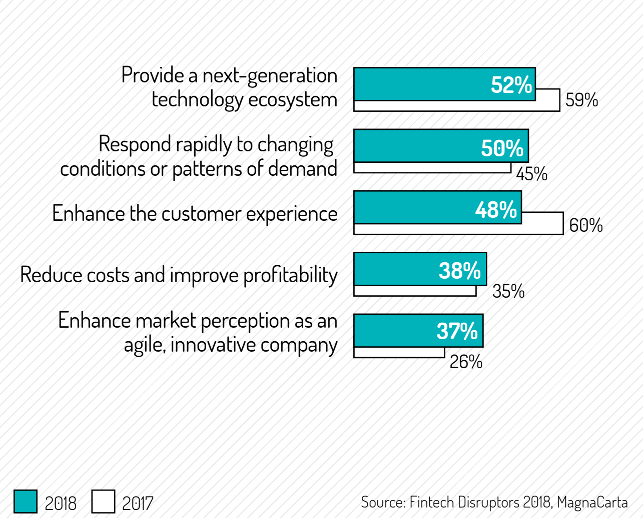
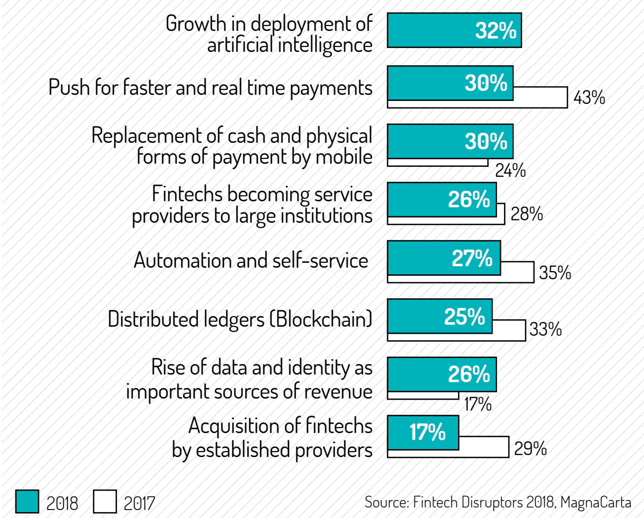


CHART 12:
DOMINANT FINTECH THEMES IN NEXT 5 YEARS



> "We want to lead with a platform that focusses on educating the customer and providing insights around creditworthiness, spending patterns and tricks and tools in a way that's understandable."
>
> Tauriq Keraan, TYME

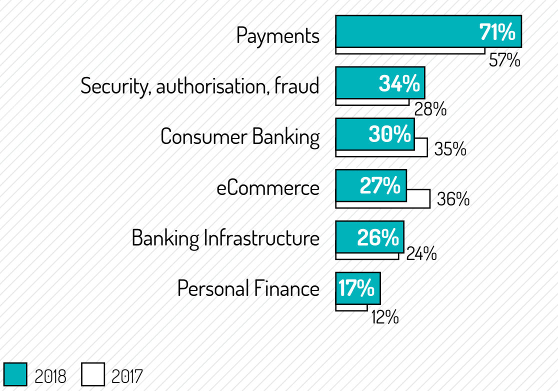
THE ROAD HALF TRAVELLED

As we enter 2018, the road to digital finance is only half built. At best. Looking ahead, despite this year's slowdown in expansive fintech activities – as new entrants consolidate their gains, and traditional institutions focus on the internal challenge of transformation – responses to the survey indicate that the pause is as much a prelude to the greater changes to come in the next five years, than a reflection that the journey is complete.

Every part of the ecosystem recognises the scale of the transformation under way and that they're now part of – from the infrastructure of banking and payments, to methods of delivery, the make-up of the sector and the concept of money and value itself. And by region, as the rapid ascent of Chinese fintech in the last two years changes perceptions of the future of global financial gravity (see Fintech Hubs map, page 19).

