

# FinTech and the Evolution of Finance



# Agenda

1. Introduction
2. Key driving forces
3. How Financial Institutions are responding
4. FinTech adoption
5. Conclusion

# Banks

- Used to be highly profitable
  - Difficult to get license for new entrants
  - Competitive advantage through network of branches
  - High startup cost in IT
  - Low customer switch
- Annual Global banking ROE averaged 16% between 1980 to 2006

# Universal Banking Disrupted

The image shows a screenshot of an HSBC website with numerous fintech logos overlaid. Yellow arrows point from these logos to specific features on the website. The website's navigation bar includes 'Personal' and 'Business' tabs, a search bar, and links for 'Internet Banking', 'Log on', and 'Register'. The main menu lists 'Everyday banking' (Accounts & services), 'Borrowing' (Loans & mortgages), 'Investing' (Products & analysis), 'Insurance' (Property & family), and 'Planning' (for now & the future). A large banner features a house and the text: 'Send money overseas in a few clicks. It's secure, quick and easy. See just how much we could save you. Fees may apply. Payments may also incur agency and/or beneficiary bank fees. Find out more'. Below this, there are four columns: 'Find a mortgage', 'Our lowest ever loan rate', 'Save Together offer', and 'International money transfer'. The footer includes 'Site map | Contact us | HSBC Group'.

**Logos and Arrows:**

- SavingGlobal** (arrow to 'Log on')
- ffrees** (arrow to 'Personal')
- osper** (arrow to 'Business')
- CENTRALWAY** (arrow to 'Search')
- SQUIRREL** (arrow to 'Investing')
- nutmeg** (arrow to 'Investing')
- wikifolio** (arrow to 'Investing')
- etoro** (arrow to 'Investing')
- tink** (arrow to 'Planning')
- CAPITAL** (arrow to 'Planning')
- Money** (arrow to 'International money transfer')
- Dashboard** (arrow to 'International money transfer')
- môni** (arrow to 'International money transfer')
- transferGo** (arrow to 'International money transfer')
- worldremit** (arrow to 'International money transfer')
- azimo** (arrow to 'International money transfer')
- CurrencyFair** (arrow to 'International money transfer')
- TransferWise** (arrow to 'International money transfer')
- lendstar** (arrow to 'Our lowest ever loan rate')
- auxmoney** (arrow to 'Our lowest ever loan rate')
- Lendinvest** (arrow to 'Find a mortgage')
- fruitful** (arrow to 'Find a mortgage')
- Lendico** (arrow to 'Find a mortgage')
- prêt d'union** (arrow to 'Find a mortgage')
- LENDING WORKS** (arrow to 'Find a mortgage')
- zopa** (arrow to 'Find a mortgage')
- Bondora** (arrow to 'Find a mortgage')
- borro** (arrow to 'Find a mortgage')
- LANDBAY** (arrow to 'Find a mortgage')

# Wall Street Disrupted

2008



2016



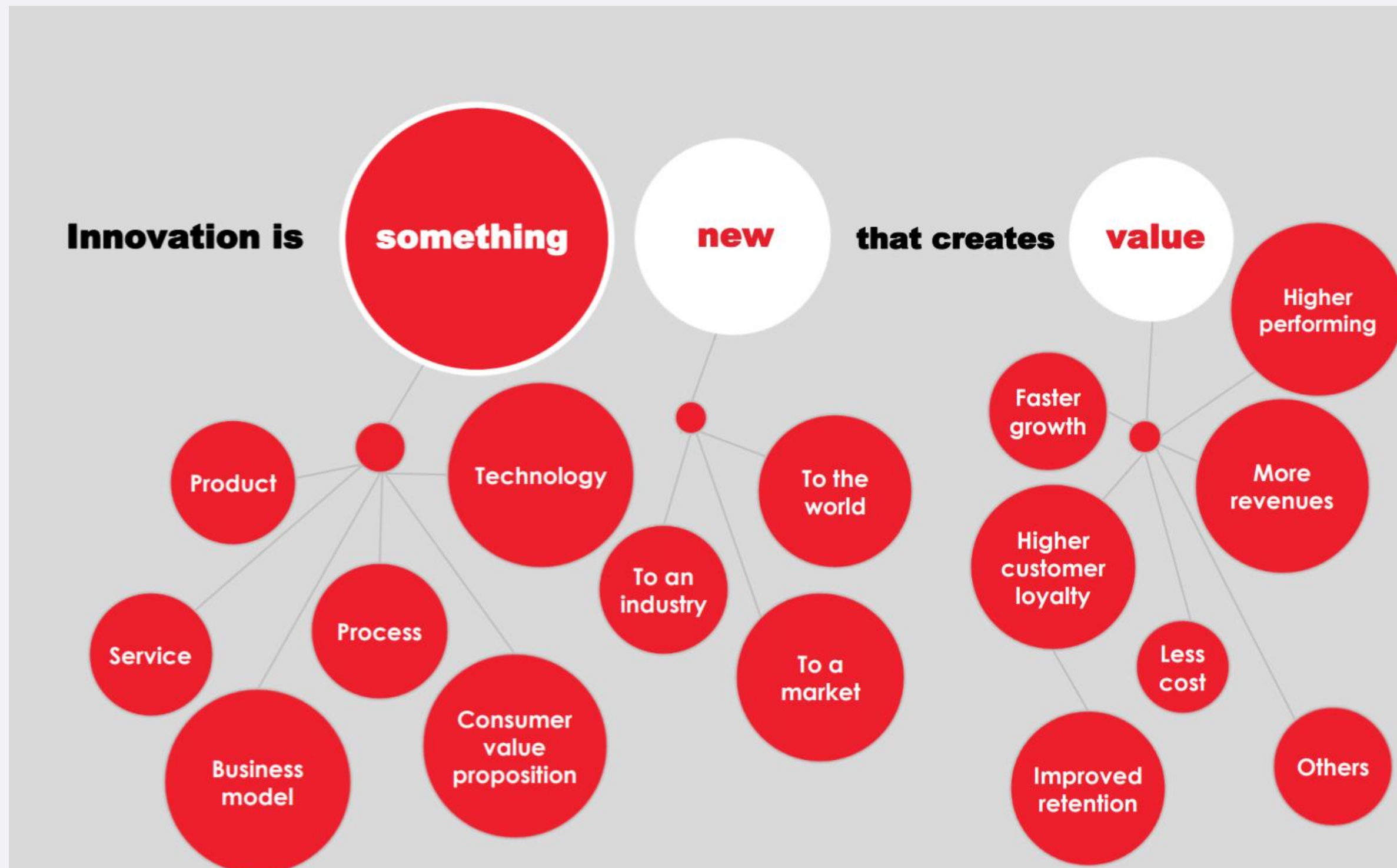
# What is FinTech

The innovative use of technology and/or innovative business model to improve or transform the delivery of financial services and products to consumers and businesses

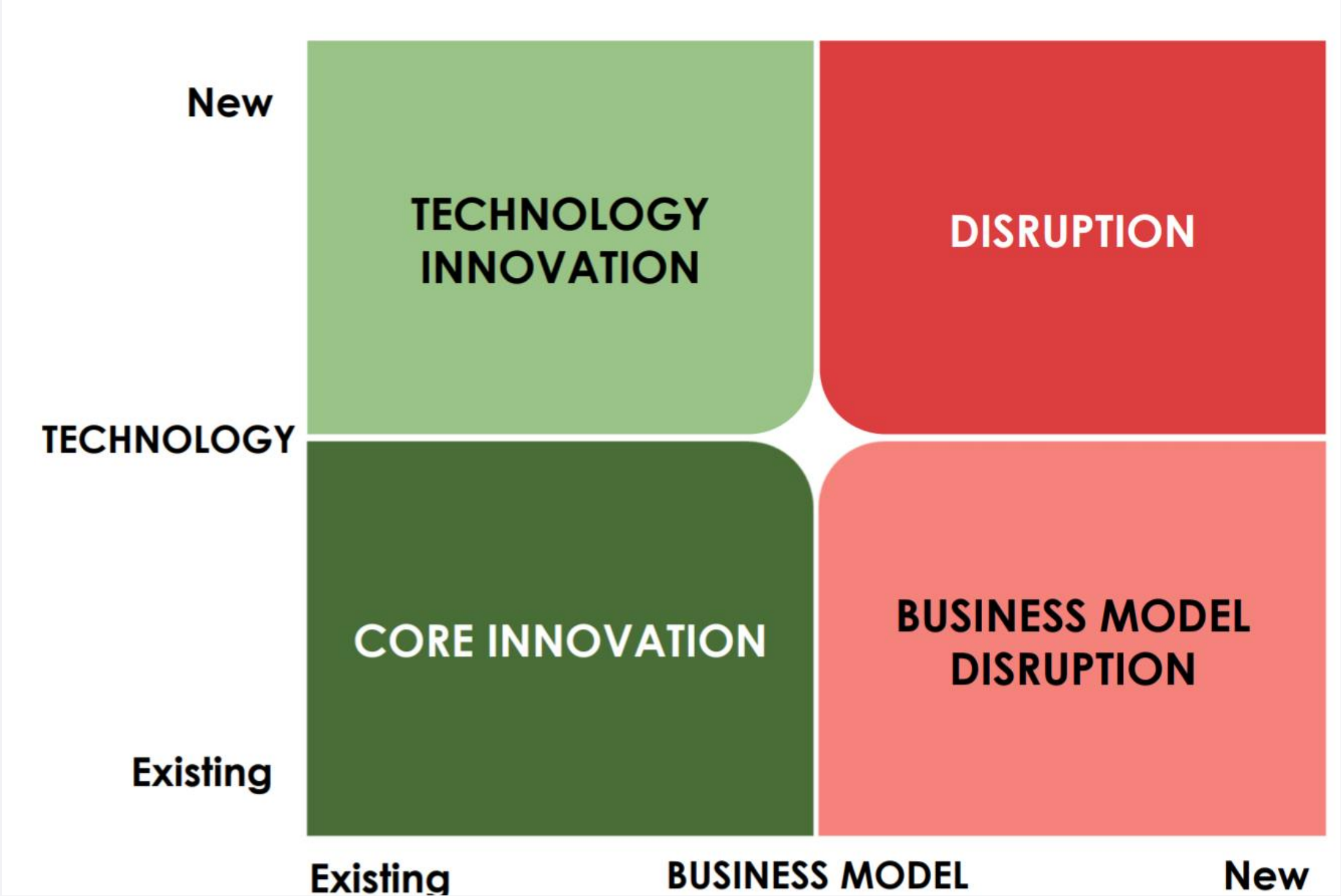
## THERE IS ANOTHER WAY



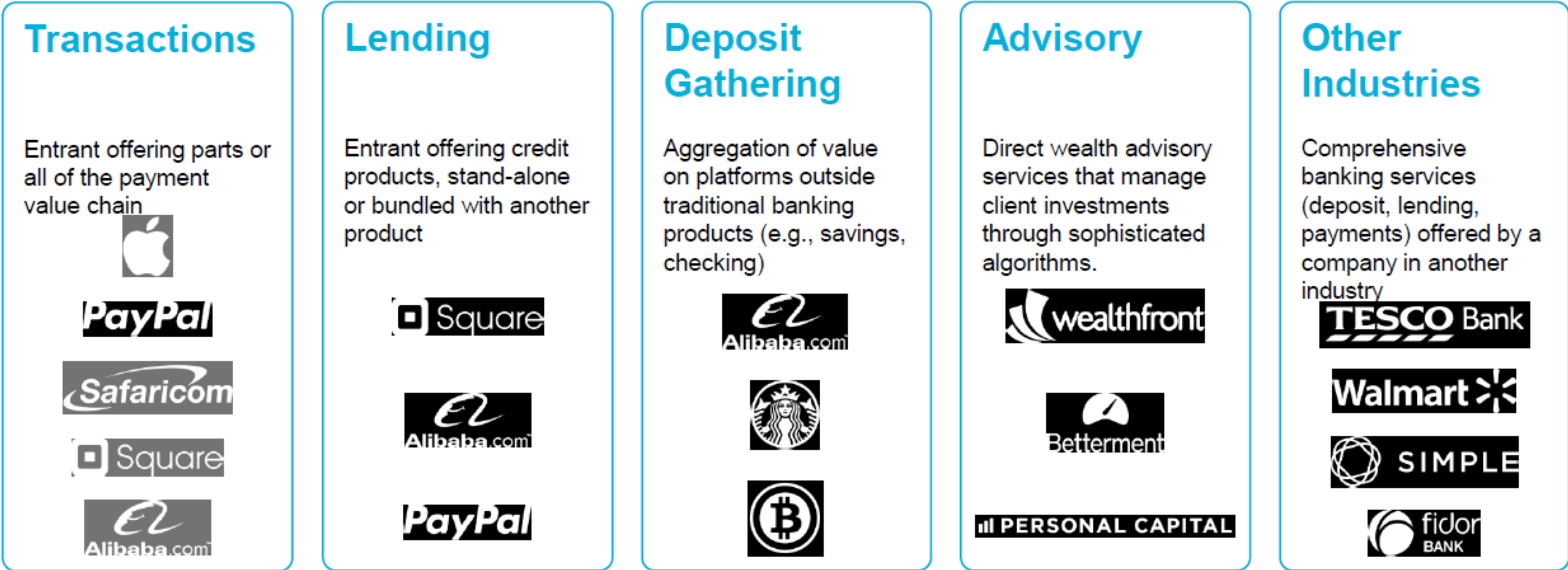
# Innovation is something new that creates value



