# **CIBP** SPRINT

COCREATING VALUABLE CONTENT AND INSIGHTS FOR OUR MEMBERS

# **BANKING AND FINTECHS** A win-win partnership



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# **Executive Summary**

This report provides information on the initiatives that connect banking institutions with fintechs. The banking market has been experiencing a shake-up, an evolution, and a transformation since the fintech wave started years ago; and it seems stronger than ever.

We begin our exploration with the global landscape of fintechs, an Ernst & Young study, and its most significant insights on how users recognize fintech as financial services providers and the factors that influence the users' decision on banking services. We bring then the banks in the analysis with the PwC Global Fintech Report, which shows insights from companies' leaders on their perception of the readiness of banks in a market shaped by the fintechs success. We end this introduction part with the role of fintech hubs and ecosystems in this scenario.

To illustrate the fintechs innovation, we took the examples of ones that are gaining greater attention from customers, investors, and banking institutions. We also invited some CIBP members to share their strategies and practices regarding startups and fintechs.

The report serves the purpose to start conversations about financial coop institutions positioning their strategies and operations to a win-win partnership with fintechs. We hope you feel stimulated to reach out to CIBP for more insights and connections, making our community stronger and more innovative.



### How can CIBP leverage a coordinated way for a meaningful and collaborative innovation throughout its community?

### Taking on this challenge, the CIBP team designed a solution: the SPRINT.

The SPRINT connects and engages specialists and seniors in an international approach of innovation and technology. This is a collaboration from inside and outside CIBP members to generate knowledge, tools and experiences to be used by all members. Based on a methodology of innovation sprints, our focus is to produce relevant material from within the community to serve real challenges. or product trends, the SPRINT team will deep dive in the matter with data and cases and share same report drafts to encourage CIBP members to share their own experiences and insights. After that, an insightful and practical report will be produced.

Community engagement is the backbone of a successful SPRINT. Reach out to the CIBP team to co-create the next one.

#### How does this work?

After selecting a theme of innovation and technology that has multiple implications in banking and financial services, in coop models





#### Introduction - Global Fintech Landscape

Financial technology start-ups combine an innovative approach to technology and business model to enhance and disrupt financial services. The fintechs have been shaking up the traditional banking industry, developing customercentric digital products and attracting all attention from venture capitalists. They are breaking up financial services, specializing in mobile payments, digital-only banks, money transfer, loans, retail investing, accounting, and much more.

Fintechs are growing at an unprecedented pace. A global landscape shows they reached a tipping point, from a hype tech wave to global mass adoption in mature markets and breaking into emerging countries. CBInsights reported 48 fintech unicorns in the first half of 2019 in the world with a total aggregate value of \$187 billion. 28 out of those 48 are based in the United States.

The latest Ernst & Young Global FinTech Adoption Index interviewed 27,000 people in different countries and found that 64% of global consumers use a fintech solution. This data shows that fintechs have become recognized financial services providers, consolidating their relevance in the market.

The rise of mobile banks and mobile platforms made finance management easier and ubiquitous for users. It was the main driver for the fintech adopters as shown in the EY Index: in 2017, 30% of users aimed at being able to easily set up an account. However, according to the 2019 report figures, the users' priorities changed: 27% said fees and rates were the main reason for choosing fintech solutions, while only 20% said that ease of setting up an account was the main driver. A more mature market for fintechs leads to an expected fight in value proposition over lower costs and better customer experience.

This survey also shows the importance of trust in the consumer's behavior. For the non-adopters of fintech services, trust was the factor for using traditional financial institutions. As trust becomes a barrier for fintechs in some markets, it becomes an opportunity for institutions to deliver new services and technologies built on the existing bonds with their clients. It also sets for fintechs a strategy of partnering with banks to deploy their services.





Venture Capitalists are not the only ones interested in Fintechs solutions. Banks are another critical player in this market, increasing the cases of banks investing in or acquiring fintechs. As fintechs gained momentum, banks' innovation teams and departments started to strengthen through partnerships and fintechs inspiration. The acquisition strategy enables banks to access technologies that may give them a competitive edge, rapid expansion into new markets and new customer bases. Medici, a global community focused in fintechs, mapped 21 acquisitions deals in 2018 by major banks, achieving a total value of 1.4 billion dollars, considering only the disclosed value transactions.

