



# Forging the future

**How financial institutions  
are embracing fintech to  
evolve and grow**



KPMG International

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[kpmg.com/fintechreport](https://kpmg.com/fintechreport)

# Foreword

The financial services industry is undergoing a paradigm shift. Emerging technologies like artificial intelligence (AI), machine learning, the Internet of Things (IoT) and blockchain, combined with ever-changing customer expectations and preferences, are redefining how financial institutions deliver services.

Remaining competitive in this constantly changing environment is an enormous task. Banks, insurers and asset management companies are undertaking major transformation efforts — transitioning from complex legacy technology environments to more agile operations, and creating more efficient compliance processes that fully satisfy evolving global and jurisdictional regulations.

Financial institutions see startup financial technology firms — or fintechs — as a major part of the digital future. As evidence of this, financial institutions have invested more than US\$27 billion in fintech and digital innovation since 2015.<sup>1</sup>

However, corporate investment is only part of the landscape. To understand how different organizations are approaching the strategic opportunities presented by fintechs, we conducted a survey of more than 160 financial institutions from 36 countries. We also held in-depth interviews with executives from leading financial institutions and our own financial services partners from around the world.

Our research shows that while financial institutions recognize that fintech is a substantial disruptor, no single path has emerged to define how companies should approach fintech. Leading financial institutions are pursuing many different avenues — including partnering, buying, sourcing and investment strategies.

One key best practice across leading financial institutions is strategy: having a clear fintech strategy that aligns to organizational objectives, considers current assets and capabilities, and includes an execution plan for addressing gaps and managing a transformation that may never have a defined end point as fintech will continue to evolve.

There is no clear winner when it comes to fintech today. Every organization has the opportunity to forge a new fintech future and win against their competition.

We hope this report will provide a useful resource for understanding how different financial institutions are approaching fintech, and factors to consider as you define your own path forward. If you would like to discuss our findings in more detail or learn what your organization can do to get the most value from fintech opportunities, please contact us or your local KPMG partner.



## Ian Pollari

Global Co-Leader of Fintech,  
KPMG International and  
Partner and National  
Sector Leader, Banking  
KPMG Australia



## Murray Raisbeck

Global Co-Leader of Fintech,  
KPMG International  
and Partner, Insurance  
KPMG in the UK

<sup>1</sup> KPMG Pulse of Fintech (data provided by PitchBook) <https://home.kpmg.com/xx/en/home/insights/2017/07/the-pulse-of-fintech-q2-2017.html>

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# The fintech imperative



Fintech is the biggest disruptor of our time for financial institutions. Fifty-seven percent of our survey respondents ranked it as number one, ahead of growing global regulatory complexity (51 percent) and new business models (46 percent). Whether it's providing new ways to enhance the customer experience, responding to regulatory change (such as open banking), underpinning new payments or digital delivery models, making service delivery faster and more cost effective, or improving the efficiency of back-office functions — the myriad fintech solutions now available, or in development, are helping to rapidly reinvent the entire value chain of financial services.

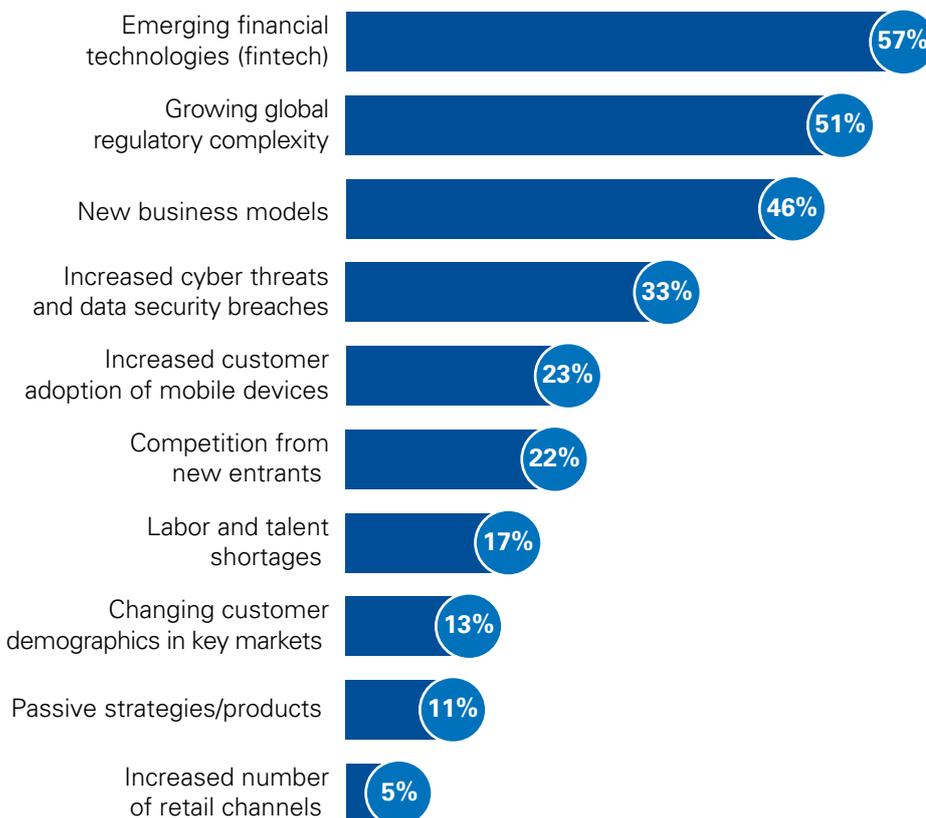
The swift evolution of fintech has forced traditional financial institutions — banks, insurers and asset management companies — to face a new reality. Products, services and business models that have worked for decades are no longer an option in the digital world. Legacy infrastructure must be replaced or augmented by newer, more efficient technologies.

To thrive, organizations recognize that they need to reinvent what they do and how they do it. Competitors are evolving too, and it's not just fintechs knocking on the market door — large tech giants, retailers and other global companies are looking for ways to provide the financial services customers want.

“Financial institutions too often deal with fintech in a very inefficient, fragmented and tactical manner. The companies that succeed have undertaken careful architecting of their transformation strategy, including the integration of fintech within their organization.”

**Murray Raisbeck**  
Global Co-Leader of  
Fintech,  
KPMG International  
and Partner, Insurance  
KPMG in the UK

### Top three greatest sources of disruption — all respondents



Source: KPMG International global fintech survey, 2017

We see tremendous opportunities to accelerate growth by partnering with other scale providers. At NAB, we've already established strong partnerships with the likes of REA and Xero. It's critically important for banks to shift their focus from products and service to gaining a deeper understanding of the customer, and how to help them solve problems through their preferred channel. Working with scale providers is a great way to achieve this goal.

**Jonathan Davey**  
Executive GM Digital,  
NAB Labs & NAB  
Ventures, National  
Australia Bank

## Consumers expect more from their financial services providers

Over the past 5 to 10 years, there has been a rapid shift in how consumers view financial services companies. Many consumers want financial institutions that are able to respond quickly to their needs with products tailor-made to them. We are seeing this across all industries. In our 2017 Top of Mind Survey<sup>2</sup>, 29 percent of respondents expected increasing demand for personalization to be the most disruptive consumer behavior trend over the next 2 years.

In an era where retail products can be ordered and delivered in the same day, it's no surprise that people want their financial transactions to also occur in real time — and for decisions related to their mortgages, insurance coverage or other financial needs to be made in moments rather than days or even weeks. Consumers also want transparency, and complex financial matters explained to them in clear, relevant terms that make sense within their day-to-day lives and that align with their overall financial goals.

"It's not just fintech causing a shift in consumer expectations. A lot of the change we're seeing in customer experience expectations is driven outside of financial services," explains Ian Pollari, Global Co-Leader of Fintech, KPMG International and Partner and National Sector Leader, Banking, KPMG Australia. "Large tech players have done very well in the context

of applying data analytics, AI and cognitive thinking to personalize the customer experience and take friction out of business processes. When companies like Uber and Netflix can do it, consumers expect all companies should be able to."

