

The Developments of the Retail Banking Ecosystem and the Evolution of FinTechs - A Global Perspective -



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Introduction



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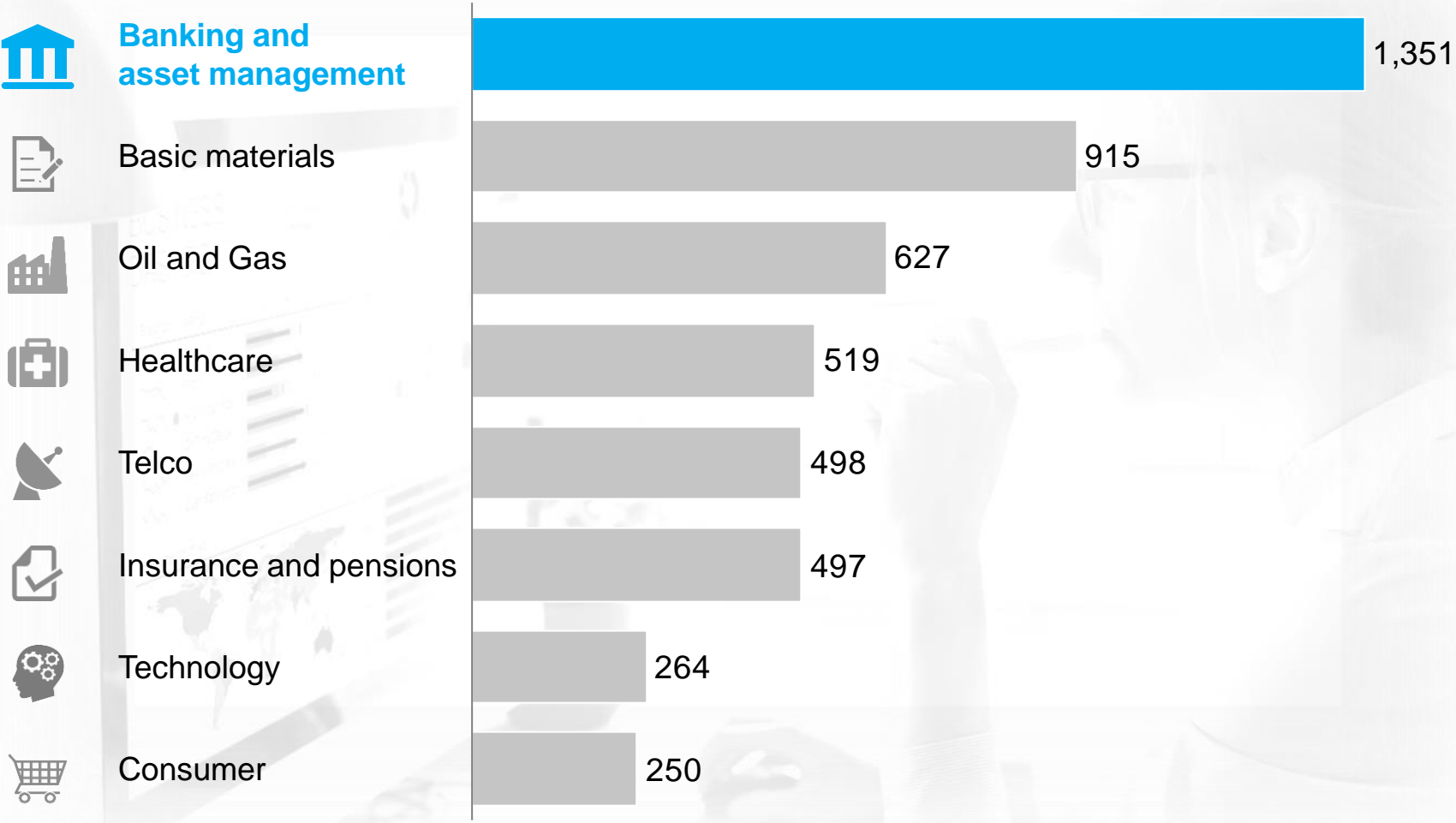
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McKinsey&Company

Banking is a big market

Global industry-level operating profits (net) 2016

USD billion



Today's topics



What are the key forces shaping banking in the future and what are the implications?

