

**banking
technology**

THE 2019 FINTECH REVIEW



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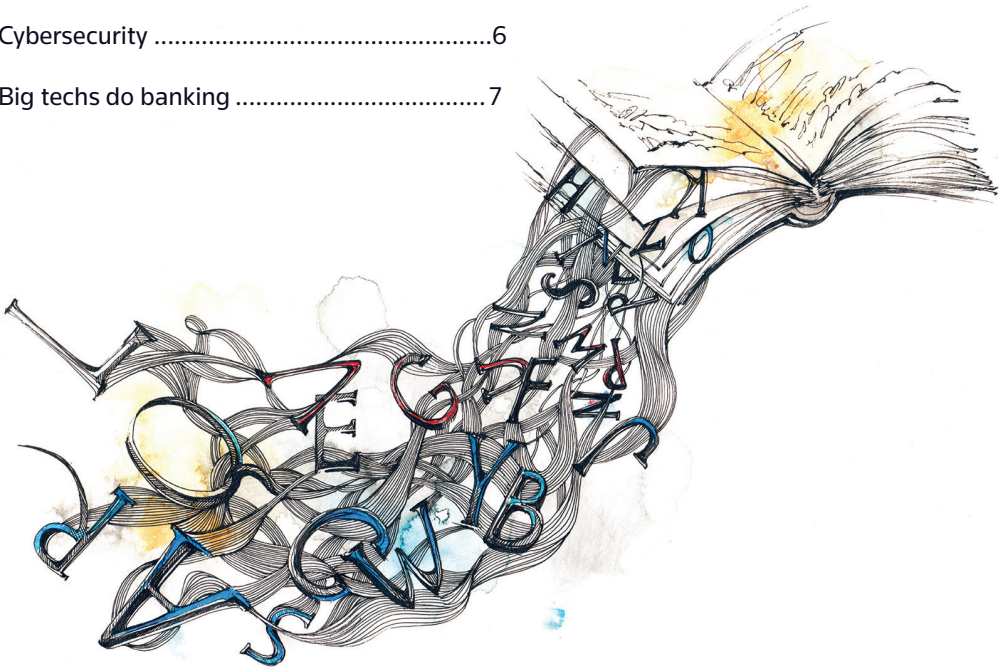
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ABOUT THE AUTHOR

Ruby Hinchliffe, Reporter at FinTech Futures, writes on all things financial technology. She brings our audience news on the latest fintech funding rounds, regulatory changes and unique cross-sector partnerships, as well as interviewing brand-new fintech start-ups on how they're looking to disrupt the banking space.

She also has a monthly column in *Banking Technology* sharing her views on the financial market as a Gen Z, and regularly reports for FinTech Futures at the industry's most prominent conferences.



Digitisation and the race to profitability

Digital transformation – an often-overused phrase that is nonetheless integral to the evolution of fintech and signals the continual development of technology.

The buzzword comes with a hefty price tag. This year, Nordea spent €735 million (\$814.4 million) in just three months on 'IT intangibles', while Banco Santander announced its €20 billion projected digital transformation spend for the next four years.

Does it have to be this expensive? The CEO and co-founder of Backbase, a fintech software provider to established banks, thinks not. Jouk Pleiter and his company have proved digital banks can be built in minutes, and that cutting people in large banks is inevitable.

Deutsche Bank's July announcement on axing 18,000 jobs reverberated across the banking world, a massive contributor to the 70,000 bank jobs cut worldwide by late November 2019 according to Bloomberg – a figure that was yet to count HSBC's anticipated 10,000-person cut.

As these big players "try and eliminate organisational silos", 2020 will inevitably see artificial intelligence and automation fill their places, says Steve Morgan, Pegasystems' industry lead for financial services in EMEA.

While banks race each other to become the most streamlined, challengers are also fighting their own industry battle: who will come out on top in the race to profitability?

While Revolut's 'go big or go home' approach is seeing it try to conquer big swathes of the world all at once, Monzo is more focused on becoming one of the top five UK banks in three years' time. The best challenger bank strategy remains unknown.

Anne Boden, CEO of Starling Bank, believes that banks need to evolve and despite fintechs disrupting a niche in the market, "unfortunately, a lot of them are not banks and don't have a way of generating revenue". Boden's take is that a new movement of banks coming to the market to address customer needs – as opposed to fintechs – have a path to profitability and longevity.

"Unfortunately, a lot of [fintechs] are not banks and don't have a way of generating revenue"

Anne Boden, Starling Bank

Paytech

Paytechs have seen some of the biggest investments this year. India's ecommerce instant payments platform Paytm raised \$1 billion in November with SoftBank as a lead backer. The Japanese conglomerate also pummelled an equally large capital injection of €900 million into Germany's digital financial commerce platform Wirecard in April.

This shift to investing in paytech follows SoftBank's third quarter losses of \$6.5 billion from its disastrous investments in WeWork and Uber, suggesting Paytm and Wirecard present overwhelmingly sound, steady growth opportunities going into 2020.

