

Fintech

Guy Potel

Partner, London
Financial Institutions M&A Group



Current market

Upward, significant

We are seeing

- Strategic M&A deals
- Interest from financial sponsors and new entrants

Key drivers

- First signs of tangible fintech success whets appetite
- Paradigm shift in how established financial institutions view fintech services. Fintech is embraced as an enabler of financial services rather than as a disruptor of traditional models
- Top-down support for fintech businesses. In the UK, for instance, the Government's push to making the UK a 'global capital of fintech' has provided the UK Prudential Regulation Authority (PRA) and the FCA with increased resources to ease the regulatory bottleneck. But the UK faces stiff competition
- Progressive regulatory and supervisory approach. Both the PRA and the FCA are acutely aware of their roles in ensuring the UK is 'open for business' in the run up to and beyond Brexit

Trends to watch

- Financial sponsor interest in fintech
- Competition for existing customer bases and profit margin pressures have forced global banks and insurers to look for new ways of attracting consumers. Fintech could offer the just-in-time personalised service and intuitive end-user experience that retail banks are searching for

- Opening up new markets. Fintech could afford innovative avenues for reaching significant unbanked and under-banked communities in China, Africa, India and SE Asia
- Optimising existing customer bases. Fintech could offer the enhanced quality of analytics required to process and maximise usage of the large volumes of data already generated by banks and insurers
- New efficient and cost-effective service provision models. Fintech could be the answer to re-architect archaic legacy IT systems that are a drain on internal resources



Regulator and financial sponsor support is at an unprecedented high. Fintech is now regarded as an enabler rather than a disruptor

Our M&A forecast ▲▲▲▲

Fintech is an M&A hotbed for financial sponsors and established financial institutions, as established financial institutions seek to decommission old technology, catch up with innovation from new entrants and meet growing compliance requirements.

Software majors will continue adding new technology to deepen the offering to financial service providers, particularly online wealth management, data-driven consumer lending platforms and cybersecurity.

'Regtech' could potentially de-clutter intertwined data sets and reduce configuration time for reporting. Existing market players will continue consolidating to take advantage of synergies, acquire new talent and access new markets particularly in the payments space.

But questions remain whether banks can really replace legacy IT systems with blockchain and when business valuations will start to factor into the future value of proven innovation.

Publicly reported examples

First signs of tangible fintech success is whetting appetite	<ul style="list-style-type: none"> □ Calastone's successful testing of blockchain in the funds industry (June 2017) □ Banco Bilbao Vizcaya Argentaria's use of blockchain to move money across borders (April 2017)
Fintech is being embraced as an 'enabler' of financial services	<ul style="list-style-type: none"> □ Aviva Ventures led a £5 million series A equity investment into Neos (June 2017) □ Aviva's proposed 'smaller tactical' acquisitions of fintech businesses to enhance digital innovation in its insurance offerings (May 2017) □ NIBC Bank's strategic investment in Ebury (May 2017) □ NIBC Bank's acquisition of a 30 per cent stake in Flinqer (April 2017)
Progressive regulatory and supervisory approach with top-down support	<ul style="list-style-type: none"> □ EU Commission has passed a resolution to support expansion of fintech (May 2017) □ Cross-border governmental co-operation, e.g., UK/Hong Kong (May 2017) and UK/Japan (March 2017) □ Russian central bank and lenders from the Fintech Association intend to set up an instant payment platform for Russian citizens (April 2017) □ The PRA's New Bank Start-up Unit is operational (January 2016)
Financial sponsor interest in fintech	<ul style="list-style-type: none"> □ Zopa raised £32 million from investors including Northzone (June 2017) □ Fintech Acquisition Corp. raised US\$100 million in February 2015 and US\$153 million in February 2017 via Nasdaq (January 2017) □ Acquiring entire Fintech businesses: <ul style="list-style-type: none"> – Pollen Street/BC Partners' bid for Shawbrook (June 2017)
Established financial institutions interest in fintech	<ul style="list-style-type: none"> □ Acquiring entire fintech businesses: <ul style="list-style-type: none"> – BNP Paribas's acquisition of PaySquare (May 2017) □ JV-ing with competitors to develop new technologies <ul style="list-style-type: none"> – Deutsche Bank, HSBC and UniCredit are 3 of the 7 EU banks collaborating to develop blockchain-based trade finance platform (January 2017) □ Establishing third-party accelerator programmes: <ul style="list-style-type: none"> – Barclays' partnership with Techstars to create the Barclays Accelerator programme (December 2015) □ Funding fintech start-ups in exchange for 'early bird' stakes: <ul style="list-style-type: none"> – Santander InnoVentures (July 2014)
'Non-traditional' interest in fintech	<ul style="list-style-type: none"> □ Orange's acquisition of strategic interest in Groupma Banque to launch mobile banking products (October 2016) □ Saudi Arabia's Public Investment Fund invested US\$45 million in a new fintech fund (October 2016)
Global banks and insurers looking for new ways of attracting consumers	<ul style="list-style-type: none"> □ Natixis's acquisition of a majority stake in PayPlug (April 2017) □ BNP Paribas's plan to invest €3 billion in digital technology by 2020 (November 2016)
Using fintech to open up new markets	<ul style="list-style-type: none"> □ Invapay hired EY to advise on establishing a JV with Chinese and Japanese partners (December 2016)
Search for new efficient and cost-effective service provision models	<ul style="list-style-type: none"> □ Sveriges Riksbank's proposed issue of 'ekrona', a new Swedish digital currency (November 2016)