

Redrawing the lines: FinTech's growing influence on Financial Services

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of incumbents expect to increase
FinTech partnerships in the next
three to five years

77%

expect to adopt blockchain as
part of an in production system or
process by 2020

20%

expected annual ROI on FinTech
related projects



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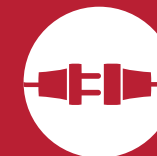
FinTech and Financial Services are competing less and coming together



88% of incumbents are increasingly concerned they are losing revenue to innovators



77% of Financial Institutions will increase internal efforts to innovate



82% expect to increase FinTech partnerships in the next three to five years

Key emerging technologies are enabling convergence



30% of large Financial Institutions are investing in Artificial Intelligence



77% expect to adopt blockchain as part of an in production system or process by 2020



54% of incumbents see data storage, privacy and protection as the main regulatory barrier to innovation

Managing expectations will be key



20% expected annual ROI on FinTech related projects

Foreword

FinTech has had a staggering effect on the market in the past year. Funding for FinTech projects is moving from a venture capitalist dominated field to a more mainstream investment field. Financial Institutions and FinTech companies are moving closer together and redrawing the lines that separate them. Financial Institutions have begun to look inward, driving internal innovation through partnerships with FinTech companies, innovations, and technological developments.

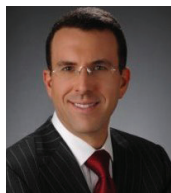
The insights in this report are based on the responses of over 1,300 senior Financial Services and FinTech executives from 71 different countries who participated in *PwC's Global FinTech Survey 2017*. We complemented the study with our own insights and analysis into how FinTech and Financial Services are moving closer together and how Financial Services is innovating in response to FinTech. The report is also fuelled by proprietary research from PwC's DeNovo, focused on FinTech innovation and its impact on financial institutions.



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More than 80% believe business is at risk

FinTech is a driver of disruption in the market. Financial Institutions are increasingly likely to lose revenue to innovators, with 88% believing this already is occurring.

The perceived business at risk trend has continued to rise, to 24% on average this year among all sectors. Incumbents are becoming more aware of the disruptive nature of FinTech, shown well by the fact that, in 2017, 82% of North American participants believe that business is at risk, up from 69% in 2016.

Insights from PwC's DeNovo also indicate that 30% of consumers plan to increase usage of non-traditional Financial Services providers and only 39% plan to continue to use only traditional Financial Services providers.



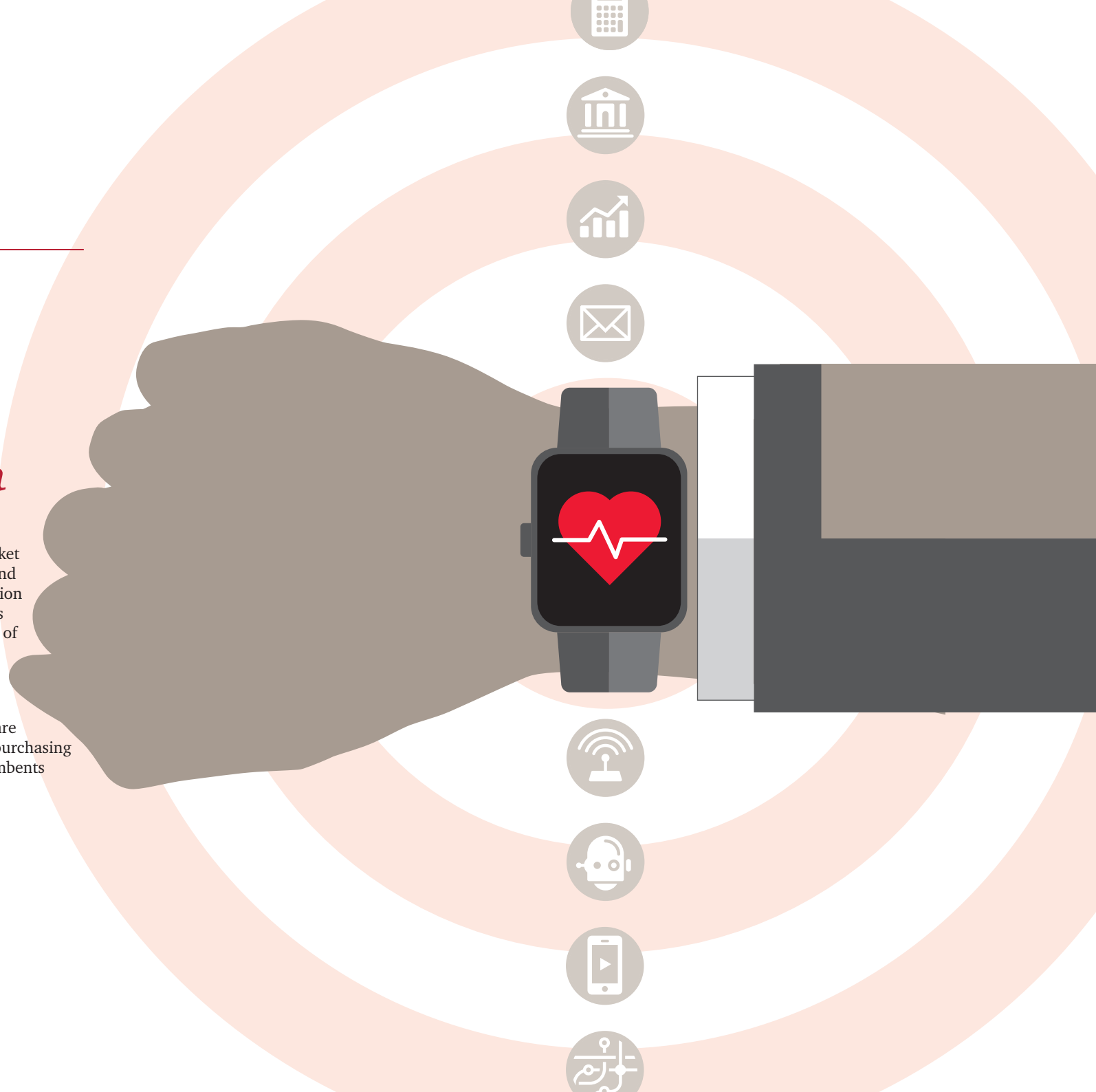
Financial Institutions are embracing the disruptive nature of FinTech

