

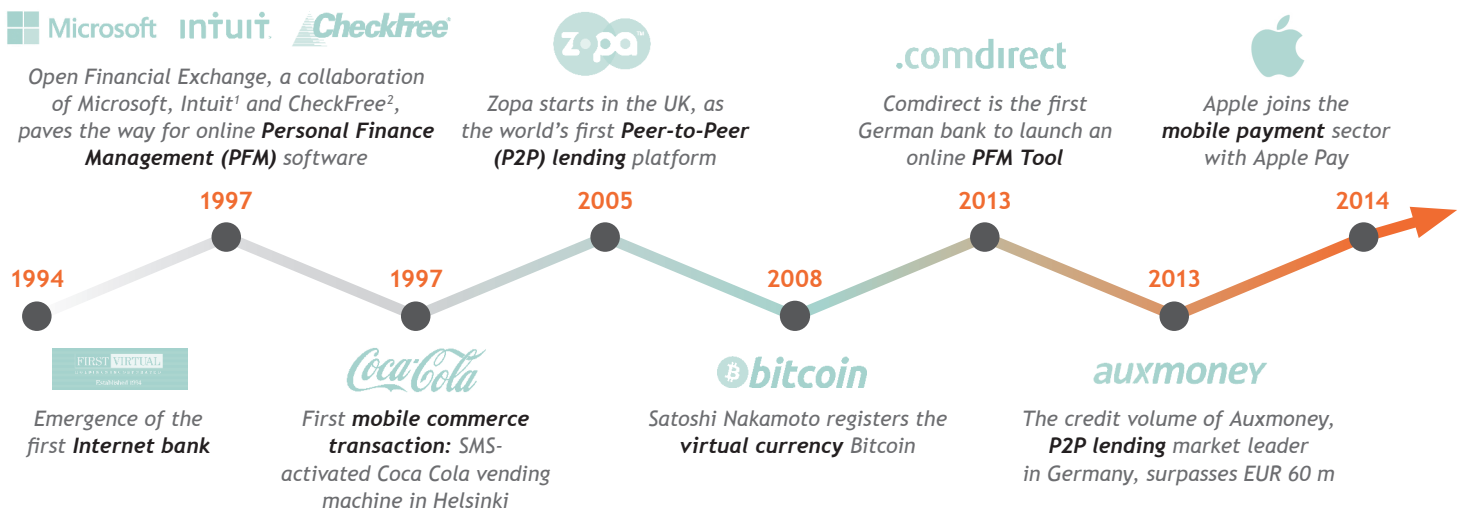
FINANCIAL TECHNOLOGY

SPOTLIGHT

- *Digital tools and services are completely going to change the way we manage our finances. Established banks are threatened by trends such as mobile payment, peer-to-peer lending, personal finance management and virtual currencies.*
- *Financial Technology (FinTech) has been growing rapidly over the past few years - global annual investments reached USD 3 billion in 2013 and are expected to increase to USD 6-8 billion by 2018.*
- *Understanding digital trends and changes in customers' preferences are both key challenges and opportunities for established finance companies. Therefore, they are exploring digital technologies, creating in-house solutions, partnering with or acquiring innovative companies.*

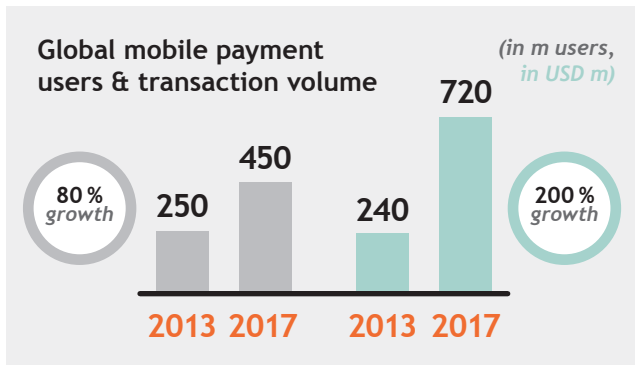
DEFINITION: FINTECH

Currently, the term FinTech is used to generally describe the arrival of new digital technologies in the finance sector. Originally, the term was coined as a B2B business providing software and services for financial institutions. Now, it includes B2C pioneers catering to consumers' financial needs and, hence, truly disrupting the market.