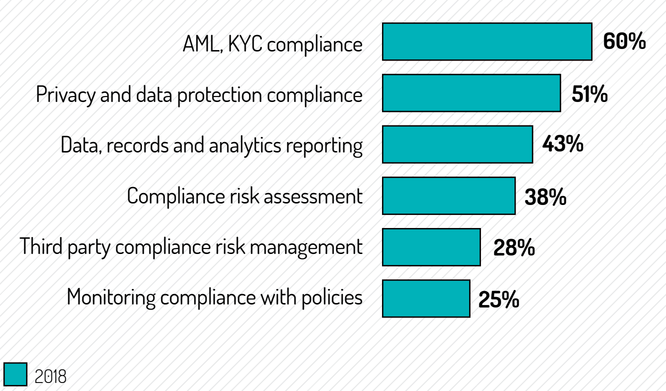
This is no foregone conclusion. In high-growth, technology-driven markets, a year is a very long time. The impact of Brexit on fintech was largely dismissed in 2017. In 2018, sentiment has shifted to concerns that it may impact the rest of Europe as much as the UK on its own. Similarly, the concept of fintech as saviour of the unbanked has yet to find strong basis in market

CHART 13:
FINTECH INVESTMENT AREAS 2018



Source: Fintech Disruptors 2018, MagnaCarta

CHART 14:
REG-TECH OPPORTUNITIES



Source: Fintech Disruptors 2018, MagnaCarta

reality (see chart 16). As the next section of this report shows, success takes focus and determination. If financial inclusion is not the central focus of activity, banking the unbanked is not a switch that can simply be flicked.

No matter. Across Europe, the Middle East and Africa there is still everything to play for. This diverse region incorporates two mirroring fintech communities, that are home to both some of the world's strongest innovation ecosystems, and well-regulated global markets for digital services.

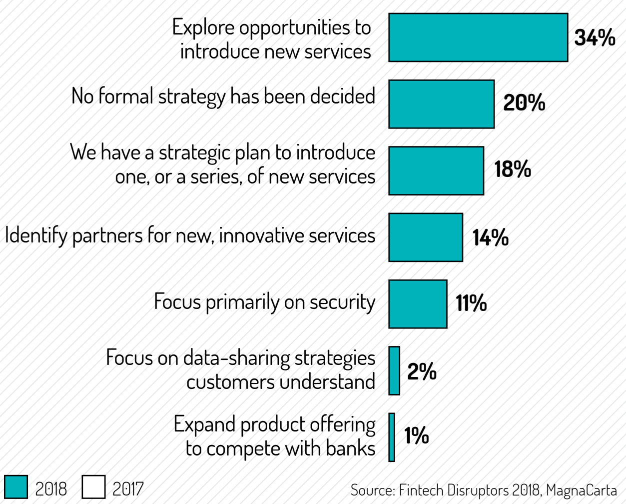
WHAT SUCCESS LOOKS LIKE ...

in money transfer and remittances

WorldRemit: Over 6 years the money transfer company's network has expanded to include access to more than a fifth of all mobile money accounts globally with over 800,000 transactions per month in 2017.

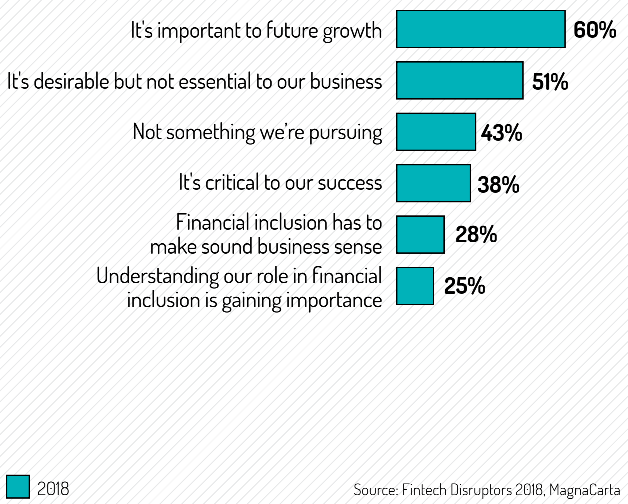
The region's leadership in digital finance, and the potentially unlimited potential from connecting the digital value chain, still remains within reach. Success however will require unprecedented levels of commitment to coordination and collaboration across the ecosystem, in step with investment and strong governance to ensure financial stability and appropriate consumer protections, to maintain the momentum in digital adoption. In the new digital landscape, no fintech, institution, region (or country) is an island.