## The challenge of competing priorities

Financial institutions have long felt the pressure to both modernize their infrastructure and respond to changing customer demands and expectations. The obstacle for many is that they already face a complex array of urgent issues that constantly vie for management attention and investment.

For example, financial institutions around the world continue to spend a lot of time and resources to ensure they remain in compliance with changing industry regulations, such as the Payment Services Directive 2 (PSD2) in Europe, and participating in the rollout of new infrastructure, such as the New Payments Platform in Australia.

Legacy infrastructure is also a major stumbling block for financial institutions, some of which have been using the same mainframe systems for decades. Executives face frequent decisions about whether to allocate capital to keeping the lights on in the existing infrastructure, or allocate it to digital development.

Concerns about maintaining day-to-day operations can significantly hamper the ability of organizations

### Case in point legend

		
<b>Build</b>	<b>Partner</b>	<b>Buy/ invest</b>



### Case in point: Bank invests in and partners with a fintech for a small business loan solution

Santander UK has licensed the Kabbage platform to power automated lending to small and mid-sized businesses throughout the UK. The platform enables Santander to accelerate the underwriting process for businesses looking for loans up to 100,000 British pounds (GBP) online — reducing the amount of time required to process requests from 2–12 weeks to as little as 24 hours.<sup>3</sup>

<sup>2</sup> <https://home.kpmg.com/xx/en/home/insights/2017/06/top-of-mind-survey-2017.html>

<sup>3</sup> <https://www.ft.com/content/9925cc9e-f9a4-11e5-8f41-df5bda8beb40>

to focus on innovation. Institutions with complex systems can also find themselves hindered when asked to incorporate new financial technologies as the ability to integrate their existing systems with new, agile fintech offerings is often costly or unfeasible.

A constantly evolving set of 'burning platform' priorities makes it difficult for financial institutions to give fintech the attention and resources needed to drive better business value. This has led many organizations to simply focus on resolving one issue at a time — usually the issue with the most pressing time frame for action, rather than the one that will lead to the most enduring value.

"Financial institutions too often deal with fintech in a very inefficient, fragmented and tactical manner," says Murray Raisbeck, Global Co-Leader of Fintech, KPMG International and Partner, Insurance, KPMG in the UK. "The companies that succeed have undertaken careful architecting of their transformation strategy, including

the integration of fintech within their organization."

Even among financial institutions that have moved forward with fintech initiatives, it has not been clear sailing. There has been friction within companies that have tried to integrate and scale fintech. The integration of old and new technologies, not to mention traditional and startup corporate cultures, is not an easy task to undertake, and there is no straightforward solution to ensure success.

### Redefining possibilities

The increasing pressure from both customers and organizational stakeholders, combined with a proliferation of technology options and competition from maturing fintechs, has moved fintech to the top of the growth agenda for leading financial institutions. Executives at these organizations realize that sticking to the status quo is likely the greatest risk to the future success of their business.



### Case in point: Insurer builds a solution to improve the online buying journey

Aviva recently launched a new initiative aimed at leveraging big data to reduce the need to ask customers questions. The 'Ask It Never' initiative is being piloted with customers through the MyAviva online portal and aims to reduce the number of forms customer must fill out to obtain new policies with a view to improving the online buying journey and more accurately price premiums.<sup>4</sup>

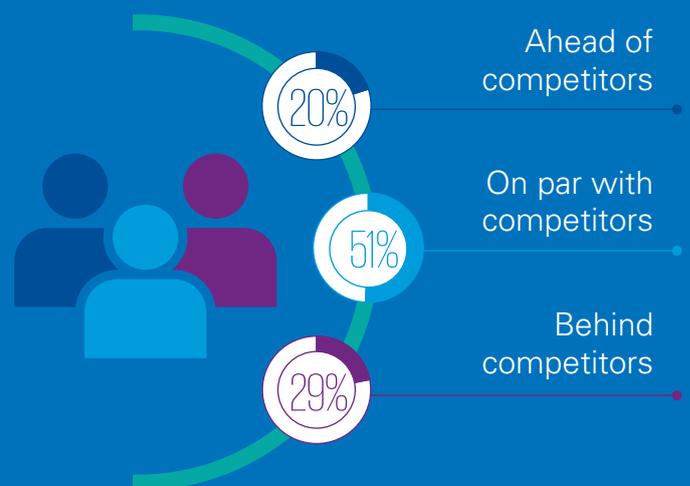
### So where are the leaders?

When it comes to responding to fintech, we see a cohort of leaders emerging that share common strategies and capabilities. Over half our survey respondents see themselves on par with their competition when it comes to fintech capabilities. At the same time, new fintech companies that want to take a bite out of the financial services market have found such a move isn't as easy as they might have thought.

What this means is that much of the financial services market is still wide open when it comes to opportunities to demonstrate leadership in the fintech arena. Incumbent players have a great opportunity right now with respect to driving value from fintech given they have significant customer relationships, capital resources and an established reputation.

While most organizations don't see themselves as leaders in this space, there are many success stories from leading institutions, and we have shared these examples throughout the report.

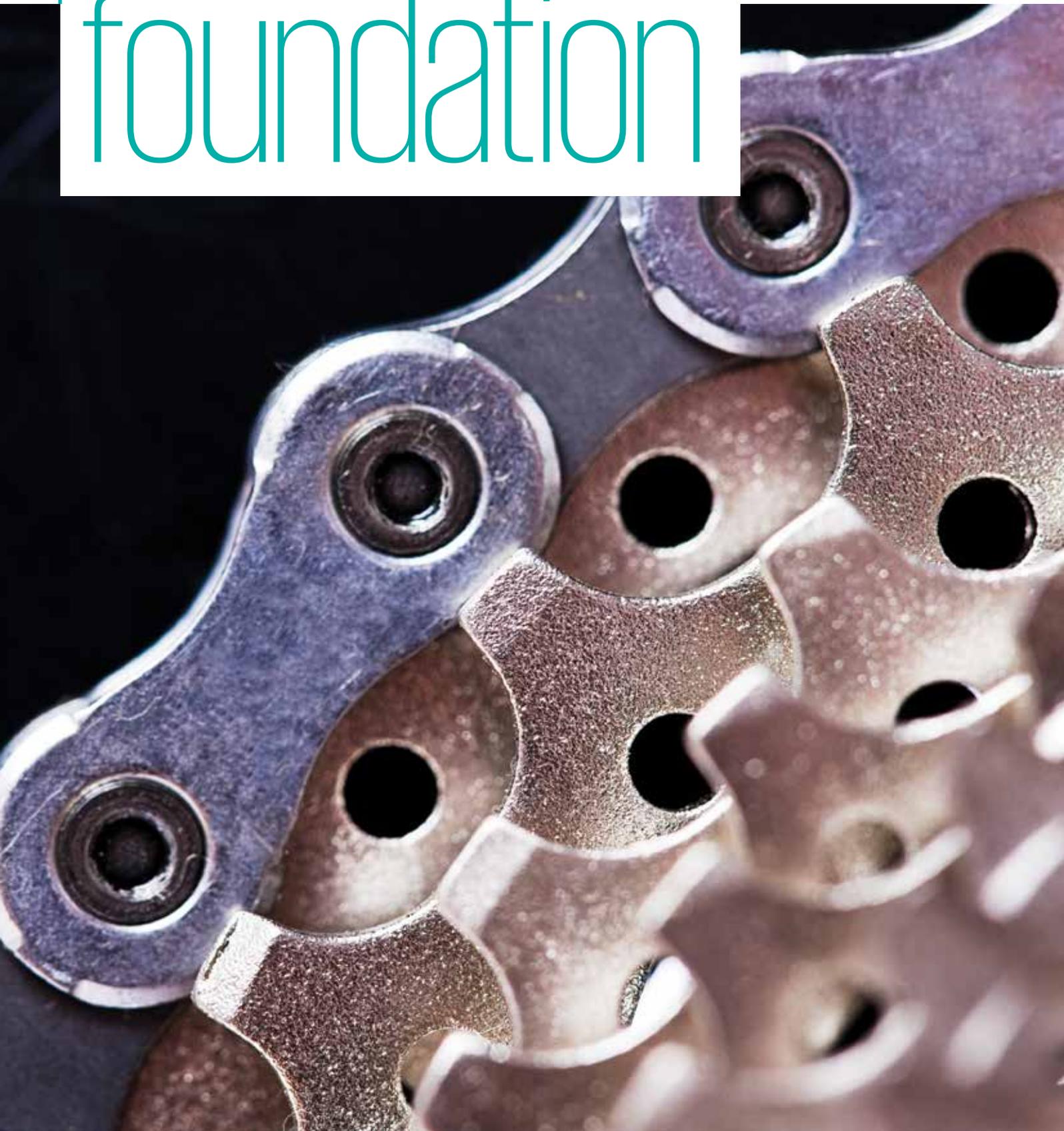
### How financial institutions compare themselves against their competitors in terms of fintech capabilities



