banking technology

The definitive source of news and analysis of the global fintech sector | **February 2020** www.fintechfutures.com

TOP DOGS
The challenger bank success stories of 2019

COMING TO AMERICA
Monzo, Revolut, N26 and other Europeans cross the Atlantic

BANKING TECHNOLOGY AWARDS
A golden celebration of excellence and innovation

Produced by FINTECH FUTURES

Contents

FINTECH FUTURES

Managing Director & Editor-in-Chief
Tanya Andreasyan
+44 207 551 9010
tanya.andreasyan@fintechfutures.com

Editor
Sharon Kimathi
+44 207 551 9010
sharon.kimathi@fintechfutures.com

Deputy Editor
Alex Hamilton
+44 7724 822714
alex.hamilton@fintechfutures.com

Reporter
Ruby Hinchliffe
+44 207 017 5709
ruby.hinchliffe@fintechfutures.com

Contributing Reporters
Jane Connolly and **Martin Whybrow**

Head of Sales
Jon Robson
+44 203 377 3327
jon.robson@fintechfutures.com

Marketing Manager
David Taylor
+44 207 017 5379
david.taylor@fintechfutures.com

Marketing Executive
Kiran Sandhu
+44 207 017 7377
kiran.sandhu@fintechfutures.com

Business Development Executive
Sam Hutton
+44 207 017 7017
sam.hutton@fintechfutures.com

Design & Production
Simon Turner @ West Hill Media
simon@west-hill.co.uk

Onalytica's
TOP 100 Fintech Influencer and Brand

Banking Technology is published ten times a year.

Address
Maple House
149 Tottenham Court Road
London W1T 7AD, UK

Printer
Hobbs the Printers Ltd
Hampshire, UK

ISSN 0266-0865
www.fintechfutures.com

Editor's note

A new year ushers in new ideas, resolutions and opportunities for celebrating our successes of yesteryear, while ruminating on the challenges to better ourselves. With that in mind, I'd like to present our debut of the Banking Technology Awards Supplement.

Here, we take a moment to showcase some of our highlights from our bedazzled evening – commending banking and fintech's best projects and experts of 2019.

We sat down with Sal Cucchiara, chief information officer and head of technology for wealth management at Morgan Stanley to unpack its three wins at the awards for the Best Use of IT in Treasury and Capital Markets, Best Digital Initiative and the Best Leadership, celebrating the transformative vision of executive director Melanie Dorn.

We also spoke to Anna Loevskaya, managing director of Sberbank of Russia, who won two awards for Top Digital Innovation and Best Use of IT In Corporate Banking, in addition to senior executives at Jibun Bank and New Day for their success stories.

Away from the glitz and glamour of award ceremonies last year, we look back at the trends and developments of 2019 in anticipation of what the new decade has in store.

Chris Ward, principal consultant at Mapa Research (part of Informa Financial Intelligence) dissects the trend of British and European fintech companies and neo-banks gaining a foothold in the US: Monzo, Revolut, N26 and other European challengers moved their services across the Atlantic Ocean in 2019.

We also take a moment to reflect on our top challenger banks of 2019, which was a record year for fundraising across the neobank space, from NuBank, Chime and N26 to OakNorth, Monzo and more.

Although 2019 had its successes for banking in terms of fundraising and firms consolidating via mergers and acquisitions with Big Tech, it also faced a lot of challenges such as data breaches and outages. We look back at the top seven banking outages, from LSE's technical glitch that delayed opening trading for the FTSE 100 and 250 indices by almost two hours in the summer, to NatWest facing a string of complaints from customers for its various outages throughout the year.

Finally, from ruminating on banking highs and lows in 2019, to exploring upcoming digital spaces across the world that might really shine this year, as FinTech Futures flies to Japan to examine its efforts in turning Tokyo into the number one financial and fintech hub in Asia.

Sharon Kimathi
Editor
Banking Technology

API provider Currencycloud raises $80m in Series E funding

Currencycloud, the application programme interface (API) builder powering UK neobanks such as Revolut and Starling Bank, has raised $80 million in a Series E funding round co-led by Visa and SAP's venture arm Sapphire.

The London-based start-up has built a set of remittance APIs that enable banks and other financial businesses to integrate money transfer services into their platforms. Now, with a new round of funding under its belt, the fintech is looking to expand beyond its firm market presence in Europe to take on further-afield markets in Asia.

Similar to Plaid, the API builder recently acquired by Visa, Currencycloud acts as the 'plumbing' behind consumer fintechs that also include the Danish neobank Lunar Way, as well as the UK-based banking app Monese. Visa is also a direct client of Currencycloud.

Investors have been pouring money into fintechs focused on back office services. Last year, Checkout.com scored a $230 million round and Stripe raised a similarly huge $250 million.

"We're a piece of embedded finance in the tech stack," Currencycloud CEO Mike Laven tells CNBC. "It's not as sexy, but it's an incredibly good business."

The firm's latest funding also attracted the likes of Google, the investment arm of the World Bank, French lender BNP Paribas and Japanese bank SBI – which was once part of SoftBank.

Visa's treasurer, Colleen Ostrowski, will join the Currencycloud board following the capital injection.

"We're probably the most important business that you've never heard of," says Laven. "But that's conscientious on our part. We do not have a strategy where we compete with our customers."

Currencycloud claims its 85 APIs have been used to transfer more than $50 billion between about 180 countries, for services from inbound money collection to foreign exchange to digital wallet services.

By the end of 2019, the fintech says it was working with more than 350 companies. It has raised a total of $140 million in funding so far.

Ruby Hinchliffe

Former Wells Fargo CEO barred from banking industry

Wells Fargo's former CEO John Stumpf has been slapped with a $17.5 million fine and a lifetime ban from working in the banking industry by US regulators, following the bank's fake account scandal in 2016 and other sales practice misconduct. Seven other former Wells Fargo executives were reprimanded by the Office of the Comptroller of the Currency (OCC), tallying fines with Stumpf which collectively come to at least $59 million.

Stumpf agreed to his settlement alongside two other executives, having led the bank back when employees opened 3.5 million fake accounts to meet sales targets for its consumer-facing community bank. Total penalties relating to the scandal and more generally "the bank's systemic sales practices misconduct" amount to nearly $1.4 billion, according to Forbes.

Ruby Hinchliffe

FCA appoints Christopher Woolard as interim chief executive

The Financial Conducts Authority (FCA) has named Christopher Woolard as its interim chief executive. Woolard steps into the role while the regulator searches for a successor to former chief executive Andrew Bailey, who is to become the next governor of the Bank of England.

Woolard has been the watchdog's head of strategy for seven years. He arrived at the FCA at its inception after the scrapping of the Financial Services Authority in 2013. Prior to that he worked at Ofcom, the BBC and in the civil service.

He is among the frontrunners to succeed Bailey full-time, alongside FCA head of supervision Megan Butler.

"We have a huge job to do," says Woolard of his appointment. "I'm looking forward to working with the board and colleagues across the FCA as we continue to deliver the FCA's mission."

Woolard takes the helm at a turbulent time for the financial regulator. It announced late last year that 2019 was a record year for the handing out of regulatory penalties, with the FCA issuing six times as many as in 2018.

Earlier this month, the FCA came under fire for failing to keep track of investment fund suspensions, following an investigation from the Financial Times.

In November 2019 reports revealed that workers at its new Stratford office had been verbally abusing catering and security staff, and in some cases were defecating on the floors of toilets.

From a technological standpoint, the FCA has just announced plans to shake-up its internal handling of data.

Alex Hamilton

Christopher Woolard

Japan floats the idea of a digital yen

Japan has become the latest country to look at issuing its own digital currency in a bid to compete with China, which is well under way in developing its digital yuan.

Parliamentary vice minister for foreign affairs Norihiro Nakayama tells Reuters that a digital yen would put Japan in tune with global changes in financial technology – namely the developments made by private companies such as Facebook's Libra, as well as the developments made by China in creating a state-owned digital currency.

It is understood that a group of 70 Liberal Democratic Party lawmakers are working on a proposal for Japan to be able to issue its own digital currency, which could be a joint initiative between the government and private companies, Nakayama explains.

He sees issuing a digital yen as "the first step" in Japan becoming aligned with the advances in financial technology. The group of party lawmakers plans to submit its proposal to the government as early as next month, according to Nakayama.

Ruby Hinchliffe

BNP Paribas teams up with Tink

French banking group BNP Paribas has signed a strategic partnership with open banking platform Tink, making the latter the bank's preferred partner for account aggregation in two European markets.

Tink already has an agreement signed with BNP Paribas Fortis, the retail network of BNP Paribas in Belgium. The new deal will see Tink be deployed by the Italian network of the French group, Banca Nazionale del Lavoro (BNL). BNL will start implementing Tink's solutions for account aggregation, payment initiation and personal finance management.

The partnership is supported by a minority investment in Tink made by Opera Tech Ventures, the venture capital wing of BNP Paribas. The investment is part of a €90 million round Tink completed earlier this week, in which it outlined its intentions to expand across Europe.

"Tink's solutions provide value added services to enhance our customers' personal financial management," says Sophie Heller, COO for retail banking and services at BNP Paribas.

Alex Hamilton

Finma fines Swiss bank CEO $752,000 for insider trading

Switzerland's financial regulator Finma has fined the CEO of an unnamed Swiss bank $752,000 to reap back the illegal profits he made form "serious" insider trading.

The executive took advantage of confidential market information about the bank's clients to trade it through covert deposit accounts owned by his wife at other banks.

"Insider trading undermines confidence in the market," says Finma's enforcement head, Patric Eymann. "We will, therefore, continue to rigorously investigate any evidence of violations of supervisory law."

The regulator says the violations continued over "many years", with the exact time period not made clear.

It adds: "Besides conducting insider trading, the person concerned systematically breached the bank's internal directives as well as directives recognised by Finma as a minimum standard over a period of many years through other private trading activities."

The unnamed CEO was given a four-year ban on taking any financial management role by Finma, and a six-year ban on his licence as a securities dealer.

Traditionally opaque in its approach, the past ten years have seen the Swiss regulator take a more open approach to certain insider trading cases, naming and shaming its worst offenders in a bid to deter others from following in their footsteps. In 2017, Swiss corporate turnaround manager Hans Ziegler was found guilty of 11 counts of insider dealings at six different banking firms. He was fined $1.4 million dollars.

This latest case harks back to a similar one in 2012 – the former chairman of Switzerland's central bank, Philipp Hildebrand. He was forced to resign during allegations of insider trading committed in his wife's name. He denied the allegations and did not face a formal sanction.

Many other – perhaps deemed milder by the regulator – wrongdoers are still left unnamed. This prompted a report in November last year by the Organisation for Economic Co-operation and Development (OECD) instructing Finma to allocate more resources to its operations and commit to greater openness.

"The application of Switzerland's regulations should be transparent to facilitate review," the report said.

Ruby Hinchliffe

Rise of the machines

FinTech Futures deputy editor Alex Hamilton analyses our readers' thoughts on artificial intelligence in financial services

Whether the future entails Daleks floating up staircases, T-1000s crunching through human skulls or androids dreaming of electric sheep, artificial intelligence (AI) and machine learning (ML) have certainly captured the imagination of banking executives across the industry.

While automated processes and the computerisation of trading and order flow have been around for decades, and banks have had long-established frameworks, the explosion of big data has had a profound impact on the development of analytical software that can detect correlations and derive value faster than the eye can blink.

To discover how ready the market is for this technology, *FinTech Futures* surveyed its readers on their investment, hopes, fears and dreams for the development of innovative analytical technology. Here's a snapshot of the results.

INCREASING SPEND ON AI

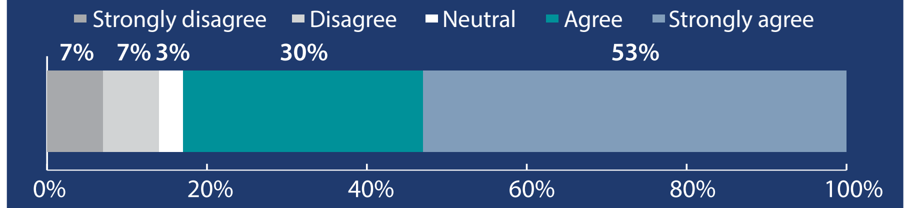
When asked whether AI and ML would become a differentiator for financial services firms by 2024, more than two-thirds (69%) of those asked agreed or strongly agreed that it would. Some 60% stated that they would be increasing their spend on AI or ML in the near feature, and more than three-quarters of respondents said the deployment of these new technologies would be a core part of their business strategy going forward (see *Figure 1*).

REGULATORY CLARITY

The biggest hurdle to the proliferation of new AI technologies was believed to be uncertainty from regulators, with more than one-third of all survey respondents indicating that better clarity from watchdogs would help move the sector forward. Indeed, 61% said they believed their local regulator to be neither supportive or discouraging in the development of AI solutions (see *Figure 2*). As ever, the spotlight shifts to regulators to provide guidelines and frameworks for best practice and ensure that a budding technology isn't stifled going forward.

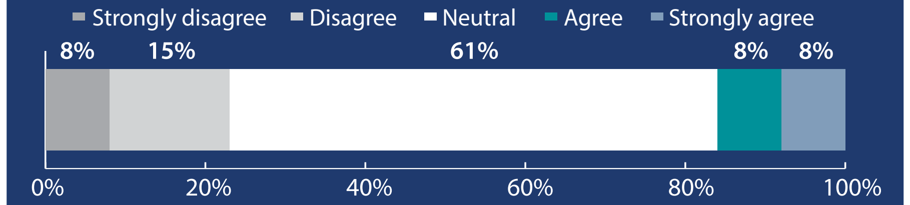
AI and ML will certainly be front of mind for 2020 and beyond, especially as just over half of survey respondents said that they were forging ahead with solutions that are either going live in the next 12 months or sooner. To dive deeper into the results of this survey, visit the FinTech Futures website and download the free report.

FIGURE 1: MACHINE LEARNING WILL BECOME A CORE PART OF OUR BUSINESS STRATEGY



Source: FinTech Futures

FIGURE 2: MY JURISDICTION'S REGULATORS UNDERSTAND AND SUPPORT THE DEVELOPMENT OF AI AND ML



Source: FinTech Futures

Drawing the line on data

By *Ruby Hinchliffe*, reporter, FinTech Futures

The price we put on our data is hugely dependent on how early the world forced us to part with it. The younger you're asked to give it away, the less you will inevitably think about it in the future.

At the age of 11, I was giving away my personal data in return for a host of social media accounts which kept me entertained between school hours. By the time I was 15, I'd managed to persuade my parents that an iPhone was affordable which, to my delight, meant no more limited internet time on the home computer.

The willingness for people to part with their own personal data acted as the glue for the social media revolution, which in turn evolved to a cyclical model – the more social media boomed, the more normalised data sharing became. Businesses became viable off the back of this sharing attitude and some still stand tall today, but some waned quickly.