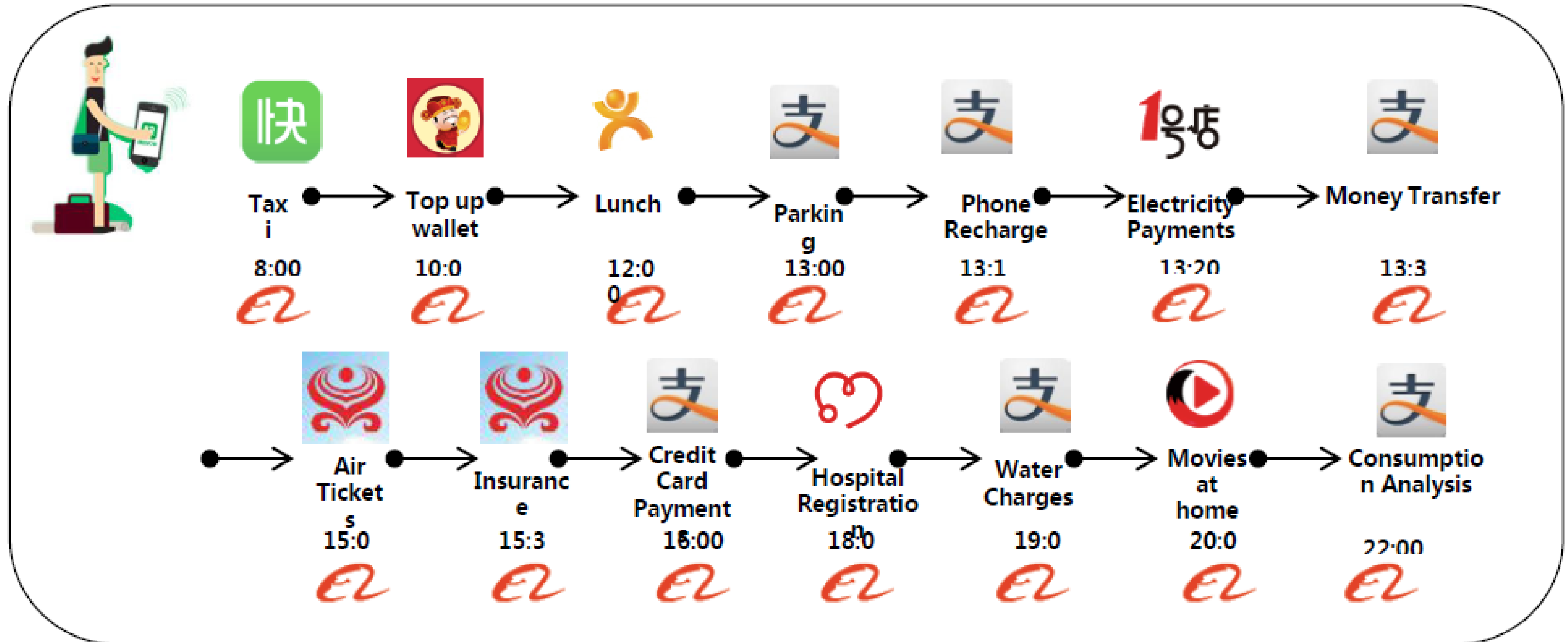
# The emergence of new technologies and business models enable innovation



# Disruption in the banking ecosystem



# The Alibaba platform



*Contextual*

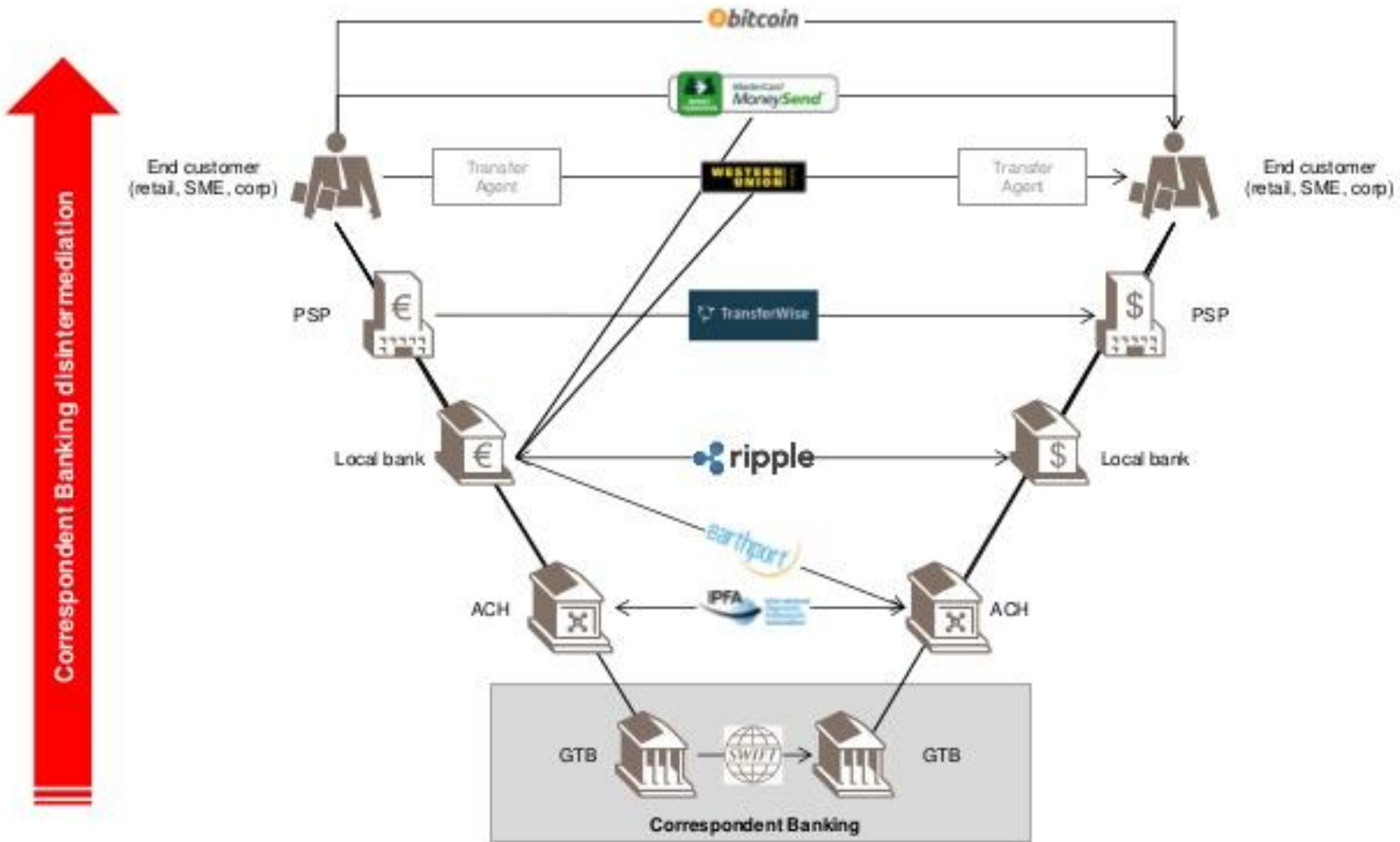
*Frictionless*

*Trustworthy*

*Risk proof*



# Correspondent banking disintermediated at origination



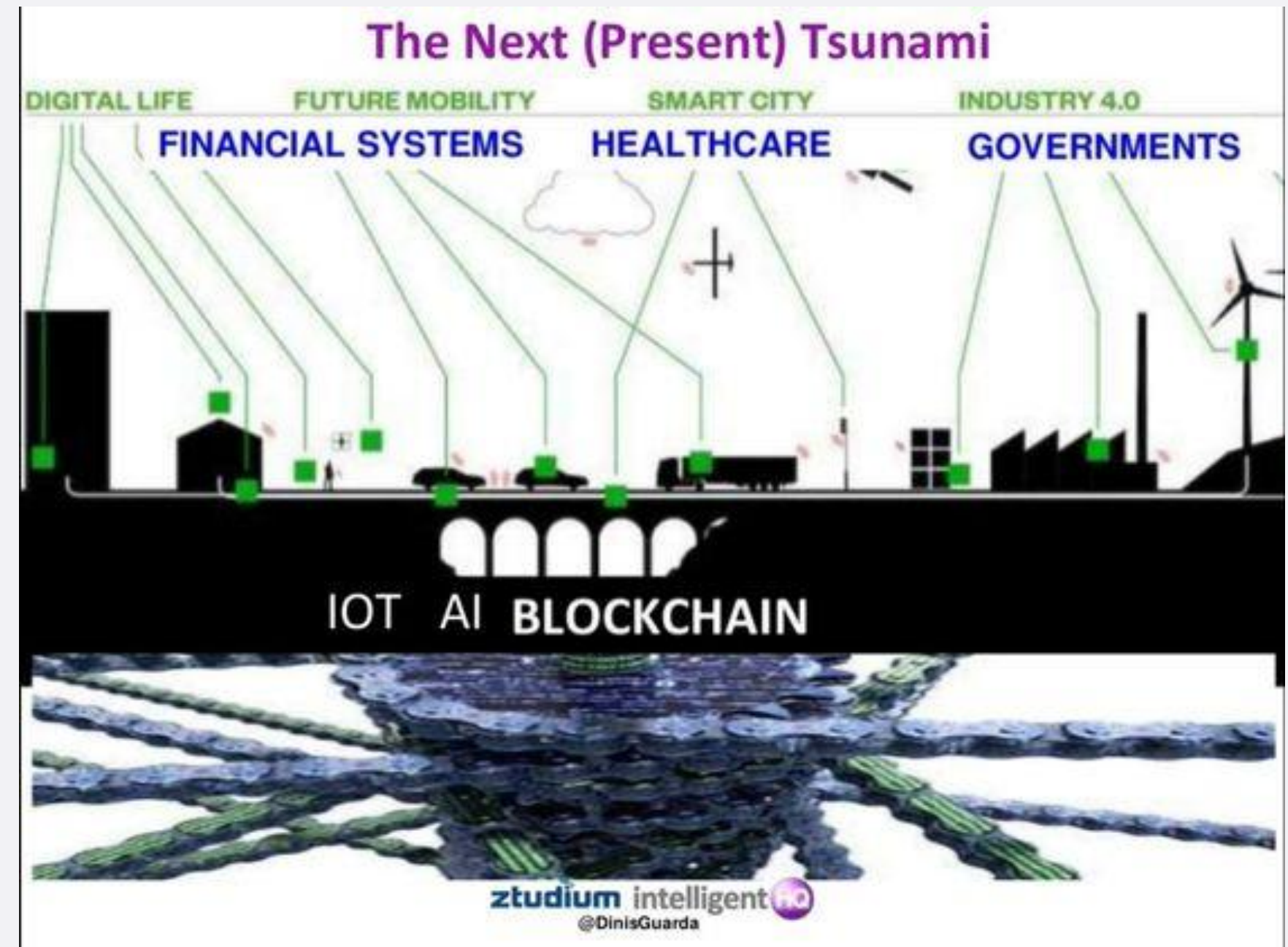
# Driving Forces of FinTech

# Key driving forces

- New technology
- Changing customer preference
- New competitors
- New regulations

# New Technology

- Smartphones
- Big Data & Machine Learning
- Cloud Computing
- Blockchain
- IoT



# Changing Customer Expectations

## Millennials by the Numbers



**80M**

**AMERICANS BORN**  
Remember the Boomers? Now think bigger. There are 80 million Americans who were born between 1981 and 2005. The Baby Boomers, the previous largest generation, totaled 77 million Americans.



**2020**

**MILLENNIALS PEAK**  
This generation is still very young: the oldest millennial will turn 34 this year, in 2015. They won't begin to reach their peak earning age until 2020.

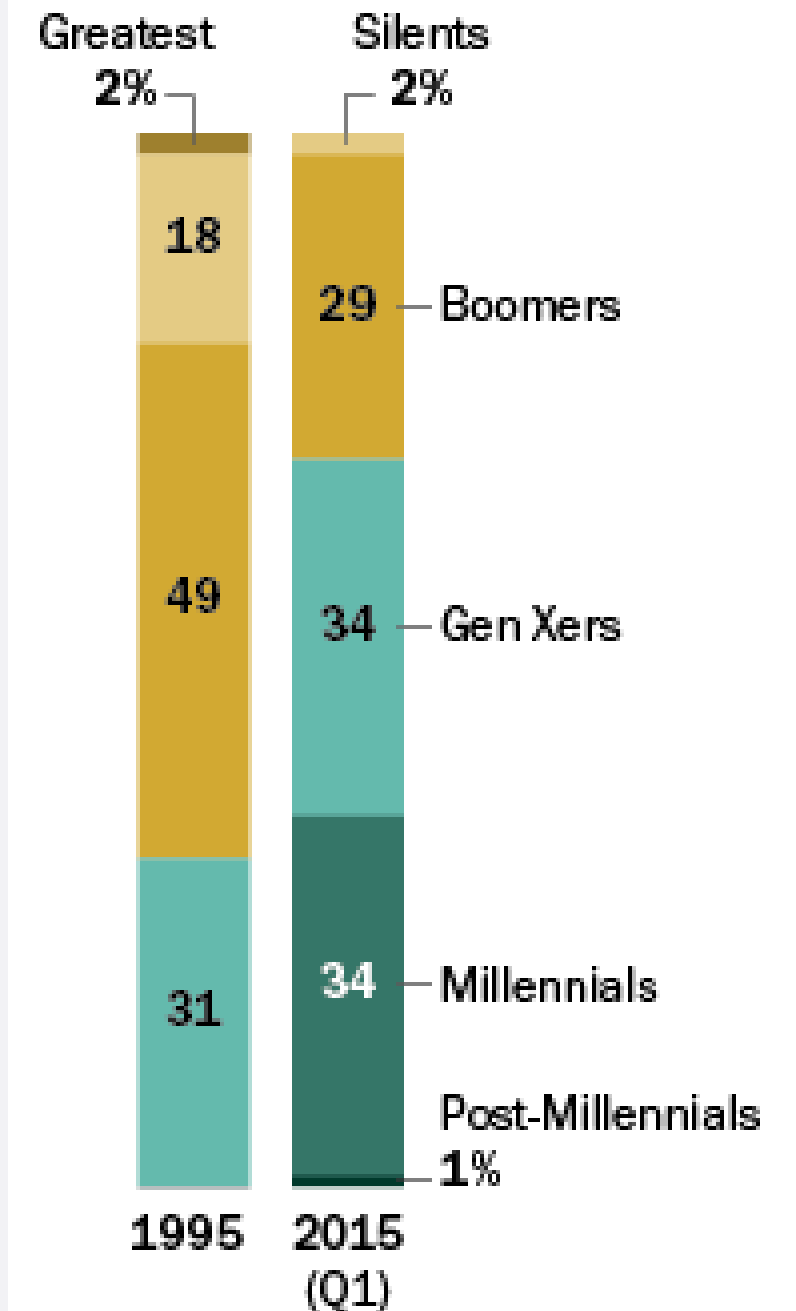


**46%**

**OF ALL U.S. INCOME**  
Even though this generation controlled \$2 trillion in liquid assets in 2014, that amount is forecast to grow to \$7 trillion by 2020. By 2025, they are expected to generate 46% of all U.S. income.