Source: KPMG International global fintech survey, 2017

<sup>4</sup> <http://www.insurancebusinessmag.com/ca/news/breaking-news/aviva-to-slash-prices-with-gamechanging-concept-65437.aspx>

# Building the right foundation



Achieving business success typically starts by developing a focused and clear business strategy. What financial institutions have learned is that getting the most value from fintech requires the same degree of focus and attention. It's very difficult to make the most of fintech opportunities organization-wide without clearly assessing where a financial institution is today and where it wants to be in the future.

### Moving beyond experimentation

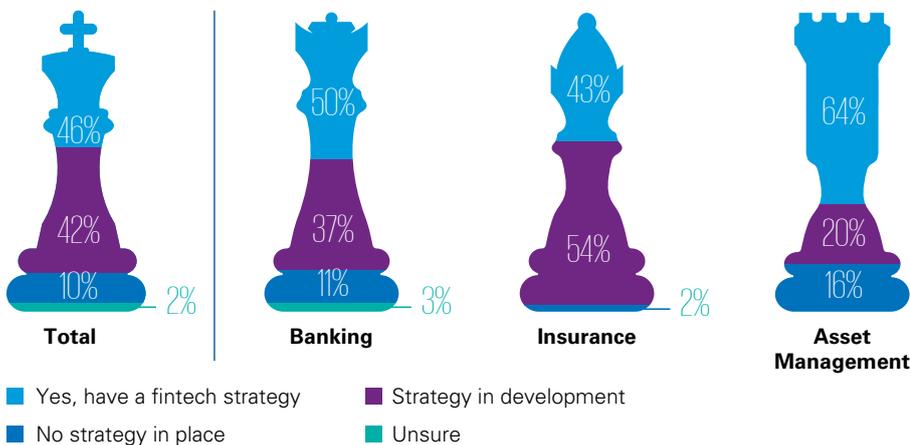
Almost 90 percent of our survey respondents either have a fintech strategy in place or are currently in the process of developing one. Having a strategy for fintech, however, does not necessarily mean it is the right strategy for an organization. In fact, less than half of those organizations with a fintech strategy believe that

their strategy is well aligned to current fintech challenges and disruptions. Also, it's important to remember that a full strategy is significantly more involved than having a venture capital (VC) fund or a list of fintechs the team has met. Given the fact that many financial institutions are still relatively early on in their fintech journeys, we expect a large proportion of them have yet to form a fully developed strategy for fintech.

“ In order to achieve the most from fintech opportunities, companies in financial services need to treat fintech innovation as a mainstream activity — and incorporate it within and across their entire organization. ”

**Tek Yew Chia**  
Fintech Leader for KPMG in Singapore

### Where are financial institutions when it comes to having a fintech strategy?



Source: KPMG International global fintech survey, 2017

### Case in point: On demand insurance

Insurer AXA is partnering with Trov to launch an on-demand, mobile-first service that enables customers to buy flexible insurance for individual items. The app allows customers to turn insurance on or off for a particular item — one day at a time — without the need to interact with a traditional insurance agent.<sup>5</sup>

<sup>5</sup> <https://www.crowdfundinsider.com/2017/06/101260-insurtech-app-trov-connects-axa-insurance-celebrates-uk-launch/>



### Case in point: More efficient natural disaster insurance claims assessment

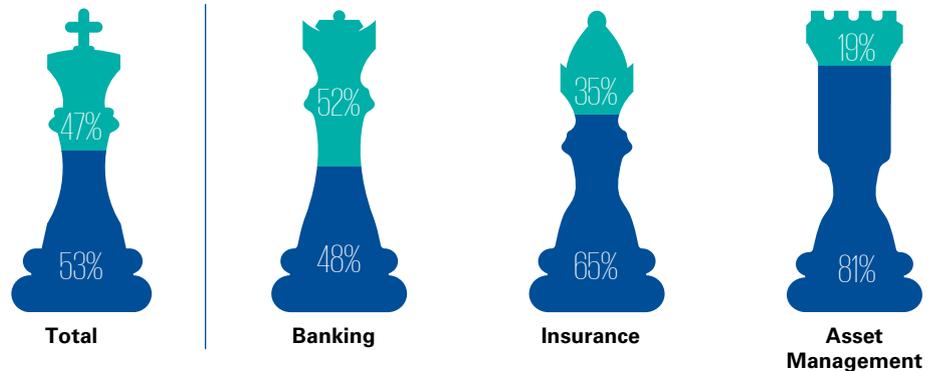
Munich Re has partnered with PrecisionHawk, a global, drone data platform, to improve the speed and accuracy of reporting in the aftermath of a natural disaster. PrecisionHawk's software collects and analyzes drone imagery immediately following a disaster, enabling Munich Re to accurately assess damages and quickly respond to claims.<sup>6</sup>



### Case in point: Expediting claims handling with on-demand inspectors

Claims-management solutions provider Crawford & Company recently acquired a majority stake in WeGoLook, an online and mobile collaborative economy platform. Together, Crawford and WeGoLook are looking to automate and expedite the claim handling process by leveraging over 30,000 on-demand inspectors (Lookers) across the US and Canada.<sup>7</sup>

## How well aligned are strategies with current fintech challenges and disruption?



■ Well aligned ■ Somewhat aligned ■ Not aligned at all

Source: KPMG International global fintech survey, 2017

The challenge typically lies in what comes first. Technology is the source of innovation for many financial institutions, but it is easy to get wrapped up in the excitement of a new technology and forget about making sure it can be used to benefit customers and organizations.

It's not unusual to find new technologies being championed within a financial institution because they are interesting and compelling. People will try to find problems for the technology to solve, rather than starting with a problem and looking for a viable solution.

Over the long-term, these 'cart-before-the-horse' technology initiatives can create roadblocks for organization-wide initiatives. For example, fintech solutions implemented in different business units may not be fully integrated, requiring gaps to be bridged or rollback solutions in order to address organization-wide future needs. Any misalignment of initiatives can be costly, both from a resource perspective and from a rollout perspective.

Fintech must be considered from a holistic business viewpoint. An ad hoc adoption strategy leads to expensive mistakes that companies can avoid.

Banking is considered to be the most mature of the financial services subsectors when it comes to embracing fintech opportunities. This may reflect why companies in the sector are more focused on delivering cost efficiencies than the others; many banks have already spent years on initiatives aimed at enhancing the customer experience and are now turning their attention to other objectives.

At the same time, insurance and asset management are making strong inroads. For example, in asset management, we're seeing companies shift from being passive players in terms of expecting business to come to them to a more proactive position focused on attracting business and understanding customer needs.