The investment trend chimes with PayPal's \$4 billion deal to acquire Honey, the makers of a deal-finding browser add-on and mobile application for online shoppers at checkout. It is PayPal's largest acquisition to date.

Bancorp subsidiary and payment processor Elavon believes there is "untapped" revenue and expansion opportunities for paytechs in the small to medium enterprise (SME) economy. "I think we will see more and more SMEs set up ecommerce to complement their physical operations," says Elavon's head of product in Europe, Eric Horgan, who cites 25% of UK SMEs still have "no online presence".

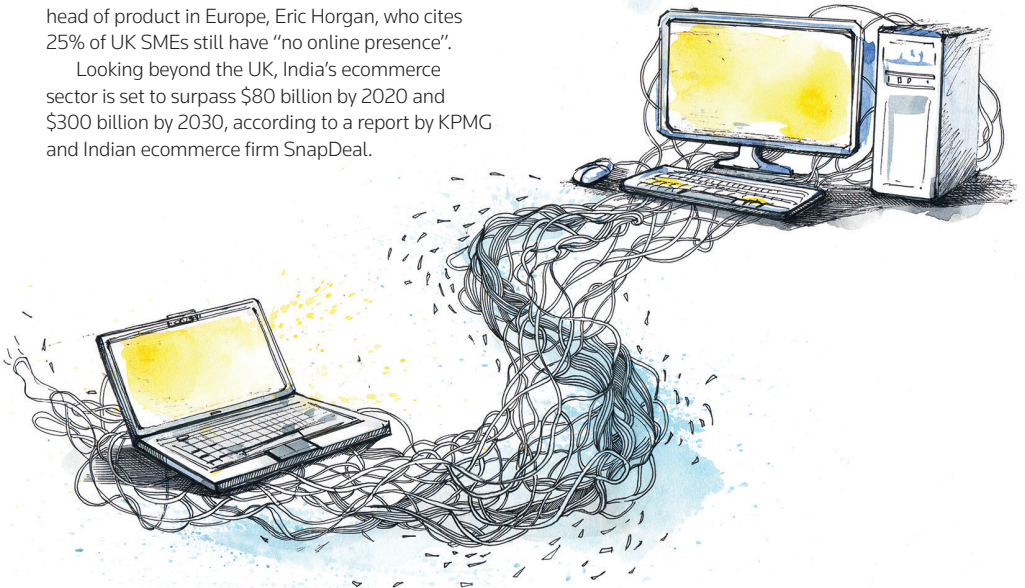
Looking beyond the UK, India's ecommerce sector is set to surpass \$80 billion by 2020 and \$300 billion by 2030, according to a report by KPMG and Indian ecommerce firm SnapDeal.

"I think we will see more and more SMEs set up ecommerce to complement their physical operations"

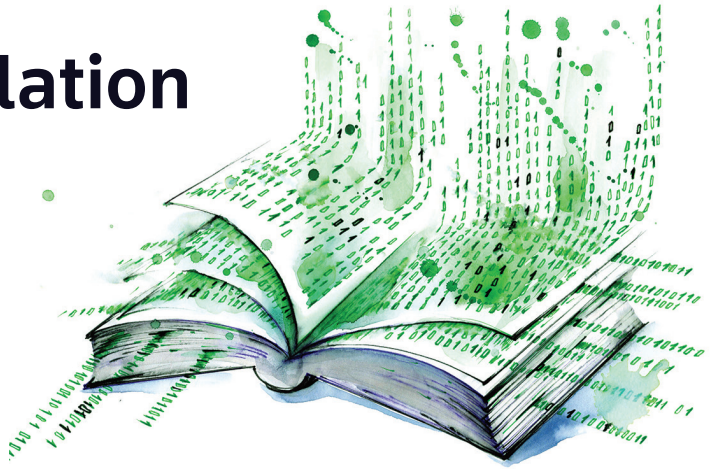
Eric Horgan, Elavon

While paytechs rise, banks and governments scramble to create equivalent, centralised alternatives. In the Nordics, six regional banks have now announced the business plan for P27, a single payments system set to boost local business. The region's 27 million people will soon enjoy instant cross-border payments within the Nordics.

And we can see similar feats being embarked outside Europe. BRICS, the association of five major emerging markets which account for \$18.6 trillion GDP – Brazil, Russia, India, China and South Africa – has now agreed to support a common payment system to encourage more people to spend in local currencies and rely less on the US dollar.



Regulation



With the Second Payment Services Directive (PSD2) now in full swing across Europe, countries further afield are beginning to pick up their regulatory paces to allow fintechs to establish themselves far more quickly across the globe. In August, the Middle East saw the Israeli government dedicate teams to fast-track fintech and blockchain licence applications in a bid to cultivate new local competition.

Similarly, the Monetary Authority of Singapore (MAS) plans to distribute as many as five digital banking licences to non-bank firms, including two retail licences, going into 2020. This has seen interest from Chinese firms such as big techs Ant Financial and Ping An Insurance, as well as luxury brand V3 Group, all of which are looking to establish footholds overseas. Elsewhere in the region, India has also seen significant regulatory movement. Both its National Stock Exchange (NSE) and one of its private sector banks Yes Bank opened API sandboxes for fintechs in November.