CHART 15:
READY FOR PSD2?



Source: Fintech Disruptors 2018, MagnaCarta

CHART 16:
VIEWS OF FINANCIAL INCLUSION



Source: Fintech Disruptors 2018, MagnaCarta

FINTECH HUBS IN 2020

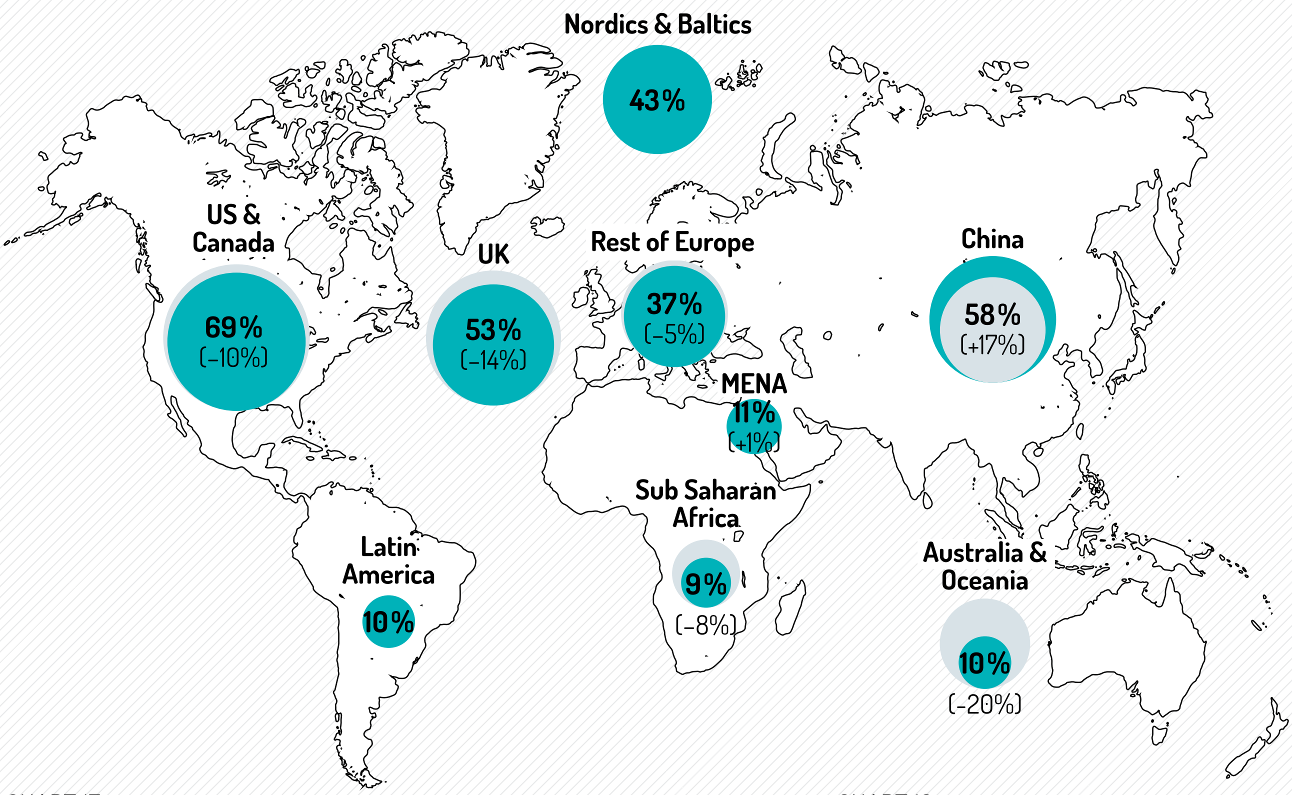
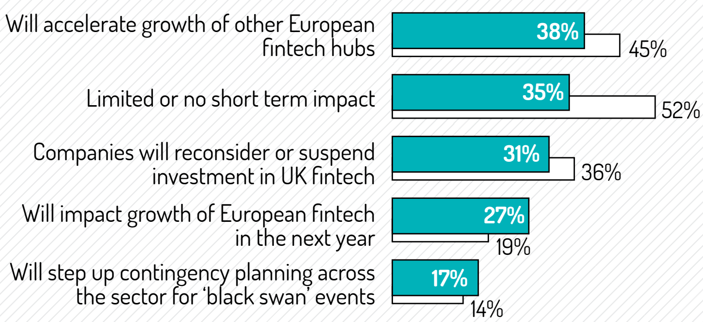
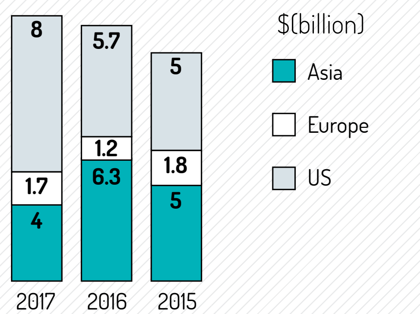