Since 2016, PwC does a Global Fintech Report analyzing the fintech global landscape. In the 2019 edition, the report brings a survey with financial services companies' leaders regarding technologies that will drive change in the sector. Artificial intelligence, big data, cloud solutions, and blockchain are the top technologies mentioned by the executives. PwC also shows that Chinese companies spearhead the trend of embedding fintech and emerging technologies in their strategies and operations. The Chinese financial environment for innovation is shaped by a regulation that promotes fintech innovation to improve competition and give access to unbanked consumers combined with a business capability to adopt emerging technologies.





The report indicates that 90% of financial service companies' executives are very or somewhat confident that fintechs will deliver revenue growth over the next two years, and 75% said they are stepping up investments in fintechs in this period. Only 37% of these executives say they have fintech-based products and services available for customers; the other part is still in research, development, and pilot stage.

What about the role of leadership in this process? PwC report suggests the importance of C-suite executives in driving innovation in financial institutions. Framing the Chinese case, 46% of institutions have C-suitedirected operations regarding digital transformation and their confidence in revenue growth is higher than the average of the research, 92% are very confident about it. Security, systems risks, and regulation are the top three greatest challenges to implement a fintech strategy in the executives' perception. Traditional companies set execution and leadership engagement as the key strategy for overcoming the slow speed-to-market challenges and for adopting innovation culture.

At last, the report puts a light on workforce transformation. Recruitment in this innovation-driven scenario approaches the tech industries to find the talent needed in engineering, data analytics, and other digital skills. At the same time, organizations focus on upskilling their workforce, fostering a fintech mindset and agile processes to their routine. Skills shortage may become a threat to traditional businesses in an industry that disruption is accelerating. 70% of financial service company executives are concerned about the availability of fintech skills among their workforce. Framing data by country, Brazil (75%), Japan (85%), the UK (73%) and the US

(79%) are more likely to be concerned about their workforce, compared with China (49%).

Positioning financial services companies to succeed in the competition with fintech competition derives different strategies. regarding technology Uncertaintv development, regulation risks, and business model sustainability will impact banks as well as fintechs. Will traditional bank executives choose a collaboration with startups, or will they bet on acquisition to close the technological gap? Any path they choose, building an innovation environment capable of leveraging new talents, emerging technologies and disrupt business models will be a shared requirement in the industry.



### **Fintech Ecosystem**

The formation of an innovation ecosystem for the financial service industry requires more than fintechs and banks sharing working spaces. The interaction between consumers, fintechs, banks, investors, regulators, governments, and educational institutions is replacing bilateral partnerships to more multi-stakeholder collaboration. The ecosystem enables far-reaching benefits for all players and parts, which help the financial services delivered at lower costs, higher speeds, and better quality for consumers.

The Fintech Ecosystem Playbook, an Ernst & Young study on fintech hubs in different regions, sets 5 pillars that shape a fintech ecosystem:

**1.Sustained Demand:** related to consumers behavior regarding digital readiness, enterprises demands, including small and medium-sized companies, and even the demand from traditional banking institutions for fintechs;

**2.Access to Capital:** pillar related to funding that may be from angel investors, government, financial institutions, corporates, and private equity funds. This pillar also explores the ease of raising capital from different sources;

**3.Talent Availability:** related to recruitment and attraction of local and international talents, and the strategies for upskilling and developing the workforce in soft and technical skills;

**4.Regulatory Openness:** related to the regulatory environment on ease of doing business, credit availability, taxation policies, visa policies, and presence of regulatory sandboxes;

**5.Enabling Environment:** related to the presence of essential players in the ecosystem such as accelerators, incubators, and enablers for accessing local and international markets.



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Also, the Playbook brings important trends in each of these pillars. On-Demand, successful ecosystems have fintechs in multiple sectors, from digital accounts to cryptocurrency, serving individuals, corporations, and small and medium-sized enterprises, financial institutions, governments, and regulators. On Capital, some fintech ecosystems have dedicated funds and fund-of-funds to support the startups' growth. Private and public initiatives are easing access to risk capital globally. On Talent, strong tech talent attraction programs are relevant strategies for the sustainable development of fintechs. Careers such as data scientists, financial engineers, mobile marketers, and computer programmers are the most valuable in the ecosystem. The lack of skilled workers leads to initiatives in

upskilling the workforce and making it future-ready. On Regulation, it becomes usual to launch open banking initiatives, making data, frameworks, and protocols accessible for fintechs to provide and expand their services. Regulators are also changing their approach, adopting technologies like distributed ledger technology (DLT) to improve processes and rolling out fintech-related laws and licenses to operate without a banking license. Finally, on Environment, public accelerators, support from traditional banking institutions, and networking platforms with financial market players are the most seen trends in different regions.