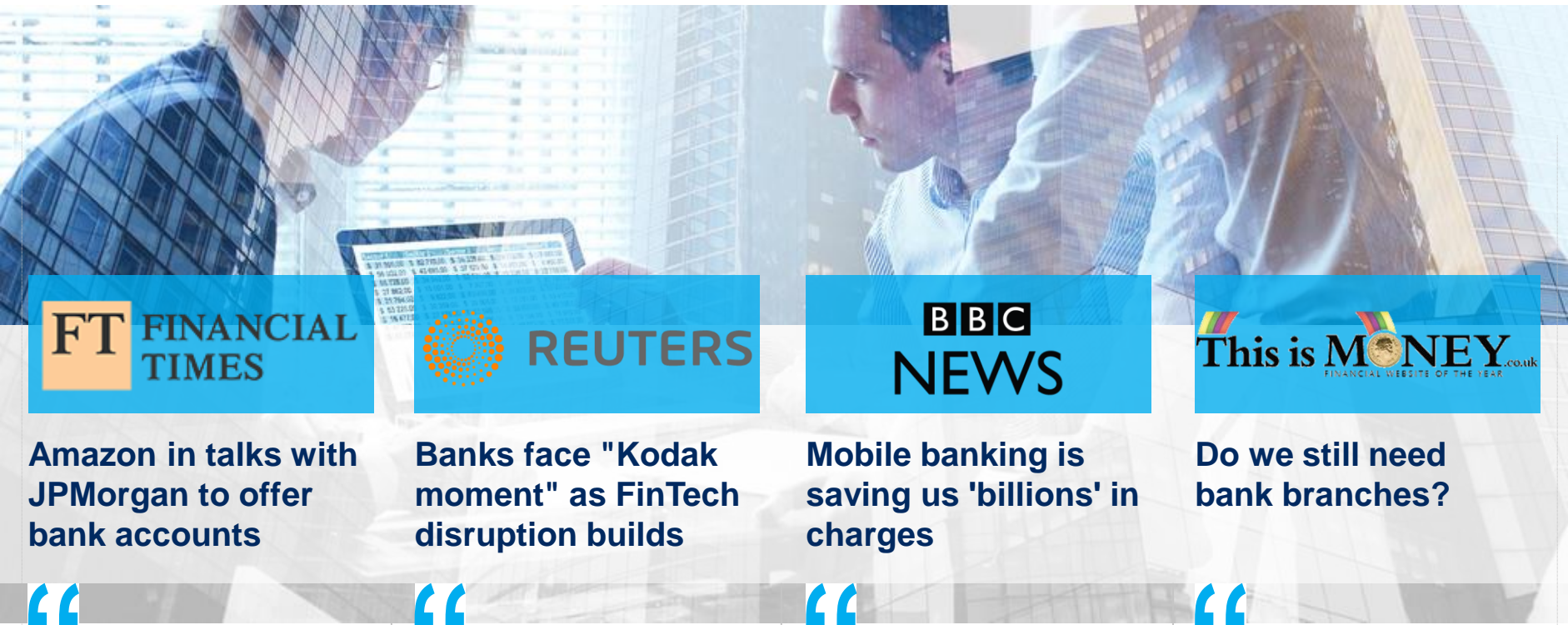
What is the value at stake and who are the players bringing a real threat?

Is there a difference by geography?

What are the core attacker strategies and how do traditional banks react?

How do we envisage the system on a longer horizon?

We know Banking is changing...



Amazon in talks with JPMorgan to offer bank accounts

Banks face "Kodak moment" as FinTech disruption builds

Mobile banking is saving us 'billions' in charges

Do we still need bank branches?



Amazon is discussing a potential partnership to **offer its customers bank accounts** via JPMorgan Chase



Banks are facing seismic changes from the **impact of new technology** that is likely to see many collapse



Mobile banking has **changed the way we manage our money** for good, and is saving us billions in bank charges



Lloyds Bank recently announced a planned cut of an extra 200 branches citing a **drop in branch use** coupled with concerns over costs

This is not the next Dotcom bubble; not only new channel, but new products, services and customer journeys are set to surface

Four key forces are reshaping banking globally and creating opportunities for a new digital banking play

Detailed on next slide



Consumer and Technology trends are changing the rules of the game, with new players and increasingly blurred barriers between industries

Changing customer needs



New tribalism

Global village where value and brand awareness is highly influenced by peers and is highly volatile



Experience focus

Shifting focus from product to experience with less care about traditional industry border opened to non-ownership sharing



Extreme impatience

Extreme impatience requiring convenience and immediate availability



Sense of “specialness”

Demand for personalization and unique VIP treatment with the willingness to share data for it

Implications on banking

1 Short/ mid-term

- Rapid digitization of banking
- Data-driven customer insights
- Extreme customer centricity & focus
- **Emergence of FinTechs & digital attackers**
- Regulatory changes in order to accommodate new players

2 Long-term

- Traditional industry barriers disappear
- Rules of engagement for businesses change
- Customer journeys are restructured completely
- **A new integrated network economy (ecosystem) will develop**

Technology advancement

Data/AI revolution

Enabling full personalization and cross industry client lifecycle management



Decreasing cost of computing

Cloud computing platforms are rapidly decreasing costs and lowers barriers to entry



Wide-scale “digitization”

Digitization of products and services driving new interactions and experiences



Open platforms

Enabling fundamentally new information and service structures



1 As a result, there is a value transfer going to a range of players different from the traditional banks

From...

Traditional banks

- Large global institutions
- Dominate current financial landscape
- Typically slow to adapt to technology

To...

Next generation FinTech

- Relatively small companies in highly innovative FinTech sectors with unrealized potential
- Proven business models, but limited visibility into long-term outlook



Adjusted operating profit was GBP 2 mn



Lent USD 3.5+ bn since its inception

At-scale FinTech companies

- FinTechs that are already producing revenue and taking market share from traditional players
- Clear use cases and growth timelines



440K+ customers



EUR 35 mn net income in first three quarters of 2017

Niche and digital attacker banks

- Financial institutions operating with a relatively traditional model, but which are taking market share by capitalizing on digital opportunities



1 m+ customers



USD 900+ mn deposit in under a year

Tech operators and white-label utility players

- Non-bank players, which are providing technology services in the financial industry (e.g., payment processors)



Building core banking for Virgin Money



Used by 15+ of the top 50 banks

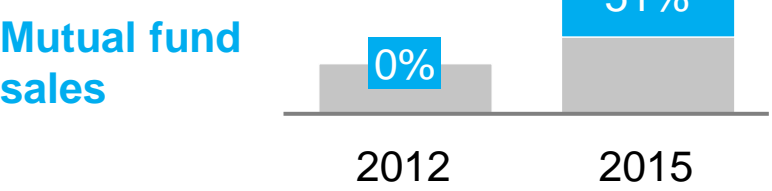
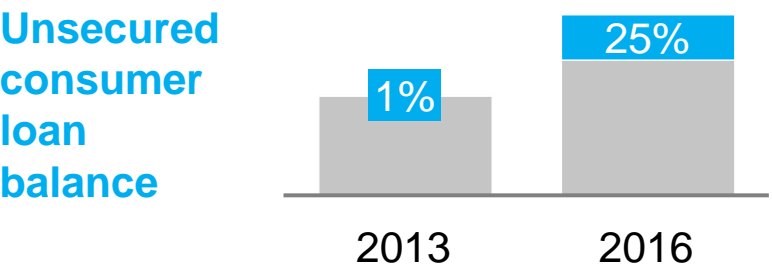
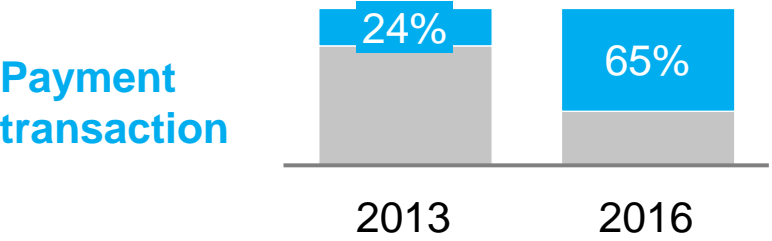
NOTE : There are also Non-financial players who've entered the banking disruption space (examples include: Apple, Microsoft, Telefonica, etc.)