CHART 17:
THE BREXIT EFFECT



Source: Fintech Disruptors 2018, MagnaCarta

CHART 18:
VC INVESTMENT IN FINTECH BY REGION



Source: CB Insights

5

PICKING WINNERS

STEPS TO SUCCESS

While the digital landscape continues to evolve what determines success will remain a moving target. At least for the foreseeable future. Despite their largely repaired balance sheets one decade on from the financial crisis there is no guarantee of their ability to survive the next round of disruption.

A strategy that relies on acquiring or buying those fintechs that are perceived to be a threat runs the risk of understating the challenge of combining two organisational cultures that are likely to be running at very different speeds. BBVA's challenges with integrating its acquisition of Simple into its business in the US is one example of this.

Similarly, for the majority of fintechs across the region, lack of scale is likely to limit their ambition, and their ability to compete directly with traditional institutions. Among interviewees, the set of factors that dictates the success of this year's winners, a non-digital, relationship-centred approach to winning sales from key customers and raising awareness of investors is essential.

For traditional institutions, the challenge remains of maintaining the forward movement toward an agile, tech-centred culture that prioritises a 'release now, refine later' style of product development, to replace the twentieth century model of production-line distribution. As Michael Harte, head of innovation at Barclays commented, "There is room for 'test and learn' in a big institution, and to do it at scale. The combination of the big scale machine and the small machine perhaps can work. Some banks have bought digital start up challengers - in some cases that has not worked but perhaps it brought more agility"

The digital road is only half-complete. Quite possibly that is at the heart of it. If the law of doubling processing speeds, and

TABLE 3: **PAYMENTS M&A 2016-17**

	Target	Product	Acquirer	Sale price $(million)	Sale multiple
June 2016	citi Prepaid Services	Prepaid cards	Wirecard	-	**10**
August 2017	cashstar	Digital gift card programmes	Blackhawk Network	175	**8.8**
August 2016	GRASS ROOTS	Loyalty and rewards programmes	Blackhawk Network	118	**8.2**
July 2017	bambora	Online payment processing and merchant services	Ingenico	1,500	**7.5**
August 2017	worldpay	Payment processing	Vantiv	11,900	**7.5**
August 2017	Paysafe	Physical and virtual prepaid cards	Blackstone/CVC Capital	3,900	**3.8**
May 2017	cardconnect	Card processing	First Data	716	**1.2**
March 2017	MoneyGram	Remittances	Euronet Worldwide	1,770	**1.1**

Source: Capstone Partners, MagnaCarta 2017

“Change is challenging for any company that has been in existence for over 50 years. You have to work hard at it – bring in the right people to the organisation and set the tone from the top.”