In the US, fintechs have unfortunately experienced a regulatory regression. Just a month before Californian digital stock trader Robinhood pulled its US banking licence application in November, a federal judge ruled that the Office of the Comptroller of the Currency (OCC) cannot issue

bank charters to non-bank entities. In other words, to be fully regulated fintechs in the US still have to get charters from 50 separate states and piggy-back off well-established banks.

As for the regulatory scrutiny shrouding cryptocurrency and blockchain, the focus has shifted from simply slamming private projects like Facebook's Libra to entire countries and continents, such as Europe and North Korea, coming together to set their own agendas for regulated alternatives.

"We've heard many regulators say – both behind closed doors and publicly – that the near-term blockchain implementations will be on permissioned blockchains as only they are able to meet regulatory scrutiny," says R3's head of regulatory affairs Isabelle Corbett looking ahead to 2020.

The UK is also seeing regulators called on by the country's Treasury to hold top high street banks to account for "unacceptable" amounts of downtime. Following another year of persistent online banking failures, it's likely 2020 will see huge regulatory shifts to protect customers who have seen a reduction in branches and free-to-use cash machines making them wholly dependent on the bank's apps and online services.

"We've heard many regulators say... that the near-term blockchain implementations will be on permissioned blockchains as only they are able to meet regulatory scrutiny"

Isabelle Corbett, R3

Cybersecurity

A Lloyds report this year revealed how cybercrime is rocketing to the top of the UK banks' technology investment agenda. Jumping from eighth to fourth place in just 12 months, now 70% of banks are prioritising it as opposed to 46% last year.

Big capital injections in the sector in 2019 saw Israel's Riskified, Goldman Sachs-backed Acronis and Florida's KnowBe4 all reach unicorn status. But despite this investment, some are worried it is not being directed at a micro-level to the right areas. "We've left the email channel completely open," says head of cybersecurity strategy at Proofpoint Adenike Cosgrove, who reveals 96% of cybersecurity breaches in companies, including financial institutions (FIs), still happen through email phishing and yet "we're not investing in email".

Data breaches are no new phenomenon, but this year the world has seen platforms compromised, such as Apple's iOS, which were previously thought of as 'unhackable'. One of the biggest bank hacks in history also happened this year, as tens of millions of Capital One credit card holders saw their data –

addresses, credit scores, balances and transaction histories – stolen.

Education around the topic has seen new attention. The National Bank of Australia (NAB), for example, is now allying itself with universities to improve cybersecurity education among the country's workforce.

As for regulation, experts are concerned the disparate approaches to cybersecurity country-to-country could make swathes of the world vulnerable. "It's critical not to let the bad guys win by letting them take advantage of our fragmented regulatory landscape," says Stella Cramer, Norton Rose Fulbright's head of technology and innovation at Sibos this year.

Looking to 2020, HSBC's head of technology and cyber risk, Rory Alsop, predicts that attack trends will see ransomware go up again after a recent downturn because it is low-risk and cheap for hackers. Alsop anticipates more combined attacks too, citing the attacks on Ukraine which took out power while skirmishes were happening at the border.



"It's critical not to let the bad guys win by letting them take advantage of our fragmented regulatory landscape"
Stella Cramer, Norton Rose Fulbright



Big techs do banking

Samsung added a debit card and cross-border payments to its e-wallet; Google said it will offer checking accounts next year; Uber launched Uber Money; Apple launched its Apple Card; Facebook launched Facebook Pay; JD.com partnered with Beijing's government to manage the city's bad assets; and Facebook-owned WhatsApp is in talks with Indonesian fintechs for an upcoming mobile payments launch. It's been a year of big techs edging their way into the banking stratosphere.

Here Mobility's head of payments Oded Salomy notes that although big techs "will be smart about how they use their data, probably more willing to take credit risks and offer more creative, customised financial offerings than traditional financial institutions", they are also yet-to-be measured in their ability to predict financial risk. Salomy reminds us that Uber Money launched with the help of multiple financial institutions including UK bank Barclays because "it recognised how difficult [and] complex financing financial services can be". It seems the worlds of banking and big techs are set to collide in 2020, whether they like it or not.

And while big banks such as Deutsche Bank and HSBC are cutting staff and undergoing huge digital transformations, it seems big techs are doing the opposite by trying to establish material wealth.

Former CIO of Singapore's DBS Bank and now

"[Big techs] will be smart about how they use their data, probably more willing to take credit risks and offer more creative, customised financial offerings than traditional financial institutions"

Oded Salomy, Here Mobility

co-founder of Picturewealth, Neal Cross, pointed out at Backbase Connect that while Airbnb historically owned no rooms, it's now building homes – just as Ant Financial historically wasn't a bank but has now secured a bank licence; just as Amazon historically owned no shops but has now acquired Wholefoods; and just as Uber historically owned no cars but is now flooding the used car market.

"These two forces are going in opposite ways," says Cross, realising the big corporates are trying to 'copy' the big techs just as the big techs are trying to be more like them.

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