Traditional Financial Institutions have noted the market disruptions that are due to the influence of FinTech and are responding to it. In order to counter their perception as lagging behind, 77% are increasing internal efforts to innovate and 56% have put disruption at the heart of their strategy.

Boosting internal innovation will ensure that incumbents are able to appropriately respond to the market changes that are rapidly occurring. Not only are they doing this by internally innovating, but also by purchasing the services of FinTech companies, with 31% of incumbents doing so, in comparison to 22% last year.

56%

have put disruption at the heart of their strategy



Financial Institutions are learning to partner and integrate

FinTech companies create an ecosystem that fosters the collection of vast amounts of data and builds trusted relationships with clientele. Financial Institutions have realised the potential of this and are increasingly partnering with FinTech companies.

Currently, 45% of participants are partnering with FinTech companies, an increase from 32% last year. A further 82% have indicated that they are planning to do so in the next three to five years. These partnerships, although challenging, allow them to accelerate their plans for innovation.

82%

expect to increase FinTech partnerships in the next three to five years

“We learn from innovative FinTech firms, partner with them, and give them projects to deliver for us. It is a symbiotic relationship.”

Head of Innovation of an Asian Insurance company

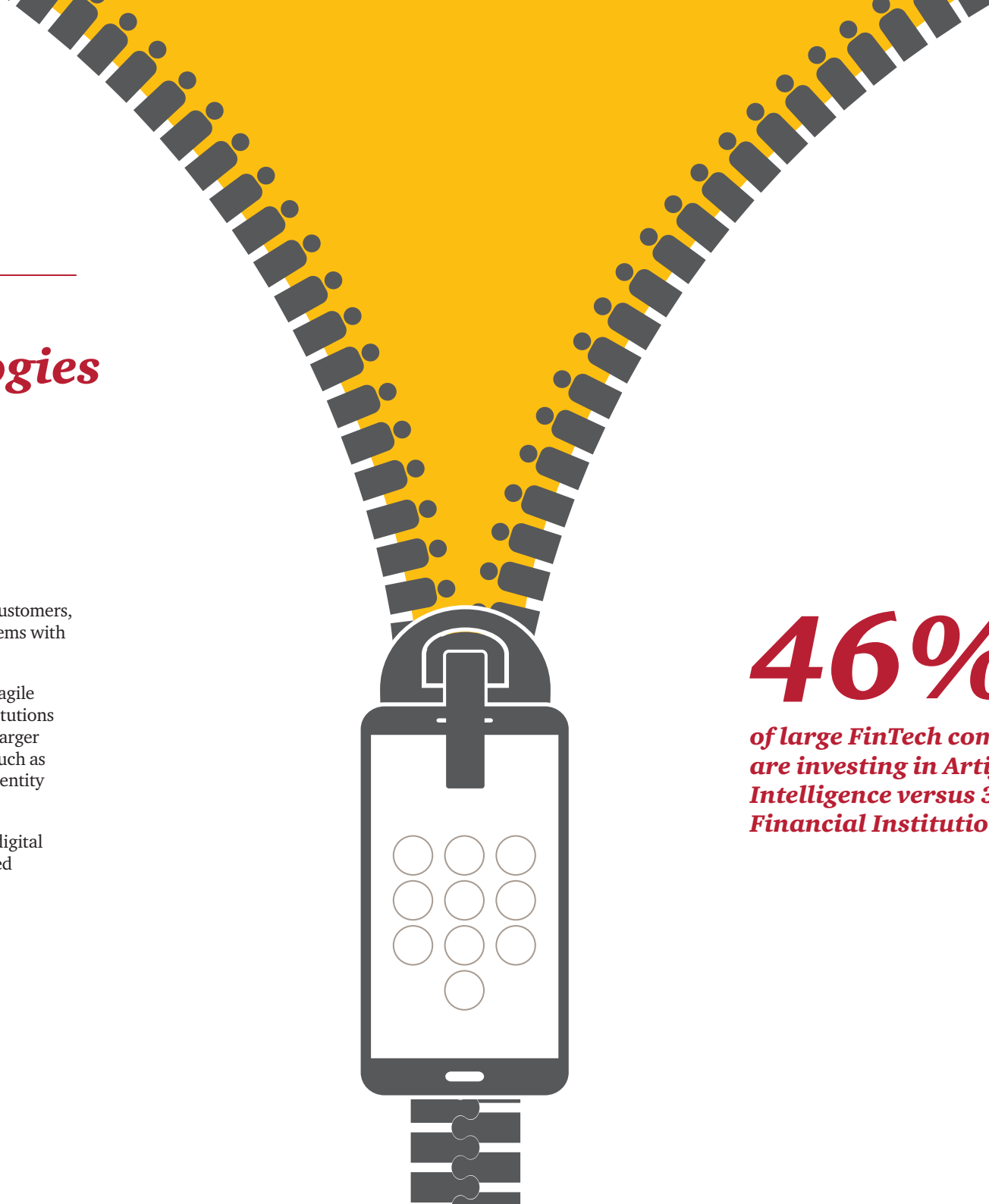


Investment in enabling technologies will help narrow the gap

To be able to provide a new digital experience for their customers, incumbents are focusing on integrating their legacy systems with data analytics and mobile technologies.

Once these systems are able to keep pace with the more agile systems of FinTech companies, traditional Financial Institutions will be able to invest in the technological advances that larger FinTech companies are already beginning to focus on – such as Artificial Intelligence, blockchain, and Biometrics and Identity Management.

Such technological advances will not only create a new digital experience for the customer, but will also create increased security, more agile processes, and reduce costs.



46%
of large FinTech companies are investing in Artificial Intelligence versus 30% of large Financial Institutions

Blockchain is moving out of the lab