One networking site that spiked and declined just as quickly was Formspring, now re-named Spring.me, which encouraged teens to answer anonymous questions from anyone. The platform became a hotbed for gossip, as questions such as 'what size bra do you wear?' or 'why aren't you friends with X anymore?' were asked under the cloak of anonymity. Parents were none the wiser until the platform became too popular to regulate, and its short but intense relevance contributed to what is now my generation's lackadaisical attitude towards data sharing.

It was no surprise then, when I heard a friend say at a party last week: "I don't really care what people do with my data." It's the same with Amazon's Alexa – while older generations shun her for 'always listening', we don't care as long as she can offer us the convenience of playing our favourite podcasts without making us move or think beyond a few words.

But the comment did make me stop and think. Only a few months earlier, another friend had said he was shaken by the Monzo PIN data breach that affected almost half a million customers. It seems there is a disconnect for Gen Zs when it comes to data – we'll give it away without thinking about it, but simultaneously left momentarily shocked when we see our data left vulnerable to hackers.

HOW MUCH IS TOO MUCH?

Perhaps the key word there is 'momentarily'. How much does a company have to mess up on a data vulnerability for us to give up the convenience of using them for good? The continued success of Facebook – despite its multiple breaches – suggests it's got to be a lot. The social media giant is practically sewn into the DNA of our day-to day-interactions, which is why some 267 million Facebook users whose phone numbers were compromised last month didn't seem to care too much.

Despite being left open to suspicious texts from fraudsters who could trick them out of some hard-earned cash, those affected continue using the platform at an increased risk largely because there are few messaging alternatives. Once you try and branch out beyond Facebook-owned Messenger and WhatsApp with an Android that doesn't have iMessage, it suddenly becomes no man's land.

But with banks it's different. The advent of APIs and open banking means you can be with any number of banks and still not feel left out, because a fintech that splits your bill can do it for everyone regardless of which bank you're with by plugging into all of them.

Unlike social media, which is still monopolised by just a couple of giants, banking is becoming more democratised. It's far more convenient to leave a bank if they mess up with your data – especially as switch offers become more enticing – than it is to go 'off the grid' in an effort to stand up against the all-consuming Facebook.

Gen Zs draw the line on data according to convenience and the 'fear of being left out'. There is no definitive line for all companies. It seems what Gen Zs will put up with when it comes to data and how you handle it comes down to how integrated you are into their social interactions, and how much it would cost them in this social sense to leave you.

Outage outrage

FinTech Futures details the top seven banking outages occuring in the second half of 2019

Banking outages have hit headlines thick and fast this year. As both incumbent banks and challengers have struggled to maintain consistent up-time, much of the blame has been put on outsourced tech companies.

But now, with the UK Treasury calling on regulators to hold banks to account for "unacceptable" amounts of IT failures, it seems governments are finally catching on to the debilitating effects it has on bank's digital-only customers. This means downtime is no longer a 'slap on the wrist' affair, rather it's on its way to becoming the subject of significant regulatory penalties.

Here is our shortlist, in order of when they came to light, of the top eight banking outages we reported on this year which caught also public attention – ofcourse many are never declared. Natwest appears on it three times, and Royal Bank of Scotland (RBS) twice:

1 TECHNICAL GLITCH DELAYS TRADING AT LONDON STOCK EXCHANGE

The London Stock Exchange (LSE) delayed opening the trading of the FTSE 100 and 250 indices by almost two hours on 16 August. An LSE spokesperson as said "there is an issue which is affecting trading in certain securities".

2 BARCLAYS CUSTOMERS SUFFER MOST INTERNET BANKING INCIDENTS

It was revealed in the the second half of 2019 that Barclays' current account holders endured the most internet banking incidents between 1 July 2018 and 30 June 2019.

According to a report by Money Saving Expert, Barclays reported 21 such incidents to the Financial Conduct Authority (FCA) in this year-long period. Next in line were Lloyds Bank and Santander, which both reported 15 incidents.

3 NATWEST, TESCO, RBS AND NATIONWIDE EXPERIENCE BANKING IT OUTAGE

Banking customers with Natwest, Royal Bank of Scotland (RBS), Tesco Bank and Nationwide Building Society experienced downtime On 19 August, customers were unable to access their credit card information when monthly bills were imminent.

The computer problems were down to an outage at US payments company TSYS, which called it "a hardware-related issue".

4 RBS AND NATWEST WEBSITES' PROBLEMS FIXED – FOR NOW

RBS and Natwest's online banking websites went down again a week later. This time, the pair's online services were inaccessible for several hours.

In RBS' case the disruption lasted seven hours, while Natwest's online banking was down for nine hours.

5 US CHALLENGER CHIME GOES DOWN FOR MILLIONS OF CUSTOMERS

US-based challenger bank Chime, which now serves more than five million accounts across its home country, left users in the dark on 16 October 2019 when they were unable to use their debit cards or pay their bills.

Supposedly Chime's third outage since July according to CNBC, hundreds of thousands of customers took to Twitter saying they couldn't pay for gas or hadn't received their direct deposits.

6 TSB SUFFERS FRESH PAYMENTS GLITCH

TSB was hit by a set of payments delays which left customers out of pocket, while others claimed they had not been able to access their accounts.

The bank was forced to offer emergency funds, which was not a good look days after a report came out on its major IT meltdown in April 2018 which was caused by a botched core banking replacement.

7 NATWEST OUTAGE STOPS CUSTOMERS SPENDING SAVINGS AND PAYDAY WAGES ON BLACK FRIDAY

NatWest's online banking for personal accounts suffered hours of downtime on 29 November 2019 which saw customers unable to spend their savings or payday wages on Black Friday deals.

Its business online banking service Bankline also suffered similar downtime which followed a string of complaints made by business customers earlier in the week about other instances of downtime which stopped them applying for Help to Buy ISAs days before the 30 November deadline.

The problem with better banking…

By *Dharmesh Mistry*

I am a big advocate for 'experience driven banking' and don't believe in 'better banking'. I know this is a strapline used by Anne Boden's Starling Bank so I should make clear that this is not a personal dig! So, what is it about better banking I don't agree with? Surely banking customers want and deserve better banking?

The way I see better banking is that it's simply 'faster horses', so clearly if you ask customers how banking can be improved, they will say "I want better banking". However, the key problem is that it is still 'banking' and banking has become like a Swiss Army Knife, a bunch of financial products that you use to manage your lifestyle or life stage needs with little or no assistance from the bank.

Whether you call it experience driven banking or embedded finance as per David Gailbaths excellent paper, firstly the key difference is that customers want more than banking, they want the best possible experiences. In the past, man would carve a flint, tie it to a stick, hunt an animal or fish, kill it, create fire, cook and then they could feed the family. In this scenario the bank product could be the flint, essentially a part of the broader experience of having a meal.

Apart from not providing the overall experience, the other problem in the analogy is that the hunter had to carve the flint for a specific purpose, he would have carved it differently if he wanted to use it to cut a tree down or use it as a knife. In the same vein, although banks have different products (account, loans, cards and so on), the products aren't really focused on managing money for a specific need. And no, a car loan is not a product designed for a specific need really.

A DIVERSE SET OF NEEDS

Moving on, how is experience driven banking so different from better banking? For me it boils down to three things:

- Being focused
- Owning experiences
- Being engaged

Bank segmentation models have been fairly crude: retail, corporate and wealth. However, such segmentation is pretty coarse, leading to products that serve a very diverse set of customer needs. Some banks have tried to target segments based on common profiles for example DINKs (Dual Incomes, No Kids). But this too is ineffective if the bank is really only seeking to use segmentation to finetune messaging.

What's key is to own the entire experience(s) for that segment. To own the experience, products, services and processes have to be designed to benefit the customer in a way that is superior to what is available today. For the caveman above that would not be providing the flint but creating a restaurant – the entire experience for a meal.

> "There is always room for banks to be more efficient and provide better service; however, I'm just saying that soon our caveman will find a restaurant and wonder why others are still hunting."
>
> Dharmesh Mistry

When it comes to experiences it's hard not to talk about Uber, but in banking, players like Coconut are really owning the experience of being a contractor by providing them not only banking but other products/services that makes their life easier, such as invoicing, expense tracking and filing tax returns. You can only really own the experience when you understand not only do you have to provide more than banking, but that banking is not your focus, hence it is truly experience driven not product focused.

Once you have your target segment on board, the next key is to be fully engaged with them. That means not only responding to their transactional requests but constantly trying to understand and deliver on any unfulfilled needs of the segment.

Being proactive in managing the experience and leveraging data to provide predictive insights that are useful also takes focus on the segment beyond that provided by most banks today. Engagement in banking is often seen as a way to sell to customers but should be much more than that; done properly, it is gamified to personalise approaches to suit the individual profile of the customer in that segment. It should be designed so that segment appreciates your contact is genuinely focused on their needs and not on what you want to sell. The goal for engagement is the deepest loyalty and advocacy you can achieve, not on sales.

BETTER EFFICIENCY AND SERVICE

Previously I've written about MoneyCado, Hammock, Coconut and StorkCard as players leading the movement to experience driven banking. However, two more have caught my eye and are certainly worth a closer look: AWSM, a bank for families, and Oxbury, a bank for farmers (more about them soon).

There is always room for banks to be more efficient and provide better service; however, I'm just saying that soon our caveman will find a restaurant and wonder why others are still hunting. Or he'll find an electric heater and wonder why others are chopping up wood to create a fire for heat. Thus, in the future we may have not one generic banking relationship, but many experience driven banking relationships, each catered to our specific individual needs and quite possibly in a way that we don't recognise that it's a bank we are dealing with.

Dharmesh Mistry has been in banking for 30 years and has been at the forefront of banking technology and innovation. From the very first internet and mobile banking apps to AI and Virtual Reality. He has been on both sides of the fence and he's not afraid to share his opinions.

COVER STORY: TOP 10 CHALLENGERS

I am the king

FinTech Futures lists the top ten challenger banks of 2019 by valuation and funding

Last year was a record year for fundraising across the challenger bank space. In 2019 alone, 12 challenger banks raised $100 million according to Financial Technology Partners, and now six of them are valued over $1 billion. So who are the top ten challenger banks according to their estimated valuations and money raised to date? Data for funds raised this year and funds raised overall is taken from Crunchbase, while valuations are taken from various sources as stated below.

1 NUBANK

Funds raised in 2019: $400 million (26 July 2019) **Total funds raised:** $1.1 billion (26 July 2019) **Estimated valuation:** $10 billion (29 July 2019), according to Crunchbase.

Dubbed the largest fintech in Latin America by the 2019 Fast Company ranking, this neobank is the second most funded Latin American start-up after ecommerce shop Rappi. It began in Brazil, focusing on providing the country's unbanked population with credit cards. In October, it hit 15 million customers, representing a 25% increase in just two months. In the same month, it was revealed the neobank's app had been downloaded 18 million times in the past year, beating Monzo, Revolut and N26's app download figures combined, according to Apptopia figures.

2 CHIME

Funds raised in 2019: $700 million (5 March 2019 & 5 December 2019) **Total funds raised:** $808.8 million (5 December 2019) **Estimated valuation:** $5.8 billion (5 December 2019), according to CNBC sources.

Managing to quadruple its valuation in less than a year to $5.8 billion from $1.5 billion in March 2019, US neobank Chime undoubtedly had a huge year. With 6.5 million customers now, up from one million in 2018, the challenger says it attracts 150,000 direct deposit users a month on average. This said, the challenger did experience significant downtime in October which saw millions of users unable to use their debit card or pay bills.

3 N26

Funds raised in 2019: $470 million (9 January & 17 July 2019) **Total funds raised:** $692.8 million (17 July 2019) **Estimated valuation:** $3.5 billion (17 July 2019), according to TechCrunch.

The German challenger bank raised the first part of its Series D round in the first month of 2019, setting a clear agenda to expand into the US which it achieved in August after a successful launch in Brazil in just a month after the initial funding announcement. Sharing its ambitions in the summer to list on the stock exchange in three to five years' time, the neobank's movements seem unphased by the April reports that the German regulator BaFin had ordered the challenger to address staffing, outsourcing and engineering issues.

4 OAKNORTH

Funds raised in 2019: $440 million (8 February 2019) **Total funds raised:** $1 billion (8 February 2019) **Estimated valuation:** $2.8 billion (8 February 2019), according to CNBC.

The business and property loan provider for small to medium businesses (SMBs) raised a hefty $440 million venture round at the beginning of the year, before partnering with ClearBank to provide real-time payments and agency banking. However, the same month the fintech lender saw two of its property-backed loans default, ending its impressive four-year streak without any loans going bad. The loans are "less than 1% of the bank's £3 billion net lending and have not yet led to credit losses", The Sunday Times reported.

5 MONZO

Funds raised in 2019: $151.7 million (25 June 2019) **Total funds raised:** $433 million (25 June 2019) **Estimated valuation:** $2.7 billion (25 June 2019), according to The Sunday Times.

Becoming another European challenger to expand into the US last year, Monzo saw a big year of product change. Just five months after the bank launched its premium paid plan, Monzo Plus, the challenger had to pull it in September 2019. A month before this, the bank had also entered into the short-term loans space. Change reached the executive team, too. Chief operating officer (COO) Tom Foster-Carter quit to focus on a grocery start-up, while ex-Nationwide, RBS and Barclays employee Lisa Nowell became its new chief risk officer (CRO).

6 REVOLUT

Funds raised in 2019: Venture round – value unknown (27 March 2019) **Total funds raised:** $336.9 million (26 April 2018) **Estimated valuation:** $1.7 billion (26 April 2018), according to Forbes.

Revolut's figures are the most out of date on this list, largely due to the unvalued venture round that took place in March and the imminent $500 million funding round that is hotly anticipated along with a $1 billion convertible loan from JP Morgan that will turn into company shares if the challenger gets a US banking licence. These capital injections will see the neobank hit anywhere between a $5 billion to $10 billion valuation. With launches in Australia and Singapore, Revolut is on track with its expansion plans, part of which is a 3,500-person hiring spree.

7 MONEYLION

Funds raised in 2019: $100 million (22 July 2019) **Total funds raised:** $227.5 million (22 July 2019) **Estimated valuation:** "nearly $1 billion" (23 July 2019), according to TechCrunch.

Still edging its way to unicorn status, the US part-banking, part-lending and part-wealth management app says more than five million customers use it now. The company is now planning to expand its product offering, including 0% APR daily cash advances to help with short-term cash flow issues, a high-yield cash account, and a stock trading platform which allows members to invest in individual companies.

8 UALÁ

Funds raised in 2019: $150 million (26 November 2019) **Total funds raised:** $194 million (26 November 2019) **Estimated valuation:** "nearly $1 billion" (25 November 2019), according to Bloomberg.

Argentina's money management app is backed by Asian multinational conglomerates Tencent and SoftBank, as well as Goldman Sachs. The November 2019 funding round marked SoftBank's first-ever Argentine investment. With Argentina tackling a country-wide debt of $330 billion, fintechs offering transparency in payments are welcomed by citizens and investors.