## Labor Force Composition by Generation

*% of the labor force*



# Millennials and Electronics

It wouldn't be entirely accurate to say that millennials live their lives online. What they really do is live their lives on their phones.

**86%**

of millennials aged 25 to 34 are smartphone users

**41%**

of millennials prefer to communicate at work electronically rather than "face to face"

# Millennials want to hold their bank at arm's length:

**71%**

would rather go to the dentist than listen to what banks say.

**33%**

believe they won't need a bank in five years.

**71%**

consider their banking relationship to be transactional rather than relationship-driven.

**33%**

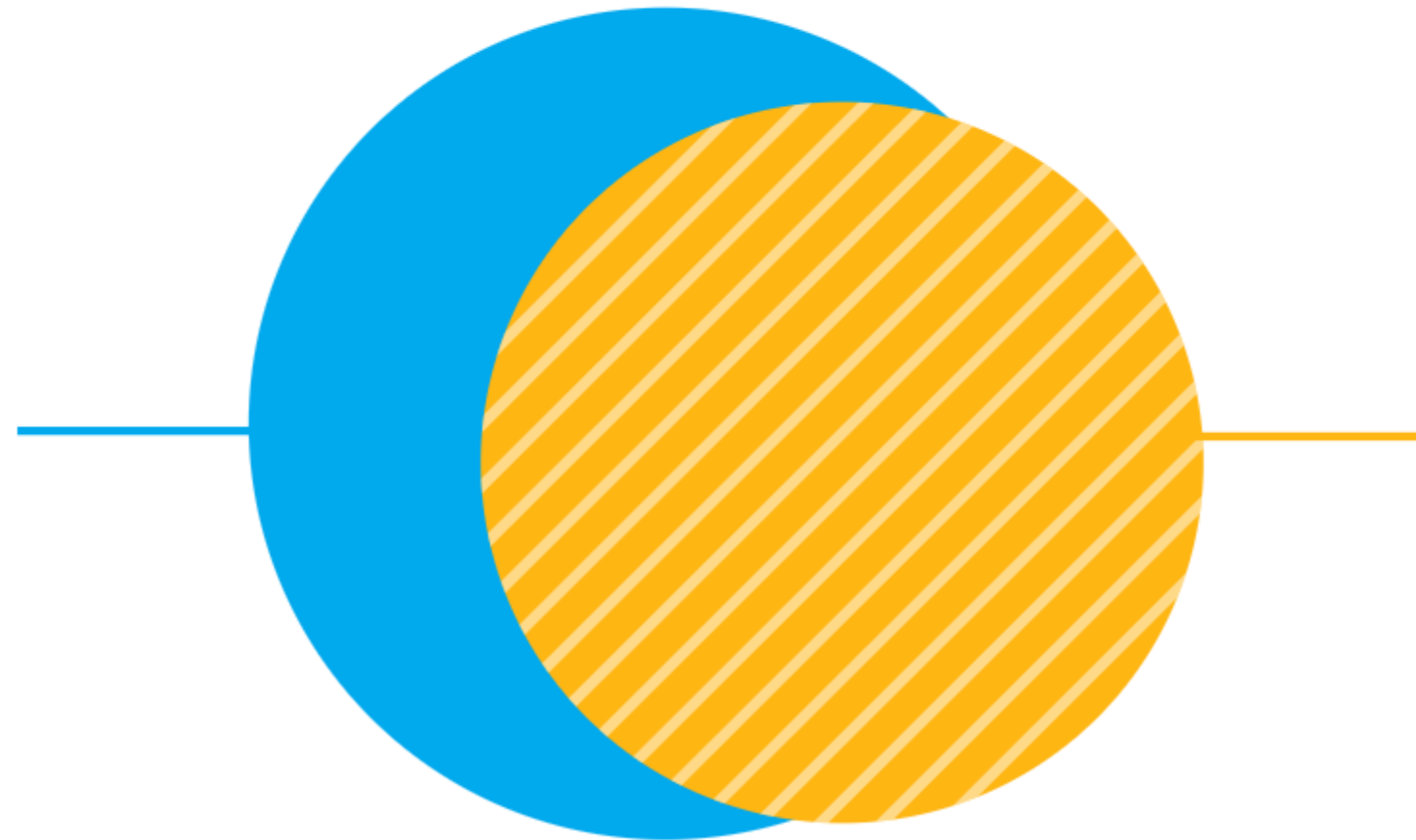
are open to switching banks within the next 90 days.

## *So how are millennials using banks?*

The top activities are checking account balances, paying bills, and transferring money.

**48%**

are interested in real-time and forward-looking spending analysis.



**41%**

of twentysomethings downloaded a money management app.

Now is the time to reach out to the millennial generation, not just in terms of technology, but also to deliver new ways to meet their evolving banking needs.

- ✓ Millennials expect real-time information on their deposit and credit accounts.
- ✓ Millennials expect their financial institution to keep current with their preference to transact electronically.
- ✓ Millennials expect a "smooth and easy" experience.
- ✓ Millennials love quirky personalization.
- ✓ Millennials expect to be able to decide what account information they want and how they want to receive it.
- ✓ Millennials are accustomed to seeing alerts based on choice of frequency and type of information they believe will help them.
- ✓ Millennials like options and control when it comes to their card usage.
- ✓ Millennials want to be able to flip through their messages and gather new information on the fly.

Be accessible in real-time all the time.

Communicate how they want to be communicated to (i.e., text reminders for alerts and promotions).

Have an app for everything: smooth and easy for all platforms, from whatever the device.

Be a partner; help millennials navigate toward a solution.

Demonstrate innovation: create experiences that are interactive and empower.

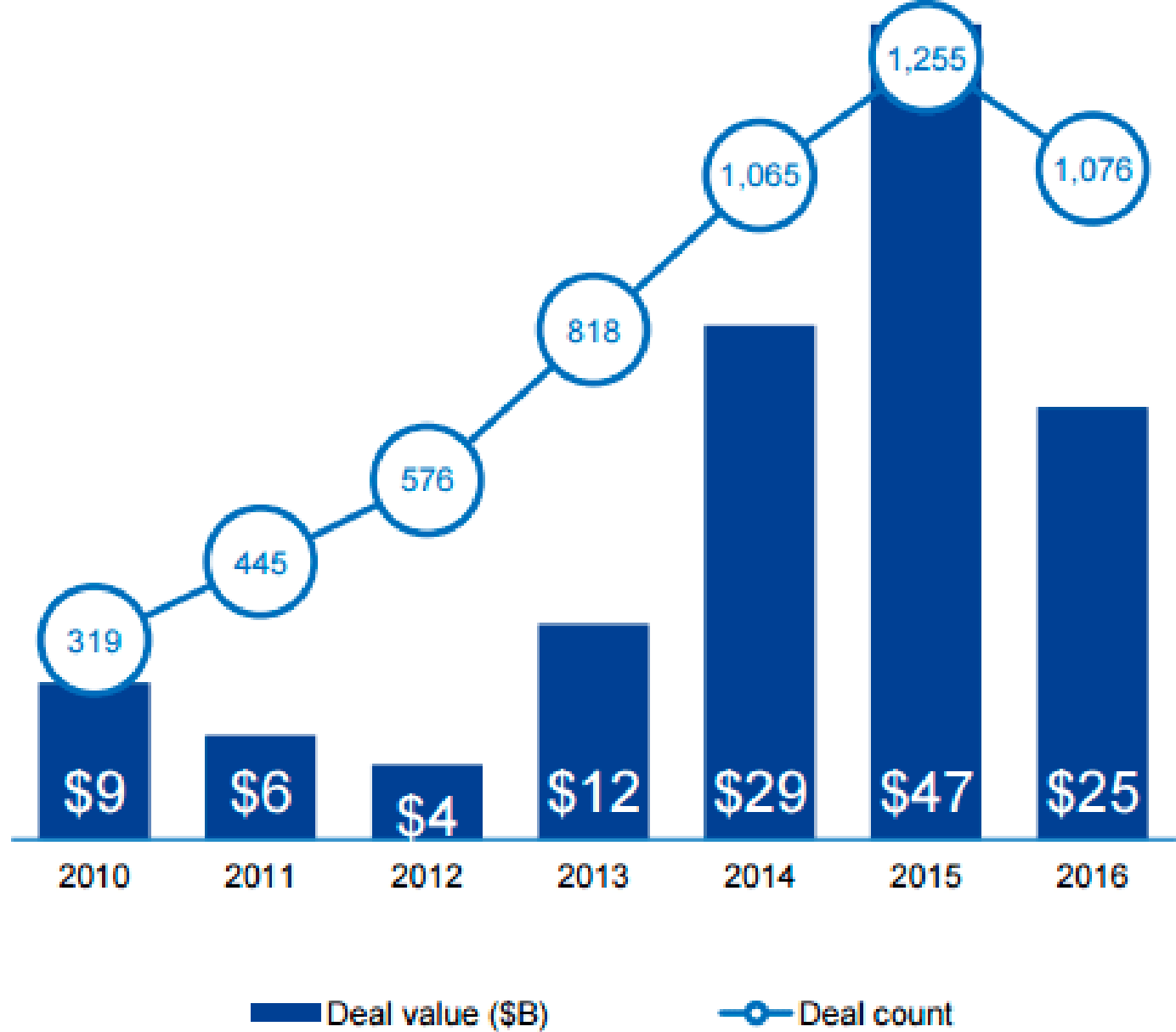


# New Competitors



# Investments in FinTech

Total global investment in fintech companies  
2010 — 2016



# Common FinTech Business models to drive adoption

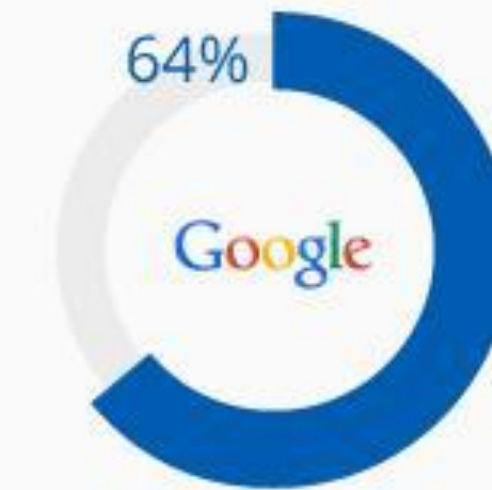
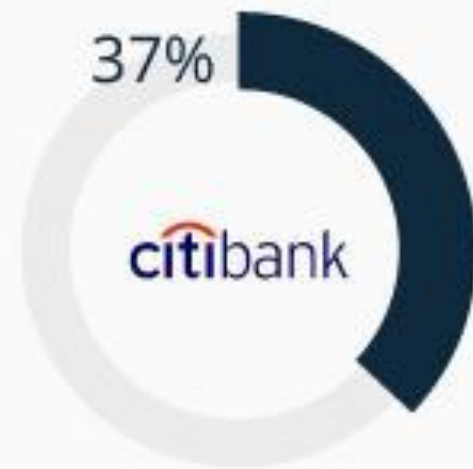
1. Revolutionize the economics of a market
  - ❑ Offer a previously paid-for service free of charge e.g. Simple Bank
  - ❑ Offer a significantly cheaper service e.g. LendingClub
2. Create something new and compelling
  - ❑ Provide a new type of service e.g. Trov
3. Distribute across an existing customer base
  - ❑ Solve a problem for another business e.g. Bambu (B2B Robo-advisory)
  - ❑ Collaborate with businesses that have an existing customer base e.g. DBS Bank and Funding Societies

# Americans Trust Tech Firms More Than Banks For Finance

% of Americans with a positive opinion of the following as providers of financial products\*

