

How fintech is evolving from a disruptive force into an integral enabler

**Financial institutions
M&A: Sector trends**

The magic ingredients for innovation (or at least M&A)

Banks embrace fintech as a vital solution for legacy challenges

Success stories intensify private equity/VC appetite

Top-down support from the European Commission, through national governments and regulators, to local trade bodies



Fintech

Fintech M&A volumes and values soared in H1 2018 as banks embraced fintech as a key enabler of operational efficiency and customer satisfaction. Private equity and venture capital houses continued to invest aggressively in the space, buoyed by a series of strong exits and growing buyer demand.

Overview

CURRENT MARKET

Upward, significant

WE ARE SEEING

- Significant uptick in banks embracing fintech as an enabler of financial services, through strategic investments, JVs with fintechs, home-grown digital offerings, collaboration projects with competitors and accelerator programmes/dedicated venture capital support
- Inaugural deployment of back-end infrastructure fintech strategies, in particular risk management and operational efficiency tools. Though mainstream deployment appears to be some time away yet
- Growth of fintechs, through successful fundraisings, acquisitions and new product/service offerings
- Sustained high levels of financial sponsor appetite, including through specialist fintech investment funds

KEY DRIVERS

- Fintech is more widely viewed as a solution to challenges faced by established financial institutions:
 - Reducing cost-to-income ratios, which have remained broadly steady for many institutions since the global financial crisis (due to rising regulatory compliance obligations, resource drain from legacy IT systems and litigation charges)
 - Reducing time lag to deposit/fee receipt through automation of on-boarding and other compliance procedures
 - Increasing wallet share from existing customers through enhanced customer experience, on-demand and real-time services and tailored products
 - Opening new distribution channels, appealing to Generation Y and mass-affluent customers as well as reaching unbanked/under-banked communities
 - Mitigating rising cybersecurity threats and synthetic identity fraud. AI and advanced analytics are becoming increasingly critical for detection and prevention of financial crime
 - Reversing customer trust erosion through the promise of truly objective and impartial investment advice in the customer's best interests
- Tangible successes boosting M&A activity
- Top-down support for fintech from:
 - National governments through funding and incubator projects
 - Regulators through global collaboration projects and proposals for harmonised standards across the EU
 - Trade bodies through positive lobbying efforts

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The fintech bull run has escalated, and bank CEOs are no longer standing idly by. Many have grabbed the bull by the horns and entrenched themselves in a stampede towards the digital future!

Our M&A forecast

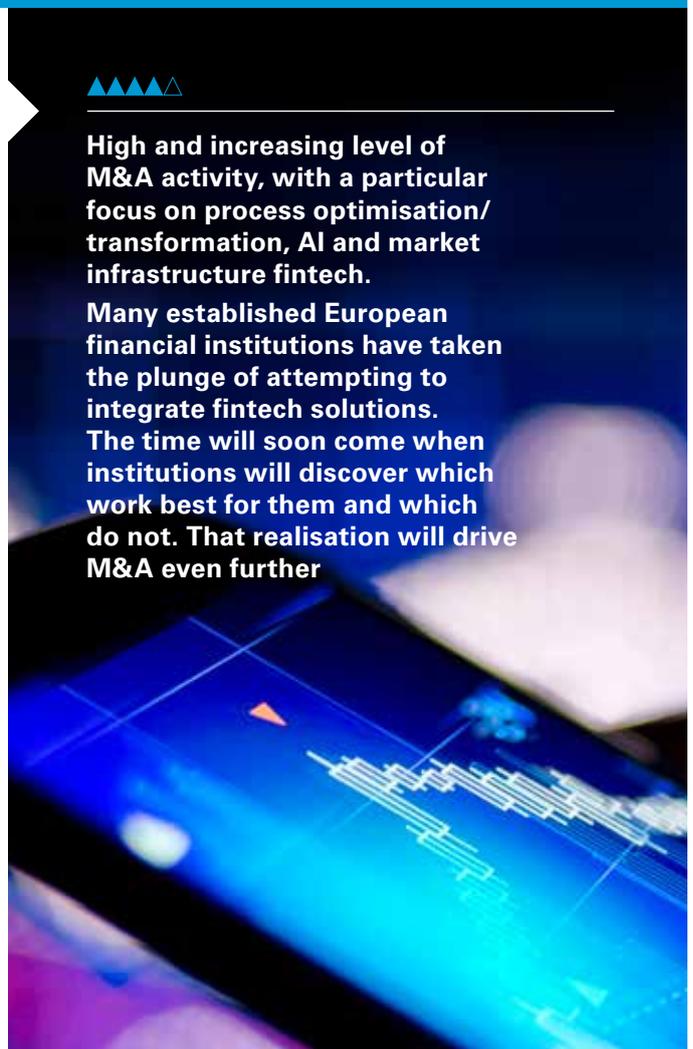
TRENDS TO WATCH

- Preference for bank investment through dedicated funds (as opposed to direct investing). The fund model allows maximisation of capital across a range of fintechs and subsequent cherry-picking of appropriate businesses for partnership or ownership
- Rise in outsourcing arrangements as banks succumb to the benefits of scalability, flexibility and variable usage costs which the public cloud offers (compared to private data centres)
- Increasingly fierce competition between regulators to attract and encourage innovation, including dedicated fintech licencing and other start-up support
- Healthy regulatory symmetry for banks and consumer-facing fintech. Santander, BBVA and CaixaBank are amongst those actively seeking a level playing field



High and increasing level of M&A activity, with a particular focus on process optimisation/ transformation, AI and market infrastructure fintech.