<sup>6</sup> <http://www.precisionhawk.com/media/topic/precisionhawk-munich-re/>

<sup>7</sup> <https://wegolook.com/company>

# 10 characteristics of a fintech leader

1. **Clarity of vision:** Concrete vision for the future and a CEO and leadership team thoroughly committed to seeing the vision implemented.
2. **Aware:** Aware of the signals of change occurring in the financial services market and is constantly seeking insights into how fintech is and will evolve in the future.
3. **Strategic:** Well-developed yet adaptable strategy for leveraging fintech innovation in order to achieve its strategic business objectives.
4. **Customer-centric:** Focused on customers first — using customer demands, pain points and challenges to drive technology innovation from the outside in, rather than the inside out.
5. **Collaborative:** Looks to create both internal and external relationships in order to drive its fintech strategy and buy-in for specific initiatives. The companies work directly with partners, fintechs, employees, regulators, industry stakeholders and others in order to ensure it is leveraging fintech appropriately while helping to develop the broader fintech ecosystem.
6. **Dedicated:** Dedicated team for implementing fintech innovation — a team that has developed strong, collegial relationships across all business units and departments in the organization in order to ensure fintech is being used effectively to solve real business problems.
7. **Agile and adaptable:** Able to make changes as required to address the challenges associated with a constantly evolving business and fintech environment.
8. **Outcome-oriented:** Focused on outcomes, with specific plans to measure and assess the impact of fintech innovation. At the same time, the company recognizes that ROI may take time to achieve and so has identified a range of other measures and metrics in order to help guide fintech-related decisions.
9. **Willing to learn:** Open to learning — not only from its own experiences, but from the experiences of others both within and outside its industry.
10. **Long-term and short-term focused:** Able to focus on implementing the long-term, transformative changes required to reshape the work they do and how they do it — while also implementing the incremental changes required to respond to day-to-day challenges. The company has found ways to ensure that any incremental changes do not go against the guiding principles of its long-term fintech strategy.



“  
Even if your organization doesn't want to be a first mover, working to understand the signals of change and what might happen just around the corner can help you make certain that any investments you make aren't going against the guiding principles that will enable your future end state.”

**Mitch Siegel**  
National Financial Services  
Strategy and Transformation  
Leader, KPMG in the US

### Leading practices for developing a fintech strategy

There is no shortage of opportunity for financial institutions to pursue fintech. But selecting the right opportunities is what will determine their success.

To make sure fintech opportunities are well defined and fully aligned to their overarching business strategy, leading companies have established specific fintech strategies that consider their business objectives, customer expectations, market position, organizational structure and culture, the geographies in which they operate, and the fintech opportunities and solutions available to them. Key elements of a strong fintech strategy include:

#### **Knowledge of current business operations to fix issues and capitalize on opportunities**

Conducting a current state assessment of existing operations is a key starting point for financial institutions in order to identify opportunities for change, as

well as specific operational challenges, inefficiencies and potential roadblocks. The current state assessment is often the driving force behind the development of a fintech strategy, as the ability of fintech to help 'bridge the gap' is a key measure of long-term success.

#### **Awareness of signals of change**

The scope of fintech is expansive — from data analytics and AI to innovative technology platforms and alternative business models. Leading companies stay on top of the signals of change in the market, monitoring fintech activities being conducted by companies both upstream and downstream in the value chain, by competitors and by major technology giants like Google, Microsoft, Amazon and Alibaba. They inform their priorities by assessing the certainty of a change, its potential implications and the likely timing. Early identification of signals of change can help companies respond more proactively to potential fintech innovations rather than being forced to be reactive.

## Ranking of fintech strategy objectives – all respondents

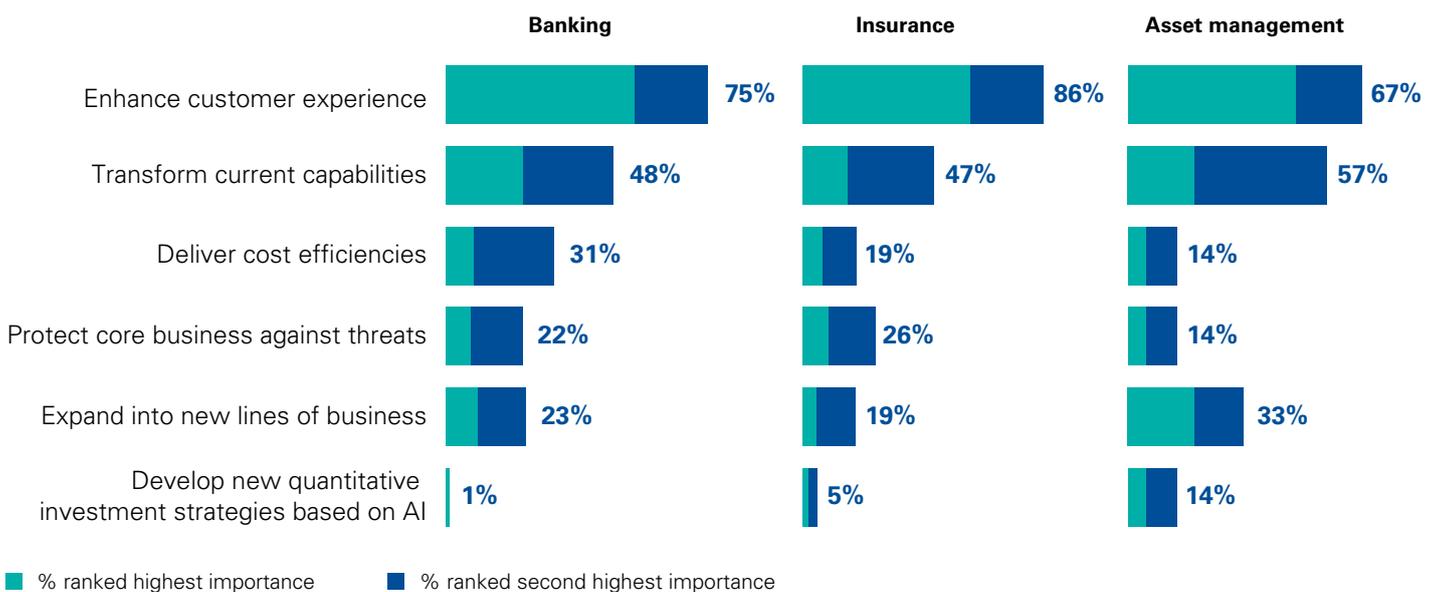


Source: KPMG International global fintech survey, 2017

### Enhancing the customer experience: Driving force of fintech initiatives

According to our survey, enhancing the customer experience is the most important objective of financial institutions that have or are in the process of developing fintech strategies. Over 70 percent of survey respondents identified enhancing the customer experience as one of their two most important objectives for their fintech strategy. However, as the fintech market continues to mature, we expect to see increased focus on mid- and back-office solutions given the potential for efficiencies in these areas.

## Ranking of fintech strategy objectives – by industry



Source: KPMG International global fintech survey, 2017



Most financial institutions are on a transformational journey — a journey likely to take multiple years and invariably requiring substantial investment to reach fruition. Given the uncertainty and speed of change, companies will need to complement this agenda with an ability to make incremental changes much more rapidly. It's a journey that won't be completed tomorrow. This is partly due to the transformation of core legacy infrastructure that will, by necessity, come with that change. This is why many companies have two streams of innovation — one focused on the transformation and one focused on the incremental changes that will foster improvements in the interim. ”

**Ian Pollari**

Global Co-Leader of Fintech,  
KPMG International and Partner  
and National Sector Leader,  
Banking, KPMG Australia



### Case in point: Safe data exchange

Westpac (Reinventure), National Australia Bank and Qantas have all invested in Sydney-based startup Data Republic, which offers best-practice security, privacy compliance and governance controls for organizations looking to safely exchange data.<sup>8</sup>



### Case in point: Small business loans

Canadian Imperial Bank of Commerce (CIBC) has partnered with Thinking Capital, a Canadian peer-to-peer lending platform to provide business owners with faster access to loans. The solution — called rapid financing — enables small and mid-sized businesses to obtain loans of between 5,000 and 300,000 Canadian dollars (CAD), with decisions within 24 hours of application.<sup>9</sup>

### Long-term vision

Rather than focus on individual fintech objectives, leading financial institutions have a big-picture vision of where they want to be in 3 or 5 or 10 years — from the way they work with their customers to the efficiency of their operations. To help achieve their vision, companies can define and work to cultivate the organizational characteristics most important to differentiating themselves in the future to ensure long-term sustainability.