We may not have reached a peak for fintechs. The growing number of unicorns and expanding fintech hubs may set this market as crowded. It is showing that it

is getting tighter and the bar is getting higher. Because of different players in different stages, investors choose mature products and services, selecting companies and platforms that have shown viable. The market keeps growing and there is no sign of letting up. The fintech's game-changing position in the market is leveraging new segment opportunities for regtechs, the ones that use technology to improve efficiency in the management of regulatory processes, and insurtechs, improving the insurance industry products. Much still needs to be explored in this market as digital transformation must enable business scalability, growth, and regulatory compliance.



# DIGITAL DISRUPTION Fintechs and financial services



In this section, we share short profiles of fintechs that are gaining market traction with millions of users and substantial investment rounds. The users' fast-growing adoption and engagement with their services pave the way for the future of the financial market.





#### **REVOLUT (UK)**

https://www.revolut.com

Revolut is a British-based digital payment and banking group. This fintech was launched in 2015 and offers a wide range of banking services in a single mobile app:

• Free UK account and free euro IBAN account;

• Transferring money abroad in 30 currencies;

• A card that enables cash machine withdrawals with no fee up to £200 per month;

• A cryptocurrency exchange allowing users to convert 30 currencies into 5 crypto-currencies;

- Vaults for budgeting and saving money;
- Insurance for a range of things, from phone to health.

The fintech business model also offers the users monthly subscriptions with cashback, higher no-fee ATM withdraws, and travel services. Revolut was born out of the slow development of digital products in traditional banking services. Banks were not able to satisfy customers that wanted to access services on their phones. With over 8 million users, its current value is 1.7 billion dollars, an impressive fintech unicorn. The company's next move is to raise 1.5 billion dollars for a global expansion strategy.

#### ANT FINANCIAL (China) https://www.antfin.com/

Ant Financial is the biggest fintech company in the world, as it reaches U\$ 150billion in valuation, according to Crunchbase Unicorn Leaderboard. It is a spin-off of Alibaba, which owns 33% of the startup, and it was officially established in 2014. Ant Financial has a suite of services: mobile payments, savings accounts, personal investing, lending, and credit scoring. It owns the following financial services:

• Alipay, the largest mobile payment platform founded in 2004. The platform

reached 1 billion users. Ant Financial positions Alipay as more than an e-wallet, but as a lifestyle platform. The user can even book a hotel, call a cab, buy movie tickets, and make medical appointments.

• Ant Fortune, a wealth management app. Users can access different funds in the app, such as Yu'ebao, the world's biggest money-market fund that reached millions of users days after its launch in 2013. The app also provides updates on stock movements and personalized investment recommendations.

• Ant Financial Cloud, an open platform providing cloud computing services for financial enterprises. It helps financial institutions build safer, cheaper and more efficient IT infrastructures.

• MY Bank, a small and micro-enterprise online bank.

• Zhima Credit, a credit service that uses artificial intelligence to help those who never borrowed from traditional institutions to prove they are trustworthy.



MOEY (Portugal) https://moey.pt/

Moey is considered the Portuguese Revolut born inside a cooperative banking institution. Moey is a free app built on Meniga's technology, the leader in providing tech solutions for financial institutions worldwide, reaching over 65 million digital banking users in 30 countries. The app offers the following services:

- Free account;
- Free transactions;
- Access to payment services including Apple Pay, MB WAY, Android Wallet and Group expenses;
- Split group expenses with users' contacts;
- Report on the user's earnings and spending;
- Targeting a goal and saving money to reach it.

The app functionalities aim at helping customers gain a better understanding of their spending and finances and providing easy access to payment services.

Moey is a case of digital banking products out of a traditional financial institution. It is a brand from the Crédito Agrícola (www.creditoagricola.pt), a leading cooperative banking and insurance group. It has a remarkable century-old history in Portugal, generating value for its clients, local communities, associates, and employees. With more than 400,000 associates, 1,500,000 clients, and 654 branches, Crédito Agrícola has excellent penetration in the rural areas and the countryside, but not so in the urban areas and among the youth. Moey opens new segments for the group, connecting users of digital services to one of the most stable financial group in Portugal.