Banks

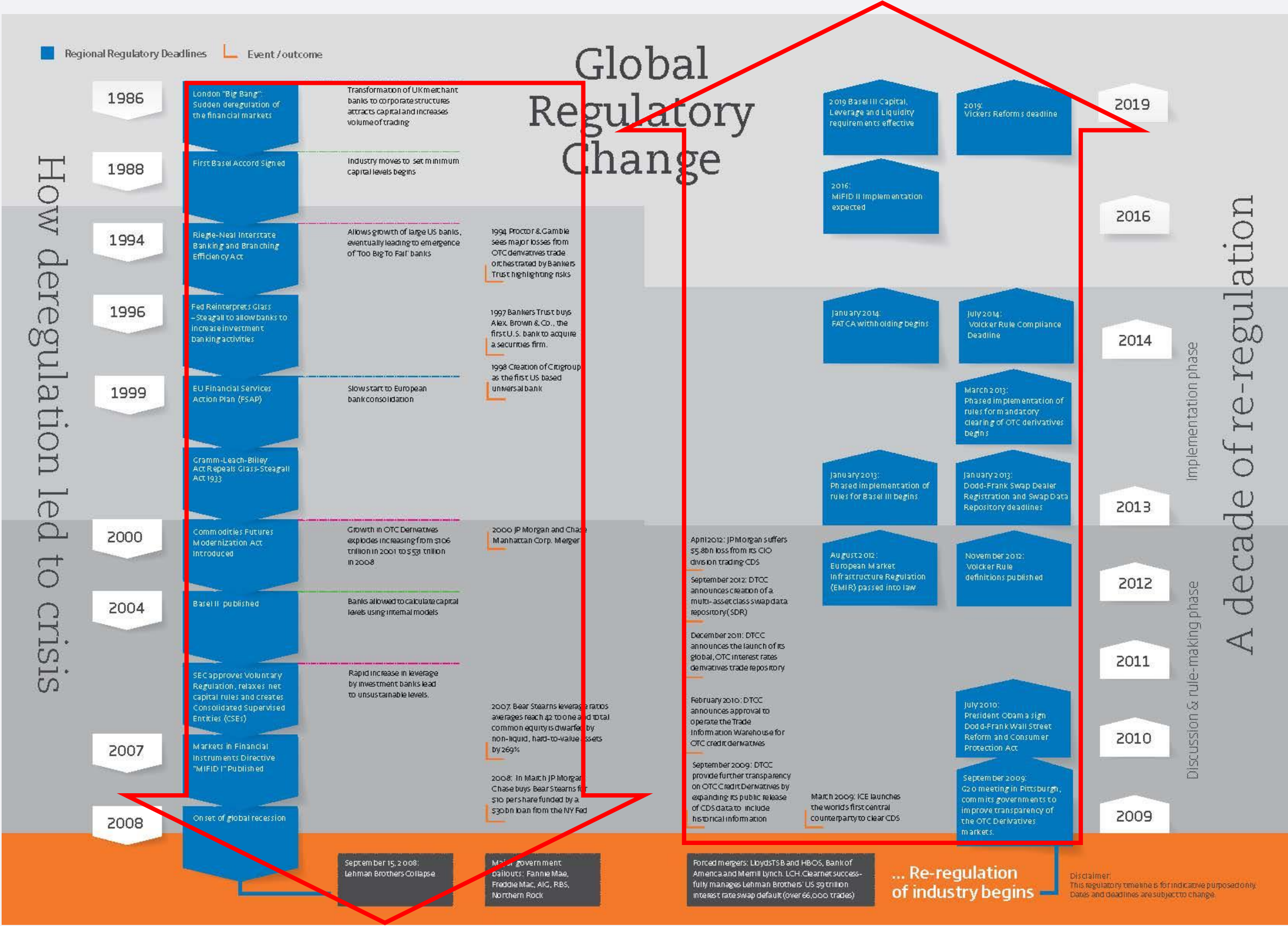
Tech Firms



\* Original question: "Please state for each firm you know whether your overall opinion of it as a provider of financial products is positive, neutral, negative."

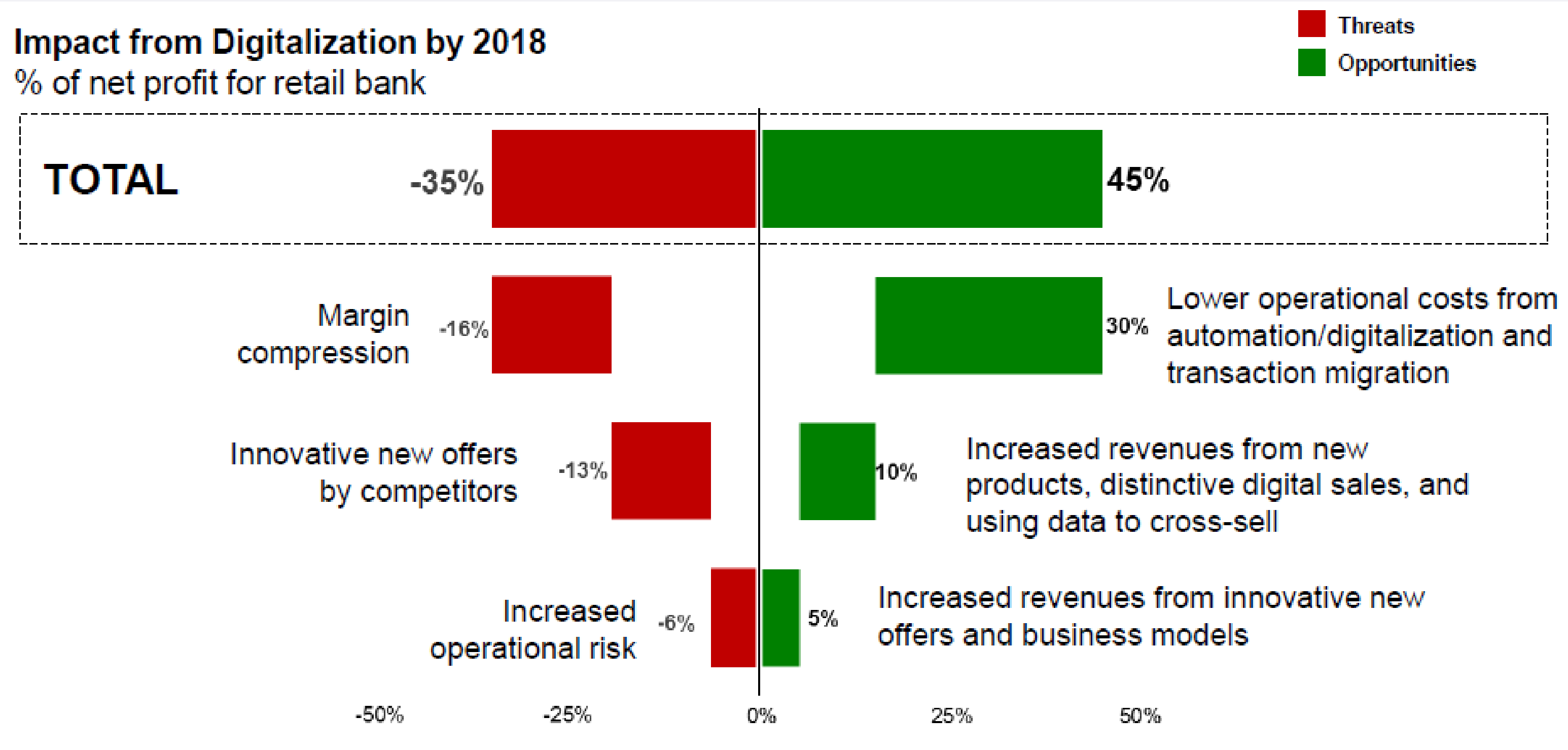
Trust

# Tighter Regulations, FinTech-friendly Regulations




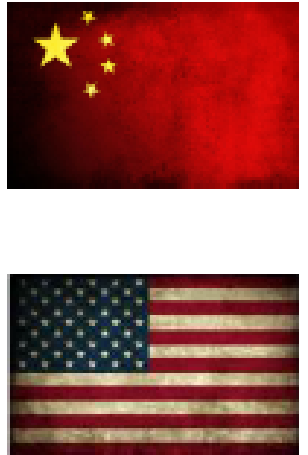
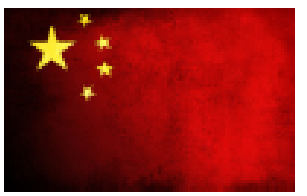
# Response from FIs

# Substantial rewards and losses



Source: Strategic choices for banks in the digital age, McKinsey 2015

# How the FIs are responding

<h2>New Standalone</h2>	<h2>Partner</h2>	<h2>Lobby Regulators</h2>	<h2>Operational Barriers</h2>	<h2>Better Proposition</h2>
<p>Build a new standalone business with similar business and operating models as new entrants</p>	<p>Partner with new entrants on front and/or back office services</p>	<p>Lobby regulators to level the playing field – regulate new entrants or deregulate industry</p>	<p>Leverage existing capabilities to limit growth of new entrants</p>	<p>Leverage capabilities (e.g., customer insight, existing channels, risk competence) to build better value proposition</p>
				

# Transform Business Model

OCT 13, 2016 @ 04:15 PM 11,469 VIEWS

The Little Black Book of Billionaire Secrets

## Wall Street Heavyweight Goldman Sachs Launches Its Consumer Lending Platform Marcus



**Antoine Gara**, FORBES STAFF

*I cover the good, the bad and the ugly of finance.* [FULL BIO](#)



credit card debt, or those that are illustrated with the fees and complexity of other lenders. The Marcus platform will offer two-to-six-year fixed rate loans at interest rates of between 5.99% to 22.99%, and is being positioned as a consumer friendly lending alternative due to a lack of origination and prepayment fees, flexible payment dates, and overall simplicity.

# Transform Customer Experience

## Income debuts AI-powered travel insurance chatbot on Facebook Messenger

By FinTech Innovation editors | 2017-08-30

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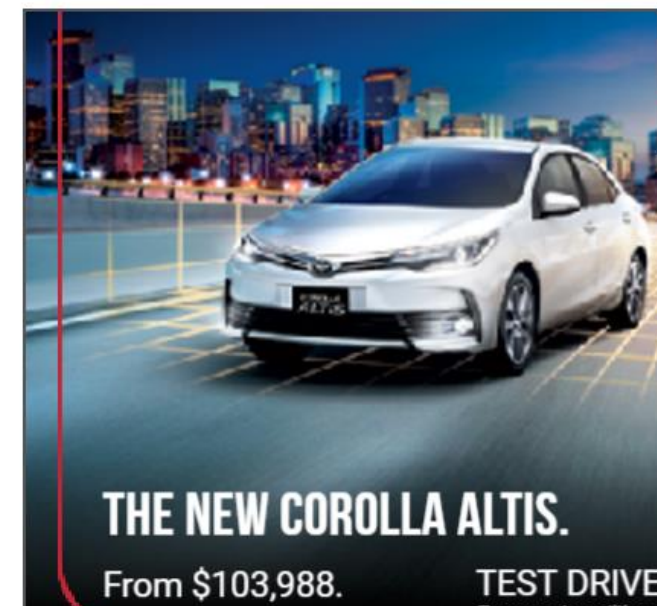
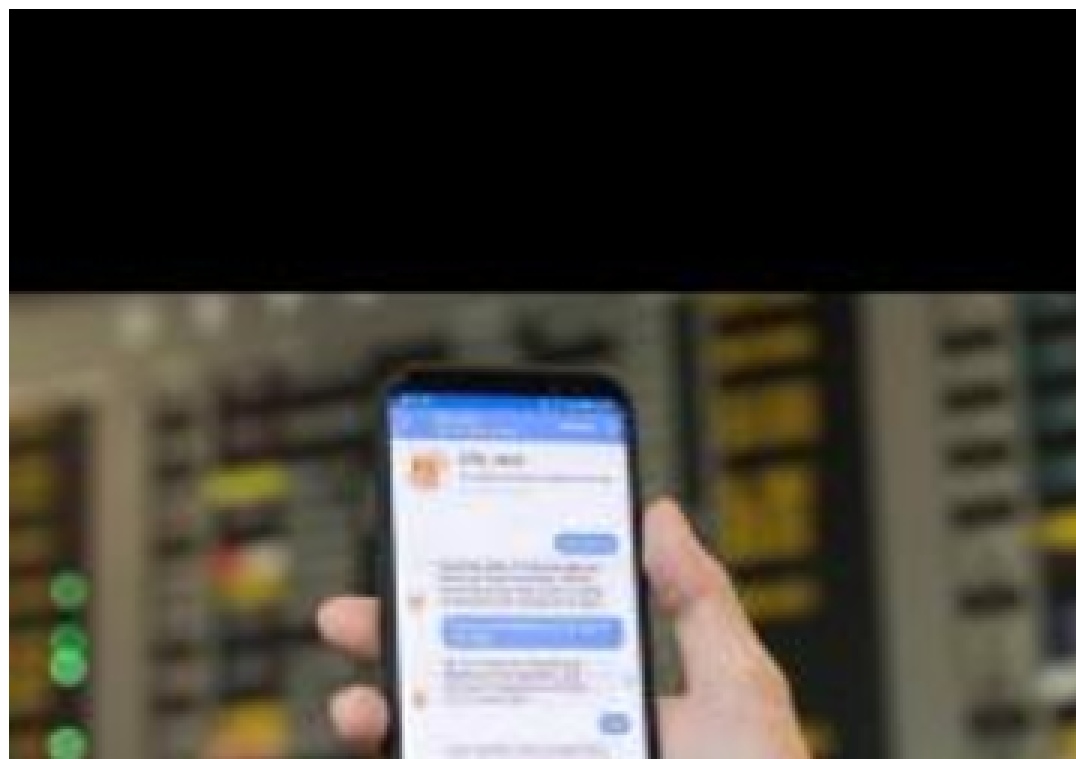
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## Chatbot helps OCBC scoop up S\$10m in home loans



# Transform Operational Process

**BBC** Sign in News Sport Weather Shop Earth Travel Mo

**NEWS**

Home Video World Asia UK Business **Tech** Science Magazine Entertainment

Technology

## AI to dominate banking, says report

sign in search jobs more International edition

**theguardian**

home > tech UK world sport football opinion culture business lifestyle all

**Artificial intelligence (AI)**

## Japanese company replaces office workers with artificial intelligence

Insurance firm Fukuoku Mutual Life Insurance is making 34 employees redundant and