9 STARLING BANK

Funds raised in 2019: $205 million (13 February, 22 February & 24 October 2019) **Total funds raised:** $263 million (24 October 2019) **Estimated valuation:** Not disclosed

Despite beginning 2019 with a passport security vulnerability which was revealed on Twitter by an Arcadia Group head, the challenger had a big year of funding with two rounds and a hefty $100 million grant. Promising to use the grant to create 398 new jobs, the neobank will certainly be needing the man power after hitting the one million customer milestone in November 2019. And despite losing its co-founder to a cryptocurreny exchange, the challenger has pushed on with product launches including its dual currency debit card.

10 TANDEM

Funds raised in 2019: None… yet. **Total funds raised:** $74.3 million (24 October 2019) **Estimated valuation:** Not disclosed

Tipped to be the UK's next challenger bank unicorn, the Financial Times reported in April 2019 that Tandem is in the process of putting together a round that would top the £80 million it raised in 2018. Yahoo Finance UK then reaffirmed this information, quoting a Tandem spokesperson who said it was poised to announce a "large" funding round in Q4. With more than half a million customers in the UK now, the challenger also announced its plans to expand in Hong Kong this year and undergo an IPO within the next few years.

Sun rising on Tokyo fintechs

This is not the first time Japan has dipped its toe in the fintech waters, but as *Tanya Andreasyan* finds out, collaboration and unity this time round could well reap the rewards.

EDITOR'S CHOICE: JAPAN

Traditionally quite reclusive, Japan is now ready and willing to open its doors to international fintech and is keen to turn its capital Tokyo into the number one financial hub in Asia and a truly global fintech hub.

"We want to make Tokyo the place where talent, funds, information and technology gather from all over the world," Governor Yuriko Koike told reporters during a media trip sponsored by the Tokyo Metropolitan Government (TMG) in Japan.

Koike – the first female governor of Tokyo – is the driving force behind this transformation. She was elected governor in July 2016. The following year, TMG announced the launch of the Global Financial City Tokyo initiative – "a bold vision" as Koike describes it. Bringing together the central government and the private sector in a collaborative venture, this initiative aims to build a solid foundation for the asset management and fintech sectors to attract foreign companies.

Incentives include a one-stop support service, free consultation, and subsidies on average of ¥3 million ($27,000) to help foreign companies set up their business in Tokyo. The support service is run by Accenture and is in English.

The results have been modest so far – 20 firms used the service in 2017/2018, of which six received the aforementioned financial subsidy. In 2020, 50 new companies from abroad are expected to have utilised these services and launched in the city. Of these, half are anticipated to be in the asset management space, and half in fintech.

TMG has also introduced the Tokyo Financial Award for innovative businesses, granted to domestic and international companies (two foreign firms became the recipients last year).

In 2016, Tokyo got its own fintech incubator and start-up hub, Finolab, which has recently launched a sandbox with Tokyo Stock Exchange. It also plans to create its own venture fund to provide seed money support to early stage fintech firms (similar to Plug and Play in Silicon Valley in the US). Among its advisors are well-known industry figures such as Chris Skinner, Brett King, Ghela Boskovich and Jim Marous.

In April 2019, TMG unveiled another venture – FinCity Tokyo. Its role is to promote Tokyo to potential foreign investors, facilitate entry into Japan for international fintechs and asset management firms, and make policy recommendations to the central government.

TMG has been learning from the established global financial services hubs, Koike noted. For its FinCity venture, for instance, it drew inspiration from the City of London.

In its turn, FinCity has been building ties with Paris Europlace, a French organisation in charge of promoting and developing the Paris financial marketplace. The two organisations recently signed a memorandum of understanding. In addition to historical connections between the two nations, there are a lot of similarities between them today, explained Hiroshi Nakaso, chairman of FinCity (he is also chairman of the Daiwa Institute of Research and former deputy governor of Bank of Japan). These include similar labour law and the tax regime, a somewhat antiquated pension system (which both countries are now trying to address), high levels of bureaucracy and silos, and English not being their first language.

INCENTIVES AND SUPPORT

But this is not the first time Japan has made noises about making its mark on the global finance scene. What's different this time?

There is more collaboration and unity between all the stakeholders, Koike explained. The central and municipal governments, Financial Services Agency (FSA – Japan's financial regulatory authority), and the private sector have really pulled together to deliver concerted, coordinated efforts to achieve this goal.

The incentives and support have also been helpful, she noted: "We aim to ease the administrative procedures, such as acquiring relevant licences, tax and accounting. We want to help with business matching and talent acquisition. We want to create easier living environment for expats. And we are keen to help those from abroad to understand Japanese customs."

Another lead this time round is the advancement of technology, which has opened up so many new opportunities, Koike said.

As for Tokyo's differentiation from its APAC neighbours Singapore and Hong Kong, "we are a free, democratic country", » she stated, "and we are a stable country".

"All this gives good reasons for optimism," she concluded, "to fulfil our vision for Tokyo to be a global city full of vitality and outstanding financial services."

FinCity's Nakaso agreed, citing favourable macroeconomic conditions (taking advantage of the tailwinds of Brexit in Europe and the Hong Kong vs mainland China clash) as well as the strength of the Japanese economy (for example, the base salaries have been growing five years in a row since 2014).

"The Japanese economy hasn't been better," he emphasised. However, there is the need for long-term diversification of Japan's underutilised household assets, which total ¥1,800 trillion ($16.4 trillion). Over half are kept in bank deposits, and Japan is looking for foreign players to help unlock and utilise these financial assets. At present, only 17% of the country's household assets are invested in stocks and mutual funds, whereas in the US the number is 43%.

"We are not building castles in the air, we really can be a global financial hub," Nakaso stated.

A lot of work has already been going on behind the scenes, he noted, such as building "highly reliable" payment and settlement systems. "It is often invisible in the background but is foundational," he stated. "We are creating cutting-edge infrastructure."

Bank of Japan's settlement system, for instance, has the potential to run 24 hours to overlap with the markets in other geographies (it currently runs until 9pm).

Also, in 2018, Bank of Japan and the Hong Kong Monetary Authority (HKMA) developed a payment link, enabling real-time settlement between Japanese government bonds and Hong Kong dollars. It is understood to be the first attempt of this kind to connect two financial systems by any central bank.

Nakaso also noted that a lot of innovation originated in Japan (even though it was spread around the world by others), such as NFC and QR code.

CHALLENGES AND OPPORTUNITIES

Fintech is in the early stages of development in Tokyo, admitted Yoshinao Ogawa, TMG senior director for strategic projects, but he was keen to emphasise this was not in quality but in scale, compared with the established hubs such as London and New York.

> "It is a growing market, so there is enough market share for everyone. It's important to nurture a competitive environment."
>
> **Yoshinao Ogawa, TMG**

This creates great opportunities, in his view, for those who are ready to embrace Japan. "It is a growing market, so there is enough market share for everyone," he said. "It's important to nurture a competitive environment."

There are no specific fintech niches that TMG is focused on, so all are welcome, including digital, paytech, insurtech, blockchain, robo-advisory, data management, compliance / know your customer (KYC) and cybersecurity.

FinCity's Nakaso said domestic mid-tier banks are encouraged to work with foreign fintechs to unlock new opportunities. This is done via education and legislation (such as the introduction of APIs), he said. "Japan's banking tech is lagging behind," he noted. "This needs to be addressed quickly and this is where fintechs can really help."

Among early entrants are European fintech unicorn Revolut, which is in the process of setting up shop in the country and whose waitlist for Japan is now open. Revolut said it obtained the authorisation from the FSA in autumn 2018, and agreed deals with Rakuten, Sompo Japan Insurance (SJNK) and Toppan. At launch it will focus on the e-wallet, payment card and insurance products.

Moneythor, a Singapore-based provider of data-driven digital experiences for banks and fintech firms, opened an office in Tokyo in summer 2019. "The Japanese market is going through a major stage of disruption and its renewed focus on digital banking makes it a very exciting market for us," commented Olivier Berthier, Moneythor's co-founder and CEO. The start-up is also a member of Tokyo's new fintech incubator, Finolab.

A real success story is PayPay, a joint venture between India's mobile payments firm Paytm, SoftBank and Yahoo Japan, formed in the autumn 2018. By the end of 2019, the PayPay mobile payments app had ten million customers, supported by one million merchant partners and local stores, and surpassed 100 million transactions.

Cash dominates daily transactions in Japan (similar to India) and PayPay's stated aim is "to create a society where people can buy anything through cashless payments in every corner of the country with a safe and secured service for our users".

Did you know…

- The Greater Tokyo Area is the largest metropolitan area in the world (38m people).
- Tokyo is one of the world's cleanest cities.
- There are 230 Michelin star restaurants – more than any other city in the world.
- Tokyo has one of the most punctual and reliable railway systems in the world. The average annual delay of the Shinkansen bullet train is 36 seconds.
- Tokyo has been ranked as the world's safest city by the Economist Intelligence Unit in a ranking of the digital, health, infrastructure and personal security of 60 major metropolitan areas.
- The Shibuya Crossing located in Tokyo's Shibuya ward claims to be the busiest intersection in the world. At peak times over 1,000 people cross at the same time, from all directions.

The sky's the limit

How ready is the financial services industry for cloud transformation?

Cloud remains a big topic among financial institutions as a way to speed up systems, processes and services. But while banks may want to switch to the cloud now, what are the dangers and pitfalls of a wide-scale change? How can they make the change?

Our latest report will use a survey to gauge the cloud-readiness of the market and how far along the cloud transformation journey the industry is. Readers will get an insight into the state of the industry, as well as gain knowledge of the methods through which banks and financial institutions are moving to the cloud.

Let us know your thoughts on enterprise cloud transformation by taking our three-minute survey via our website today.

How AI can address the global sanctions challenge

Banks should not delay in exploring an artificial intelligence-powered approach to their existing screening processes

Today's global sanctions regimes have arguably never been more challenging for organisations to ensure they remain compliant and have the required screening processes and procedures in place. Over the past decade, trade and economic sanctions have become an ever-more popular tool of foreign policy in an increasingly uncertain geo-political climate. Aside from country-specific sanctions, such as those against Iran, Russia, North Korea and so on, more targeted regulations focus upon particular businesses or individuals. As a result, national and international anti-money laundering, screening and anti-fraud obligations have increased in both scope and complexity.

Failure to comply with sanctions and money laundering obligations can result in severe financial and reputational costs. In recent years, several banks in various territories have faced fines that have exceeded several billions of dollars, including a Swiss bank being fined $329 million, a German bank $1.45 billion and a Japanese bank $315 million. Last year, a British bank was fined $1.1 billion jointly by US and UK regulators for sanctions and money laundering control breaches. The reputational and brand damage can of course also carry significant commercial and revenue costs.

> "At Pelican we use an AI-powered Self-Learning approach, firstly to dramatically reduce the number of false positives, and then to understand and classify false positive alerts generated."

TRADITIONAL TECHNOLOGY LIMITATIONS

One significant consequence of today's more complex compliance regimes, and the limitations of traditional current compliance technologies, is the substantial rise in false positive hits, which has placed considerable operational and cost burdens on all financial institutions. Of the alerts typically generated, less than 1% represent real financial crime cases, so banks have to manually review, monitor and rule out the other 99%. Many of the systems in the market today use a traditional and static rule-based approach – with limited abilities to assist compliance professionals in processing and checking the rising false positives in a constantly changing world. Crucially, the 4-Eye control, part of a market directive, is set to double the costs of compliance.

In recent years, many organisations looked to leverage the AI disciplines of natural language processing (NLP) – an AI technology that offers human-like intelligence and common sense to offer a far superior approach to sanctions screening – and machine learning (ML), as proven technologies to increase the accuracy of financial crime detection. The use of ML capabilities can also significantly reduce the efforts to manually review any false alerts generated. This intelligent AI-driven dual approach can drastically cut compliance costs while delivering reputational protection across all payment processes and counterparties, with a dramatic reduction in manual effort.

> "In recent years many organisations have looked to leverage Natural Language Processing to increase the accuracy of financial crime detection."

An AI-powered approach can combine the benefits of NLP, knowledge-based systems, with powerful ML capabilities, and also providing full explanations for alert review and internal and regulatory audits. Financial institutions need to understand and be confident about the actions being taken by the AI-based solutions and to explain to the auditors and regulators all decisions taken.

Pelican uses just this AI self-learning approach, first to dramatically reduce the number of false positives, and then to understand and classify false positive alerts generated by third-party tools, giving detailed explanations for each decision made by the system. Pelican employs NLP, which allows compliance staff to resolve false positives much more quickly – reducing inefficiencies and freeing up valuable resources. Pelican has been able to achieve over 75% reduction in false positives at a large global bank.

By using an AI-powered approach, banks can overcome today's increasingly complex sanctions challenges. As the global regulatory landscape becomes even more complex, there is no better time that now to review your existing sanctions screening processes.

20th banking technology AWARDS

The 20th annual Banking Technology Awards took place on 5 December 2019 at the London Marriott Grosvenor Square. It was hosted by the hilarious Rich Hall and was a brilliant celebration of excellence and innovation in the banking industry and people who make it happen.

Gathering more than 420 professionals from across the world, the annual show once again awarded the best of the best and recognised excellence and innovation in the use of IT in financial services.

A big thank you to all our sponsors: JCB, Fiserv, Verisk Financial, Banking Circle and all of our partners: FemTechGlobal, Ovum and Comms for Good.

We would also like to thank everyone who attended and celebrated with us, as well as our judges for their major contribution and all our staff for their hard work in putting it all together.

Now is the time to start planning for next year's Banking Technology Awards! Attend as a finalist, a supporter or a sponsor and take advantage of the fantastic networking opportunities with top leaders in the industry. Visit www.bankingtech.com/awards for more information.

Congratulations to all the winners and highly commended and we hope to see you at the 2020 annual awards!

For the Winners & Highly commended

WOMAN IN TECHNOLOGY (W.I.T.)