SOURCE: McKinsey

1 In China, the disruption is already significant, digital attackers are eating the market of traditional players

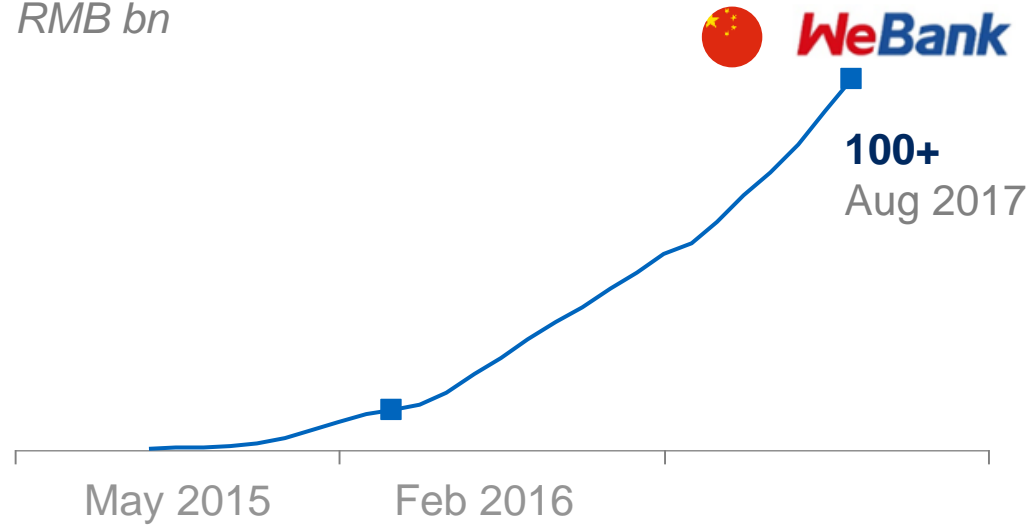
■ Digital attackers
■ Traditional financial institutions

Share erosion is a reality in China...



WeBank's impressive growth

Loan balance
RMB bn



100+ mn customers	0.3 s avg. loan approval time	86 % approval rate
8.2 K average drawdown	45 days avg. duration	40+ mini-syndication partner banks

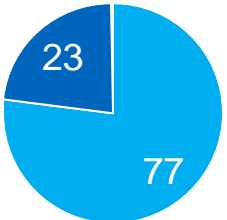
1 Another example is Sweden, where challengers have taken significant market share already

■ Market ■ Challengers
■ Universal banks

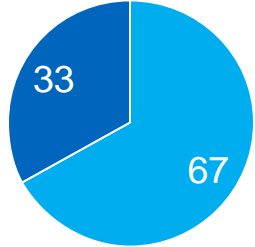
Market share by player type in Sweden

% of total outstanding consumer finance volumes

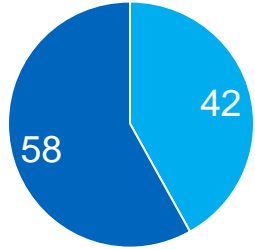
2003



2008



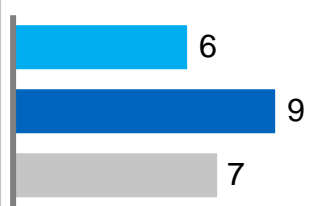
2016



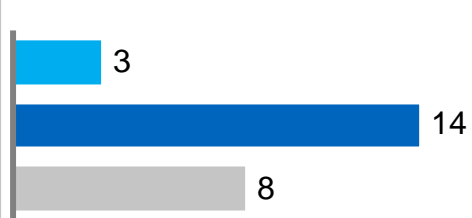
Growth

CAGR (%)