Forbes

Restrict Content Pro A powerful membership solution for WordPress

Tech / #NewTech

DEC 23, 2016 @ 10:06 AM 50,814

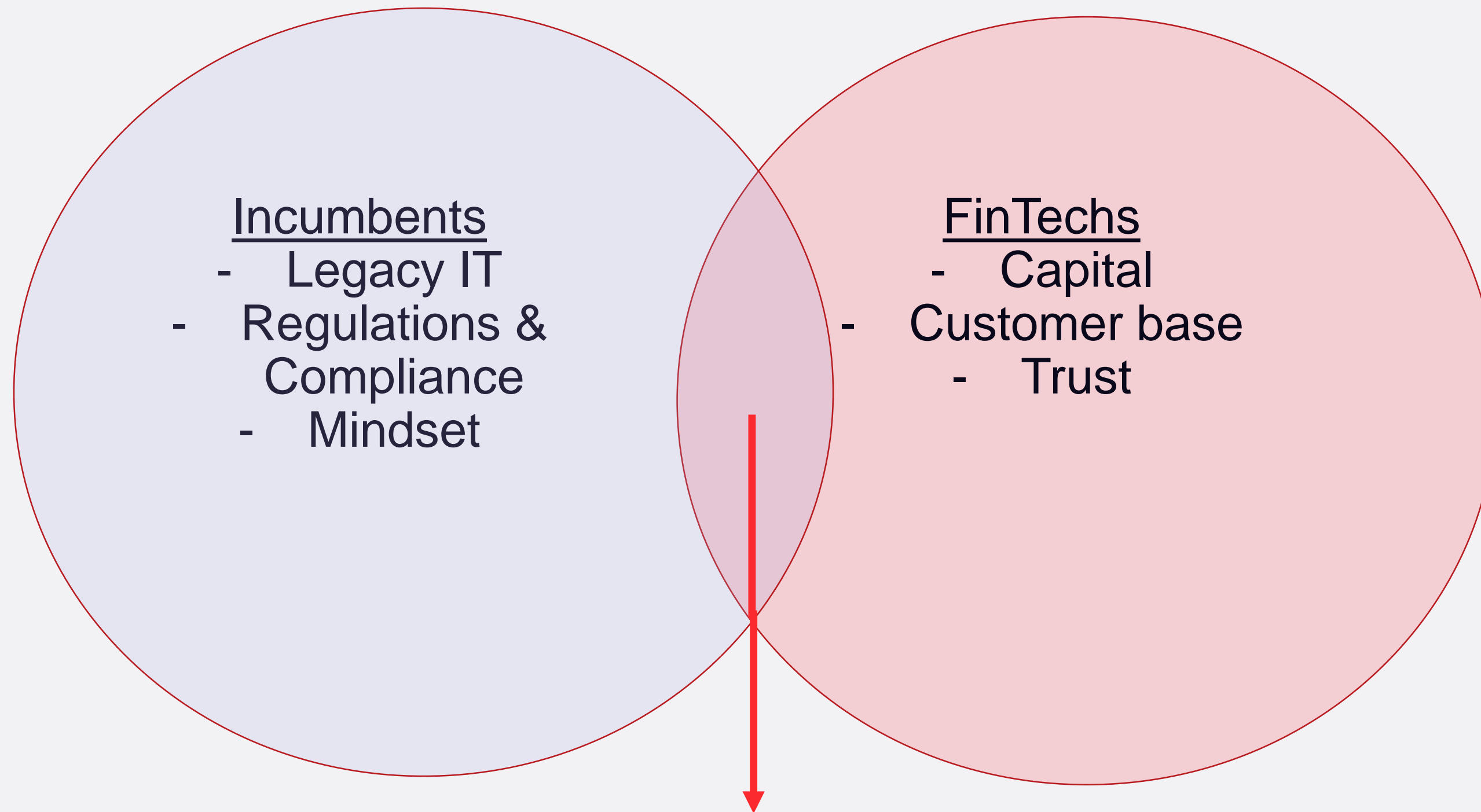
## How DBS Bank Became The Best Digital Bank In The World By Becoming Invisible



**Jason Bloomberg**, CONTRIBUTOR

*I write and consult on digital transformation in*

# Collaborate



# Adoption

# FinTech Adoption

## Highlights from the 2017 EY FinTech Adoption Index:

**33%** is the average FinTech adoption globally, compared with 16% in our 2015 study.<sup>2</sup>

**46%** is the average FinTech adoption across emerging markets: Brazil, China, India, Mexico and South Africa.

**50%** of consumers use FinTech money transfer and payments services, and 65% anticipate doing so in the future.

**64%** of FinTech users prefer using digital channels to manage all aspects of their life, compared with 38% non-users.

**13%** of consumers are regular users of five or more FinTech services (FinTech "super users").

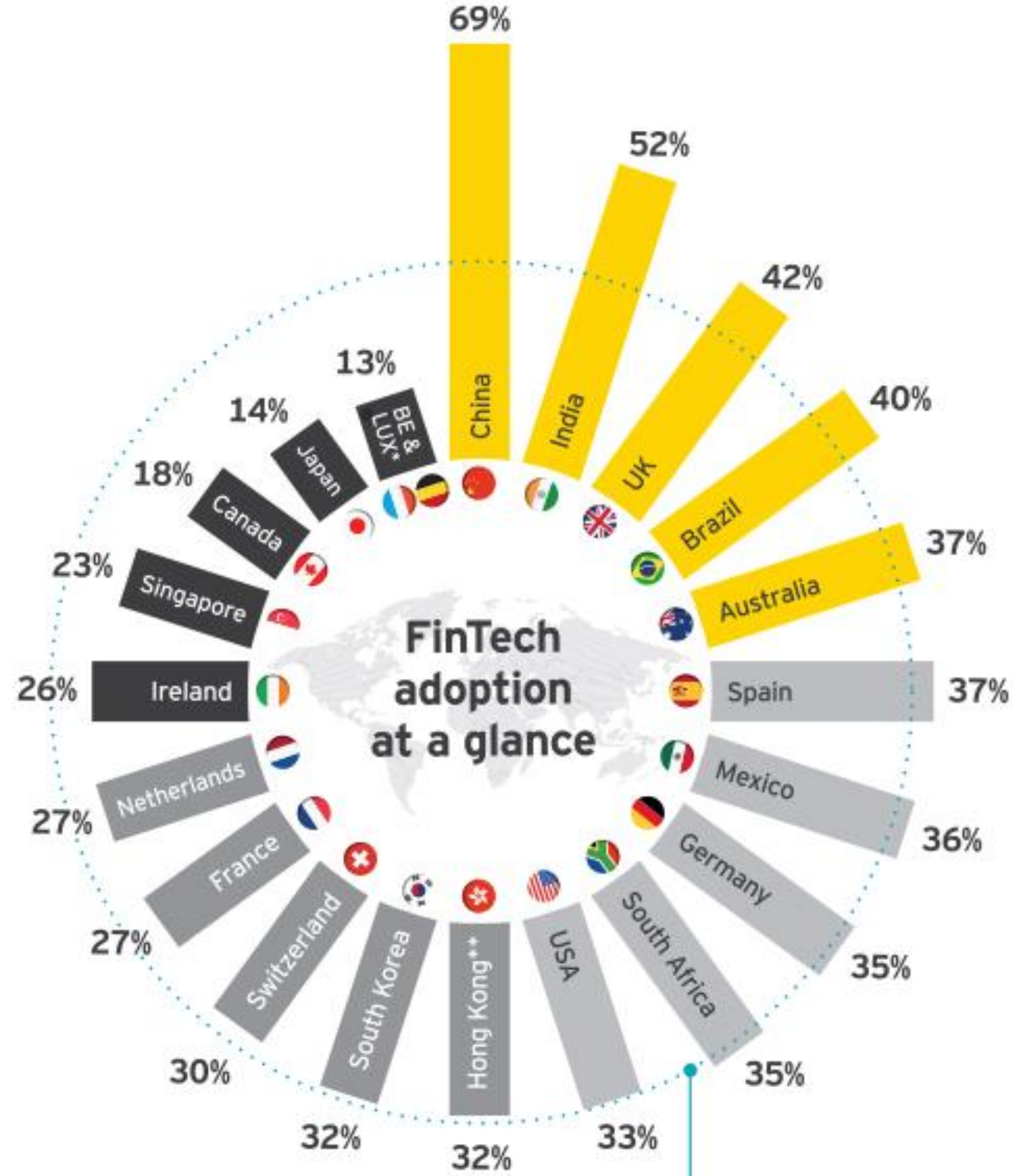
## Methodology

We identify 17 distinct services offered by FinTech organizations and non-traditional providers, and refer to these as FinTech services. These services are considered within the five broad categories of money transfer and payments, financial planning, savings and investments, borrowing, and insurance.

We define a regular FinTech user as an individual who has used two or more FinTech services in the last six months.

Our 2017 research is based on more than 22,000 online interviews in 20 markets. Our surveyed population is drawn from a demographically representative sample of each market to the extent available, and all references to consumers relate to individuals who are active online, which we refer to as "digitally active" in this report.

We have applied unweighted averaging of results, using a "one market, one vote" approach to report findings, to offer a global, cross-market perspective on themes and trends. The 20 markets are Australia, Belgium and Luxembourg (considered as one market for the purpose of our analysis), Brazil, Canada, China, France, Germany, Hong Kong,<sup>2</sup> India, Ireland, Japan, Mexico, the Netherlands, Singapore, South Africa, South Korea, Spain, Switzerland, the UK, and the US.