### Readiness for change within an organization

The ability to gain buy-in from employees who will be affected by specific changes can make or break the success of a fintech strategy. As we highlight in our *2017 US Customer Experience Excellence Analysis* report, companies must align both the employee experience and the customer experience — what we call the 'spine' of the organization. Culture is the invisible shaping hand of organizational change. It has the power to accelerate or subvert change initiatives. One of the most powerful questions an executive team can ask is: "Does our culture support or inhibit our strategy?" Large-scale transformation initiatives often fail because the people within an organization

are simply not ready for change.

Assessing the readiness for change of both employees and the leadership team provides impetus for a change strategy. Companies can understand what cultural barriers exist to change and tailor their fintech strategy and execution in order to help ameliorate cultural challenges and encourage buy-in over time.

### Targeted fintech strategy aligned with business strategy

Deciding where to play and how to win with fintech begins with a comprehensive understanding of where a company is today and where it wants to be in the future, an understanding of the signals of change and an understanding of internal change readiness. Leading companies use these basic building blocks to help develop a targeted fintech strategy that is fully aligned with their business strategy, and which includes key metrics and measures that will help the company assess the impact of initiatives over time.

### A continuum of fintech innovation activities

Fintech is constantly evolving, presenting financial institutions with new challenges almost every day. To deal with the nebulous nature of

<sup>8</sup> <http://www.smh.com.au/business/nab-westpac-and-qantas-invest-in-data-republic-20160520-goznfw.html>

<sup>9</sup> <https://www.cibc.com/en/small-business/loans-and-lines-of-credit/rapid-financing-powered-by-thinking-capital.html>

fintech, leading companies look at their innovation activities on a spectrum rather than focusing in on individual initiatives to the exclusion of the bigger picture. On the one end of the spectrum are fintech activities focused on making incremental improvements in order to make constant progress, while at the other end would be transformative step changes meant to leap a company forward.

Both types of evolution are often required in cases where there is such a radical change occurring in an industry. Failure to consider innovations at both ends of the spectrum can lead to companies implementing incremental changes that do not align well with longer-term transformative change. A flexible spectrum-based approach

can help ensure progress is made against specific metrics (e.g. customer satisfaction, employee satisfaction) even while contributing to longer-term efforts.

**Prioritization of initiatives**

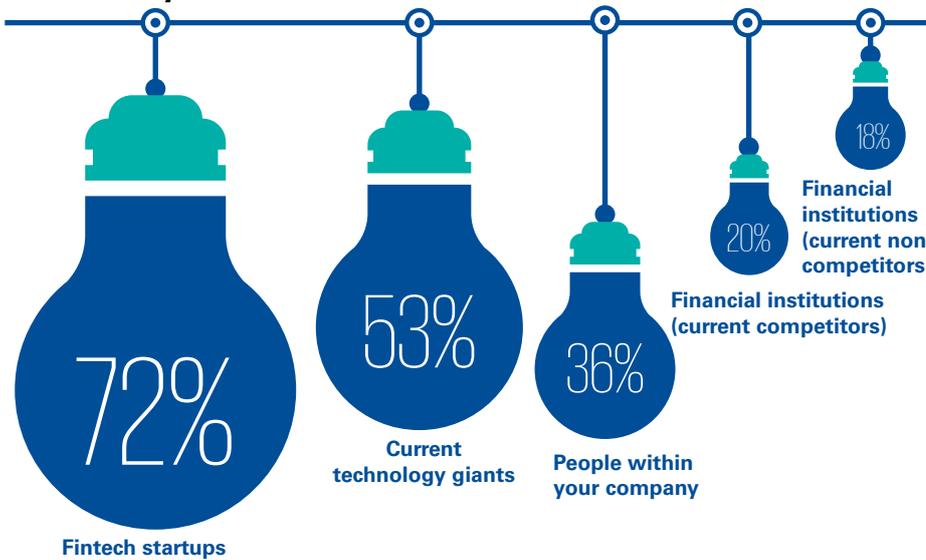
Financial institutions can't take on every fintech opportunity at the same time. Prioritization is critical for companies that want to get the most value out of their investments and activities. Prioritization might include evaluating a range of factors, including the predictability of the development, the potential size of the impact, current organizational capabilities and assets and their alignment with specific initiatives, and areas that might not be big today but have the potential to significantly cause change in the future.

“When it comes to encouraging fintech innovation, the tone at the top that is set by leadership is absolutely fundamental — that needs to be aligned with how they set strategy, and with how they measure performance against that strategy. Everything needs to be aligned to drive the most value from fintech.”

**Murray Raisbeck**

Global Co-Leader of Fintech, KPMG International and Partner, Insurance KPMG in the UK

**Most important sources of fintech innovation over the next 3 years**



Source: KPMG International global fintech survey, 2017

**Robo advisory provides B2B focus for innovation**

Digital and robo-advisory fintechs have been making big waves in terms of establishing B2B partnerships and relationships. One fintech company, FutureAdvisor, has established numerous ‘white label’ partnerships with companies like RBC Wealth Management, BBVA Compass and US Bank Wealth Management, while SigFig is working closely with Wells Fargo to beta test a digital advice platform and Jemstep is partnering with Morgan Stanley.

Banks are seeing a whole range of new ideas and technologies, every day, that have the potential to improve the customer experience, strengthen processes and drive efficiency. The challenge is finding and focusing in on the most executable and impactful opportunities and structuring the organization to encourage continued innovation.

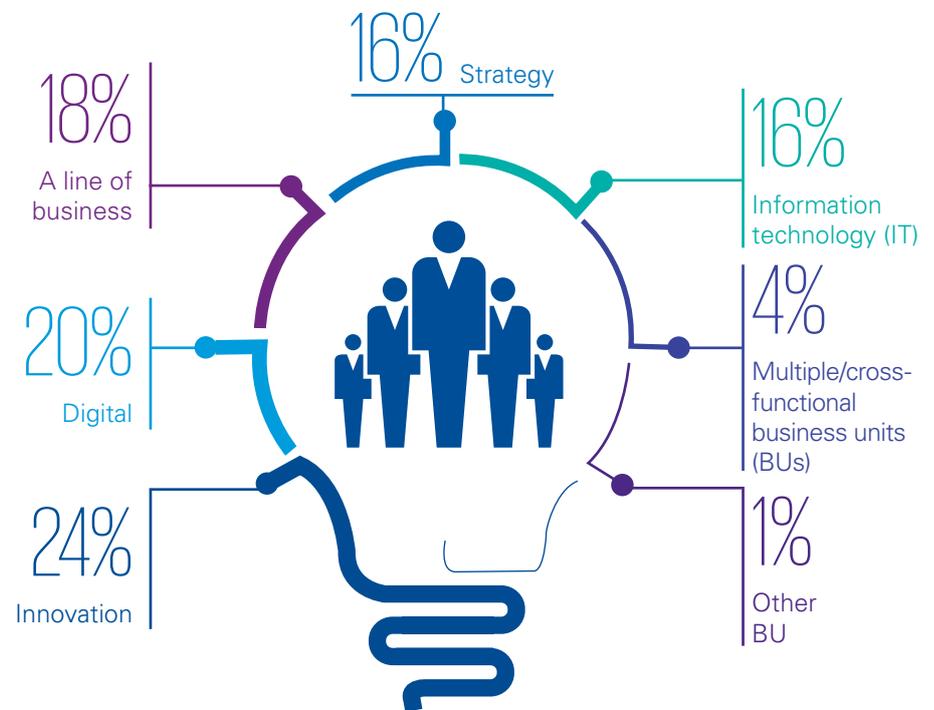
**Vivek Ramachandran**  
Global Head of Growth and Innovation in Commercial Banking  
HSBC

### Executive leadership support and resources

Within financial institutions, fintech teams typically report to members of the C-suite, signifying the importance of fintech to business success. Given the diverse array of challenges facing financial institutions today, it can be easy for companies to shift their strategic focus to more pressing and time-sensitive issues.

