Market trends overview

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Overview

1. We see growth and a range of innovation across the European lending landscape.

2. We see changing views within the banking sector in relation to FinTech, technology and innovation.

3. Firms need to develop new capabilities to compete in this environment.
A number of key agenda points arise as recurring themes in discussions with our clients.

We see a number of recurring themes in our client conversations:

1. Expansion - international vs. product
2. Evolution of regulatory frameworks
3. Capital strategy

European alternative lending data shows continued growth:

We see innovative approaches continuing to emerge across the region

- Greenfield
- DLT
- APIs
- Partnership
- E-commerce
- Risk analytics
In the UK, commitments to improving SME banking services are clear through the W&G funding rounds.

In the next 2 - 3 years, we will see friction removed from basic banking...

- **Customer service:** 24/7 virtual assistance; RM matching; leverage branches and digital channels; dedicated customer panels for proposition build
- **Product discovery:** Build price comparison tools for loans, overdrafts, BCAs, etc.
- **Onboarding:** frictionless switching; help set up a business; SMEs to open account in minutes; seamless digital onboarding journey
- **Ops / Administration:** Enable SMEs to manage tax submissions, bookkeeping, invoicing, payroll, expenses; accounting platform integrations; connected data
- **Ops / Cash flow management:** AI-lead insights and predictive cash flow; AI-based advisory for spending habits, refinancing options, business performance
- **Lending:** SME products in trade finance, invoice finance, supply chain finance, overdrafts, lending, and liquidity management
- **Payments:** Card acceptance; merchant acceptance; FX solutions; end-to-end payments solutions

Source: Public commitments of W&G winners - BCR Website
Intentions to pursue M&A activity are at their highest level since we started the study in 2010.

Q: Do you expect your company to actively pursue M&A in the next 12 months?

Source: EY Capital Confidence Barometer April 2019
The global trend towards Open Finance is creating a wide array of new financial services propositions.

### Overview

#### Illustrative Customer Journey

<table>
<thead>
<tr>
<th>Step</th>
<th>Scenario</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>‘Discovering the right product for you’</td>
<td>Customers are presented with new interfaces to discover financial products and services. Personalised recommendations are provided, offering the most suitable product for them. Accounts are opened in a frictionless manner, supported by ‘single-click’ on-boarding.</td>
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<tr>
<td>2</td>
<td>‘Managing your finances seamlessly’</td>
<td>Integrated budgeting tools are tailored to profiles and support specific financial milestones. Credit ratings are influenced by spending/saving habits; lending is personalised and inclusive. Intelligent ‘assistants’ anticipate needs, understand preferences and optimise ongoing finances. Next gen platforms provide access to faster, cheaper and more ‘intelligent’ payments.</td>
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<tr>
<td>3</td>
<td>‘Making the most of your data’</td>
<td>Lifestyle offerings are embedded, presenting deals and offers to enrich everyday life. Enhanced marketing is central to ongoing consents and permissions to their data.</td>
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</tbody>
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#### Key: Open Finance Use Cases

- **Supportive trends/enabling innovations**

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**Key:**
- **PCW** = Personalised recommendations
- **Eligibility checks**
- **Affordability checks**
- **Digital identity**
- **ID&V/AML**
- **Biometrics**
- **Chatbots**
- **Virtual assistant**
- **Financial hubs**
- **Milestone planning**
- **Budgeting tools**
- **Affordability checks**
- **Int. credit scoring**
- **Enhanced credit scor.**
- **Inclusive underwriting**
- **Third party overdrafts**
- **Aggregation**
- **Liquidity sweeping**
- **Rec. engines**
- **Payment initiation**
- **‘One-click’ payments**
- **Program. payments**
- **AI and Machine Learning**
A number of attributes of a successful ecosystem player are emerging

"Must have" to successfully be positioned into future ecosystem

**Technology foundation**
- Modern IT architectures, open banking and APIs are prerequisites for participation in ecosystems
- Digitalization of customer related processes and deeper integration

**Partnership approach**
- Coopetition instead of competition
- Collaboration schemes with FinTechs
- Collaborative innovation (e.g. development of cryptocurrency)

**Frictionless customer journey**
- Required functionalities without offline dependencies: instant, photo payments, card settings, managing disputes, instant payment notifications

**Data Analytics**
- Operational optimization and excellence
- Generate insights about the major customer needs and wishes

**Customer insights**
- Address customer pain points, e.g. bill splits, debt optimization, account book, budgeting and rule based investing/payments, geo-located offers and data driven campaigns

**Not exclusive relationship**
- Financial services should abandon the idea of exclusively owning the customer relationship and focus on how to best provide services to them

**Regulation**
- PSD2 and other regulation already affected the financial services sector. These should represent an opportunity and not a challenge though

**Transaction experience**
- Personalized pre/post-transaction experience (financing, insurance, supplementary products)
- Simple, safe, fast and transparent service offering
Thank You

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