In partnership with FemTechGlobal

Winner

Ebele Kemery, J.P. Morgan Chase

Highly commended

Lee Ann Lancaster, Mama Money, Samina Rizwan, United Bank Ltd. Pakistan and **Simonne LeBlanc, Ethoca**

FINTECH FUTURES EDITORS CHOICE AWARD

Winner

Mambu & Nordiska for lendtech overhaul

BEST OPEN BANKING SOLUTION PROVIDER

In partnership with Ovum

Winner

SunTec – SunTec Xelerate for Open Banking

Highly commended

Worldline and **Nuapay, a Sentenial Company**

BEST CORE BANKING SOLUTION PROVIDER

In partnership with Ovum

Winner

DPR – Core Banking Platform

BEST DIGITAL INITIATIVE

Winner

Morgan Stanley – Morgan Stanley's Digital Artifacts (MS-DA)

Highly commended

AGTB & Publicis Sapient, Credit Suisse (Schweiz) AG and **New Day**

BEST FRAUD PROTECTION SOLUTION

Winner

J.P. Morgan Chase – Total Authentication and Risk Assessment (TARA)

Highly commended

Swift and **Vocalink**

BEST USE OF IT IN CORPORATE BANKING

Winner

Sberbank – FinTech API, Building an Ecosystem for Corporate Clients

Highly commended

ABSA

BEST USE OF DATA

Winner

Zaloni – The Zaloni Data Platform

Highly commended

Morgan Stanley and **Banco BPI**

MOST INNOVATIVE BANKING TECHNOLOGY PROVIDER

In partnership with Ovum

Winner

nCino – nCino Bank Operating System

Highly commended

Fiserv & Dovetail Systems and **ACI Worldwide**

BEST FINTECH PARTNERSHIP

Winner

ezbob & The Royal Bank of Scotland – Transform SME lending

Highly commended

Ixaris & Banking Circle, Zagrebačka banka d. d. & Hrvatski Telekom d.d. and **Israel Discount Bank & nsKnox**

BEST USE OF IT IN RETAIL BANKING

Winner

ThinkMoney & OutSystems – Digital Transformation Programme

Highly commended

Banco BPI and **Cathay United Bank**

BEST USE OF IT IN PRIVATE BANKING/ WEALTH MANAGEMENT

Winner

Avanza & GigaSpaces – NextGenTrading Platform

Highly commended

ABN AMRO & Temenos and **Tinkoff**

BEST USE OF IT FOR LENDING

Winner

Divido – Global white label lending platform for point-of-sale finance

Highly commended

Bank Rakyat Indonesia & Infosys Finacle and **Banking Circle**

BEST USE OF IT IN TREASURY AND CAPITAL MARKETS

Winner

Morgan Stanley – Modern Platform, Generic Rules Engine (GRE) Frameworks

Highly commended

J.P. Morgan Asset Management

BEST USE OF AI

Winner
Bank of America – Enterprise Data Indexing Engine (EDIE)
Highly commended
Kasisto, Morgan Stanley and **Tinkoff**

BEST USE OF BIOMETRICS

Winner
Mastercard – Connected Intelligence
Highly commended
Alfa-Bank Belarus

BEST USE OF CLOUD

Winner
Leaseplan – Project DeLorean
Highly commended
ABSA

BEST TECH OVERHAUL PROJECT

Winner
J.P. Morgan Chase – Legacy Technology Decommission, U.S. Private Bank Client Facing Teams
Highly commended
Barclays, LeasePlan Bank and **Somo Global**

BEST USE OF EMERGING OR INNOVATIVE TECHNOLOGY

Winner
HSBC – Voltron
Highly commended
CTBC Bank, Israel Discount Bank and **Infosys Finacle & Royal Bank of Scotland**

BEST MOBILE INITIATIVE

Winner
Jibun Bank Corporation – Smartphone Debit Card
Highly commended
Caixa Geral de Depósitos, Alfa-Bank Belarus and **United Overseas Bank**

TECH TEAM OF THE YEAR

Winner
Lloyds Banking Group – Group Transformation Capability Team
Highly commended
BPI and **Barclays Bank UK**

TOP DIGITAL INNOVATION

Winner
Sberbank – Bank of Business Partners
Highly commended
Sberbank and **VakıfBank**

FINTECH FOR GOOD

In partnership with Comms for Good
Winner
BMO – BMO Give&Go

BEST USE OF REGTECH

Winner
Rabobank & Signicat – Rabo eBusiness
Highly commended
Deutsche Bank and **J.P. Morgan**

TECH LEADERSHIP AWARD

Presented by JCB Global Bank
Winner
Melanie Dorn, Morgan Stanley
Highly commended
Nicole Sandler, Barclays and **Klaus Thorup, ClearScore**

RISING TECH STAR

Winner
Robert Claridge, Lloyds Banking Group
Highly commended
Ranjitha Krishna Reddy, Morgan Stanley, Olga Filipenko, Alfa Bank and **Cara Wright, J.P. Morgan**

The personal touch

Anna Loevskaya, managing director of digital corporate bank, Sberbank of Russia – winner of the Top Digital Innovation and Best Use Of IT In Corporate Banking awards – talks to FinTech Futures about the bank's reinvented approach towards corporate digital banking and the role of content in selling software-as-a-service

Ten years ago, Sberbank launched its first digital corporate bank. Since that time the system has changed only once and became one of the most popular and well-known corporate banks in Russia.

Its share of the market is about 40%, and almost 90% of its clients represent the small-medium enterprise (SME) segment. In 2018, Sberbank Business Online won the title of the best digital corporate bank in Central and Eastern Europe (Global Finance award) for its variety of functions, online services and features. In 2019 it was relaunched. As it stands, almost 2.5 million companies are using it in their routine operations and business daily activities.

Congratulations on winning two awards! One of the wins was for the best use of IT in corporate banking for your unique API, tailored for building a digital ecosystem for your corporate clients. How did the previous version compare to the update?

The previous version was quite ok in terms of functionality it provided. But if you asked whether it was good as a daily-use service, the answer would be obvious: definitely not. The system became too large, too slow, too complicated. One more problem was that it couldn't sell anything except core banking products such as loans, deposits and so on. That's why we decided to make a decisive step forward to change our approach.

Given that the previous version wasn't perfect, why did you not conduct a complete overhaul? Did you conduct any research showing what direction to take for the change and how long did it take to complete?

We've realised that such a radical renovation could make our clients feel uncomfortable. Just imagine that our clients make nearly 2.5 million transactions per day. Our system is one of the most highly loaded in its class. That's why we created our own division of CX-research. They conducted a very extensive level of research, which involved proof checking every important decision, every control and every major design change. Thanks to that, the relaunch was very fast and painless. In six months, we invented, designed and launched the new digital corporate bank; in four months we switched all our clients to the new system.

How did you ensure all the necessary services are available for clients via online banking and what were you looking for when developing your API to help with that?

To make sure that all the necessary services are available in our online bank, we used a mixed approach: we developed services inside Sberbank group and brought external companies into our marketplace. Speaking of the latter, we selected the best fintech partners providing online services for enterprises and offered them an opportunity to join our ecosystem based on Sberbank Business Online technological platform. To do that, we invented our own fintech API solution. It is the most advanced ecosystem API in Russia. The number of product methods, the speed of technical components, the number of integrated products and services and the number of customers, using the capabilities, are unique for our country.

Bank clients using traditional banking services and new ecosystem services now enjoy an identical client path when working with a variety of products, unified standards of service and advanced features due to the synergy of ecosystem members.

> "We decided to offer our clients some interesting content in the format of 'Stories'… It looks like Instagram inside a digital corporate bank."
>
> **Anna Loevskaya, Sberbank**

To date, more than 1.5 million technical requests are processed daily using fintech API capabilities, and more than 50,000 unique clients use products and services integrated through the fintech API on a daily basis. Thanks to our API solution, we have already switched 42 partners' services and 20 integration methods.

What is the most significant change for the new version of your online bank?

The idea was to give users something better than the usual tool for transferring money, paying taxes and looking through more than 60 services in the standard catalogue. We'd studied best practices, spent enough time on researching global trends and finally decided to offer our clients some interesting content in the format of 'Stories' (the feature popular social networks use a lot today). It looks like Instagram inside a digital corporate bank. The difference is that it's all about business: how to make money, how to grow your income, how to develop your company or idea into something big and so on.

In our Stories we use short videos to tell users interesting hacks and tricks they have never known, share news highlights and even greet them with upcoming national holidays. These Stories make a personal impact: they are targeted with the help of AI, which calculates if it's the right moment to expose a story to a user. How to earn and how to spend? How to hire new staff? How to enable one of our services? As a result, our sales have grown at least twice. Approximately one million companies have enabled our online services.

Can you highlight any specific innovative features of your product?

The new Sberbank Business Online tool isn't only about the sales and content. The innovative technological platform lets us drive breakthrough changes. We were the first here in Russia to present such features like: a dynamic main menu with a customisation mode; an interactive tutorial; QR-pay; quick B2B payment services and so on. Our digital bank fits your needs, whether you own a large corporation or a small family business. You can complete almost any task there, from getting a loan online, to building your own internet site and promoting it online.

If you are facing some serious loss or risk, the bank will warn you in a smart and timely way. You can get everything you need to make your own flower shop digital, switch to an online customer relationship management (CRM) system, enable subscription for online bidding abroad, make escrow payments and order salary or business plastic cards online, without leaving the corporate bank. If you're stuck for a moment, doubting what to do to complete the task, you'll see a pop-up tooltip or a special "how-to" story, explaining how to complete it. Every time you need it, our virtual and real assistants in online chat are ready to help. That's what we call "comprehensive support".

The point is that all digital corporate banks have much in common. We want to offer our clients something truly innovative and comfortable – an online space, where they can feel our care and personal touch.

Appy days for Jibun Bank

Globally, digital banking has made great strides. Both traditional banks and challenger banks offer mobile banking services, in order to meet the needs of increasingly digital savvy, on-the-go customers. This is where Jibun Bank comes in

As a mobile bank with no branches, Jibun Bank provides a wide array of smartphone banking services including deposits, loans, payments and currency exchanges with a full bank licence obtained early in 2008.

Jibun Bank was founded as a joint venture between Mitsubishi UFJ Bank, the largest commercial bank in Japan, and KDDI, the second largest telecom carrier in Japan, operating under the brand name 'au'. Jibun Bank has been a pioneer in mobile banking, by providing smartphone applications that customers find useful, simple and fun.

The most innovative services of Jibun Bank are AI Foreign Currency Forecast (released in June 2017) and AI Foreign Currency Automatic Saving Plan (released in March 2018). The services both use AI technology, which adopts machine learning and image feature extraction to analyse huge datasets of historical exchange rates, to provide predictions constantly to customers' smartphone apps. Only the results of 'highly likely fluctuation prediction' would be delivered to users by push notifications. With the AI Foreign Currency Automatic Saving Plan, AI judges the timing of the deposit and executes the transaction automatically. Jibun Bank won several awards for its uniqueness, to prove the value of its technology investments and skills, commitment, creativity and execution. These services were developed in collaboration with AlpacaJapan, a start-up company with advanced AI expertise.

Another convenient service is Smartphone Debit Card, which has attracted Japanese people with its high usability; 10,000 accounts were opened within eight days of launch in April 2019. It offers a virtual debit service for customers that is usable both online and offline, making payments via the Jibun Bank app without the need of the usual plastic card – it is the first of its kind in Japan. Once you apply to activate the virtual service, it takes only 30 seconds to receive a virtual card. It also aligns with the Japanese government's policy to promote cashless payment by stating 2019 was "the kick-off year of cashless payment in Japan".

Prior to this year's Tokyo Olympics, in October 2019 the government started to implement a new policy, a point reward project for consumers using cashless payments. Supported by promotion activities conducted both by officials and private enterprises including Jibun Bank, virtual payments are beginning to gain momentum.

In December 2019, Jibun Bank was recognised as the Best Mobile Initiative at Banking Technology Awards, proving its excellence and innovation in the use of IT in financial services. This could not be achieved without the support from JCB, a project partner of Jibun Bank to develop this purely digital debit card.

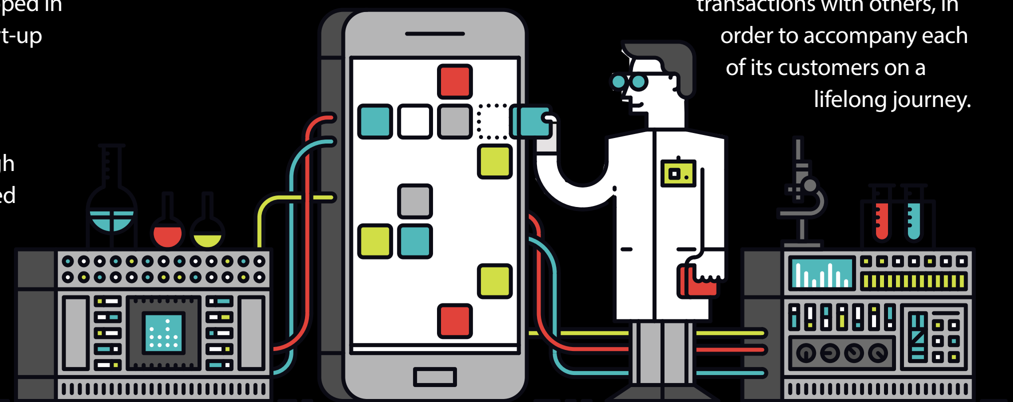
Becoming part of the au family

From April 2019, Jibun Bank became a consolidated subsidiary of au Financial Holdings, a 100% owned subsidiary of KDDI. As a member of the au Financial Group, Jibun Bank aims to play a major role in providing comprehensive smartphone-centric banking services in line with the Smart Money Concept and enhancing customer experience. In order to achieve this goal, the name of Jibun Bank will also be changed to au Jibun Bank in February 2020.

Jibun Bank plays an important role in the ecosystem of 'au'. Utilising the au network, it is possible to charge from the Jibun Bank account to the au WALLET (a seamless point service mainly across the au network, which has a prepaid card/credit card function as well). Within the financial business of KDDI, where au WALLET plays the flow part, Jibun Bank plays the prominent role of stock part as a bank. The customer can access a range of services, provided by au Financial Holdings, by accessing the au WALLET app where those services are centered.

The au Financial Group aims to grow the business by integrating telecoms and people's life design. Within the banking industry where opening up APIs is becoming crucial, Jibun Bank has been proactive in collaborating with other market participants, not only with other au Financial Group companies but also with other players who provide financial services.

Further down the road, Jibun Bank will not limit itself to act as a service builder, but will expand its services by bridging the transactions with others, in order to accompany each of its customers on a lifelong journey.



A culture of innovation

FinTech Future sits down with Sal Cucchiara, chief information officer and head of technology for wealth management at Morgan Stanley, to celebrate their three wins at the Banking Tech Awards for Best Digital Initiative, Best Use of IT in Treasury and Capital Markets, and the Tech Leadership

Morgan Stanley's sweeping win of three Banking Technology Awards, paired with three high commendations in other categories, is not a coincidence. "It's a testament to its culture and commitment to innovation," says Sal Cucchiara, chief information officer and head of technology for wealth management at the firm. We caught up with him after the awards.

Congratulations to Morgan Stanley on winning three Banking Technology Awards this year. What's the recipe for your success?

We are thrilled about the recognition and so proud of our teams. Our success is defined by the outcomes and impact we deliver jointly with our business partners. Our key priorities are to deliver easy-to-use, innovative products that delight our three million wealth management clients and enable our 15,000 financial advisors to serve our clients. You can only drive this scale and type of innovation if you have the right mindset, people and tools in place. And it starts with investing in diverse, high-calibre talent to foster technical excellence and a breadth of experience and perspectives.

Melanie Dorn's recognition with the Tech Leadership Award seems to be a clear reflection of that

Absolutely. She is a visionary leader who completely transformed two massive-scale, foundational technology programs that positively impacted our entire field organisation – financial advisors and their client service associates. Alongside this critical work, Melanie also commits her time to advancing our people and culture. She's a leader in recruiting women developers and a strong advocate for our Technology Return to Work program, where she has doubled the number of participants in her first year of engagement. She's a true role model and a positive force for leadership, transformation, technology, our business and our workforce.