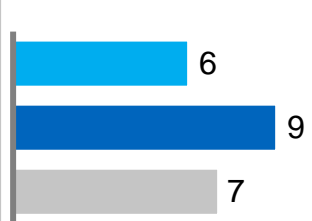
2000-03



2003-08

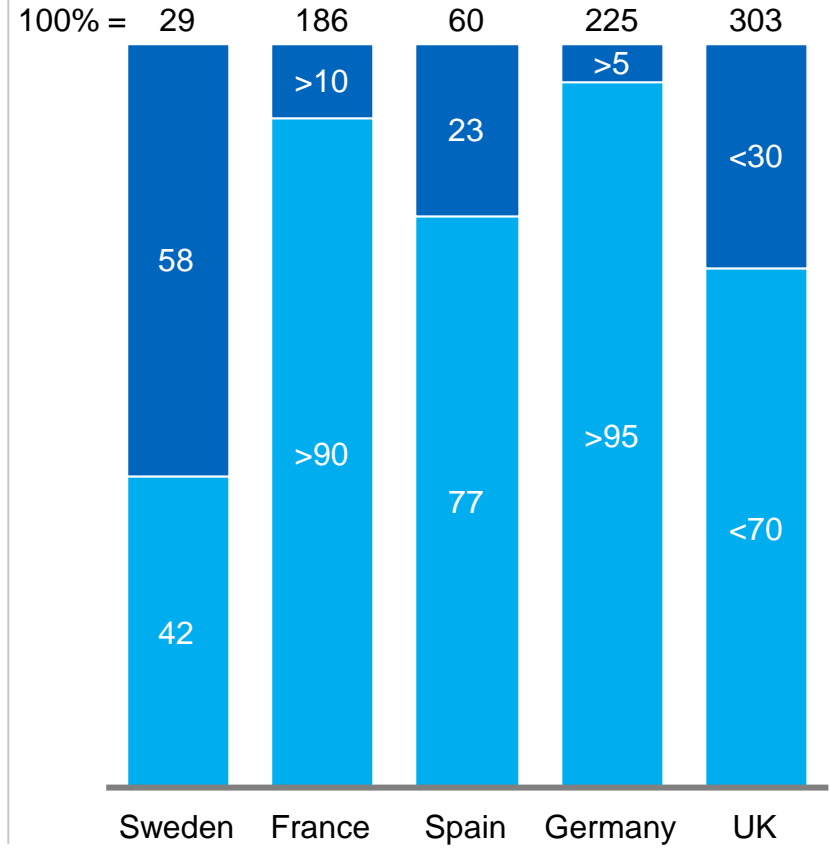


2008-16



Market share by player type

% of total outstanding consumer finance volumes



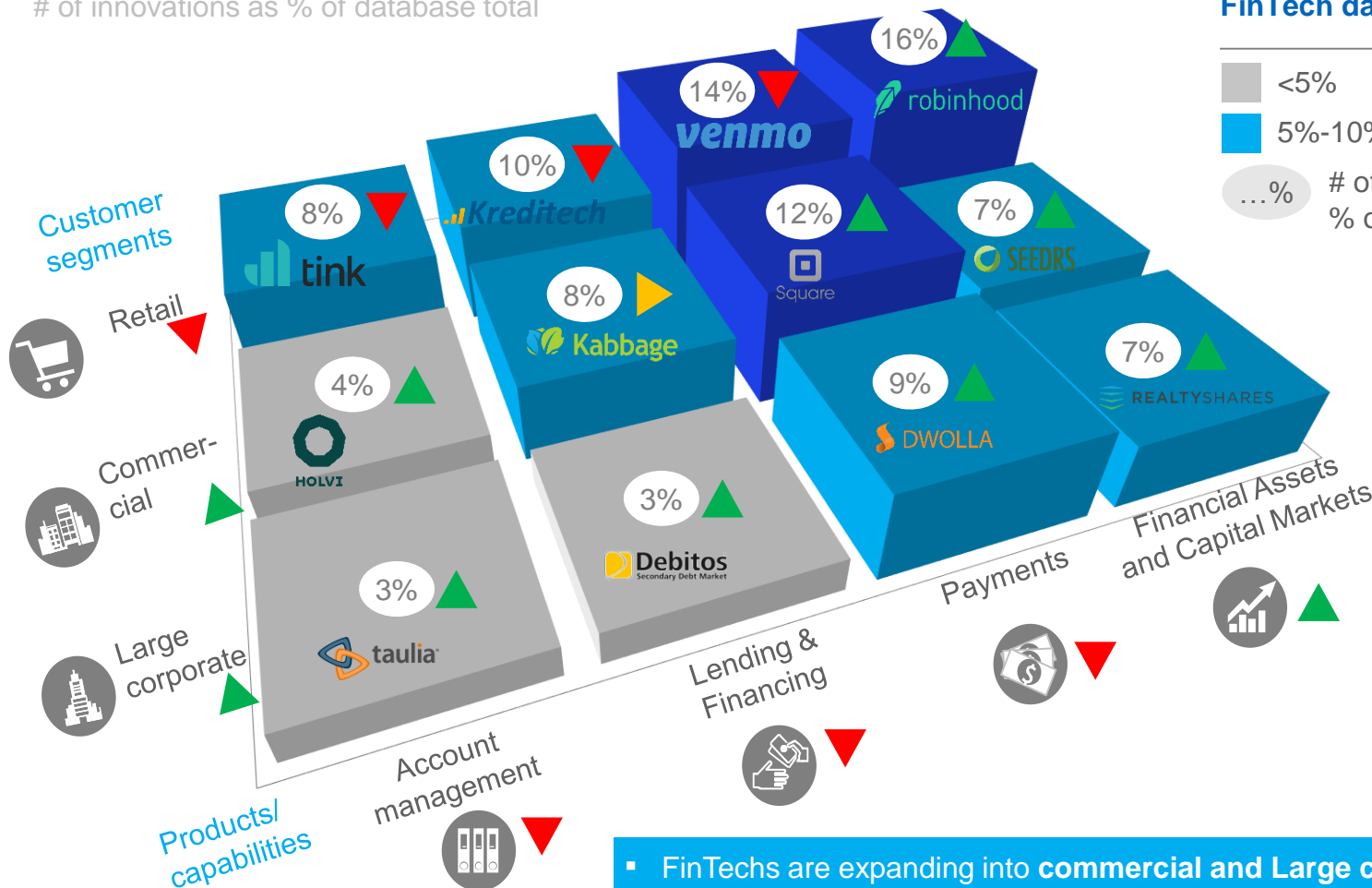
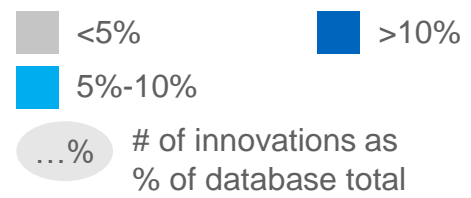
NOTE: Universal banks include direct consumer finance activities of traditional retail banks, and consumer finance divisions of domestic universal banks. Challengers include nonbank-owned consumer finance specialists ("challenger banks"), pan-European consumer finance monoliners, balance aggregators, online credit providers as well as peer-to-peer lenders.