Paul Stoddart, Vocalink

exponential growth in data traffic hold up, it might always be a work in progress. As one startup founder told us, “it’s a journey rather than a destination. The fun is in the doing – there’s no fun in stopping, there’s no end point.”

The digital giants are proof that large organisations can innovate – but under a strikingly different approach to corporate culture and organisational structure. The earliest and by far the largest fintech of the digital era, Paypal, was created by E-bay; Amazon is now the largest cloud infrastructure provider by a ratio of more than three-to-one, with more than a third of the global market[1].

Although a precise definition of success remains hard to come by in this evolving environment, fintech companies interviewed for the research all displayed the following combination of mutually reinforcing, ‘winning’ hard and soft characteristics:

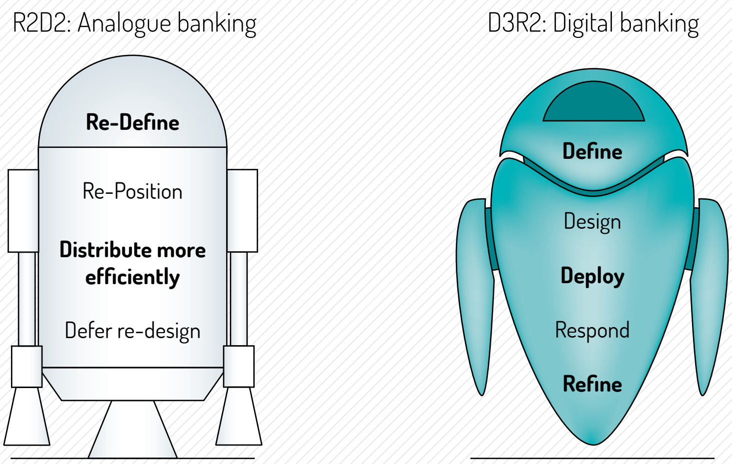
1 Synergy Research Group, Q2 2017: https://www.srgresearch.com/articles/leading-cloud-providers-continue-run-away-market

- Focus on a specific problem area, or point of friction
- Awareness of external reputation, and relationships
- Data and analytics central to the ‘test-learn-refine’ business model
- Rigorous approach to building, and retaining, the right team
- Scale quickly, scale globally as soon as first customers are engaged

Banks across the region that are winning in fintech are also moving to a culture that prioritises some or all of these values, but their institutional size means that slower decision-making, and legacy infrastructure, continue to slow down their transformation into agile organisations (see Robot Wars). While the market is rewarding companies that can bridge the divide between physical and digital commerce (see table 3).

ROBOT WARS - WHEN CULTURES COLLIDE

A combination of legacy, size and culture means that banks and fintech companies are taking very different approaches to technology in their businesses.



DRESSING FOR SUCCESS

WHAT DOES IT TAKE TO LEAD IN FINTECH?

Fintech leadership requires a very different combination of skills and attributes to pre-digital banking. Based on insights from this year's interviews, the research identifies the following, key components to success in the new digital landscape.