This is why leadership is so critical. When leaders understand and buy into fintech initiatives, they will ensure the right resources are dedicated to managing, monitoring, measuring and reporting on fintech innovation activities. Without the right leadership, it can be very difficult for companies to foster the long-term view necessary to truly redefine a financial institution's activities.

### In which areas of the business do fintech teams sit?



Source: KPMG International global fintech survey, 2017

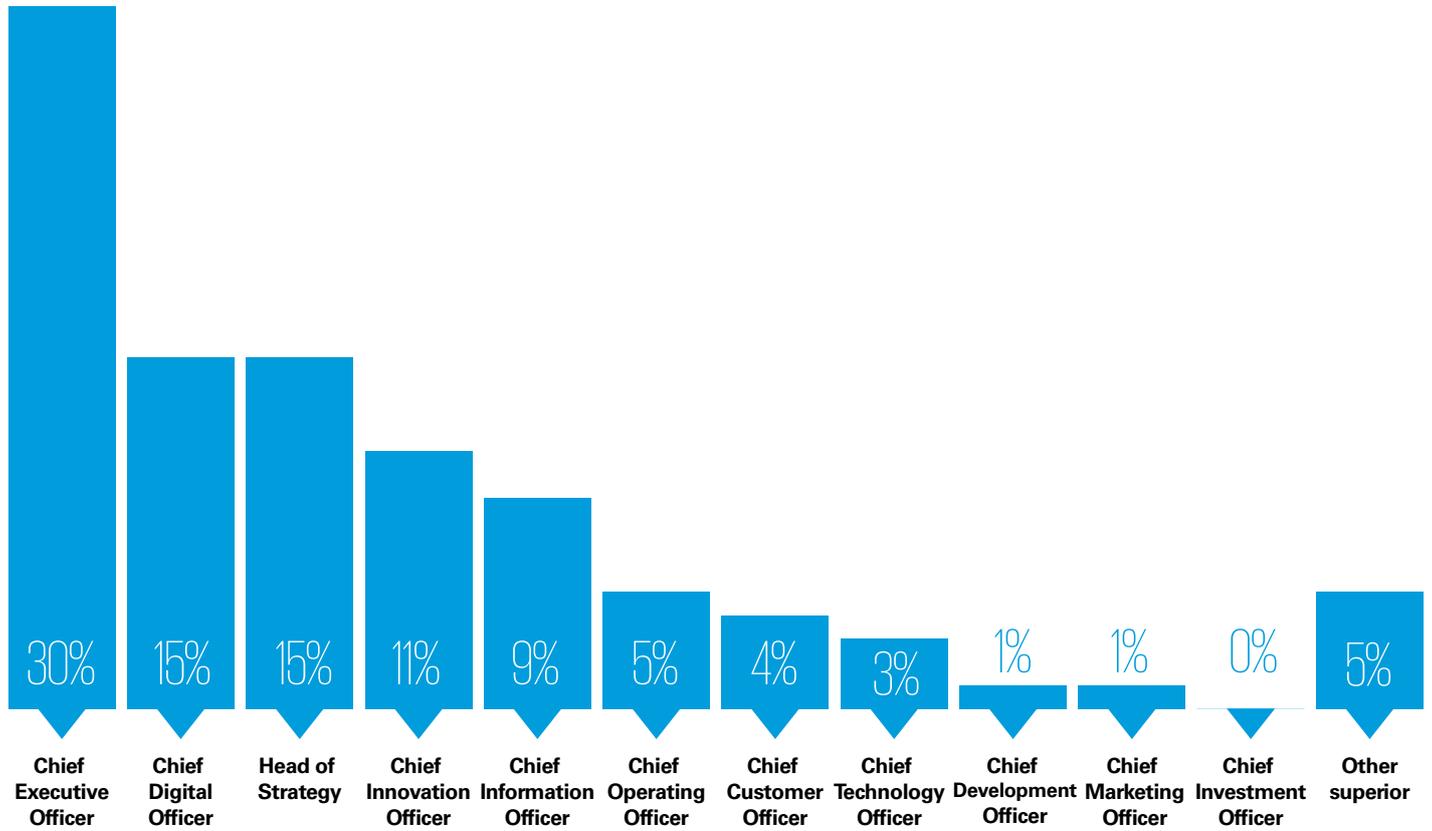


### Case in point: Account opening on a mobile device

The Commonwealth Bank of Australia acquired TYME, a South African digital banking company. TYME has developed 'know your customer' (KYC) accreditation solutions that enable customers to open a bank account via their mobile device and open an unrestricted bank account remotely. According to a recent report by The Australian, South African fintech company TYME is signing up 5,000 new customers per week.<sup>10</sup>

<sup>10</sup> <https://businesstech.co.za/news/mobile/153815/sa-branchless-bank-signing-up-5000-customers-every-week/>