1 Globally, FinTechs are expanding beyond retail into commercial and corporate segments

McKinsey Panorama FinTech Landscape

of innovations as % of database total

Share of innovation in McKinsey FinTech database



Change in share of the segment in the FinTech space since 2014



- FinTechs are expanding into **commercial and Large corporate segments**
- FinTechs are offering **more sophisticated solutions** beyond payment and lending focus, e.g., financial assets securitization, blockchain

1 Key global trends and differences in our region

What we see globally...

Broader focus expanding to Insurtech, API, Blockchain, AML/KYC, AI/ML, Biometrics



What we see in the region...

Few ideas e.g. remittances, P2P lending/payments, PFM, robo-advisory



Product focus

Business model

Moved towards partnership and collaboration through B2B channels



B2C startups still account for ~70% of FinTechs

Market and FinTech maturity

Larger platform players, tech giants are also entering



Primary focus on startups, seed rounds and angel investors

Key participants

Regulators and hubs increasingly involved in community e.g., *UK has developed a supportive regulatory environment*



VCs & accelerators/ incubators, FinTech communities and events



1 Europe is quite behind in terms of expected disruption compared to the US and China

ESTIMATE

Value distribution of the top 50 largest FinTechs
According to 2017Q3 valuation

PayPal
Palantir
Square



TransferWise
Klarna.
avaloq

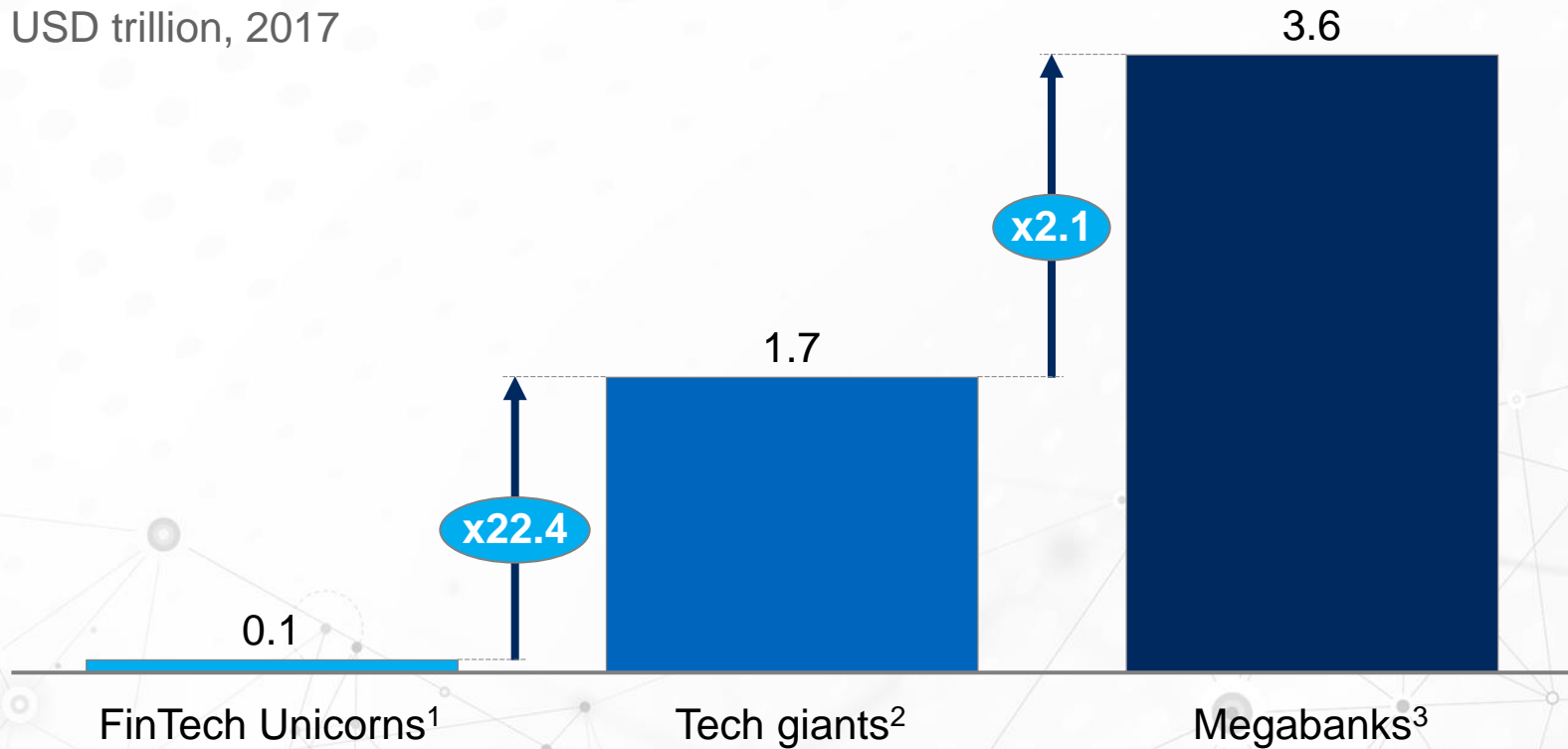


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众安保险
ZhongAn Insurance

- Asian companies, majorly from China, represent the most valuable FinTechs in each product area globally
- Only four European companies made it to top 50

1 But how severe is this threat? Is it real?

Valuation, market capitalization USD trillion, 2017



Are FinTechs the real threat to banks?