Key trends in Fintech

1 MOBILE PAYMENT



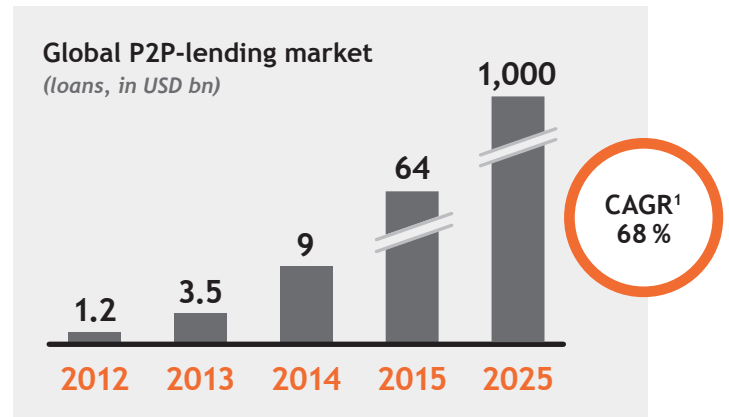
- > Mobile payment encompasses all forms of realizing transactions with mobile devices
- > Most important forms: >> mobile banking, >> remote mobile payment via Internet (e.g. via QR-Code), >> proximity mobile payment at contactless physical points of sale (e.g. via near-field-communication (NFC), beacons or compatible credit cards)

2 PERSONAL FINANCE MANAGEMENT

- > New technologies like big data analytics and real-time trend forecasting make it possible for clients to manage their finances more easily
- > Businesses providing PFM tools are now differentiating themselves with new features (e.g. peer comparison, social features) tailored to specific needs of the consumer
- > Another form of financial advisor are robo-advisor platforms, which provide an automated, algorithm-based online wealth management service with minimal human intervention

3 PEER-TO-PEER LENDING

- > Consumers who fail to get bank loans or strive for low interest rates, are moving towards P2P-lending
- > Though it poses a high risk for the lender, the opportunity to make a direct investment with meaningful returns is attractive
- > Generally, P2P-loans have limited volume of credit



4 VIRTUAL CURRENCIES²

- > Virtual currencies like Bitcoin (since 2008) have been gaining popularity, as a way of securely transferring value without a bank as an intermediary
- > Bitcoins can be mined through algorithms or bought from the stock market or other individuals
- > Currencies like Bitcoins are still highly volatile (currently 1 Bitcoin stands at USD 273³, with its all-time-high of USD 1,124 on 29th Nov. 2013)

Examples of FinTech businesses

1 iZettle®

- > Social payment company for P2P and B2C commerce
- > Fully integrated payment solution: app, chip-card reader, free business management tool

Founded: 2010
TF⁴: USD 108.5 m

2 wonga.com

- > Online payday lender for short-term personal cash loans
- > Fully automated real-time loan processing system

Founded: 2007
TF: USD 145.4 m

3 PERSONAL CAPITAL

- > Personal Finance Management tool with an integrated dashboard helps customers make smarter financial decisions
- > Individual strategies by advanced analytics and expert advisors

Founded: 2009
TF: USD 104.3 m

4 coinbase

- > Bitcoin Wallet allows people to buy and store Bitcoins by connecting it to their bank account
- > Cooperation with large companies (e.g. Google, Dell, Expedia)

Founded: 2012
TF: USD 31.7 m

Investment in FinTech

DIGITAL SECURITY AS A CHALLENGE

34 %

of all data breaches occur within the financial sector

With increasing amounts of user data and the rapid development of technology (e.g. the cloud), digital security solutions have been gaining importance, especially in the FinTech sector

As users have become more concerned with privacy and are seeking control over their own data, companies are forced to develop new solutions to meet their demands (e.g. digital passports)

BUSINESS CASES

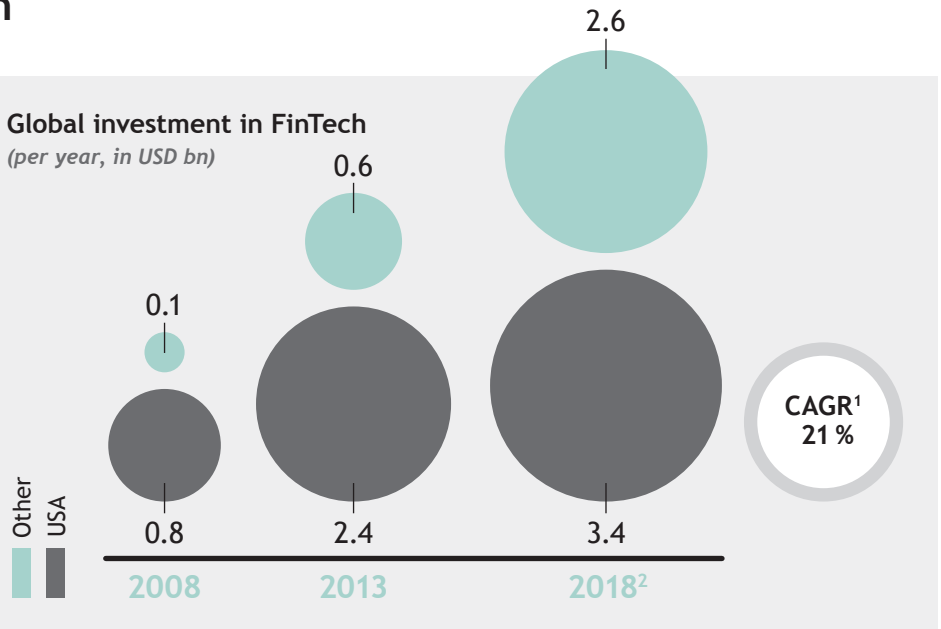
JUMIO®

ID verification technology, "Netverify", that provides real-time ID verification turning a customer's smartphone into an ID scanning terminal. **Founded: 2010, TF: USD 36.7 m**