## Who do fintech teams report to?



Source: KPMG International global fintech survey, 2017

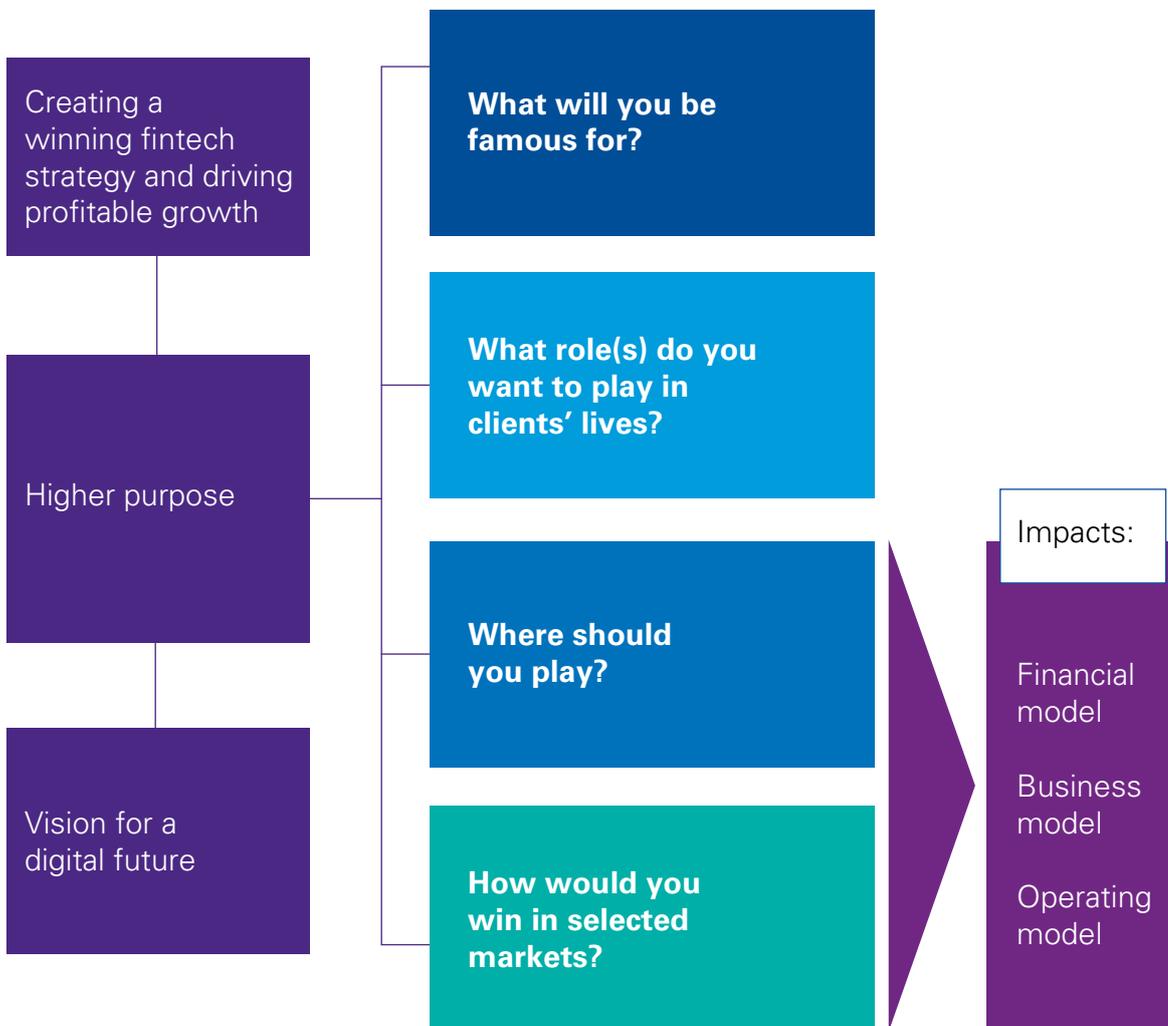


# Integrating fintech



Envisioning the future during a time of massive transformation is a complex process, and many end up getting bogged down in small details. Instead, organizations should look to answer four questions as they consider their fintech journey and develop their strategic vision for a digital future:

1. What will we be famous for?
2. What role do we want to play in our clients' lives?
3. Where should we play?
4. How can we win?

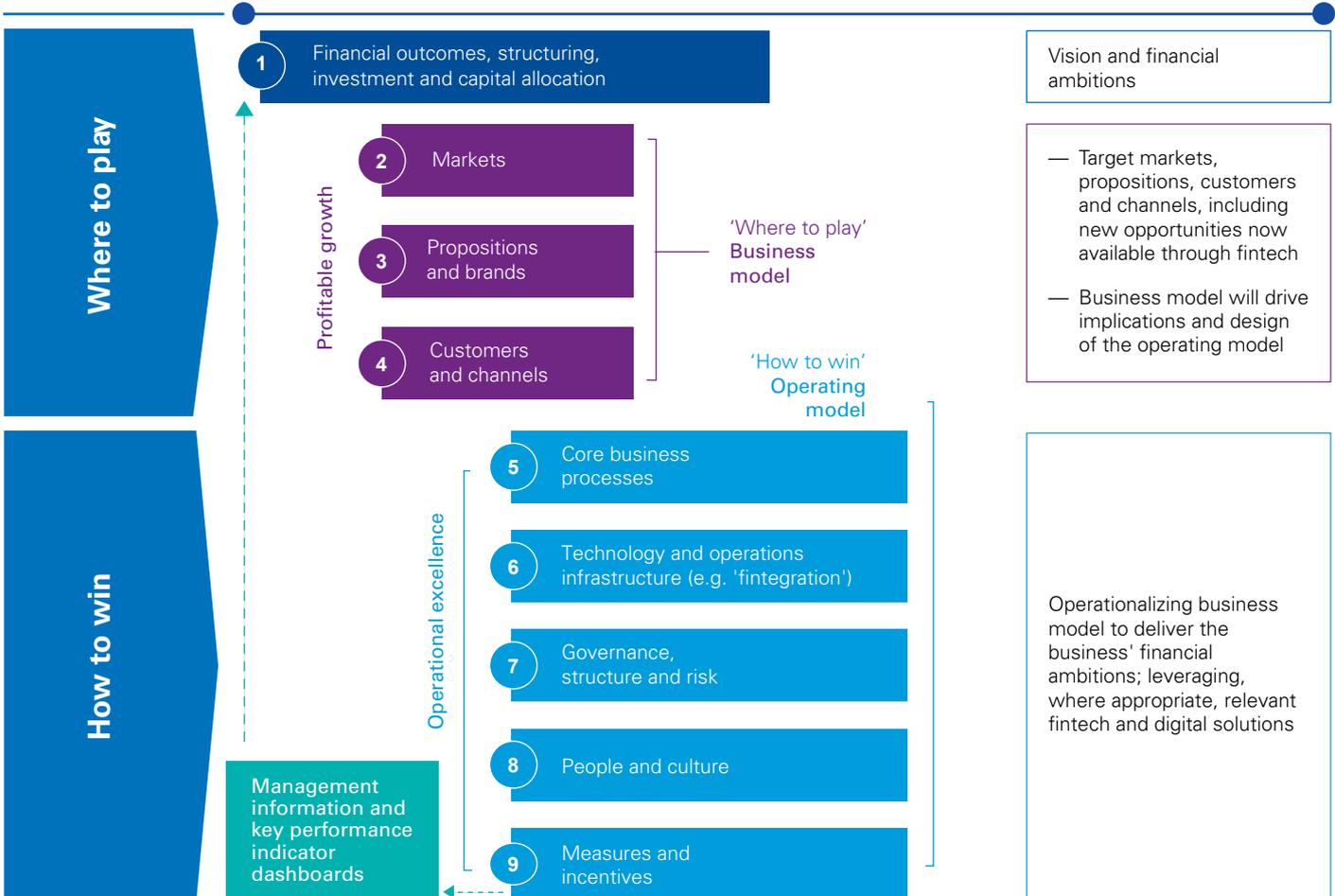


Responding to these questions will likely have significant implications for the organization's business model and culture, and therefore for the way they identify new fintech capabilities to support their aspirations. Understand

that not all institutions are going to win in the role they play today within financial services, and that the time to invest in significant fintech and digital transformation opportunities is now.