¹ Total value of the 25 largest FinTech unicorns (extracted from CB insights' Global Unicorn Club list, see backup for details)

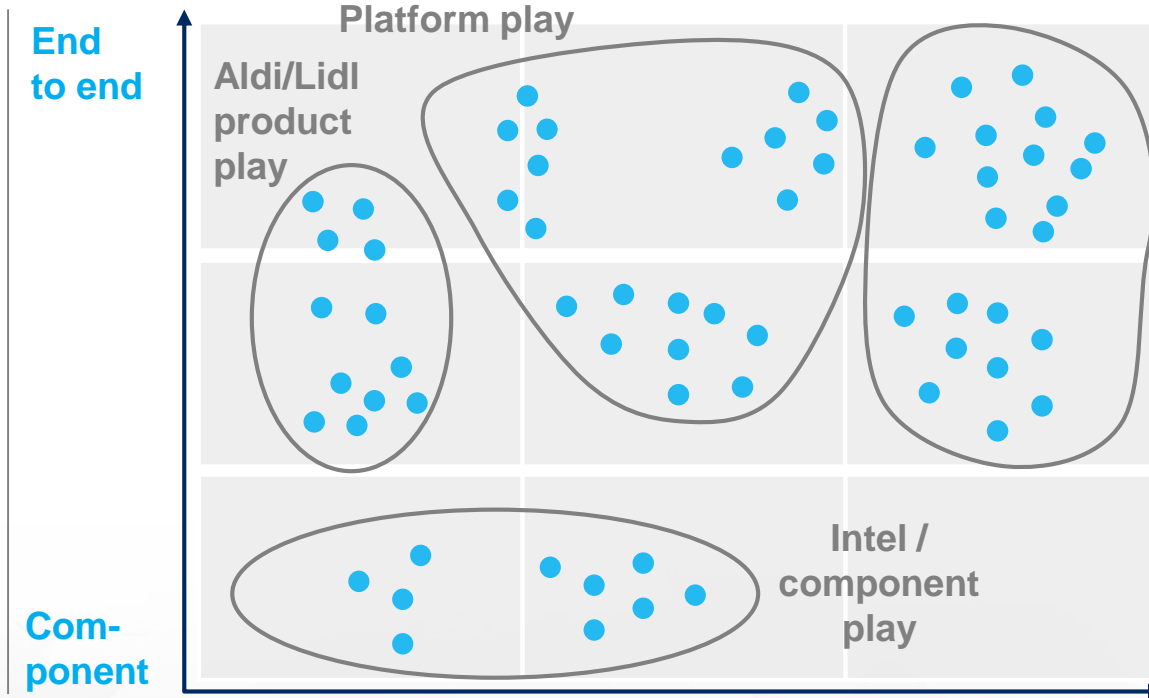
² Combined value of the world's top 8 tech giants: FB, Amazon, Apple, Netflix, Alphabet, Baidu, Alibaba, Tencent

³ Total market cap of the world's 30 most valuable banks

SOURCE: McKinsey Panorama, CB Insights, SNL, Bloomberg

1 What are the emerging attacker strategies?

Different attacker angles: categorized by proposition and service approach



Breadth of proposition

Component

Product provider

Access to products / markets

Information / Insights



Service approach

Attacker strategy

The Intel play



The Aldi/Lidl play



The Platform play



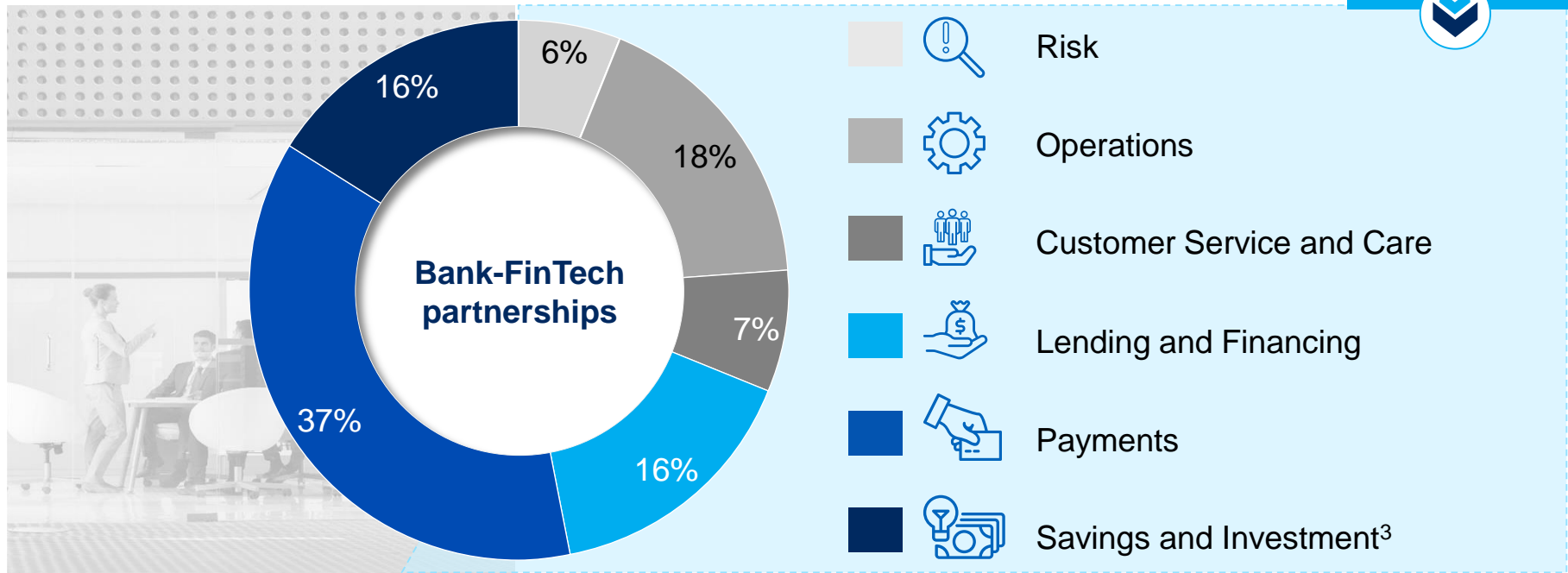
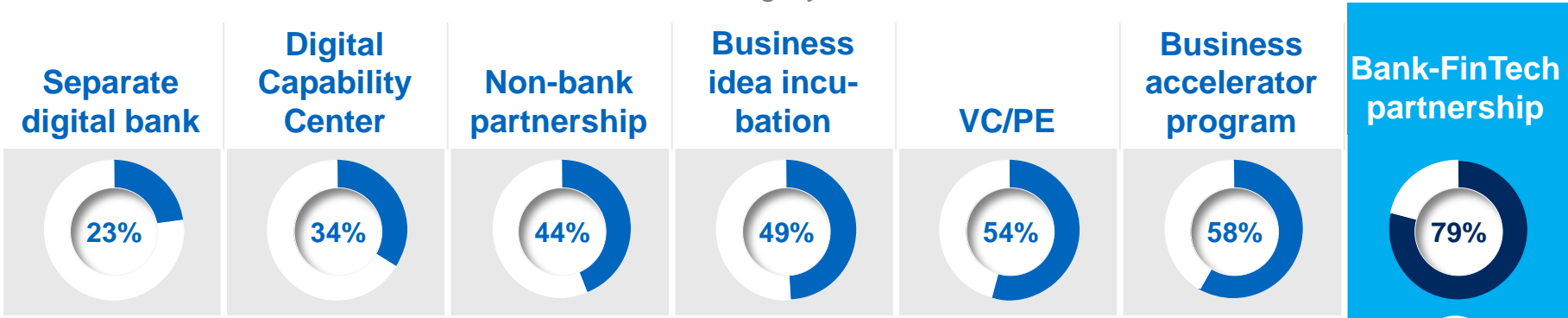
The Tripadvisor play