Earlier, you mentioned scale. How do you innovate with impact in such a large organisation?

Finding new ways to leverage common capabilities across all platforms is key, which we did with our Digital Artifacts initiative that won the Best Digital Initiative category. It was an answer to a bigger question about how we could best support information management for a massive organisation. Morgan Stanley Digital Artifacts now hosts about 50,000 documents that are centrally controlled, stored, versioned and indexed. But it has evolved into much more than a central resource. It also offers insights around application support, requirements, design collaboration and production outages, allowing our tech and ops teams to engage with their relevant book of work in a much more personalised way while eliminating manual processes.

Your Generic Rules Engine (GRE) framework won Best Use of IT in Treasury and Capital Markets. Tell us more about that

We process more than one hundred thousand orders for our brokerage and advisory platforms daily, across nearly 100 systems with multiple micro-services, vendor applications, operating systems and external partners. Any given equity has anywhere from 200-300 business rules governing it – on top of many data services. We used to have those business rules hard-coded into each individual system. With Generic Rules Engine, we created an externalised framework that holds all of these rules in one place. This allows us to save an incredible amount of code and developer time, not to mention cost. It's this kind of holistic, integrated thinking and business-centric innovation that we are proud of cultivating.

NewDay, new opportunity

Building a technology platform from scratch may sound daunting but, as specialist financial services provider NewDay has discovered, it is also an opportunity to implement state-of-the-art technology and refocus to take advantage of new opportunities

In 2017, NewDay was a leader in the UK credit card market providing products in the co-brand and near prime sectors to more than five million customers, partnering with some of the UK's most established retailers.

Until then, outsourcing technology to a third party had been a key strategy in the growth of the company. NewDay saw the opportunity to improve functionality by bringing digital acquisition and servicing in-house, which in turn offered a multitude of benefits:

- Enhanced internal digital skills
- Rapid implementation of changes to the business model
- Reduced run and change costs
- An improved offering, including mobile apps for brands

The decision was therefore taken to create a world-class digital engineering capability and build the best digital credit card platform available in the UK.

"We realised that our technology was not up to scratch and that we needed to own our customer-facing systems," explains Bernhard Kainz, NewDay's director of IT and digital. "Our immediate challenge was that we did not have any in-house engineering capacity, so over the last two and a half years we have built up our technology resources."

In tandem with this commitment to in-house development, the business has gone through some significant changes. "Digital technology has become a core component of the lending process and we have transitioned from being a credit card company and lender into having retail financing as a focus," adds Kainz.

Kainz was brought into the company to manage the technology transition, which has leveraged the public cloud from the outset. "We have built a cloud-native platform underpinned by software development practices that allow us to rapidly create and deploy new features," says Gavin Storey, head of digital engineering.

One of the main challenges NewDay faced during this period was getting the right people on board. "We only hired our first developer in September 2017 and bringing in the skills we need has been a strong focus, particularly as the business has also grown rapidly over that period," says head of digital change, Gareth Tupper. "The greenfield approach has enabled us to work with the latest technologies, which in turn has enabled us to attract top engineering talent."

This growth has seen headcount increase from 1,000 to more than 1,200 and new account acquisitions rise to 1.2 million a year. NewDay now facilitates consumer expenditure of £5 billion across 107 million transactions.

"We were conscious that we were building the platform at the same time as recruiting the people we needed, so our engineers needed to hit the ground running," says Tupper. "We also had to figure out how we wanted the development teams to work from scratch, so we are very proud of the progress we have made."

The result is a unique customer experience platform for credit card with rich functionality and extensive multi-channel capability. This platform supports all digital channels – web, mobile, conversational (chat) and voice recognition – as well as in-store, contact centre/back office and aggregators. Seventeen different brands run on the platform, which supports the complete lifecycle of a credit card from acquisition to servicing.

Security is paramount. The traditional security model is based on putting infrastructure into a controlled network environment and locking down access to this environment – the NewDay platform is based on globally distributed platform services and needed a security model based on different principles.

Being cloud-enabled has meant that the company is able to deliver agility and control in delivery execution; allowing it to measure, learn and adapt based on very granular data on delivery performance. The white-label approach bundles common functionality into a customisable user interface, which means adding partners or brands can be done quickly and adds little to the run cost of the platform since it is driven by usage rather than the number of brands or partners on it.

Customers have responded positively to the platform. NewDay's NetEasy Score – which measures how easy customers find it to interact with an organisation – has risen consistently since the first quarter of 2019 and has an average rating of 4.6 (out of 5) in the Apple Store. The number of complaints for every 1,000 active accounts fell from 1.25 in June 2017 to 0.76 in May 2019.

"Building this platform has enabled us to massively increase our competitiveness in a constantly changing market," says Kainz. "The next stage of our development will involve expanding the platform to other areas of the business, such as our back office functions. This insourcing approach will eventually extend across the entire company."

Service models: The future of fintech

***FinTech Futures* talks to two BPC senior vice presidents about the company's new payment processing business, and what they see it leading to in the years to come**

BPC ended 2019 on a high and plans on doing the same this year. The paytech firm partnered with Form3 to deliver a complete cloud-based payments solution in June, opened an office in Pakistan to serve the growing financial services market in the region in July, and launched a 'seed to market' agritech ecosystem in India in December.

Here, *FinTech Futures* asks Peter Theunis, senior vice president, managing director and board member and Jane Loginova, senior vice president, global commercial officer, what comes next for the paytech and unpacks BPC's processing business.

IN 2018, BPC LAUNCHED ITS PROCESSING BUSINESS. COULD YOU SHARE SOME DETAILS AROUND THE NEW BUSINESS?

BPC launched a new international processing business in the last quarter of 2018 leveraging on our proprietary Payments Processing platform. While this quarter marks the commercial launch, it took us six months to set up the organisation, go to market and generate first results in terms of client adoption.

WHAT DOES THE FUTURE HOLD FOR THIS BUSINESS? WHAT ARE YOUR GOALS OVER THE NEXT THREE TO FIVE YEARS?

Payments processing is one of BPC's key strategic business for growth. We see a surge in partnerships between payments handlers and processors for many reasons. The cost of ownership of such systems becomes more and more expensive, not only due to software but mainly due to compliance and security regulations. As BPC masters payments processing and reaps the benefits of the shared platform economy, we expect this business to become an important share of the BPC Group's revenue within three to five years.

HOW DOES THE PROCESSING BUSINESS WORK? WHAT DOES IT CONSIST OF?

Processing complements our standard offering of on-premise software by giving our customers the choice to opt for the 'as a service' model. In practice, we provide three different models for outsourcing: Platform-as-a -Service (PaaS), Software-as-a-Service (SaaS) and technical processing. In our PaaS, BPC runs the SmartVista instance of the customer on a dedicated environment, whereas with our SaaS, we run it on a shared environment. Our technical processing is not only operating on a shared environment, we also handle all technical processing activities.

WHAT PROCESS DID YOU GO THROUGH TO LAUNCH THE BUSINESS? WHAT CHALLENGES DID YOU FACE?

BPC is known as an established software company. Our focus at launch was to increase the market awareness around our SaaS services capabilities, moving beyond the software label.

WHAT SPECIFIC NEEDS IN THE MARKET ARE YOU TRYING TO MEET WITH THIS NEW BUSINESS?

When it comes to processing, BPC is focusing on five market segments: 1. Traditional card processing (issuing, acquiring Switching) 2. White labelled PSP services 3. Banking-as-a-Service 4. Fintech 5. Automated Fare Collections

WHAT DO YOU EXPECT FROM THE LAUNCH OF THIS NEW BUSINESS? DID YOU GET ANY FEEDBACK FROM YOUR CLIENTS (ANY SPECIFIC DATA TO DISCLOSE)?

We expect the PaaS/SaaS/processing business to flourish in the coming years. To date, the response has been impressive as we proudly onboarded our first customers live on our platform within only few months. We are currently welcoming several more. These first months have confirmed the growth potential of this business for BPC.

FOOD FOR THOUGHT

Living in the not knowing

By *Leda Glyptis*

I am a profoundly impatient person. That much is a well-known fact. But that doesn't mean I don't give things the time they need to become whatever they need to become. It means I have no patience when it comes to giving people and organisations and situations time to decide whether they will choose to care to give things time to become.

LOVE'S LABOUR LOST

You know that thing, when you fall in love with someone and you both affirm to each other that this is amazing, and I, too, feel everything. And we don't know where it will end. But we know how it started. That it started. That we are here. And we will now do what it takes and wait and cherish and work for this to become.

Knowing that it might not.

But hoping it will.

How wonderful. And who would be impatient with that?

But do you also know that other thing? When you fall in love with someone who is either not in the same place as you. Or too scared to commit. Or undecided. Or keeping their options open. Or scared of getting hurt. Or not that into you?

They say "let's see what happens" a lot. They ask you to be patient. They expect you to wait until they declare. If it works, they may say they loved you all along. If it doesn't, oh well, they never really showed their hand. They had another one on the hopper. It wasn't meant to be. No biggie. Moving on.

THE COURSE OF TRUE LOVE NEVER DID RUN SMOOTH

It's bad enough in your personal life. It's as bad at work. You know this. You have been there. Be it in the innovation department. Be it as the champion of a start-up engaged in a corporate experiment. Be it as the start-up in the petri dish. And no, it's not a dig at DNB, they are surprisingly and refreshingly and wonderfully forthright. But I have scars from previous lives. And unrequited loves galore in my corporate life.

And the story runs like this.

We decide something is full of hope. We decide something is worth a punt. We fall for it. We do whatever alchemy is needed to embark on a journey together.

Procurement. Compliance. Endless due diligence. Term sheets and value pool assessments. Projections and financial modelling galore. Testing. Scripts and more modelling. Budgets. Negotiations. Long days. Long nights.

And we start.

We embark upon the thing that we believe is full of hope. The thing that we believe is part of a future. A future we believe in. A future we want.

We don't know for sure what will happen. But we are willing to risk and try. And live in the not knowing. Together. Until we know whether we were right or wrong and, by then, be a little wiser anyway about the ways of the world and ourselves and each other.

Yes, I am really talking about digital transformation. But also love stories.

So we embark on a path that will be hard but will be worth it and will keep us living in the not knowing until we know.

That is ok. You know what's not ok?

A COMEDY OF ERRORS

What is not ok is going through all this trouble and still hedging.

You know that sinking feeling in the pit of your stomach when you text someone "I love you" and you get back a winking emoji?

Or the corporate equivalent of sitting in a meeting, a year into a programme, six months into an experiment, five years into a job, and the presentation before yours, backed by the same sponsor, is about the hedging plan?

The plan anticipating your failure.

The plan going against the hope that fuels the dream that you though you served.

What we will do if this fails. What we are doing in anticipation of this failing. What we are doing to protect ourselves from commitment.

And if you object, you are told that we don't know what life brings. And living in the not knowing is all about accepting things might not work and dealing with the consequences.

> "I cannot tell you much about the future. Other than making wonderful things happen is an exercise in faith. Conviction. Trust. And love."
>
> **Leda Glyptis**

No. Of course we don't know what life brings. Of course I will live with you in the not knowing. With you. Of course.

But not alone.

And of course, while we are in the not knowing I will do everything in my power – and I mean everything in my considerable repertoire of creativity and capacity for hard work – to make the future we hope for transpire. And comfort you through the not knowing. And course correct. And adjust. Because the future is unknowable and scary but hope is mighty and we are trying to build a future here.

So no.

After many, many years of thinking that the sinking feeling in my stomach is the price I have to pay for doing business in a corporate world, when I get told, "hey, we will embrace the future together but since we don't know if it will work, we, on this side of you, will embrace a few other futures too and see what gives", I say: no.

I will live in the not knowing with you.

I will take a punt with you on what we believe good is in a changing world. I will build, say, my beloved Foundry with you, in the belief that it holds the answer to a more robust infrastructure and a fairer world. I will trust the team that says, "this architecture will work, trust me". I will trust the partner that says, "let's do this first". I will trust the partner that says take the long way with me. The future is unknowable but I think this path works better.

But I will not, ever again, make time for the weak of heart.

If the risk is mine but the reward ours. The faith mine and yours the reticence. The hope shared but the conviction one-sided. If I toil and you hedge, if I risk and you demure, then it is I living in the not knowing. And you living in the not believing.

I cannot tell you much about the future. Other than making wonderful things happen is an exercise in faith. Conviction. Trust. And love.

And for the greatest dreams to fly, you believe before you know. And then you live in the not knowing until you no longer do. It's not so bad, provided you don't put yourself in the not trusting.

Because building the future is not about what you know. It's about what you dare believe is possible even if the guys before you didn't think it was. Even if you didn't think it was possible before now.

Living in the not knowing is fine, while doing and dreaming and standing firm.

Living in the not knowing is more than fine. When you have faith, trust and shared conviction. Because living in the not knowing cannot be done alone. The future is built by teams who believe in things and trust in each other. And not knowing the ending is fine. Exactly because of that belief, trust and vision.

Then I can wait forever. With and for you. In the not knowing, sure. But never ever in a place of little faith.

Leda Glyptis is *FinTech Futures'* resident thought provocateur – she leads, writes on, lives and breathes transformation and digital disruption as CEO of 11:FS Foundry. She is a recovering banker, lapsed academic and long-term resident of the banking ecosystem.

All opinions are her own. You can't have them – but you are welcome to debate and comment!

Follow Leda on Twitter (@LedaGlyptis) and LinkedIn (Leda Glyptis PhD). Visit our website for more of her articles.

Prioritising growth and resilience

By *John Meehan*, partner and founding member of Arma Partners

Mergers and acquisitions (M&A) in the fintech space in 2019 was characterised by continued and accelerating consolidation, particularly in the payments space. This took place globally and involved numerous large-cap deals – including FIS's $35bn acquisition of WorldPay, the largest ever fintech transaction by value. The pace and scale of dealmaking meant that, by the end of May, total fintech deal value in 2019 had already surpassed that of 2018.

Consequently, the supply of sizeable assets available to buy across the sector has shrunk. Scarcity has pushed the valuations of the remaining high-growth fintech companies higher and higher. In the US and Europe, there were more than 50 financing rounds in which start-ups raised more than £50m last year, as financial sponsors bet big on creating category leaders and 20 fintech companies achieved unicorn status (i.e. private start-ups with a $1bn+ valuation), representing a more than 50% increase in the total number. Notable new additions included the digital banks Chime, which received a valuation of $5.8bn following a fundraise in October, and N26, which received a $3.5bn valuation following a fundraise in July.

Fintech valuations were also pushed higher by the growing levels of competition on the buyside of M&A. Following the latest cycle of fundraising in the private equity industry, Preqin estimated that buyout firms had record 'dry powder' reserves of almost $2.5tn in unspent capital to put to work. The fintech sector is viewed as a highly attractive area to deploy this capital, as many assets boast a business model with strong recurring revenues and, more generally, the sector has a large globally addressable market with strong tailwinds.