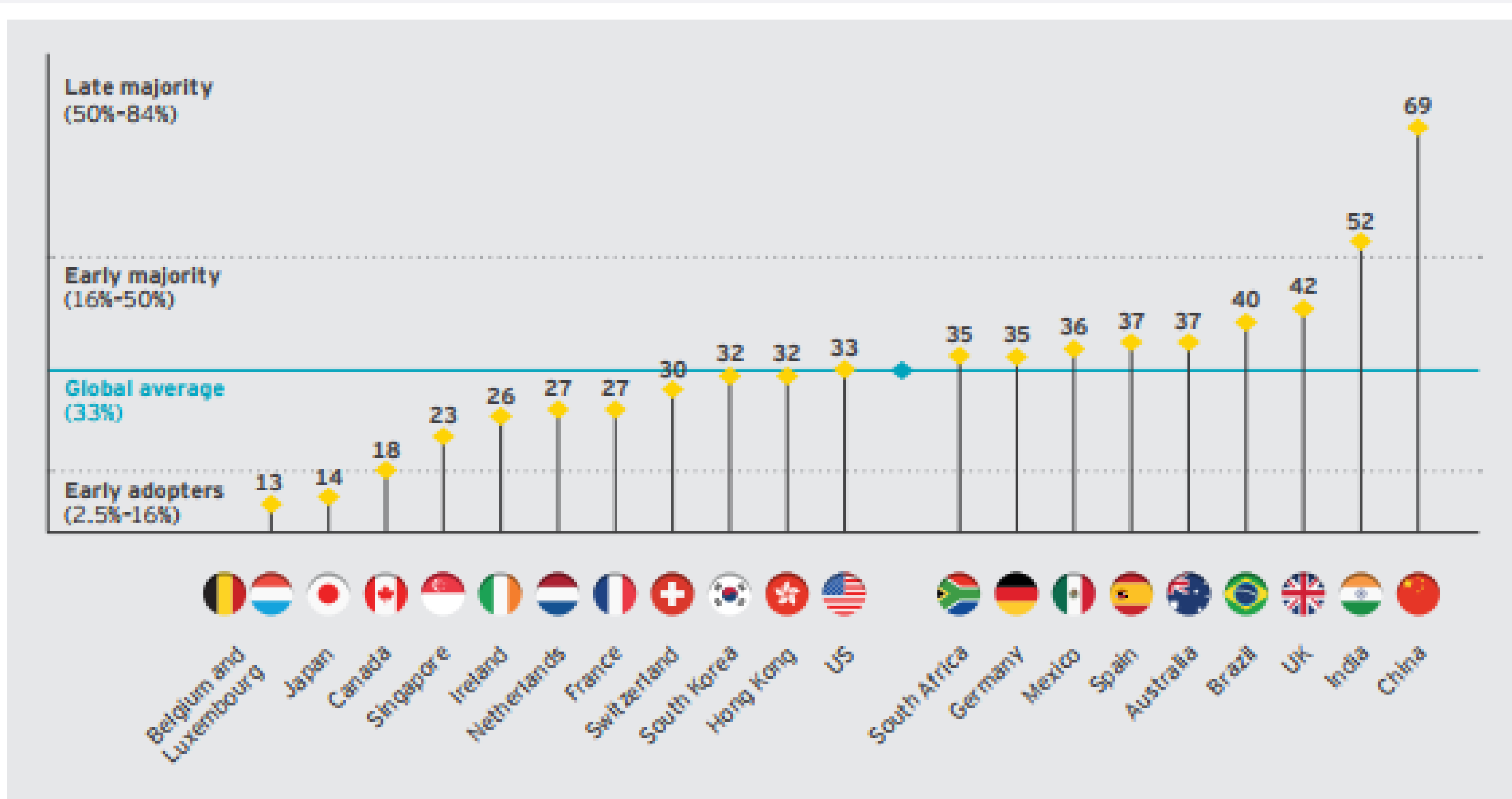


**FinTech adoption at a glance**

**Average adoption 33%**

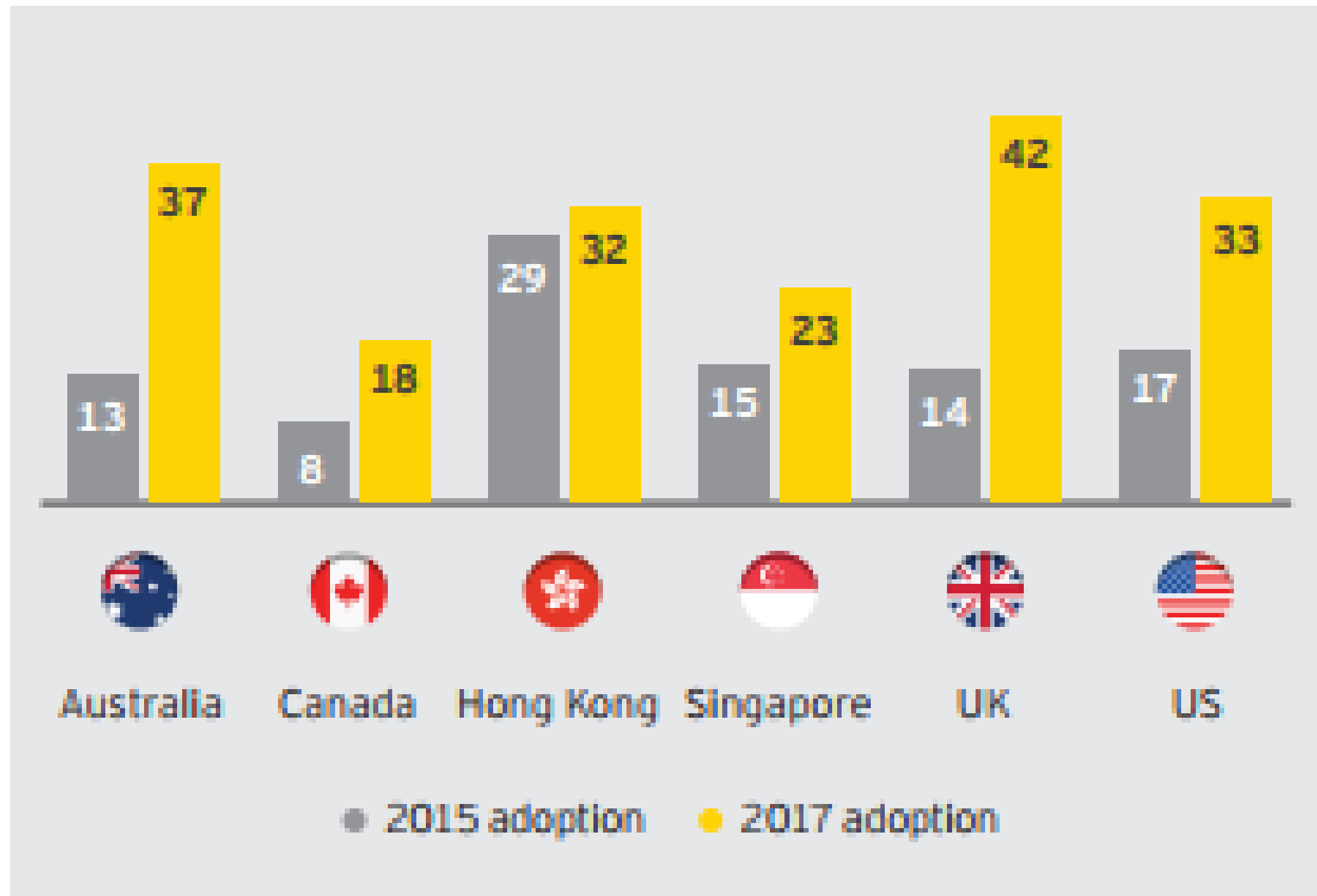
Notes: The figures show FinTech users as a percentage of the digitally active population. All figures are shown in percentages.  
 \*Belgium and Luxembourg  
 \*\*Hong Kong SAR of China

# FinTech has achieved initial mass adoption in most markets



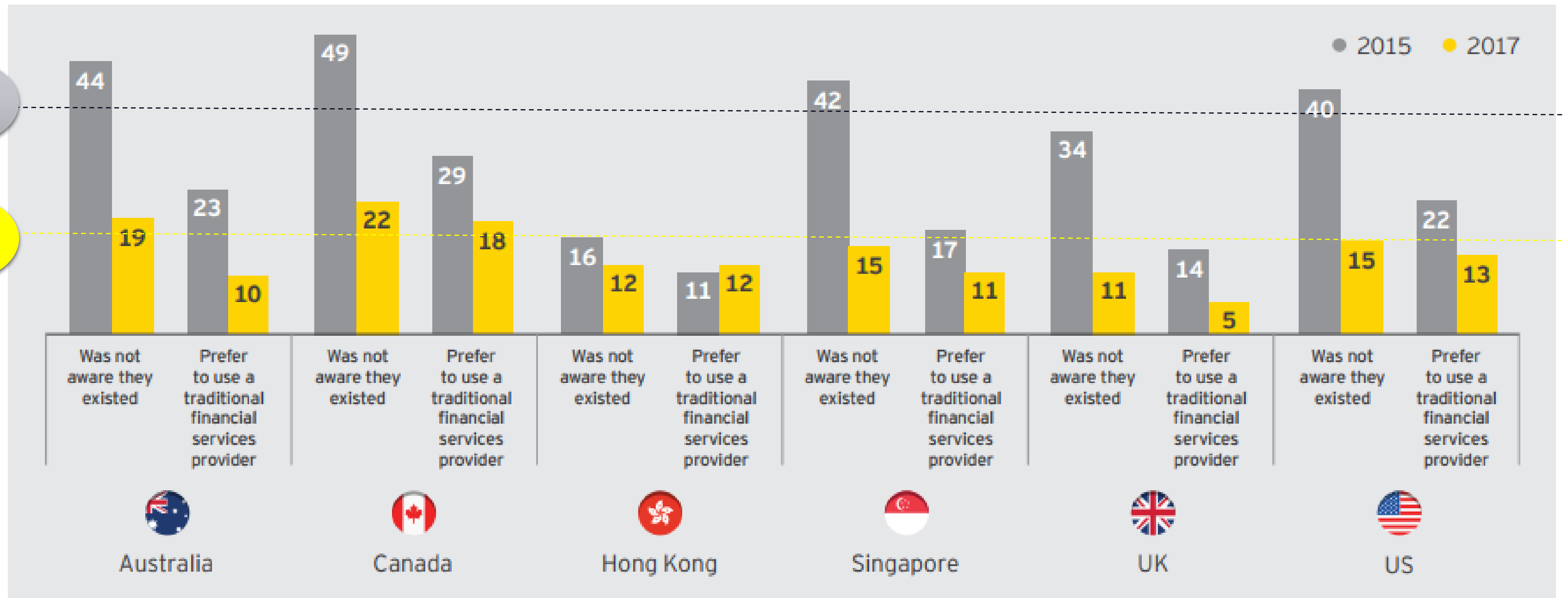
Notes: The figures here show global adoption rates for 2017, including adoption rates for each of the 20 markets, plotted against stages of the innovation adoption curve. All figures are shown in percentages.

# Adoption increases in line with growing awareness of FinTech.








Notes: The figures show adoption rates per market for the six markets for which a comparison is available. All figures are shown in percentages.

# Improved level of awareness








Notes: The figures show the percentage of all respondents who cited lack of awareness, versus a preference for traditional financial services providers, as barriers to using FinTech, by market. Survey respondents were allowed to choose multiple reasons for not using FinTech. Question was asked only to respondents who had used no FinTech services in the last six months, however, the analysis is re-indexed to show as a percentage of all survey respondents in each market.

# FinTech adoption is driven by greater use of money transfer and payments, and insurance services.

2015		
1		Money transfer and payments: 18%
2		Savings and investments: 17%
3		Financial planning: 8%
4		Insurance: 8%
5		Borrowing: 6%



2017		
1		Money transfer and payments: 50%
2		Insurance: 24%
3		Savings and investments: 20%
4		Financial planning: 10%
5		Borrowing: 10%

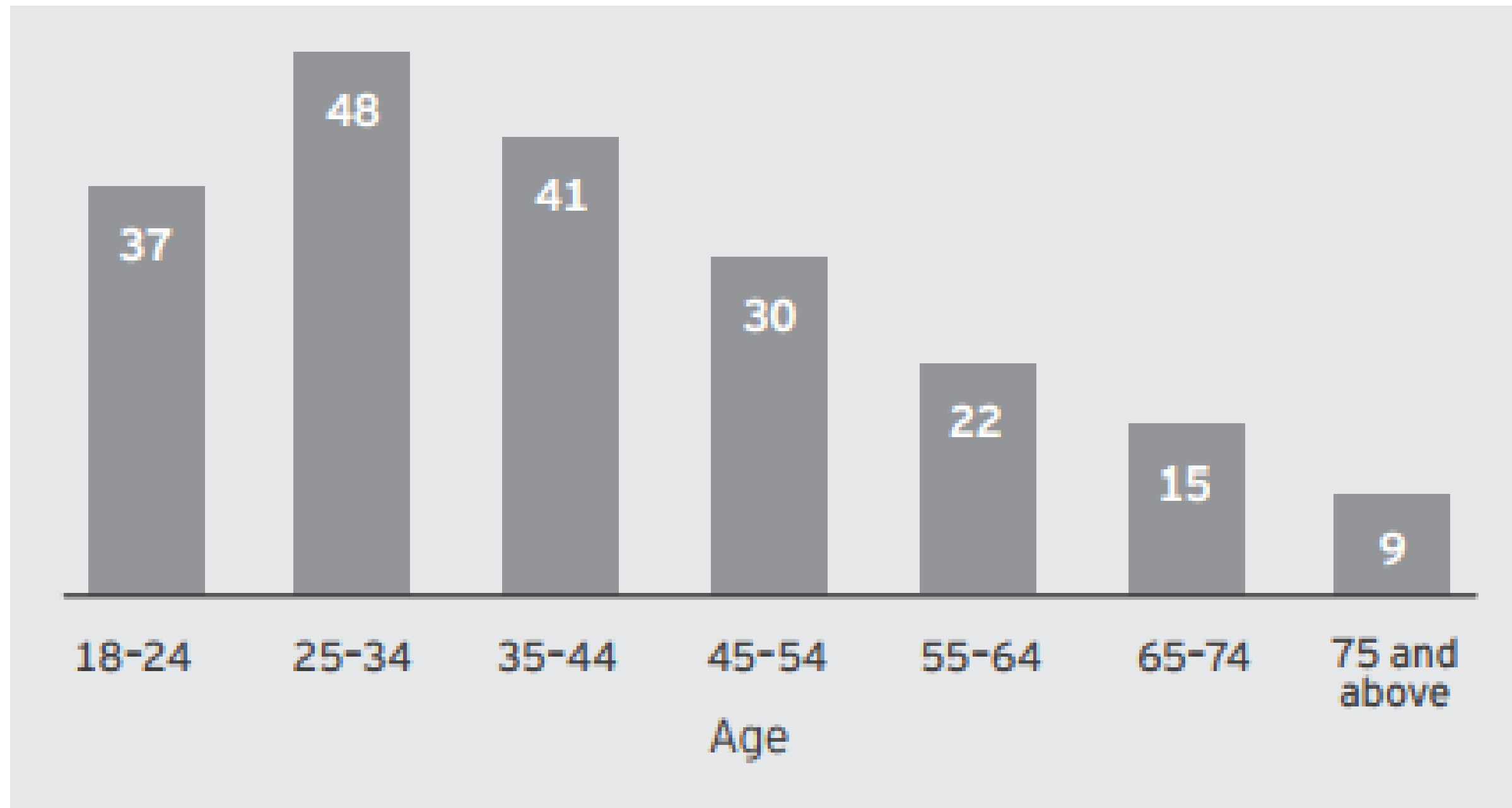
Notes: The figures show the average percentage of respondents who reported using one or more FinTech services in that category. Data for 2015 differs from that originally published in order to align to the 2017 categorization and averaging methodology.

# China is leading the way in adopting FinTech services for savings and investments, as well as borrowing.

	 Money transfer and payments	 Financial planning	 Savings and investments	 Borrowing	 Insurance
1	 China 83%	 China 22%	 China 58%	 China 46%	 India 47%
2	 India 72%	 Brazil 21%	 India 39%	 India 20%	 UK 43%
3	 Brazil 60%	 India 20%	 Brazil 29%	 Brazil 15%	 China 38%
4	 Australia 59%	 US 15%	 US 27%	 US 13%	 South Africa 32%
5	 UK 57%	 Hong Kong 13%	 Hong Kong 25%	 Germany 12%	 Germany 31%

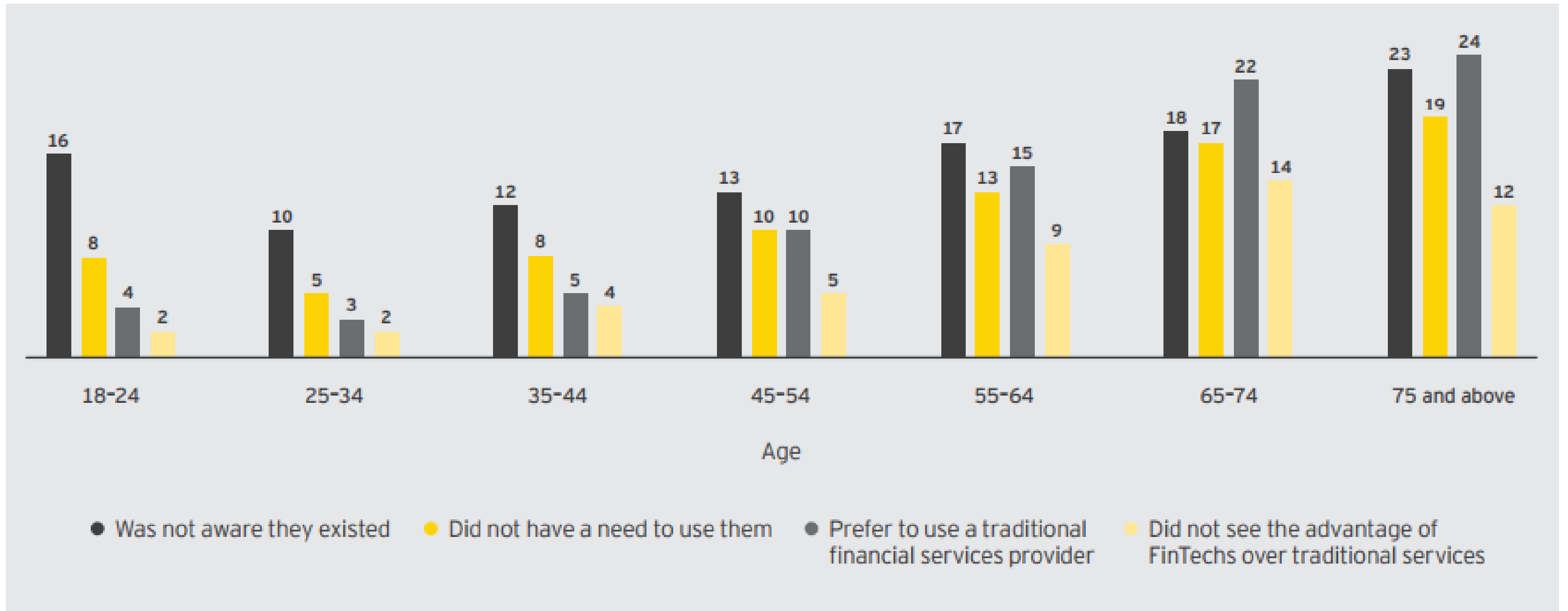
Notes: The figures show the average percentage of respondents in each market who reported using one or more FinTech service in that category.