1 How have incumbents reacted so far?

Banks by solution

% of banks² that have initiatives in a certain category



1 Both ongoing and inactive partnerships are taken into account

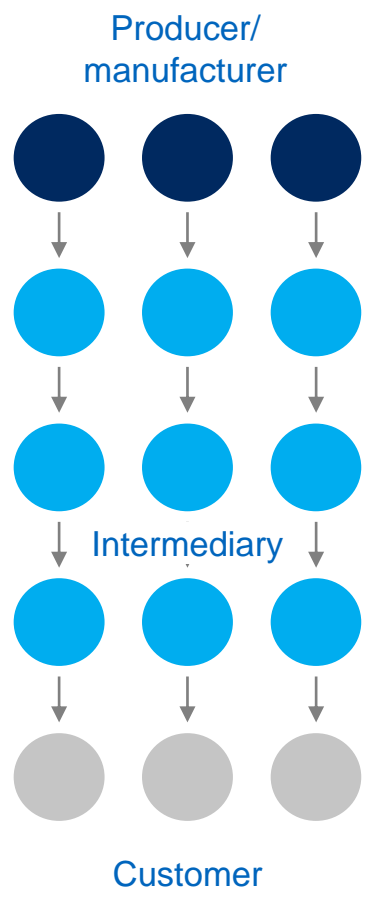
2 Based on a research covering publicly announced partnerships of the top 100 banks and other digitally advanced banks

3 Also includes account management

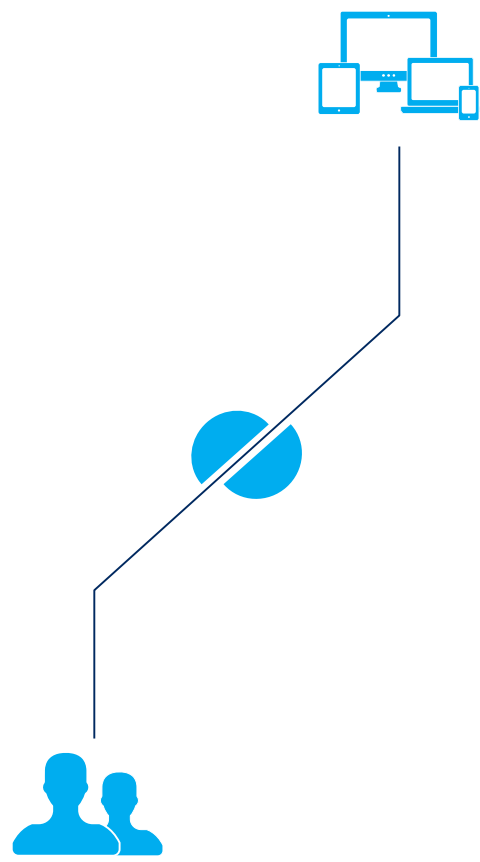
2 So how do we envisage the industry on a longer horizon?

We expect a new integrated network economy to be emerging

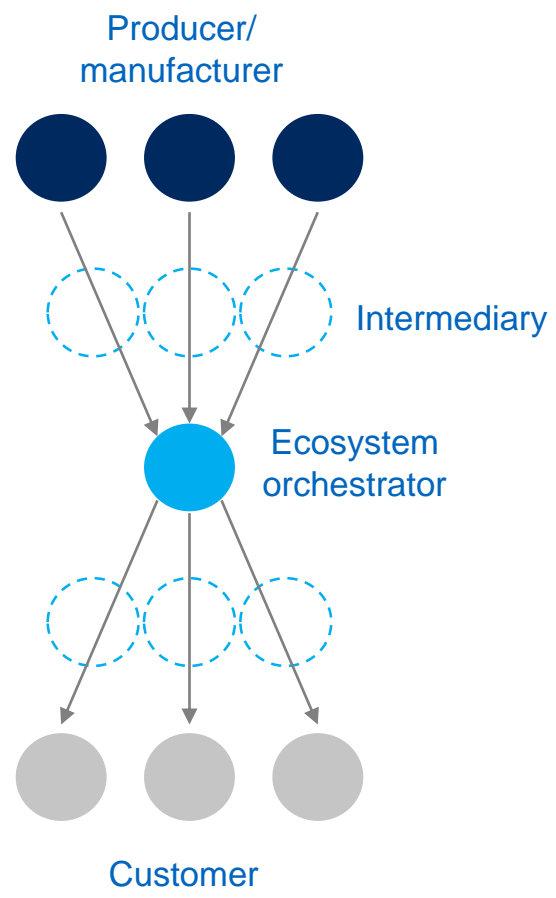
Traditionally, customer needs have been served by dozens of parallel value chains...