#### **STRIPE (US)** https://stripe.com/

Stripe is an American payment processing startup founded in 2011. In September 2019, its' valuation reached U\$ 35 billion. Founded to help small online businesses, the company now has in its client portfolio Microsoft, Amazon, Google, Salesforce and other tech giants.

Stripe enables any company to accept and make online payments. It creates an infrastructure for online financial transactions. The success of the company can be attributed to its tech solution efficiency, that won over all the competitors' products. The growth of e-commerce and online transactions with a high-end quality product created the path for Stripe to reach third place of biggest financial service in the world. The market traction allowed Stripe to diversify its products and services:

- Stripe Atlas is a platform for forming new business. It makes easier the process for entrepreneurs, building a legal framework for the new company, creating legal documents, and opening a bank account.
- Stripe Sigma is a data analytics tool to help businesses use Stripe payment data more intelligently and efficiently.
- Stripe Radar is a fraud prevention tool that uses machine learning that trains on data across the millions of companies that use Stripe's solutions.
- Stripe Issuing is a platform to help companies create, distribute, and manage physical and virtual cards. Companies can easily create cards for their employees and even digital banks can use the tools for their card solutions.
- Stripe Terminal helps businesses unify the payment stacks, managing online and offline payment channels in one tool.

#### **BILLON (Poland)**

#### https://billongroup.com

Billon is a Polish-British fintech with a high-performance Distributed Ledger Engine system unifying national



currency transactions, documents onchain, and identity management into a single platform. Billon consolidates payments and regulated data, with the management of identity, in real-world implementations.

Billon disrupts the way money is stored and moved between people and organizations. It uses blockchain and distributed ledger technology for those who want mass scale performance with national currencies, better digital engagement with users, and a cheaper back office. The revolutionary payment system sends money instantly and directly between people, complies with financial regulations, and eliminates barriers of time and distance. Billon's technology does not use cryptocurrencies, only traditional currencies.

The fintech received a grant from the European Commission to complete

the development of B4TDM (Blockchain for Trusted Document Management). This technology allows storing, signing, and sharing electronic documents. The solution is compliant with the EU regulations, including the General Data Protection Regulation.

#### CLAUSEMATCH (UK)

https://clausematch.com

ClauseMatch is a British regtech, a regulation solutions startup that provides a software-as-a-service platform for compliance collaboration and smart document management. The complex regulatory processes within and across countries are a significant burden for financial institutions. Its changing environment and the demand for more agile and transparent operations push digital transformation and that is where ClauseMatch technology fits. Using artificial intelligence in workflow management, the software saves time and resources, diminish human errors in the process, uncovering hidden risks and providing better insight for management. The startup expanded into the Asia Pacific market, opening a headquarter in Singapore. It received \$2.5 million venture debt funding from Silicon Valley Bank to support the high growth in Europe and Asia.





The fintech sector is constantly evolving with disrupt solutions enabled by technology. We presented some startups profiles worth to look upon. The following is a list of other fintechs that are high in the biggest companies lists and that deserves your attention:

- Coinbase (US): cryptocurrency exchange platform (https://www.coinbase.com/)
- LUFAX (China): online marketplace for financial assets (https://www.lu.com/)
- NuBank (Brazil): biggest fintech digital bank in Latin America (https://nubank.com.br/en/)
- Adyen (Netherlands): global payment company (https://www.adyen.com/)



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# SICOOB UNICOOB (Brazil)

Sicoob Unicoob is part of the largest cooperative credit system in Brazil called Scicoob. It has the mission to promote financial cooperative and to contribute to sustainable development in communities. Since its inception in 2001, the institution expanded reaching 217 cities in 7 states in Brazil. With more than 370,000 associates and 18 cooperatives, Sicoob Unicoob offers a unique finance experience, with a responsible administration of its associates and sharing results with the communities, leveraging local development.





### Innovation, Startups, and Fintechs at Sicoob Unicoob

The corporate innovation strategy of Sicoob Unicoob started through an exploration stage, by which the institution did international trips to the most innovative ecosystems in the world like Silicon Valley, China, Israel, France, Germany, and New York, gathering insights on innovation, products, and startups.

From one of these international immersions, Unicoob contacted the biggest startup accelerator and most significant innovation ecosystem, the Plug and Play Techcenter, that has 15,000 startups in their portfolio. Unicoob aligned its objectives and its innovation strategy and became a founding member of Plug and Play vertical on Fintech in Brazil. By this initiative, the institution got closer to startups and built bridges with fintechs and other companies that are innovating in the market. The first initiative is on the credit sector, in which Plug and Play is connecting Unicoob with startups and fintechs that may fulfill this need.