# Use of FinTech products is highest among young adults at an early stage of their career.



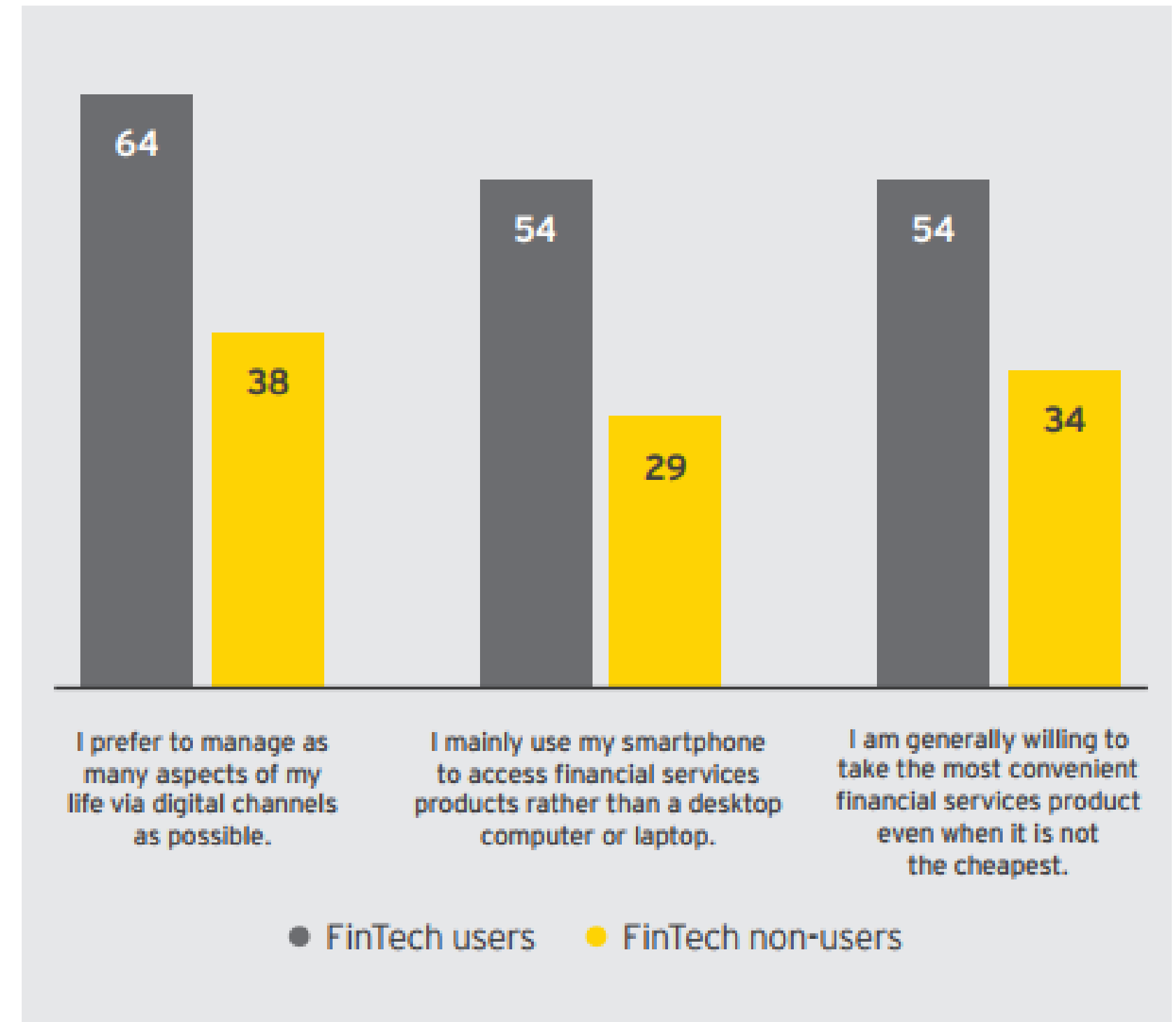
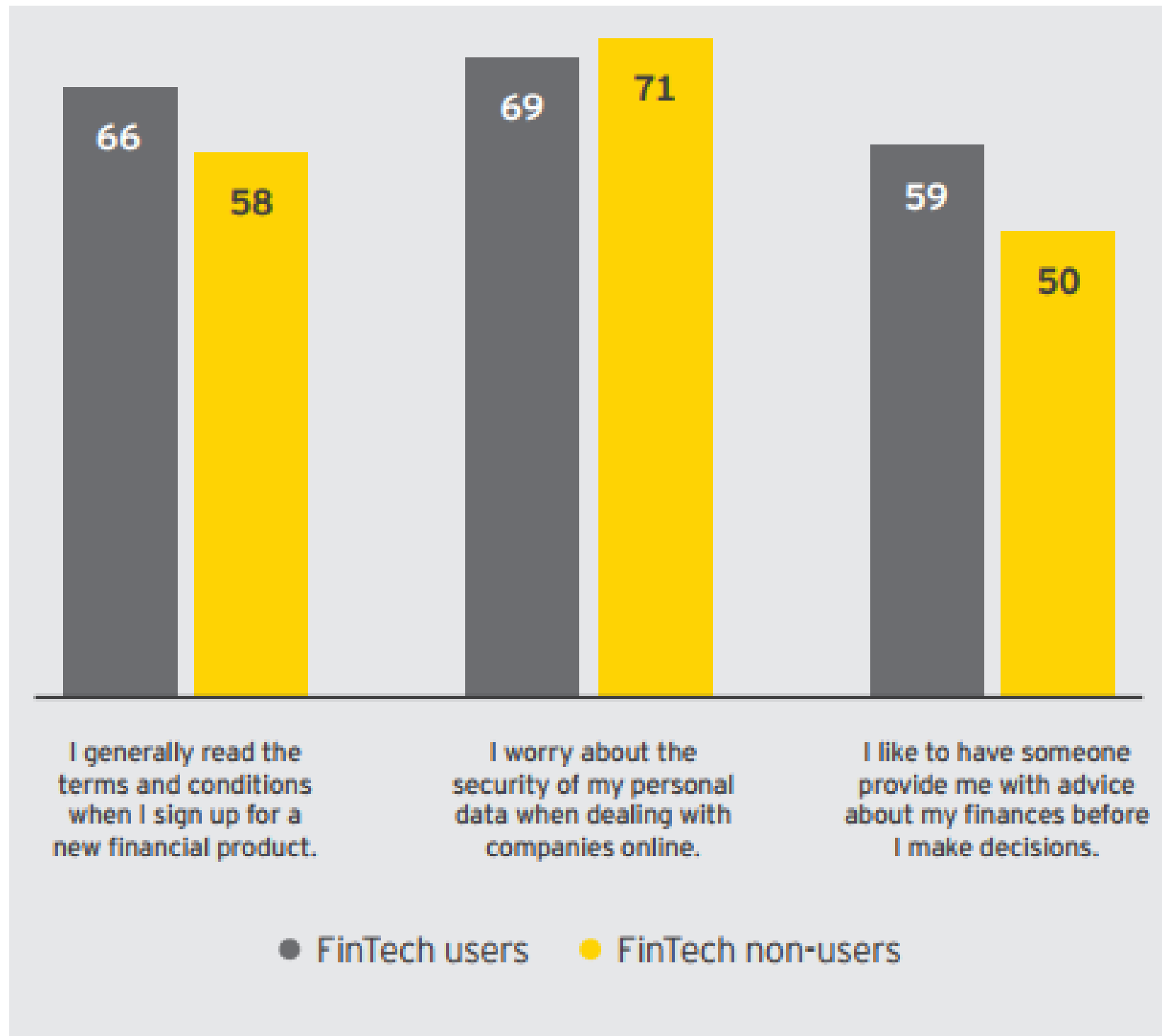
Notes: The figures show average rate of FinTech adoption across the age demographics in our surveyed population.

# Considerable resistance to switch for older users



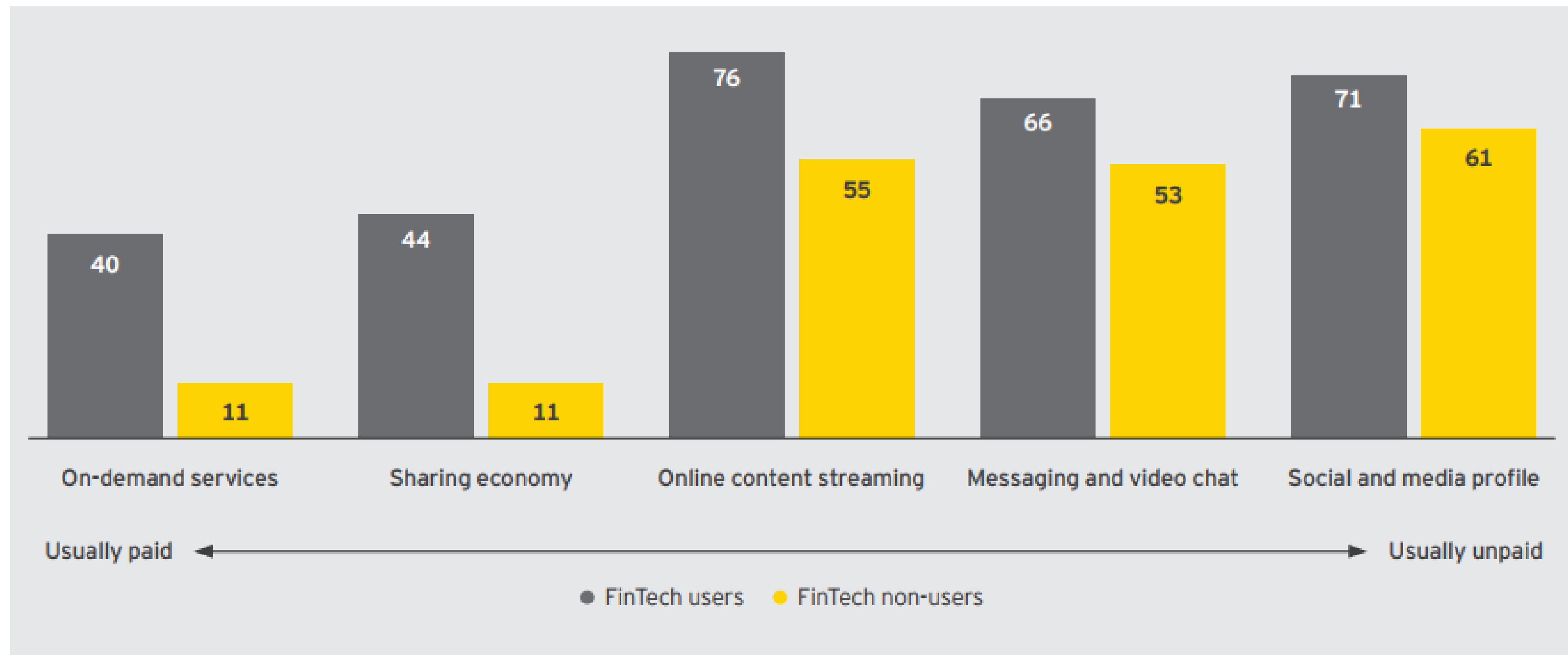
Notes: The figures show the percentage of all respondents who cited four barriers to using FinTech, by age group. Survey respondents were allowed to choose multiple reasons for not using FinTech. The question was asked only to respondents who had used no FinTech services in the last six months, however, the analysis is re-indexed to show as a percentage of all survey respondents.