Conscious of the rival spending power of private equity investors and looking to benefit from growth rates that average about 5% annually for listed fintech companies, a broader range of strategic players have become more aggressive in making acquisitions. This includes traditional financial institutions, such as banks, insurers, assets managers and exchanges, epitomised last year by deals such as the London Stock Exchange moving to acquire Refinitiv for $27bn, as well as BlackRock's $1.3bn acquisition of eFront. However, service companies such as Cognizant – which acquired capital markets software provider Meritsoft – and internet companies such as Chinese internet giant Alibaba – whose payments arm Ant Financial acquired international payments business WorldFirst for more than £500 million (about $640 million) – have also become more active buyers of fintech companies.

SAVVIER INVESTING

A growing scarcity of sizeable fintech assets, a buoyant fundraising market, aggressive competition between financial sponsors and a diverse set of strategic buyers for deals; these are challenging conditions in which to invest judiciously in fintech companies as we move into the new year.

This dynamic has required market >>

participants to become savvier investors, frequently prioritising particular business traits: notably, both organic and acquisitive growth potential, and resilience. We can expect these considerations to continue setting the agenda for fintech M&A in 2020.

In recent years, the tendency of investors to value high organic growth over short-term profitability has been particularly pronounced among fintech companies. In 2019, both venture capital and private equity firms as well as strategic investors maintained an undiminished appetite for scalable businesses with significant organic growth potential, largely irrespective of profitability levels. This was exemplified by the UK mobile bank Monzo, which has achieved a $2.4bn valuation off the back of drastically growing its customer base, despite its net losses having increased by over 50% in its latest financial year.

A parallel trend that we have seen over the last 12 months is the continued interest, from both financial and strategic buyers, in fintech assets that also exhibit the ability to grow inorganically, through acquisitions. For private equity firms in particular, supporting the inorganic growth of its portfolio companies via bolt-ons allows for the deployment of more capital and potentially the opportunity to pay lower multiples when adding on smaller companies acquired in less competitive processes. The proven capability of a management team to execute deals is therefore a key characteristic that buyers look for in fintech companies.

Alongside growth, the second watchword among fintech investors in 2019 was resilience. With escalating trade tensions casting shadows over future global economic prospects, combined with sustained political uncertainty in major fintech markets such as the UK, investors actively sought companies with business models designed to resist macroeconomic downturns, with particular focus on subscription-based business models (commonly associated with Software-as-a-Service, or 'SaaS', companies). Strategic acquirers also favoured fintech companies with an international presence or global market reach, in order to minimise their exposure to economic downturn in any one market. For example, Ant Financial's acquisition of UK-based WorldFirst served to establish a foothold in Western markets.

> "Internet giants are building more active and aggressive M&A platforms so will assume an even greater role in fintech M&A as they look to diversify their offering."
>
> **John Meehan, Arma Partners**

BEST PERFORMING SUB-SECTORS

Another way of looking at investors' priorities in this competitive market is to focus on those 'hot' segments within fintech. Financial SaaS companies and payments businesses are two areas that have attracted significant investment – often precisely on account of these business models' resilience and strong growth potential.

By operating a business model based on selling subscriptions to cloud-hosted financial software to enterprise customers, SaaS fintech companies frequently achieve high customer retention, enabling them to generate strong and highly predictable recurring revenues. Meritsoft, acquired by Cognizant, provides intelligent cloud-based software solutions to a subscriber base of global capital markets participants. The company's subscription-based business model, combined with its high growth potential due to its ability to help businesses comply with increasingly stringent regulatory and tax requirements, were both key drivers of the deal and entirely characteristic of a sizeable and high-quality B2B SaaS fintech company.

Meanwhile, companies in the payments space have been highly sought after, as they often exhibit huge growth potential, through both expanding their networks into new markets, as well as through diversifying their service offering by adding extra software capabilities and services. For example, Payzone, acquired by AIB and First Data last April for $112m, processes 125 million transactions annually and has developed a highly diversified, multi-channel platform enabling it to achieve robust growth from expanding into new verticals and product offerings.

The synergies and economies of scale inherent to the payments sector was also highlighted last year within the string of mega-deals that fuelled industry consolidation. As well as FIS' record-breaking acquisition of Worldpay, these included Global Payments' $22.15bn acquisition of Total Systems Services, Fiserv's $21.79bn acquisition of First Data and Mastercard's acquisition of the real-time payments unit of Nets Group for $3.19bn.

WHAT TO EXPECT IN 2020

More of the same. Despite high levels of M&A in 2019, the fintech market was highly fragmented at the outset, so there is still runway for further consolidation. This will continue to reduce asset supply and sustain high valuations in the industry, as the market matures and companies of real scale emerge. Consolidation will remain particularly pronounced within payments, but also emerging areas such as insurtech, regtech, and data analytics and AI, all of which are considered innovative sub-sectors with high growth potential.

The attractiveness of fintech assets to a broad range of acquirers will remain the driving force behind consolidation in the industry. Notably, internet giants are building more active and aggressive M&A platforms so will assume an even greater role in fintech M&A as they look to diversify their offering. Combine this with the sustained appetite of traditional players such as banks and insurance carriers, financial sponsors seeking to put capital to work, and the ability of all strategic buyers to use their own buoyant valuations to part-fund acquisitions with equity, and it is clear that high levels of M&A activity in the fintech industry are likely to continue throughout 2020.

Why Payments-as-a-Service is the first choice for FIs

More and more financial institutions are choosing to outsource their mission-critical payments infrastructure over building or licensing legacy technology

The pace of change within the global payments technology space is still at full speed with no sign of slowing down. While traditional incumbents have until recently taken comfort in their size and decades of dominance, new digital-only challenger banks are ramping up and making a huge impact on the global financial landscape.

The reason for this surge? The accessibility of digital banking services has captured the attention of savvy consumers that want a modern banking service that is a quick and convenient option. Similarly, as corporate clients adopt digital capabilities in their operations and business models, they too require convenient, instant access to and real-time movement of funds, without delays or costly charges.

WHAT ARE THE INCUMBENTS DOING TO KEEP UP?

Banks are increasing their spend on technology, while balancing their digital strategy with new regulations, such as European PSD2 which is designed to increase competition. Much of these technology investments are directed towards expensive and complex hard-to-transform legacy infrastructure, which still ends up dictating the digital process flow.

While some banks are attempting to bolt new solutions onto existing infrastructure, others are moving legacy core systems to cloud hosting and layering on APIs in a bid to reduce costs. Unfortunately this doesn't solve longer-term issues such as batch processing inefficiencies in the mid and back office and lengthy implementations for every system change and upgrade. These inefficiencies lead to a major competitive disadvantage.

In a drive to become operationally lean and agile in response to market demands, incumbents are now actively investing in cloud-native technology where there are no legacy constraints to deal with. Microservices architecture and a single code base enable scalability, operational efficiencies and speed to market, taking advantage of the latest technology innovations available.

Rather than building from scratch, partnering up with a specialist cloud native fintech can really help. Once seen as fringe disrupters, fintechs are now becoming important strategic allies at the core of digital banking change. By their nature and design, fintechs are nimble, can deploy quickly and at a low cost. The technologies, operational processes and organisational culture are all born out of operating cloud-native in a real-time, always-on environment.

A growing number of financial institutions are now choosing to outsource their mission-critical payments infrastructure to specialist providers such as Form3. This removes the burden of regulation, variation across payment schemes, engineering, maintenance and updates. To build such an infrastructure is typically a multi-year, multi-million pound project which upon completion, will already be heading into legacy. Moving to a Payments-as-a-Service option frees up time and resources to truly transform the customer experience, stay relevant and gain competitive advantage.

THOUGHT LEADERSHIP: US FINTECH

Coming to America

By *Chris Ward*, Principal Consultant at Mapa Research, part of Informa Financial Intelligence

Fifty-five years after the Beatles kicked off the 'British Invasion', a wave of UK and European fintechs are seeking a foothold in the American financial services market.

This past summer, British neo-bank Monzo announced it would begin offering its ATM card and mobile banking app to American customers, beginning with a few thousand consumers in Los Angeles and gradually expanding its customer base across the country. UK-based Revolut announced in October that it would begin issuing its ATM/debit cards and mobile app in the US by year-end.

One month after Monzo, German neo-bank N26 began a phased rollout of its mobile banking app to the US, just four years after its initial launch. As of July 2019, 100,000 customers in the US were on the waitlist for the N26 app.

Like any technology company, it is natural for British and European fintech players to want to expand globally, and especially in the US market. These brands offer scalable banking technology solutions aimed at providing a seamless, cost-effective banking experience – but there is only so much growth they can obtain in their native markets, which are much smaller than their American counterpart.

However, the battleground in the US is much different from the one these players are used to in the UK and Europe, and they must adapt accordingly in order to succeed on this side of the Atlantic. One of the main differences is that in the US, digital and mobile banking businesses aren't trying to compete with, or dislodge, the big banks.

BIG BANK PRAISE

In late October, I attended the Money20/20 conference in Las Vegas, and heard Colin Walsh, CEO and co-founder of Varo Money, say on stage that big banks such as Bank of America and JPMorgan Chase do a great job servicing their customers. Walsh's Money20/20 speaker bio clearly states that San Francisco-based Varo "aims to be the first national bank in American history specifically designed for people who want to bank on their smartphones and improve their financial health".

In the UK and Europe, you would never hear the CEO of a digital and mobile banking startup praise the big banks. N26, Monzo, Revolut and other fintech startups in those markets present themselves as competitors to large banks that remove the hassle and hidden fees often associated with the latter. In fact, N26's advertising slogan when it first got off the ground in Germany was: "Banking Without The B---s---."

> "British and European fintechs will need to continually find ways to cut costs and enhance the services they offer."
>
> Chris Ward , Mapa Research

On the contrary, as my fellow attendees and I witnessed at Money20/20 in Las Vegas, American fintech startups are not seeking to disrupt or directly compete with their bigger counterparts. Instead, they look to operate in the spaces these big banks aren't, to serve the millions of Americans who are either 'unbanked' or 'underbanked'.

The Federal Deposit Insurance Corporation uncovered in a national survey that about 8.4 million US households, consisting of 14.1 million adults and 6.4 million children, were unbanked – meaning that no member of the household had a checking or savings account – in 2017. In addition, the FDIC found that about 24.2 million households, comprised of 48.9 million adults and 15.4 million children, were underbanked, whereby the households obtained financial products or services outside of the banking system even though they had at least one account at an FDIC-insured institution. This large cohort includes Americans of all ages, not just the tech-savvy Millennials and Gen Z members.

British and European fintech startups appear to recognise that partnering with established US banking powerhouses to improve the banking experience for the unbanked and underbanked is a winning strategy. For example, N26 is allowing American customers to sign up for checking accounts with FDIC-insured Axos Bank from their smartphones, and the debit cards they issue are from Visa. Revolut is issuing debit cards to its first American customers through Mastercard. Meanwhile, Monzo has partnered with domestic lender Sutton Bank as it looks to address this massive potential market.

STRENGTHENING DIFFERENTIATORS

In order to remain competitive in the US, British and European fintechs will need to continually find ways to cut costs and enhance the services they offer. They can also look to become fuller-service platforms by expanding into other areas of financial services beyond personal finance, such as lending and insurance. For this to occur, though, they need to obtain the proper American regulatory licences, and also hire more personnel with the necessary expertise in the areas into which they expand. Until they acquire enough scale to do so, these brands can continue to partner with larger, established American banking players.

They can also continue to focus on strengthening and marketing their differentiators. For example, the British and European fintechs entering the US don't charge fees on international transactions, allowing American customers travelling abroad to withdraw money and make payments for free.

Focusing on their differentiators for improving the mobile banking experience and complementing large US banks will also help British and European fintechs overcome another key challenge in the US market – rising competition from Big Tech. Uber Money, offering financial products and technology for Uber drivers, including a digital wallet program, officially launched in October. Google re-launched its own digital wallet and online payment platform, known previously as Android Pay, under the name of Google Pay earlier this year – and will soon begin offering checking accounts within the Google Pay app in partnership with Citigroup and a Stanford University credit union. In November, Facebook announced the launch of its Facebook Pay system for creating a consistent and secure payment experience across its various platforms.

Nothing is certain in any business, but the British and European fintech companies and neo-banks gaining a foothold in the US are off to a promising start. Time will tell if they obtain the customer bases and scalable growth they hope to achieve.

Why data security should be more than a tickbox exercise

By *Geoff Forsyth*, CISO, PCI Pal

As we continue into 2020, 2019 is on track to become the worst year on record for data breaches. It got off to a flying start with 16 high-level breaches occurring in January, including well reported attacks on OXO International, the hugely popular online game Fortnite and a number of online gambling sites, which saw an estimated 108 million user records compromised.

As ever, breaches weren't limited to small and medium entities. Facebook was at the heart of yet another scandal in April, as more than 540 million records fell into the wrong hands. Online shopping giant Amazon joined the worryingly comprehensive list of notable companies who had failed to protect customer data, too, when it was found to have been publishing private user data by accident on its Japanese site. Financier Capital One found itself the victim of a particularly damaging hack, resulting in the loss of 106 million pieces of sensitive user data.

Despite breaches becoming more prevalent and more damaging, it seems many companies are still taking a somewhat relaxed approach to data security; with an emphasis seemingly being placed on ticking the boxes to show good intent, rather than actually taking stringent and vigilant action to keep data safe.

"Companies are finding it cumbersome to implement PCI DSS compliance into their workflow."

Geoff Forsyth, PCI Pal

PCI DSS COMPLIANCE

In its annual Payment and Security Report, Verizon made some interesting discoveries about how business is responding to the ever-present threat of data breaches, and indeed where it is failing to respond.

Most notably, the report found that numbers of businesses complying with the key PCI DSS framework one year after achieving compliance fell between 2017 and 2018 – from 52.5% to just 36.7% – reaching the lowest levels since 2013, and keeping with a trend of decreasing sustainability, despite breaches increasing year-on-year.

Verizon's report suggests that businesses are spending time and money on compliance programs and initiatives that are often ineffective and fail to stand up to professional scrutiny. Astonishingly, 18% of companies still don't have a defined compliance program, despite significant increases in data breaches and repercussions for organisations found to be non-compliant.

Perhaps the most telling statistic of all, however, is that of all compliant businesses, 0% rated their program as optimised; showing beyond a reasonable doubt that even with the best will in the world, companies are finding it cumbersome to implement PCI DSS compliance into their workflow.

Despite just 36.7% of businesses actively maintaining PCI DSS programmes, the framework is demonstrably effective when it comes to protecting organisations and customers alike. Verizon's findings indicated that no company that had suffered a breach was fully compliant with all 12 requirements clearly defined by the standard – and even seemingly fundamental requirements were falling by the wayside.

Investigations (PFIs) found that failure to adequately comply with requirement, which calls on organisations to install and maintain a firewall configuration to protect cardholder data, led to a notable 18.4% of all data breaches and, even when it wasn't the cause of a breach, some 49% of businesses were non-compliant.