In 2019, Sicoob Unicoob developed an innovation program called Mission 21. The program's goal is to become a transformative agent in their cooperatives, changing the failure culture and leveraging an innovation mindset with all levels of operation. The cooperative members are separated into small teams of 2 to 5 to collaborate in solving problems from the institution operation. The methodology is based on problem analysis, ideation, and prototyping, and counts on the guidance of the Innovation Squad, a multidisciplinary team from inside the organization. The three best ideas, chosen during a Demo Day, will be implemented and scaled to the operation.



# **BPCE Group (France)**

BPCE Group is the second-largest banking group in France, formed in 2009 from the association of 2 big historical financial groups . BPCE finances over 20% of the French economy. It operates in the retail banking and insurance fields to individuals, investors, local government bodies, and companies in France and internationally. BPCE has more than 100,000 staff and serves 30 million customers.

The Group has a strategic plan to 2020 in which the technological revolution is core. The priority of the Group in this plan is to accelerate the digital transformation to offer more straightforward products and services with greater autonomy and efficiency.





### Innovation, Startups, and Fintechs at BPCE

BPCE separates its strategy regarding startups and fintechs in two fronts: the ones they follow and help to grow and the ones they work with and collaborate.

On the first front, BPCE collaborates with HUB612, a dynamic community, an accelerator that supports startups from Fintech, Insuretech, Blockchain, and supports the digital transformation of established businesses. The HUB is an open community in Lyon and Grenoble region, with coworking space, networking events and is a support center, with coaching and specialized mentoring. HUB612 has a seed fund and can invest from € 50k to € 200k in equity participation in the incubated startups. Using the same strategy, they collaborate with 1Kubator, the first incubator network in France that offers to the startups support, funding up to € 25,000 and offices. 1Kubator also operates an acceleration stage in

collaboration with large companies that are leaders in their sector for startups that have already passed the first stage. Also, on this front, BPCE has a venture capital firm, Seventure, which is a subsidiary of BPCE Group corporate investment management and financial services arm. One vertical focused on Digital technologies that include: Fintech/Insurtech, innovative services, and software.

Adding to the strategies of the first front, BPCE has invested directly in some fintechs and startups, like PayPlug, Dalenys, and Smoney, the last one created inside the bank, all in the payment industry.

On the second strategy front, to work and collaborate with startups, BPCE has acquired a share of Truffle Financial Innovation Fund, to invest in startups created or co-created by BPCE Group that will develop new products that may be offered to the bank customers or other customers, in a B2B, B2C, or B2B2C model. The targeted fields are artificial intelligence, machine learning, data, new business models in credit and insurance. On this front, examples of working with startups are Meniga and Collibra, that service the group with technology in building app, improving the customer's experience, and in data solution, respectively.

Another initiative on this front is that BPCE became the first French financial group to make public a platform on open data and API, an open banking contribution to startups to accelerate the creation of value. As an example, open data was used to evaluate the impact of Brexit in the cities in the north of France. Complementing these initiatives, BPCE launched a digital ecosystem, 89C3. It gathers different labs with the mission to test and make proofs of concept of solutions, products, and services, that will be implemented in the group, in various networks.



### CONCLUSION AND OUTLOOK

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### **Conclusion and outlook**

The PwC Global Fintech Report showed us high confidence in financial services institution executives in the potential of fintechs to transform the market. These small and fast-growing companies are setting the pace of innovation development, technology adoption, and business model disruption.

The fintechs listed in this Sprint gave an overview of the leading technologies that are being turned into products for users. Moey is an exceptional case of how a cooperative group used the fintech trend to quickly launch a new product that opened new opportunities in new segments.

CIBP members cases provided different frameworks of how to build a win-win relationship with fintechs and startups. Sicoob Unicoob brought references from the most innovative cases around the world to set a program to engage the staff in designing solutions for its large operation and to change the existing mindset. BPCE Group decided to diversify the strategies, working closely with investors, funds, and accelerators, and taking the lead to develop open banking platforms to foster innovative solutions, and to develop spaces for testing solutions in its business.

To complement the information gathered in this Sprint, a specific survey could be done with executives of CIBP members regarding the perception of the institutions' readiness to adopt emerging technologies and the strength of their fintech strategies. Also, a comparison could be done between coop and non-coop banks strategies, showing if there is a gap between those models on connecting and acting on market trends.



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#### **SPRINT Team**

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