Trustev

"Data fingerprinting" software platform, that allows companies to analyse site visitors in real-time and identifies whether the person is real or a fraud. **Founded: 2013, TF: USD 3.8 Mio.**

Global investment in FinTech (per year, in USD bn)



FinTech activities by 12 top VC³ firms ranging from Sequoia to Andreessen Horowitz tripled from 2009 to 2013.

FinTech investment increased four times the rate of overall VC investment between 2008 and 2013.

HOW TO SURVIVE THE DISRUPTIVE CHANGES

Four areas to focus on

1. Go mobile

- >Increasing use of smartphones
- >Companies are expected to offer mobile solutions for everyday activities like payments

2. Invest in safety

- >Digital safety solutions gain trust from customers
- >Technologies like fingerprint/eye scanning are now used to prevent fraud and improve data privacy

3. Know your customer

- >Big data helps to provide precisely tailored services
- >Individual product offerings and customized PFM tools increase customer satisfaction and loyalty

4. Educate

- >For most people finance is complex. Only a few have the patience to educate themselves
- >Gamification increases engagement and makes learning fun



Three investment strategies

Strengthen in-house digital competencies: Leverage existing internal technologies and invest in new technologies to build a strong digital infrastructure and thorough digital competencies in-house

Invest in FinTech startups: Incumbents are often challenged by disruptive technologies and innovative business models. Invest in promising start-ups and help them develop innovative concepts

Partner with promising FinTech companies: Set up partnerships with FinTech providers to leverage synergies, optimize processes and offer customers additional services and products along the value chain



Outlook for FinTech

OPPORTUNITIES

- > An increasing number of people are looking for digital solutions for financial issues (e.g. payment, budgeting, personal loans)
- > Investments in Fintech could lead to a competitive advantage by scaling existing business models and implementing new ones
- > Partnerships between start-ups and mature financial institutions for co-creation as a response to emerging competition
- > Still plenty of market potential for incumbents (e.g. banks), established outsiders (e.g. telecom providers), new entrants and disruptive startups to move into FinTech, as standards are not yet set

RISKS

- > FinTech industry becomes more saturated with the rise in capital expenditures, potentially leading to a bubble
- > The financial sector has always been a highly regulated industry, especially in Europe. FinTech companies have to keep a close eye on regulatory changes
- > In light of recent security breaches, consumers are weary of what they perceive as insecure online solutions
- > Partnerships through 3rd parties could pose a threat to financial institutions (e.g. security flaw, reputational risks and/or business failure)



UBS builds internal "Innovation Spaces" to develop FinTech projects



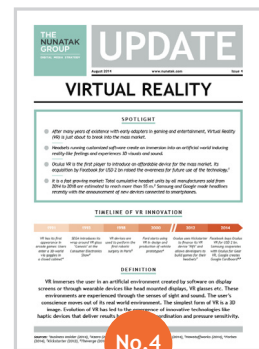
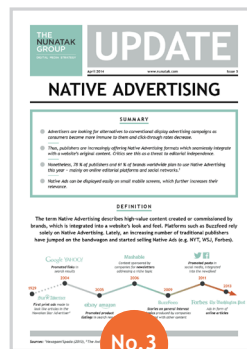
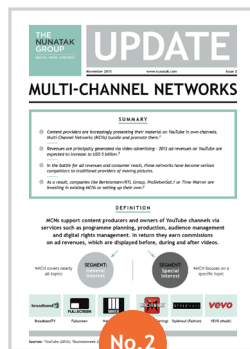
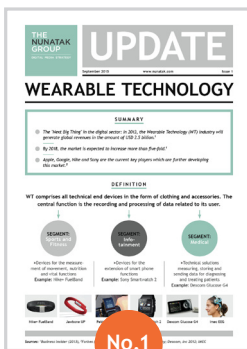
Santander sets up a USD 100 m fund for FinTech companies based out of London



Commerzbank launches CommerzVentures as corporate venture capital entity with focus on FinTech

FURTHER READING

If you have enjoyed reading this Nunatak Update, be sure to check out our past issues on www.nunatak.com



The Nunatak Group is a digital strategy consultancy based in Munich. Our focus is on Growth Strategy, Digital Finance, Digital Content, Digital Coaching and Investment Support for companies in all major business sectors.

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