Many established European financial institutions have taken the plunge of attempting to integrate fintech solutions. The time will soon come when institutions will discover which work best for them and which do not. That realisation will drive M&A even further



Fintech – Publicly reported deals & situations

Venture capital investment into UK fintech saw a 153% increase in 2017 year-on-year*

Global fintech deal volume reached US\$29.35bn by Q2 2017**

Banks believe the fintech hype

Strategic investments:

NatWest

Acquisition of FreeAgent
(June 2018)

BBVA

Equity investment in Atom Bank and Neon
(May – June 2018)

Deutsche Bank

Acquisition of Quantigo Solutions
(May 2018)

KBC

Acquisition of a minority stake in blanco
(April 2018)

Sberbank

Acquisition of 60% of Dialog
(March 2018)

J.P. Morgan

Acquisition of a minority stake in Mosaic Smart Data
(March 2018)

Banco BNI Europa and Varegold Bank

Investments in MarketInvoice
(March 2018)

Citi and Crédit Agricole

Acquisition of minority stakes in SETL
(February 2018)

JVs:

Albaraka Türk Katılım Bankası

Digital Islamic banking JV with Solarisbank
(May 2018)

Sberbank

E-commerce JV with Yandex
(May 2018)

HSBC

Corporate payments JV with PayPal
(March 2018)

BNP Paribas

Mobile banking application JV with Tink
(March 2018)

Bank of America Merrill Lynch

SME lendtech JV with Amazon Lending
(February 2018)

New business lines:

Santander

Upcoming launch of UK digital bank
(May 2018)

Standard Chartered

Launch of Cote d'Ivoire digital bank
(March 2018)

HSBC

Launch of Connected Money
(March 2018)

Collaboration projects:

BNP Paribas, Commerzbank and ING

Collaboration on Marco Polo blockchain trade finance project
(February 2018)

ABN Amro, ING and Société Générale

Agricultural commodity trade collaboration
(January 2018)

Start-up support:

Landesbank

Launch of Helaba Digital
(May 2018)

NatWest

Launch of London, Manchester, Bristol and Edinburgh specialist fintech accelerators
(April 2018)

BBVA

Investment in Sinovation Fund IV to support Chinese AI start-ups
(April 2018)

Barclays

Launch of Barclays UK Ventures
(April 2018)

BNP Paribas

Launch of Finextra fintech investment fund
(February 2018)

Citigroup

New London-based innovation centre
(February 2018)

Swedbank

Launch of its Riga accelerator programme
(February 2018)

Rabobank

Launch of Rabo Frontier Ventures
(January 2018)

Standard Chartered

Launch of SC Ventures
(January 2018)

Top-down support for fintech continues

Governments:

European Commission and European Investment Fund

Joint €410m of funding for Venture EU
(April 2018)

Scottish Parliament

Launch of FinTech Scotland
(March 2018)

European Parliament

Launch of EU Blockchain Observatory and Forum
(February 2018)

Regulators:

IOSCO

Launch of its support framework to boost cross-border fintech collaboration
(May 2018)

European, US and Asian regulators

Collaboration to create "global sandbox"
(March 2018)

European Commission

Plans for common blockchain technology standards to support EU fintechs
(March 2018)

UK FCA and US CFTC

Fintech collaboration and support initiative
(February 2018)

Trade bodies:

British Business Investments

Launch of £500m managed funds programme
(May 2018)

International Underwriting Association

Encouragement of electronic trade processing
(March 2018)

Fintech, the 'enabler'—pushing the boundaries

Deal highlight

Banks understand what fintech means for their businesses. HSBC's deal with Quantexa, for deployment of AI tech for AML, fraud and terrorist funding prevention, is the first of many to come

Risk management:

HSBC

Deployment of Quantexa AI for AML, fraud and terrorist funding prevention (April 2018)

Hong Kong Stock Exchange

Deployment of AI for unusual trading activity detection (April 2018)

NatWest

Deployment of AI for invoice redirection fraud prevention (April 2018)

Operational efficiency:

Commerzbank

First German corporate FX transaction using blockchain (May 2018)

HSBC

First commercially viable trade-finance transaction using blockchain (May 2018)

BBVA

Inaugural issue of a loan using blockchain (April 2018)

CaixaBank

Inaugural foreign trade operation using blockchain (April 2018)

Tackling social concerns:

Airfox

Launch of free Brazilian Android app to reach unbanked communities (February 2018)

But not yet ready for mainstream use:

Swift

Identification of operational challenges through Nostro liquidity management and reconciliation proof-of-concept test (March 2018)

Scaling-up

Deal highlight

Revolut and OakNorth have both moved into "the black" within three years of launch. These successes have spurred VC firms to invest even more vigorously

Successful fundraisings:

Revolut, N26, Atom Bank, Babb, C2FO, Payslip, RecargaPay, Roostify and solarisBank

H1 2018 successful fund-raisings (January – April 2018)

Expanding footprints:

Tandem Bank

Launch of UK travel cashback card and savings account offerings (February – April 2018)

Starling Bank

Launch of insurance app-based platform and business account offering (February – March 2018)

Revolut

Launch of commission-free share trading services, pay-per-day travel insurance and disposable virtual card offerings (January – June 2018)

Monzo

Launch of current account offering (January 2018)

Inorganic growth:

IHS Markit

Acquisition of Ipreo (May 2018)

Paycoinq & Bancontact

Merger (March 2018)

Availability of growth funding:

Ascension Ventures and Unicorn India Ventures

Launch of UK-India Enterprise Investment Scheme Fund (June 2018)

Rocket Internet

£2.3bn of funding available for fintech and AI (May 2018)

DN Capital

Successful €200m fund-raisings to back European technology start-ups (January 2018)

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