Looking at the sectors specifically discussed in the Payment and Security Report, finance remains the best performer when it comes to the PCI DSS, with 39% compliance, while hospitality ranked last with just 26.3%.

European companies were found to be ahead of their US-based peers, however, with 48% compliance compared with just 20% across the Atlantic. Both US and European organisations are paling in comparison of their Asia-Pacific neighbours, however, whose compliance rates were found to sit at 69.6%.

"Perhaps adopting modern cloud strategies could be one answer; removing the need for organisations to rely on older, complex infrastructures or ageing networks that create compliance barriers"

Geoff Forsyth, PCI Pal

It raises the question as to why 80% of US companies are having such problems maintaining compliance. The Verizon report highlights that once companies achieve initial compliance, the constant updating, patching and testing – as per PCI DSS Requirements 6 and 11 – appear to cause problems, resulting in compliance failures. Perhaps adopting modern cloud strategies could be one answer; removing the need for organisations to rely on older, complex infrastructures or ageing networks that create compliance barriers.

COMPROMISED DATA

Over the course of the year there have been a number of high-profile data breaches affecting a large number of disparate organisations. The current estimate puts the amount of lost private data at around 10.3 million individual records; these include credit card numbers, addresses (both email and home), banking information and more to boot. The first six months of 2019 alone saw 4.1 billion pieces of private data compromised, but while the companies affected were from all different areas of trade, the causes remain the same.

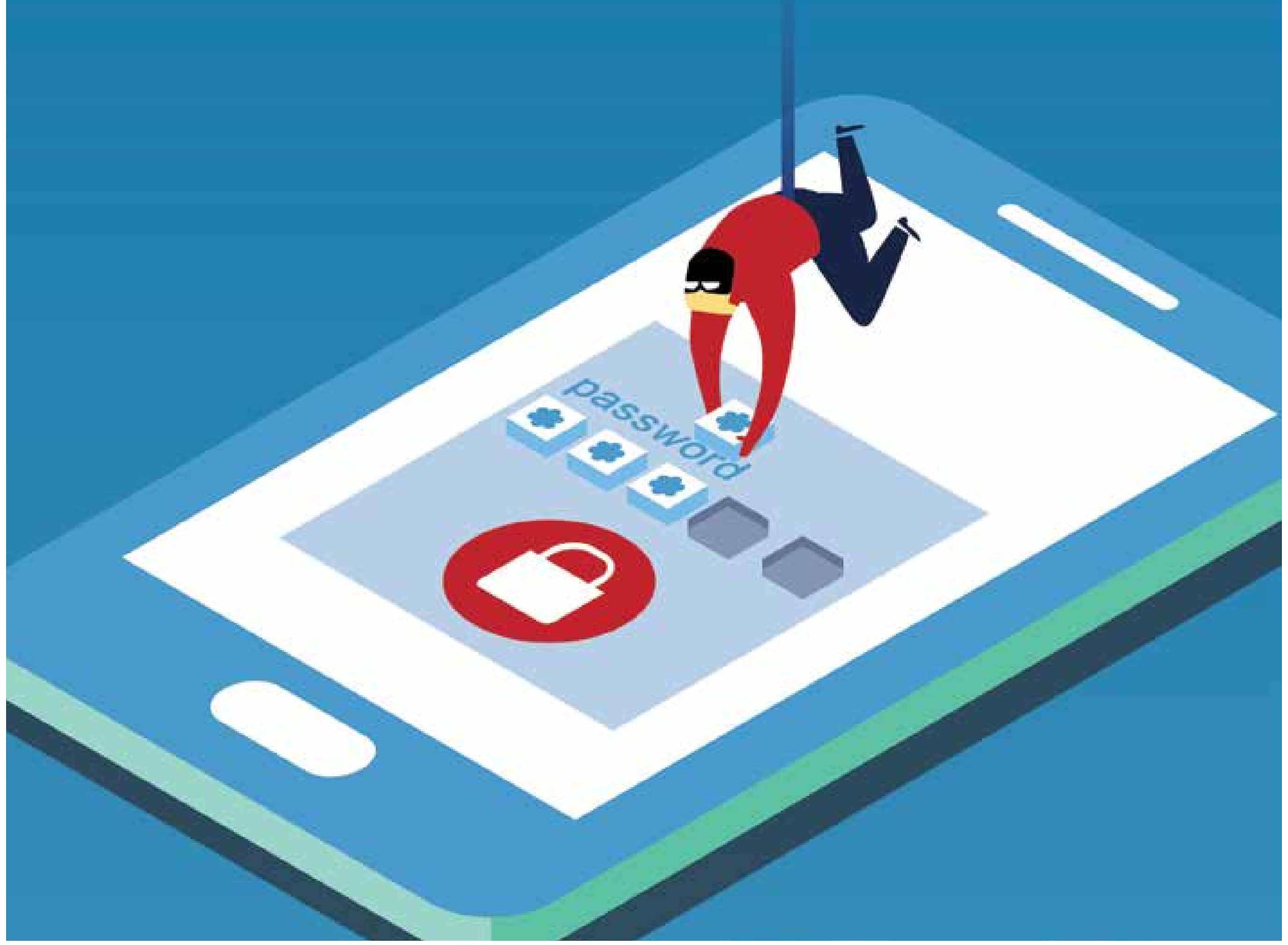
Of the largest breaches to be reported in 2019, the majority were caused by poor security protocols, hackers and good old-fashioned human error, and while companies aren't in a position to eradicate these risk factors entirely, with careful planning and understanding, they are in a position to mitigate them.

Analysts predict that over the next couple of years, cybercriminals will focus their efforts on IoT-connected smart devices and an increase in the deployment of ransomware is likely to bloom, too. In addition to its Payment and Security Report, Verizon's Data Breach Investigations Report shows that ransomware incidents accounted for nearly 24% of incidents where malware was used, and their profitability, combined with the relatively low risk involved, means that businesses must expect much more of the same in 2020.

As previously said, it is impossible to protect a business 100% from attacks and other data breaches, but by ensuring compliance with industry standards, businesses can insulate themselves and their customers from harm.

What the 'decade of the data breach' can teach us

By *Labhesh Patel*, CTO and chief scientist, Jumio



We have witnessed the explosion of identity theft over the past decade. Thanks to a steady flow of high-profile data breaches, names, passwords, email addresses, healthcare records, and more are easily bought and sold by cybercriminals on the dark web.

This has led to massive growth in account takeover fraud (ATO), whereby a criminal uses legitimate, but stolen personal data in order to seize control of an online account, change information such as the username or password and then make unauthorised transactions with that account. In the UK alone, more than 11 million UK adults have had their credit card replaced or cancelled in 2019 because of attempted fraud. That equates to a fifth of the UK. And, according to KPMG's recent fraud barometer report, the UK courts saw a 57% increase in account takeover cases in 2019.

What doesn't help this already concerning situation is poor password hygiene. On average, we have 7.6 social media accounts, multiple online logins, a number of different email addresses and, unfortunately, typically only a couple of passwords protecting all of this personal and sensitive information. This bad practice has left consumers even more susceptible to ATOs. If a hacker has a username and password combination to one website, they can leverage bots to perform credential stuffing attacks to try a large number of websites using that same username/password combination. With poor password hygiene, they have a more than reasonable chance of accessing multiple accounts.

So, what has the decade of the data breach taught us? Well, organisations can simply no longer trust that an online user is who they claim to be. And when the stakes are so high in the financial space, with consumers' financial livelihoods and credit ratings at risk, financial services organisations in particular need to look at new ways to fight back against cybercriminals to create a safe and secure ecosystem.

ACKNOWLEDGING THE NEED FOR CHANGE

When the internet was new and yet to be mastered, the password was king. Using a password-based login was an appropriate form of securing confidential information on a young platform. The problem, though, is that these types of passwords are inherently insecure and quickly forgotten.

The same issue is evident for knowledge-based authentication. If passwords and answers to supposed security questions have not already been compromised through a data breach, social media also has a role to play in their insecurity. Before a cybercriminal even attempts to use underhand tactics to hack sensitive information, we are likely to have unwittingly provided them with enough insight such as names, telephone numbers, dates of birth and the like, to bypass passwords and knowledge-based authentication through our own social channels.

Even SMS-based two-factor authentication, whereby a user receives a text with a unique access code every time they try and log into a secured account, has its weaknesses as it is easily bypassed by hackers with evermore complex approaches to cyber theft, like intercepting the 4-and 6-digit SMS codes (via malware on the phone itself) which allows the cybercriminal to access and unlock the user's account.

These kinds of step-up authentication

> "Financial institutions are under immense pressure… to ensure that their security parameters are tight. One breach could prove fatal to their business model and their customers' livelihoods."
>
> **Labhesh Patel, Jumio**

methods have typically been viewed as being more reliable. However, the increasing number of data breaches and evolving skills of hackers illustrate that despite their initial effectiveness, these traditional approaches to security are being compromised, and more often than not, fail to fully protect their users.

EMBRACING INNOVATIONS IN VERIFICATION AND AUTHENTICATION

No industry is exempt from the clutches of cybercrime, but the financial services sector is an obvious target for many criminals aiming to infiltrate and profit off of big business. Financial institutions are under immense pressure from regulators and customers to ensure that their security parameters are tight. One breach could prove fatal to their business model and their customers' livelihoods. While large financial institutions are known for being fairly rigid and slow to adopt new innovations, failing to deploy the latest innovations could see them fail in the fight against cybercrime.

Face-based biometric authentication technology is an innovative, modern approach to combating online criminals. It goes far beyond having to remember 'secret' phrases, numbers and SMS codes, which are all vulnerable. Facial biometrics is a more robust way of proving a user is who they claim to be since it requires the user to unlock their accounts with some type of biometric such as a fingerprint, retinal scan, face map or voiceprint.

That being said, cybercriminals are relentless, and secure, face-based biometrics isn't infallible. Fraudsters are already challenging the technology with spoofing techniques such as masks and even deepfake technology, to circumvent the biometric feature. As such, further complexity is required to continue to keep fraudsters at bay and financial services organisations must keep this in mind. Unfortunately, a number of liveness detection technologies are uncertified and still rely on 'tells', such as blinks, nods and other verification prompts – all of which can be spoofed by deepfakes.

This is where certified liveness detection comes in – by utilising AI and automation, these solutions are able to detect high-resolution paper and digital photos, digital deepfakes, paper masks, commercially available lifelike dolls and even latex and silicon 3D masks, all of which have been used by cybercriminals in attempts to bypass biometric-based authentication.

Face-based biometrics paired with certified liveness detection is working to do more than just protect modern enterprises and customers during the onboarding stage, though. It can also be used to re-authenticate users in more precarious instances, such as wire transfers or password reset attempts, where basic username and password authentication is not a reliable or sufficient defence.

Advancements in technology have enabled consumers to conduct financial activities in ways only previously imagined – such as applying for a bank account from the comfort of your sofa. But for us to truly embrace and thrive in the online world, financial services organisations must ensure that their ecosystems are safe and secure against modern-day threats. In this way, the combination of facial biometrics, certified liveness detection and AI has become a saving grace. It is the only true way to know a user is who they claim to be. Let's hope the decade of the data breach is followed by the decade of biometrics – ushering in a new age of data security and internet safety.

Fintech funding round-up

This month, Revolut approaches the $5bn valuation mark, Wisr plans to develop its main retail lending offering, and Visa announces investment in Very Good Security

Revolut is on its way to a $5 billion valuation according to the investor leading its upcoming funding round, which is expected to raise $500 million with the addition of a $1 billion convertible loan from JP Morgan.

Investor Technology Crossover Ventures (TCV) shared documents with Financial News that confirmed the round is expected to close in January and will leave the digital bank with a valuation nearly three times its last estimated valuation of $1.7 billion in April 2018.

This may come as a slight disappointment to Revolut's CEO Nikolay Storonsky, after Sky News reports last year revealed Revolut had been looking at a valuation of between $7 billion and $8 billion from the 2020 funding round.

French mobile payments start-up **Lydia** has raised €40 million in a Series B funding round led by Chinese conglomerate Tencent.

The round, also featuring NewAlpha Asset Management, XAnge and prior investors CNP Assurances, is the fourth for Lydia since its founding in 2013. It has raised more than $73 million in that time.

Lydia claims to have three million users in its home country, and that 25% of French people between 18 and 30 operate an account with the firm.

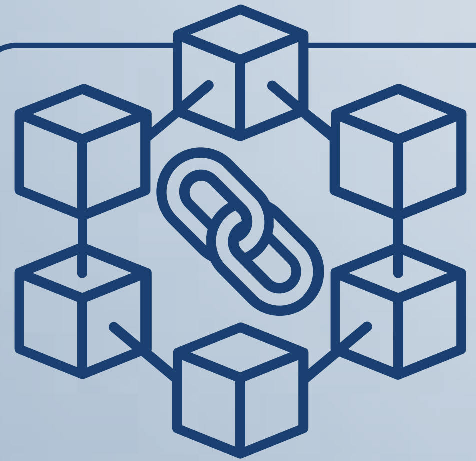
"With the new funding round and a partner like Tencent, who will help us save a lot of time and avoid costly mistakes in this scaling-up phase, we have all the reasons to be very ambitious," says Cyril Chiche, co-founder and CEO of Lydia.

Swedish open banking platform provider **Tink** has completed an investment round worth €90 million.

The round was co-led by two new investors in Tink – venture capital company Dawn Capital and investment management firm HMI Capital. Both were joined by existing investor Insight Partners.

The venture capital wings of both ABN Amro and BNP Paribas participated in the round, as well as Poste Italiane.

Tink plans to use the fresh injection of capital – almost 12 months on from its last €56 million round – to continue its expansion across Europe and support the development of its open banking services.



Securrency, a developer of institutional-grade blockchain-based financial and regulatory technology, has raised $17.65 million in a Series A funding round. This was led by WisdomTree Investments, an exchange-traded fund (ETF) and exchange-traded product (ETP) sponsor and asset manager.

Other participants in the round include the Abu Dhabi Investment Office (ADIO), Japanese financial services giant, Monex Group, and venture capital firms RRE Ventures, Strawberry Creek Ventures and Panthera Capital Investments.

Through this investment and its collaboration with Securrency, WisdomTree plans to pursue the integration of blockchain technology into the ETF ecosystem to bring the benefits of ETFs to a broader range of investors and improve the investor experience.

Wisr, an Australian peer-to-peer (P2P) lending marketplace, has raised $35 million through a placement of around 181 million ordinary shares. The issue price for the placement is 18.5 cents per share.

The company says it will use the funds to further develop its main retail lending offering, which allows users to borrow between $5,000 and $50,000, as well as to grow its overall business.

The fintech will distribute the placement shares in two tranches – or securities. The first tranche was roughly 92 million shares, while the second tranche – which is roughly 89 million shares – will be issued subject to shareholders approval after a meeting in March 2020.