# Users and non-users share similar views toward personal risk, yet their digital attitudes differ significantly



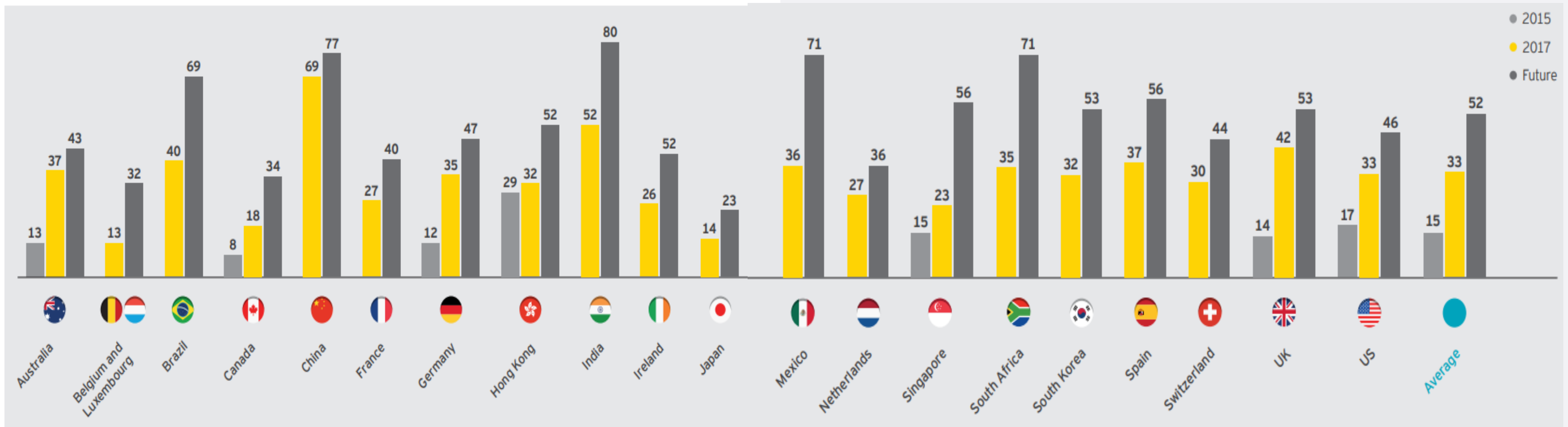
Notes: The figures show the percentage of respondents who either 'agree' or 'strongly agree' with statements relating to their attitudes to financial and digital services, by FinTech users and non-users.

# FinTech users seek a range of other online (especially paid) services.



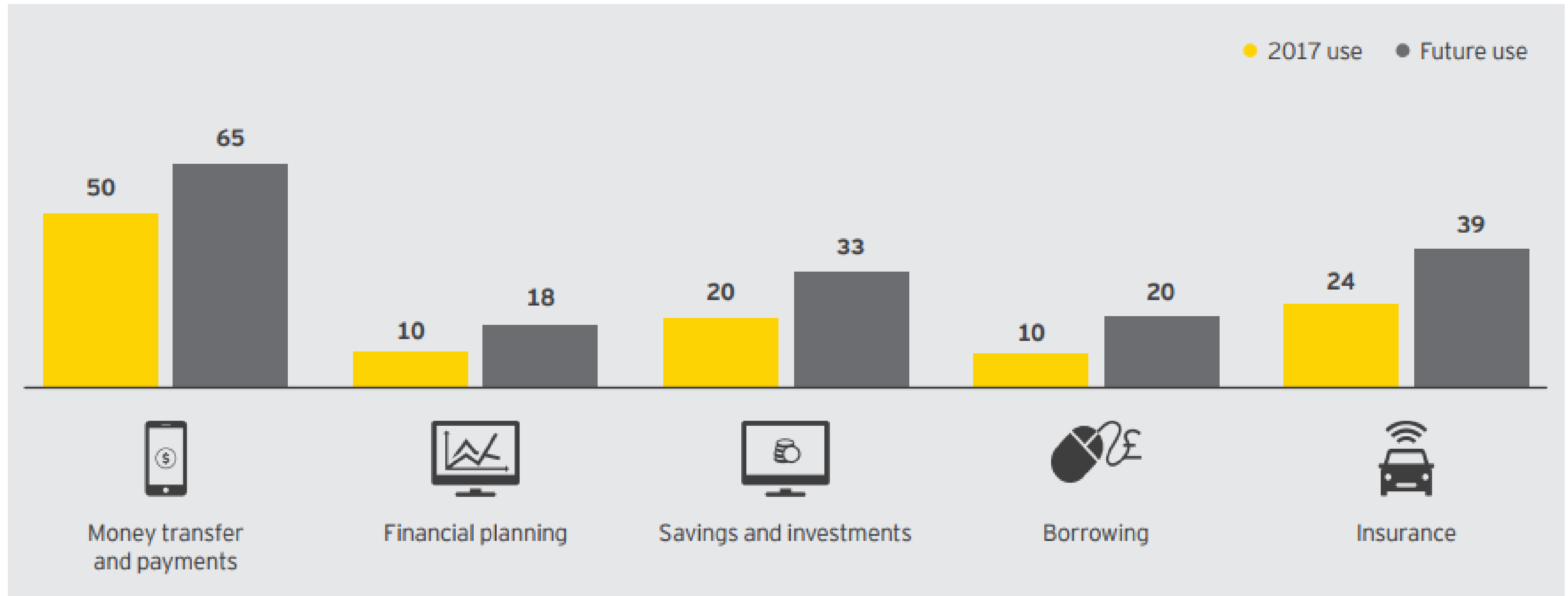
Notes: The figures show the percentage of FinTech users and non-users who are "regular" users of various online services. The definition of "regular" has been specified for each kind of services according to typical usage patterns: monthly for on-demand services and sharing economy; weekly for online content streaming; daily for messaging and video chat, and social media profiles.

# Consumer sentiment toward FinTech is incredibly positive, with all markets and categories reporting future increases in FinTech adoption.



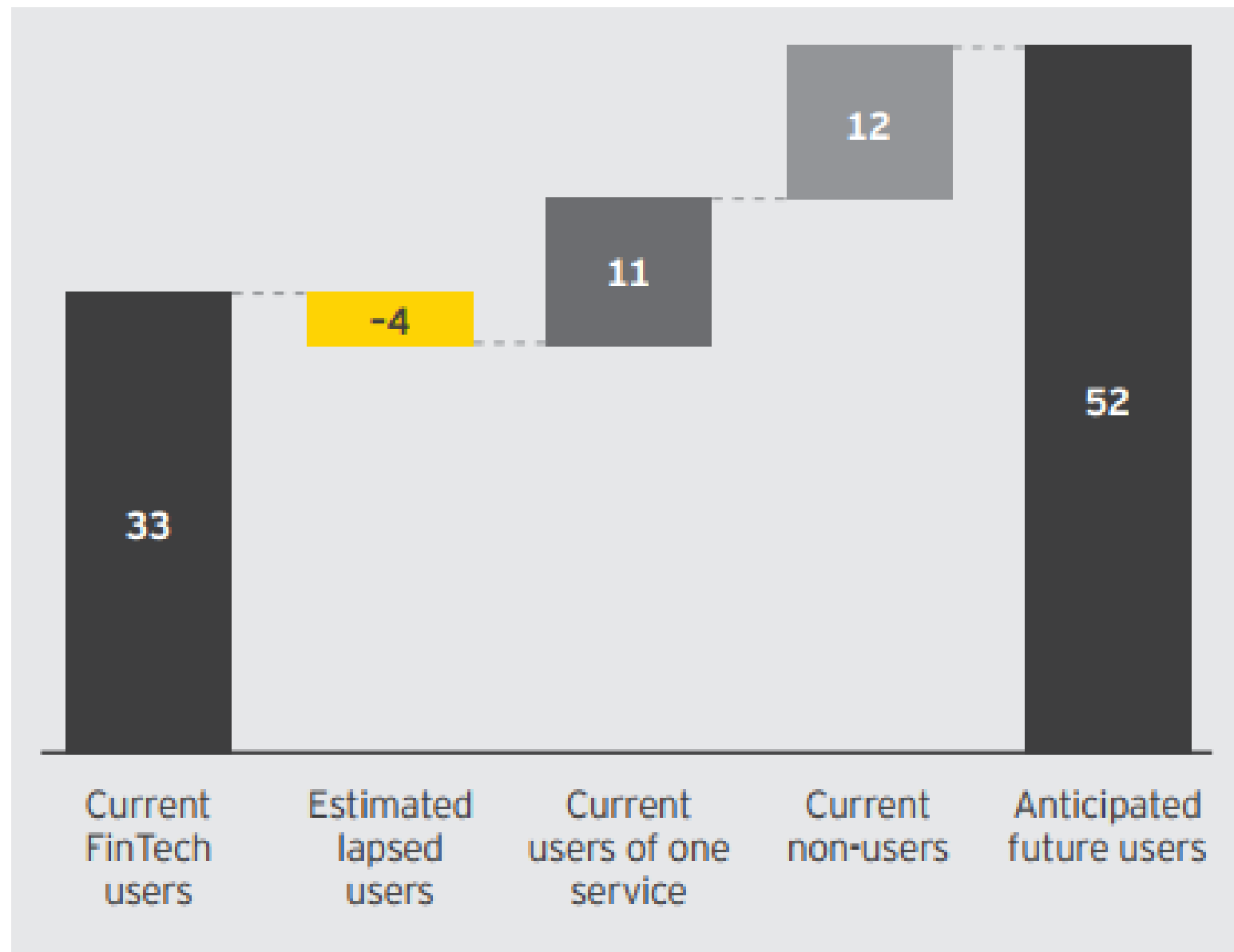
Notes: The figures show FinTech adoption by market for 2015 (where available), 2017, and anticipated future use as indicated by 2017 survey respondents. Data for Germany in 2015 was prepared as part of a stand-alone study conducted by EY, but has been added for reference purposes. All averages are shown on an unweighted basis. All figures are shown in percentages.

# Borrowing and financial planning services represent the largest proportional difference between current and anticipated usage.



Notes: The future use data in this chart has been updated from the first edition of our report. In this updated version, that chart shows the average future anticipated use of at least one FinTech service in each category by all respondents. The first edition of our report showed future anticipated use by current users of one of more FinTech service, which was as follows: Money transfer and payments - 88%; Financial planning - 22%; Savings and investments - 42%; Borrowing - 26%; Insurance - 55%.

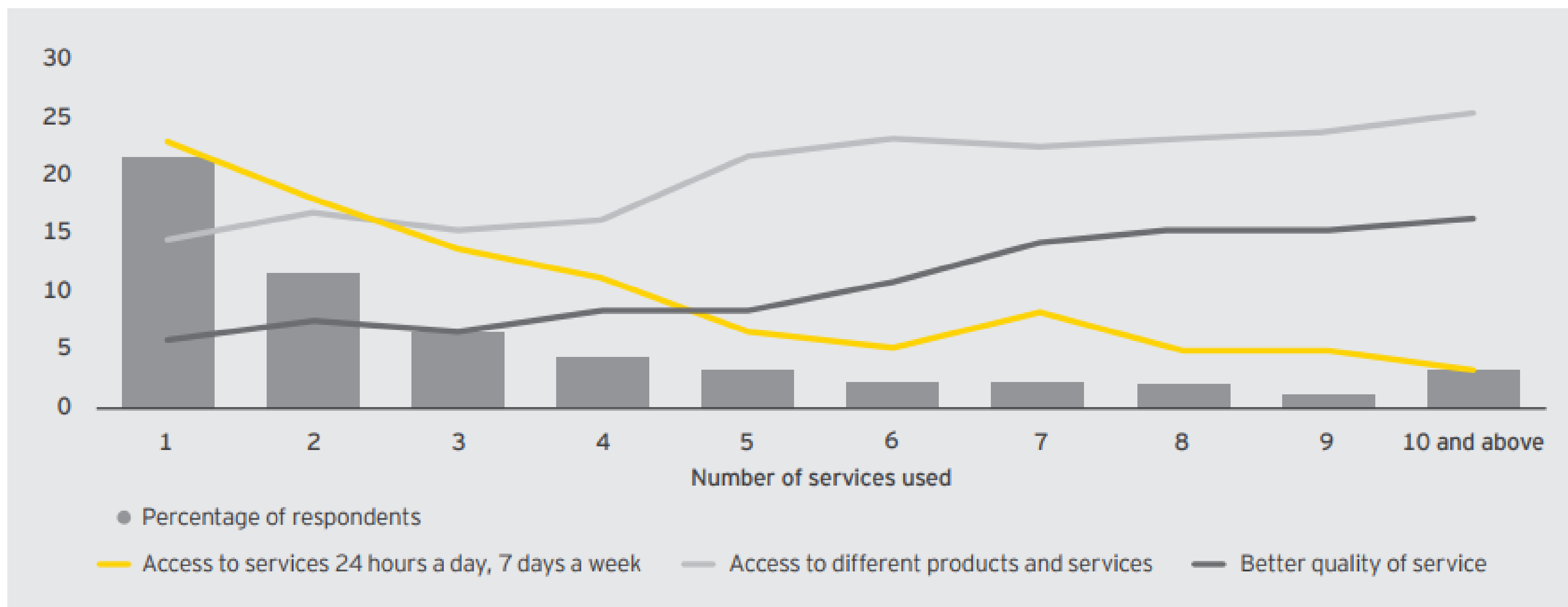
# More non- and non-regular FinTech users will start their journey to FinTech adoption



Notes: The figures show the expected adoption rate in the future, based on 2017 survey respondents' anticipated FinTech use. The anticipated future usage consists of current FinTech users, an estimate of lapsed users, current users of one FinTech service who intend to use more services and current non-users who intend to use two or more services. Figures reflect a percentage of all survey respondents in 2017.

# FinTech super-users\* are more likely to value better quality of service and access to different products and services

\* Use 5 or more FinTech services



Notes: The chart shows the percentage of respondents who used a specific number of FinTech services and selected drivers of FinTech use. The bars show the percentage of respondents who used a specific number of FinTech services. The lines show drivers of FinTech adoption, as cited by users of each specific number of services, who were asked to select the most important driver.

# Summary on Adoption

1. FinTech has achieved initial mass adoption in most markets
2. New services and new players are driving higher adoption
3. FinTech users prefer using digital channels and technologies to manage their lives
4. FinTech adoption will continue to gain momentum

# Conclusion

- FinTech is transforming finance
- Innovation is the new competitive advantage
- Financial Institutions are embracing innovation
- FinTech Adoption continues to grow