1	**Focus on fixing a specific problem or point of friction that works within the constraints of existing rules and rails.**	**Barclays:** "We're investing in product development and using the business to come up with problems and we then find suitable fintech companies to solve those problems." Michael Harte, Group Head of Innovation
2	**Bold vision and strong leadership from executive management.**	**Dubai Future Foundation:** "Thanks to our leadership we've crossed some of the biggest challenges and potential roadblocks." Dr Noah Raford, Chief Operating Officer and Futurist
3	**Go for scale, and scale quickly.**	**World Remit:** "We set our sights on expanding across global markets from day one. This mentality focused our rapid growth over seven years, and we now facilitate money transfer for our customers from 52 countries to 148 nations across the world" Catherine Wines, Co-founder
4	**Think global from inception, with a clearly defined proposition.**	**ComplyAdvantage:** "A global problem requires a global solution. We want to be the leader in AML compliance and risk management and do one thing really well. It makes no sense being all things to all people and there's no point in being an also ran in the market. We have to be the best choice." Charles Delingpole, Founder and CEO
5	**A bit of humility goes a long way. Recognise that success requires collaboration across the ecosys-tem.**	**Zwipe:** "Some companies have a 'you win, I lose mindset'. You have to create a win-win sce-nario. As Zwipe, we can't get the product to market if we can't work with the card schemes and they can't get it to banks which means everyone loses out." Kim Humborstad, Founder and CEO
6	**Create win-win scenarios to make working with partners a success.**	**Nordea:** "We try to structure partnerships through our open banking ecosystem where we can drive co-innovation and co-front the offering. There are three key things when working with vendors: 1. How do you structure the relationship with third parties; 2. Revenue shar-ing, and 3. How to bring innovation to customers. Claus Richter, Head of Cash Management Customer Solutions

WHAT SUCCESS LOOKS LIKE ...

in core banking

Mambu: The software as a service core banking platform launched in 2011 and is now used to manage over 5000 loan and deposit products, used by more than 4 million consumers in over 45 countries.

7	**Embed data and analytics in the business to foster a culture of continuous improvement.**	**James:** "The question is - today our clients ask their customers 20 questions but can you ask them just 5 questions by maintaining the same level of risk so the default rate doesn't change but improving the acceptance rate?" Joao Menano, Founder and CEO
8	**Prize relationships and reputation. Balance virtual and real-world customer touchpoints.**	**Raisin:** "50% of my time is focussed on meeting banks and understanding challenges and then adapting the model behind it. Engagement with banks is very important. Our product is only as strong as the underlying offers [from banks]." Tamaz Georgadze, Founder and CEO
9	**Build equity into your strategy for managing and acquiring talent.**	**Vocalink:** "For small businesses an equity stake or skin in the game is a significant contributor and also in large corporates – staff want to feel they have influence and impact on success of the company. Equity is going to play an ever-increasing role in remuneration." Paul Stoddart, Chief Executive Officer
10	**Engage with regulators. Take responsibility for the development of the ecosystem.**	**Mambu:** "Factor regulators into your strategic planning. Think about them as part of a work stream, the earlier they are engaged the better it is for the institutions and the regulators themselves." Eugene Danilkis, Co-Founder and CEO
11	**Accept that agility is not a fad. It's the future.**	**Paykey:** "Our issue with Apple didn't come out of the blue – it was always one of the risk factors. [Our] investors all knew it was a risk, but what did surprise us was the timing of it, as it came after Apple had already approved the banks' apps. But there was also a positive that came out of it too, as it pushed us into widening our offering." Guy Talmi, CMO
12	**It's a race, not a sprint. Understand that success doesn't happen overnight.**	**TransferWise:** "This has taken six years and a lot of hard work. What is not discussed enough in fintech is the amount of work involved, dealing with the red tape and a lot of operational overheads. Companies succeed or fail only on execution. It's about navigating the complexities of a marketplace and successful integration into the existing system." Yoni Arbel, Treasury Product Manager

INTERVIEWEES

YONI ARBEL
TransferWise

MEGAN CAYWOOD
Starling

EUGENE DANILKIS
Mambu

CHARLES DELINGPOLE
ComplyAdvantage

MANRIQUE GARCIA
BBVA

TAMAZ GEORGADZE
Raisin

MICHAEL HARTE
Barclays

KIM HUMBORSTAD
Zwipe

TAURIQ KERAAN
TYME

ILKKA KORKIAKOSKI
Tieto

TODD LATHAM
Currencycloud

JOÃO MENANO
James

ANGELIQUE MOHRING
GainX

NOAH RAFORD
Dubai Future Foundation

CLAUS RICHTER
Nordea

PAUL STODDART
Vocalink

GUY TALMI
PayKey

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Payments Association of South Africa

KARL WESTVIG
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