...however, technology and customer trends create a shift in these chains...



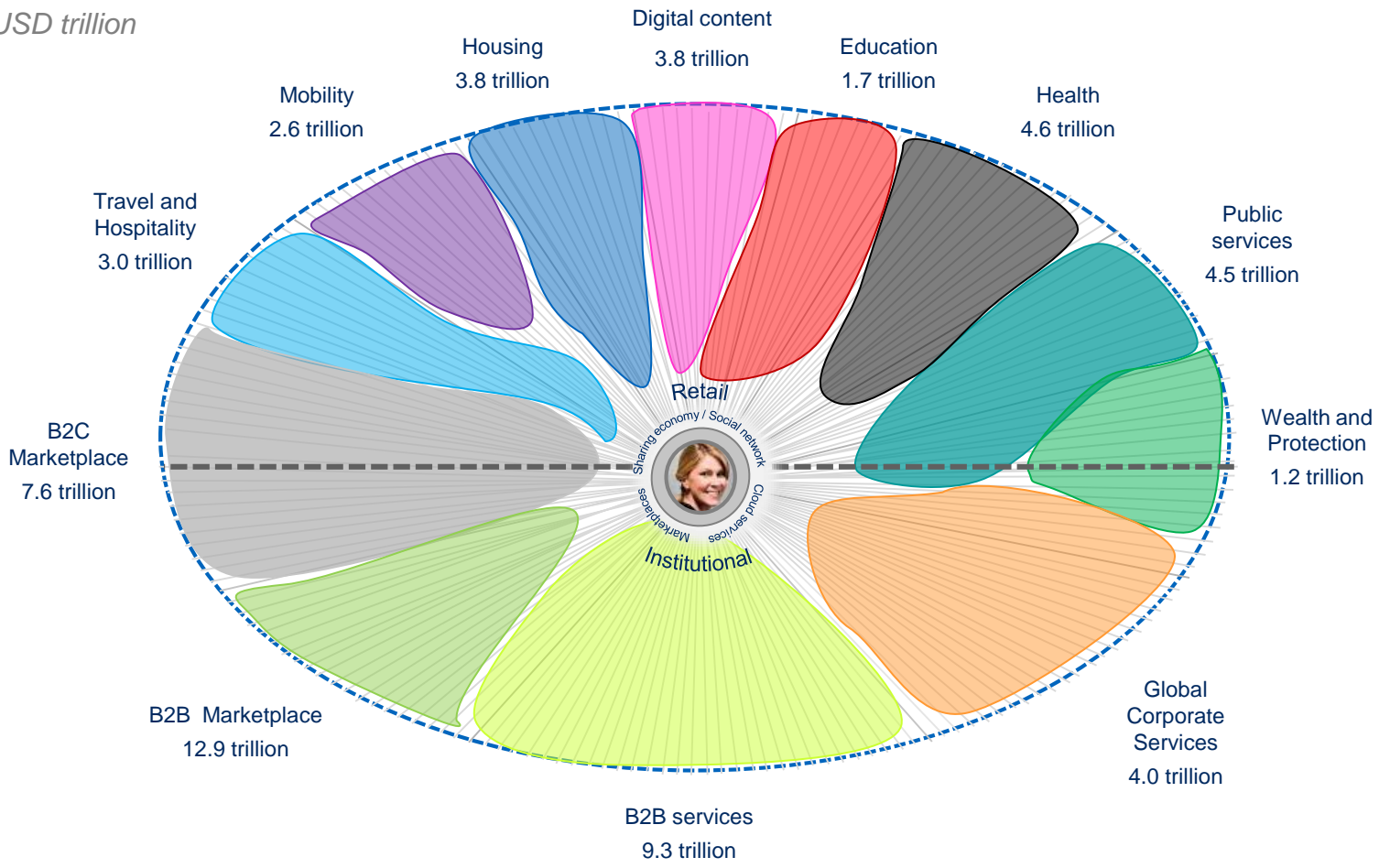
...and increasingly, multiple value chains are collapsing into concentrated chain(s) around key customer need(s)



2 ...leading to a world where value chains eventually collapse, creating ecosystems

ILLUSTRATIVE
ESTIMATES

2025 total sales estimates
USD trillion



~USD 60 trillion global revenue pool¹, integrated network economy

¹ Estimations based on corporate sales data, GDP industry breakdowns and expert assumptions. Circle sizes show approximate revenue pool sizes, smallest circle meaning less than USD 100 billion in revenues. Not all industries and subcategories are shown. Sum of 12 ecosystems does not equal to the size of the total integrated network economy

So what did we learn so far?

The revenue / profit pool is huge

Not the next Dot-Com – it is bigger and different

Still, the FinTech threat is minimal, they have the power to change the industry, while saving banks

The real threat is coming from large tech giants

Asia and the US is leading the game, Europe is behind

B2C –> B2B

Different attacker strategies, successful FinTechs adopt quickly, Banks are acting – 80 set up partnerships

Ecosystems are already evolving and will replace industry focus – Banks need to find their way to operate

***The winner
is the
customer!***