There has been an increased familiarity with blockchain, coupled with an expectation for more Financial Institutions to adopt blockchain as part of their production system or process in the next three to five years.

This increased adoption will have a notable effect on the payments/trade infrastructures, digital identity management, and post-trade settlement as these areas present the most relevant business use cases of blockchain in the Financial Services sector.

With mainstream blockchain arriving soon, the regulators need to prepare to ensure that Financial Institutions can make use of the technology in an effective manner.

77%

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Regulations trigger disruption and innovation

Incumbents see regulations as barriers to change and a source of uncertainty. The main regulatory barrier to innovation, as indicated by 54% of participants, are data storage, privacy and protection. They further identified digital identity authentication and AML/KYC issues as the second and third most concerning barriers, at 50% and 48% respectively.

But innovators are bringing new solutions to the market, so-called RegTech, to quickly address regulatory requirements and ensure compliance with regulatory developments.

In some cases, regulations also act as a catalyst in the market, forcing incumbents into action. For example, the Payment Services Directive (PSD2), which will give rise to open banking across Europe, or the General Data Protection Regulations (GDPR), which will change data protection and portability laws.



“Legislation is not keeping pace with innovation, meaning the regulators are playing catch-up and creating significant uncertainty.”

CEO of a FinTech Company



The only way to get returns, is to invest to learn

Prioritisation in the innovation process is key for Financial Institutions. Figuring out the needs in the market first, and investing selectively to learn, will create opportunities for Financial Services companies.

By adopting one of the many solutions brought by innovators, Financial Institutions can gain incremental returns and find a way to expand new products and services and reach new customers. Adding option-creating investments, including transformational growth opportunities, to the portfolio helps Financial Institutions optimise their innovation process and better serve clients' needs.

Scaling back to focus on selective investments will pay out and may eventually lead to the expected annual Return on Investment (ROI) of 20%.

20%

expected annual ROI on FinTech related projects



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