Founded in 2006, Wisr – which was rebranded from DirectMoney in March 2018 – claims to be Australia's first neo-lender in the country's consumer finance market and says it can offer interest rates 5% lower than the country's big four banks: ANZ, CBA, Westpac and NAB.

South Korean capital markets firm **iStox** has raised $5 million from Hanwha Asset Management.

iStox claims to be the first regulated capital markets platform in any major financial centre to support the one-stop issuance, custody and trading of digitised securities.

iStox is currently enrolled in the Monetary Authority of Singapore (MAS) FinTech Regulatory Sandbox and hopes to emerge from the programme in Q1 2020 ready to offer its solution to the market.

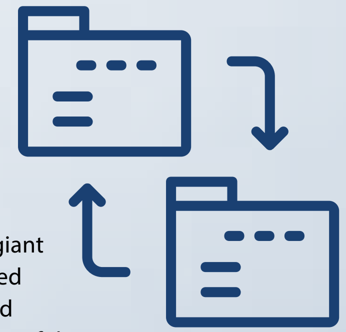
Previous investors in the platform include Tokai Tokyo Financial Holdings, which pumped $5 million into iStox back in November 2019, and Kiatnakin Phatra Financial Group, which supported the firm in its Series A, though the figure is undisclosed.

Autenti, the Polish start-up trying to create a national standard for digital signatures, has raised $4.48 million in investments from three banks which collectively make up 30% of Poland's assets: Alior Bank, BNP Paribas and PKO Bank Polski.

This deal, which also saw venture capital firms Innovation Nest and Black Pearls VC take part, is understood to be the first of its kind in the Central and Eastern Europe (CEE) region to see three major Polish banks that traditionally compete on a daily basis agree to make a collective investment.

The fintech says it will use the capital injection to grow the uptake of its e-signature offering in the banking sector in a bid to help the financial industry speed up its digitisation.

The global market for electronic signatures is expected to be worth $5.5 billion in 2023, according to a ResearchAndMarkets.com report last year, which means the value of the market will have increased by more than a third in just five years.



Visa has announced its investment in **Very Good Security (VGS)**, a platform that allows companies to collect, protect and exchange sensitive data. The card giant says it wants to help speed up fintech innovation and advance the development of data security services.

The size of the investment has not been revealed, following the regtech's $35 million Series B investment round in November 2019 led Goldman Sachs.

Visa says the capital will allow VGS to grant more fintechs access to its financial software, which in turn create "a better approach to data security, privacy and compliance".

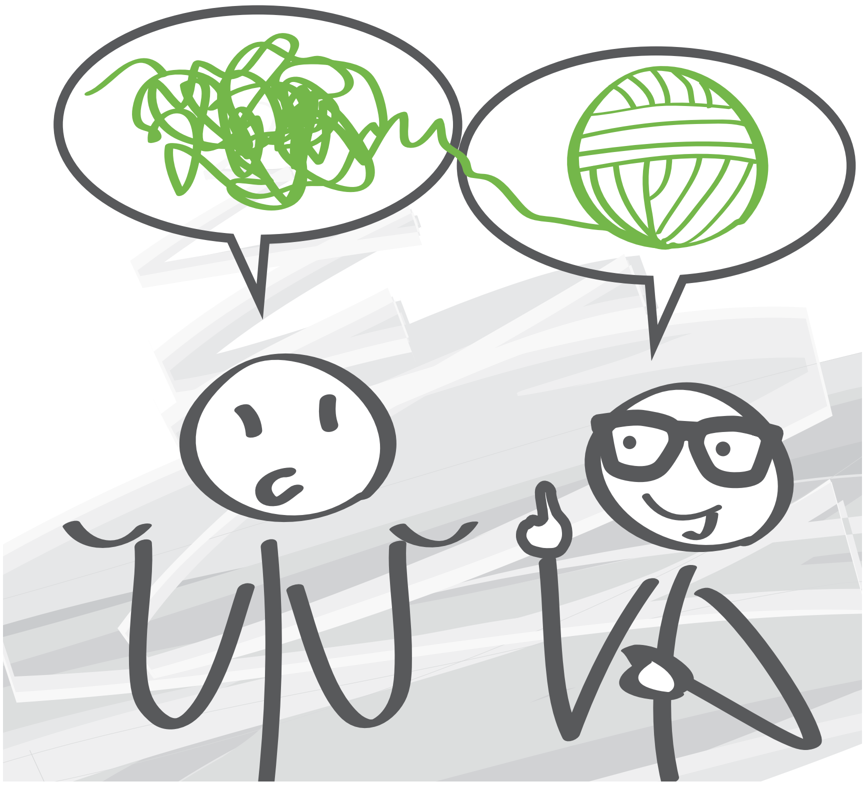
Tradeshift, the company connecting businesses across the supply chain, has announced a $240 million funding round, which is intended to accelerate growth and "set the company on a direct path to profitability in the near future".

The round, which follows a $250 million Series E in 2018, is a combination of equity and debt.

Investors in the round were not named, but the Californian company did say some were existing backers – these have, in the past, included Goldman Sachs, Canada's Public Sector Pension Investment Board (PSP Investments) and HSBC.

Ask the expert

Greg Watts is our resident expert. He is the founder of Demand Creation Partners, a London-based growth consultancy that helps fintechs and paytechs to scale. A visiting lecturer at the American University in Paris and regular industry speaker, he was previously head of market acceleration at Visa Europe.



QUESTION

HOW DO I INCREASE USAGE AND ENGAGEMENT RATES AMONG MY CUSTOMERS?

Does the following scenario sound familiar?

You're a growing fintech that has closed a range of commercial deals and your technical offering has gone live with retailers, banks and other partners. However, you're not seeing the adoption rates you were expecting. Your sign-up and activation rates are low, with usage and engagement rates below forecast. But why?

In this column we'll examine why some fintechs struggle to drive usage and provide tips on how to deepen engagement and create case studies for future growth.

1. Why is engagement and active usage important?

Until recently, many fintechs tended to focus on the number of signed-up or activated users, with headlines often proclaiming hundreds of thousands – or even millions – of new users.

However, this metric can be misleading when it comes to assessing the health of a business. It's not difficult to attract a new user with a compelling introductory offer – perhaps by offering a financial incentive to sign up – and only tells part of the story.

From a fintech's perspective, it's important to know that a product, service or app is actively being used and is genuinely useful to customers. Active users indicate that people are interacting with your product or service and serve as a sign that you're doing the right things.

Determining the number of active users over time can help you assess the effectiveness of your marketing campaigns and whether you're providing the right customer experience. It's also important for calculating other metrics. For example, the lifetime value of customers cannot be calculated without knowing your retention rates, and customer retention rates rely on data on whether users are active over time.

To put it simply, the number of active users provides a measure of the general health of the business and enables other, more informative metrics to be calculated.

2. Ensure commercial agreements include an activation and usage plan that is mirrored in commercial teams' objectives

When forming partnerships, there is often a determination among commercial teams to get deals closed as quickly as possible. That's understandable, as without such deals, a business has nothing.

However, solely focusing on getting a deal done and going technically live can overlook how a product or service will be used by target customers. This can be overcome by creating an activation and usage plan from the start of commercial discussions. Key areas to cover are:

- How will the product or service be marketed to potential users? Which partners' marketing channels should be used to drive awareness?
- What training mechanisms does the partner have to create advocates among team members? For example, in an in-store environment, how can frontline sales teams be trained or incentivised to promote the product or service at checkout?
- In an online environment, what messages should be conveyed to encourage sign-up? How can a homepage or checkout be used to drum up interest?
- Once a new user has signed up, what's the plan to encourage ongoing use and engagement?

The output should be an agreed plan between the fintech and partner to promote the product or service from the word go, with the plan providing the basis to measure the campaign's effectiveness.

3. Focus on training at the point of sale

One often-overlooked area for fintechs trying to drive activation and usage among bank or retail customers is the checkout. As mentioned earlier, significant focus in your activation and usage plan should be on training at the point of sale. After all, that's where prospective users will decide whether they want to sign up or not.

What's the best way to incorporate training into your go-to-market plan?

- Learn how your partner trains their teams – and piggy-back on their sessions. For example, if your partner holds monthly training, ask for a slot to introduce your product or service. Ideally, you should participate in person, but a webinar or conference can often suffice. When introducing your offering, be sure to focus on the messages you want them to share with potential users – and remember, less is more.
- Consider creating an incentive for frontline teams to drive sign-ups. In retail, frontline teams can be competitive, so think about constructing league tables among stores or regions that play to their natures.
- In an online environment, agree with the partner how your product or service will be messaged throughout the journey – for example, what do you want potential users to see on the homepage and at checkout? Creating advocacy and awareness at checkout can yield stronger results than any other marketing activity.

4. Roll out to staff first to identify and fix issues

Before going live to consumers, it's worth conducting an initial roll-out to staff who can identify any bugs. That might sound obvious, but there can be a tendency – perhaps because of investment pressures – to launch to end users as soon as the ink is dry on a commercial agreement. That's a mistake. At least four to six weeks should be invested in launching the offering to the frontline teams who will advocate your product or service to end users.

Set up regular sessions with a subset of these teams to gather feedback and report back on what's working and what's not; and implement responses to their feedback quickly to ensure they remain positive and engaged.

Finally, ensure you have clear go/no-go criteria in place before going live with a full launch. Failure to do so will almost certainly lead to an ineffective launch.

5. Create a structure – and behaviours – for successful delivery and client success

Congratulations, you're live! You've agreed an activation and usage plan, you've conducted training at point of sale, and you've successfully launched to frontline teams before end users.

How can you keep up momentum and ensure you hit your numbers? And, crucially, how can you create a successful and compelling case study that proves the commercial success of your product or service?

Many fintechs – and indeed many technology companies – have created a business function called Client Success. Years ago, this would have been called Account Management.

The remit for this team is to ensure that the company achieves its business and commercial goals.

However, it's important to make success a company-wide effort. After all, if existing clients aren't successful, the business will struggle to scale and grow.

One way to do this is to bring other members of the business into partner reviews – often known as Quarterly Business Reviews. Consider bringing in a member of the marketing team to talk about ways to deepen engagement, or ask a representative of the tech or product team to discuss how the product roadmap will sustain user interest.

Bringing it all together

Fintechs that have spent months cultivating a relationship with a partner are often tempted to launch as quickly as possible once a contract has been inked.

However, this overlooks the primary goal, which is to create active and engaged users of your product or service – and a compelling case study for investors.

Spending more time on the commercial process up-front – and moving ahead in lock-step with your partner – will yield better long-term returns.

If you have a question for Greg and would like a practical, no-nonsense answer/advice, please get in touch! We'll be answering your questions in this column – free and open to everyone.

You can post your questions in the comments section online, email Greg at greg.watts@demandcreationpartners.com and/or FinTech Futures' editor, Sharon Kimathi at sharon.kimathi@fintechfutures.com, or get in touch with Greg on LinkedIn.

Movers and shakers

Azimo has hired a new chief financial officer (CFO) and chief operating officer (COO). **Tatiana Okhotina**, who joined Azimo as head of finance in June 2014, has stepped into the CFO role, replacing Jakob Wrulich, who had been at the helm for five and a half years.

Dora Ziambra has been appointed the firm's new COO. She takes on a role which had been left vacant since former COO Richard Ambrose became CEO in July 2019.

BMLL Technologies has appointed **Paul Humphrey** as chief executive officer (CEO). A senior executive with decades of experience in leading positions across the brokerage, banking, data and exchange world, Humphrey joins BMLL to drive the scale-up of the business. Johannes Sulzberger, outgoing CEO, will remain on the board as a non-exec director.

MUFG has switched its CEO after just one year of him taking up the role and will be replacing him with its digital chief in an unusual decision – pointing to the bank's newly-placed importance on fintech.

The soon-to-be former CEO, **Kanetsugu Mike**, will become the group's deputy chairman and remain head of MUFG Bank, which will be effective from April 2020.

Current digital chief and freshly appointed CEO, **Hironori Kamezawa**, will be breaking one of the bank's long-established traditions, becoming the first chief executive not to have headed the group's core unit MUFG Bank before becoming CEO.

Fundbox has hired its first CFO, former investment banker **Marten Abrahamsen**, who spent early stints of his career at Goldman Sachs and the Royal Bank of Scotland (RBS). He was also responsible for the global investment firm Coatue Management's capital injections into Grab – Singapore's ridesharing app now valued at $14 billion – and the online retailer later bought by Walmart, Jet.com.

US-based core banking firm **Finxact** has announced the appointment of **Craig Phillips**, former counsellor to the United States Secretary of the Treasury, to its board of directors.

Phillips was involved in a move by the Trump administration to remove US government control of mortgage financing firms Fannie Mae and Freddie Mac, which were saved from the brink during the 2008 housing crisis.

Prior to his role in government, Phillips served as managing director and member of the operating committee of BlackRock between 2008 and 2017. Before BlackRock he spent 12 years at Morgan Stanley, leaving as global head of securitised products.

Refinitiv has hired **Andrea Remyn Stone** as its new chief customer proposition officer and member of the executive leadership team.

Stone joins from Dealogic where she has been chief strategy officer since June 2015. Prior to this, she spent five years as global head of strategy and corporate development at Bloomberg.

Paresh Shah has joined **BNY Mellon Markets** as global COO in its foreign exchange business. He joins BNY from HSBC, where he held the role of COO Americas for FX, commodities & corporate sales for two years. Prior to his role at HSBC, he held several senior positions at Deutsche Bank including the global COO of FX and emerging markets debt in Latin America and the Americas.

Monzo's co-founder and deputy CEO **Paul Rippon** has announced his departure from the UK challenger to focus on his new business, which consists of farming Alpacas with his wife.

EVENTS CALENDAR

February

9-12: Fintech Week Tel Aviv, Tel Aviv
fintechweektelaviv.com/2020

10-10: Efma's World Retail Banking Summit
efma.com/conference/overview/747

11-12: 3rd Annual Payments Europe Summit
cefpro.com/forthcoming-events/payments-forum

11-13: Finovate Europe, Berlin
finance.knect365.com/finovateeurope

19-20: MoneyLIVE Indonesia
marketforcelive.com/financial-services-series/events/moneylive-indonesia

March

10-11: MoneyLIVE Spring
marketforcelive.com/money-live/events/spring

11-12: Investment Innovators: Wealth Summit
marketforcelive.com/investment-innovators/events/wealth-summit

11-12: Finnovex Middle East
me.finnovex.com

18-19: 4th Annual Intelligent Automation Nordics
aiia.net/events-rpanordics

24-26: RiskMinds Insurance, Amsterdam
duxes-finance.com/insurtech/index.html

24-27: Money20/20 Asia, Singapore
asia.money2020.com

31: Women In FinTech Summit, London
re-work.co/events/women-in-fintech-london-2020

Banking Technology is a prominent media partner of many financial services, insurance and payments technology events worldwide. If you are interested in a media partnership with us and marketing opportunities, please contact:

David Taylor, Marketing Manager
Tel: +44 (0) 207 017 5379
Email: david.taylor@fintechfutures.com

SmartStream