**Key strategic considerations**

**KPMG 9 Levers of Value framework**

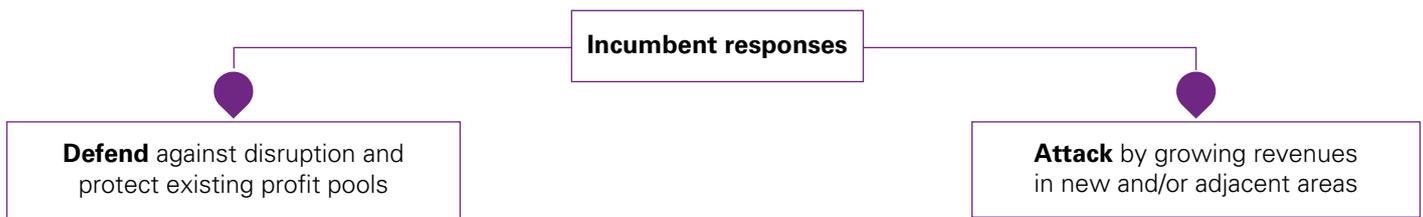


Source: KPMG International, 2017

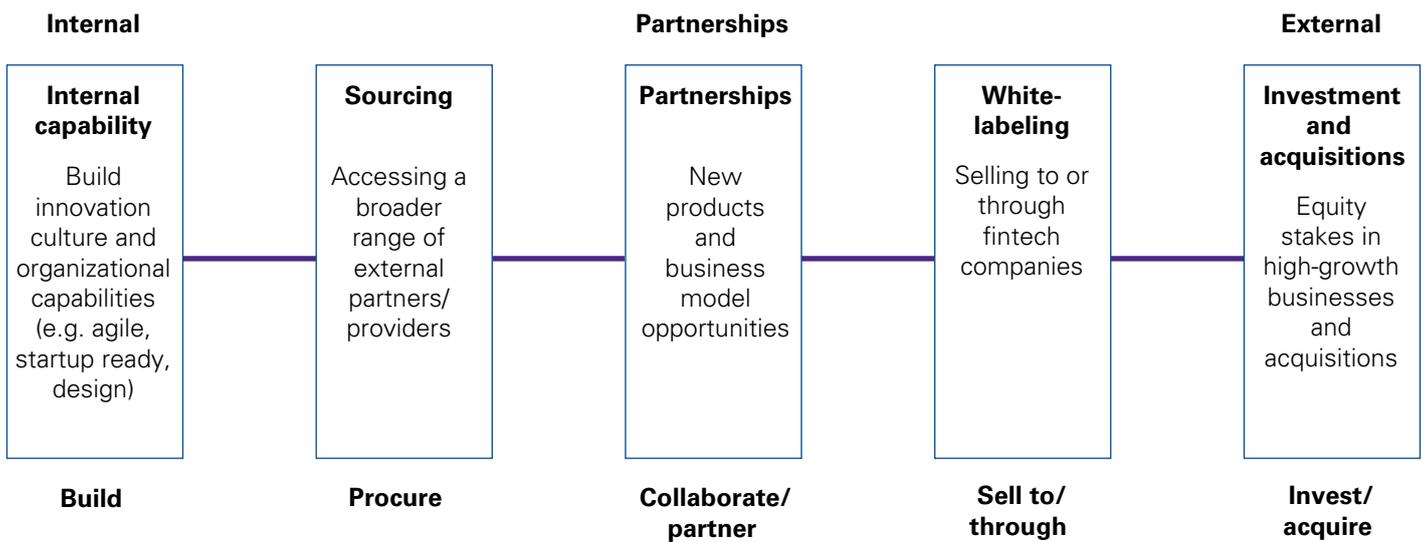
## How incumbents are responding

Financial institutions are addressing fintech on a continuum. Some are adopting a defensive approach, viewing it as a means to protect what they already have. Others are on the attack, looking to grow. This means financial services companies are choosing to build fintech solutions in-house,

sourcing third-party fintech solutions, partnering with fintech companies in order to develop and tailor specific solutions or acquiring fintech companies outright to accelerate their move into the space. There is no one right way to proceed. Rather, financial institutions are exploring all options along the continuum simultaneously with an eye to the future and business objectives.



### Leadership, governance and organizational structures



### Fintech scanning — enabling and disruptive fintech, global and local

The startup ecosystem provides an environment where solutions can be built quicker and cheaper, although established corporations should develop mechanisms that allow to embed in our business the solutions that are proposed by entrepreneurs. MAPFRE is actively pursuing opportunities in the insurtech arena by participating in VC investment vehicles as Alma Mundi Fund.

**Josep Celaya**  
Corporate Director of Innovation  
MAPFRE



### Case in point: Helping consumers spend less

TD Bank recently announced a 5-year extension of its deal with neobank Moven. TD's MySpend app leverages Moven's personal financial management tools to help users track spending habits, receive instant notifications and access credit card transaction data in real time. TD accumulated 850,000 users in the first 9 months after launch, with customers using the app reducing their spending by 4 to 8 percent.<sup>11</sup>

## Building

The build option allows organizations to define the scope of their innovation initiatives, design tailor-made products and create buy-in among users over the course of the innovation initiative. However, very few financial institutions have the time, resources, capacity and agility to be able to focus on fintech innovation efficiently and effectively. Internal capabilities around design,

agile ways of working and a cultural disposition to embrace change are required as well as core technical competencies around data analytics and cybersecurity that can evolve and respond to the changing nature of the marketplace.

## Sourcing

Many fintech companies are looking to sell or license their technologies

## Accelerators

Insurance companies are more likely than their compatriots to source opportunities through accelerators or professional consulting firms, while asset management companies are more likely to source opportunities through VC firms.

The development of accelerators and incubators — such as L39, YCombinator, Startup Bootcamp, Plug and Play, and numerous others — has proliferated in most regions of the world as cities and countries have worked to establish themselves as fintech hubs. Traditional financial institutions, like Barclays, Wells Fargo, MetLife and Aviva, have also sponsored their own accelerator-type programs.

While accelerator investments may have less direct ROI for companies, they can provide a lens into the signals of change related to fintech — which can enable institutions to better make fintech decisions in the future.

For Iccrea Banca, the investment in Satispay represents a strategic step towards the digital transformation of our banking group. Iccrea's vision of 'open banking' aims to create a 'relationship hub' where value-added services and slick UX play a pivotal role. The focus is more on customers and on how to maximize the value of their trust ... not just on the banking/payment services which are more and more becoming a commodity. To do so, we leverage on trust, data and technology.

**Antonio Galiano**

Head of e-banking Gruppo Iccrea  
VP of Ventis

<sup>11</sup> <https://www.finextra.com/newsarticle/30347/moven-strikes-gold-with-td-bank-licensing-extension/startups>

to financial institutions. The benefits include: reduced cost of innovation and access to established solutions, talent and innovation capacity. However, in order to make the most of this option, financial institutions are evolving their procurement processes to accommodate taking on the capability from small, startup fintech companies that can help them solve problems in specific areas.

## White-labeling

For financial institutions looking for custom solutions, there are a growing number of fintech and other technology companies with the capacity to white label a product or service for them that they can then brand and sell. The benefits include: prescribed costs, a diversified approach to innovation and the ability to test value and fill product/service gaps. Among the key challenges are less control than developing these products internally, and the need to integrate this innovation structure within the business and to share revenue.

## Acquiring

While buying or investing in fintech companies can be an effective way to leapfrog over the development process by acquiring access to fintech capabilities, financial institutions are still working to find the best ways to evaluate a purchase or investment. Only 31 percent of survey participants that plan to buy or partner with fintech companies have a well-defined framework for evaluating opportunities. At the same time, 60 percent of these companies use their internal strategy team to source opportunities — a strategy that may not involve a strong

due diligence process without an objective evaluation framework.

## Partnering

Over the past 2 years, there has been a distinct trend toward collaboration and partnership with respect to how financial institutions approach fintech opportunities and challenges.

The resource intensity of the build approach and the challenges of procurement (integration, culture misalignment, risk management, the time needed to achieve synergies) are likely the reasons many financial institutions have focused instead on a partnership or collaboration model for fintech innovation — a trend expected to accelerate in the future. For good reason: the partnership approach brings with it a more rapid speed to market for fintech solutions, while being less costly and resource intensive. Partnering also creates an opportunity for collaboration and mutual reward. For example, alternative lending platforms are partnering with banks and financial institutions and enjoying the benefits of a cross-referral of clients.

Fifty-five percent of the financial institutions surveyed currently partner with fintech startups, while 38 percent partner with non-competing financial institutions, 32 percent partner with scale players that are not financial institutions and 26 percent partner with technology giants. Just 14 percent of survey respondents are partnering with their competitors.

In the next 12 months, financial institutions are looking beyond startups, with 46 percent planning to partner with other scale players that are not financial institutions and 38 percent planning to partner with non-competing financial

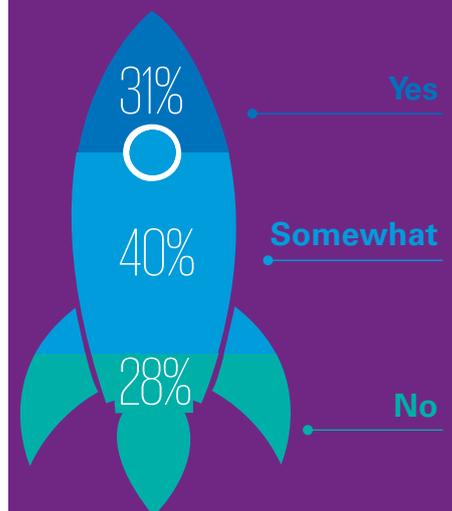


### Case in point: Online personal loan platform

Goldman Sachs has launched an online platform offering unsecured personal loans to consumers. *Marcus by Goldman Sachs* provides consumers with a transparent and simple approach to consolidate their high-interest credit card debt. Using the system, borrowers can apply for fixed-rate, personal loans of up to US\$30,000.<sup>12</sup>

### Existence of framework for vetting fintech startups

Not all startups are created equal. Developing an evaluation framework can help financial institutions objectively and consistently vet fintech opportunities to ensure they are making the right decisions for their organization.



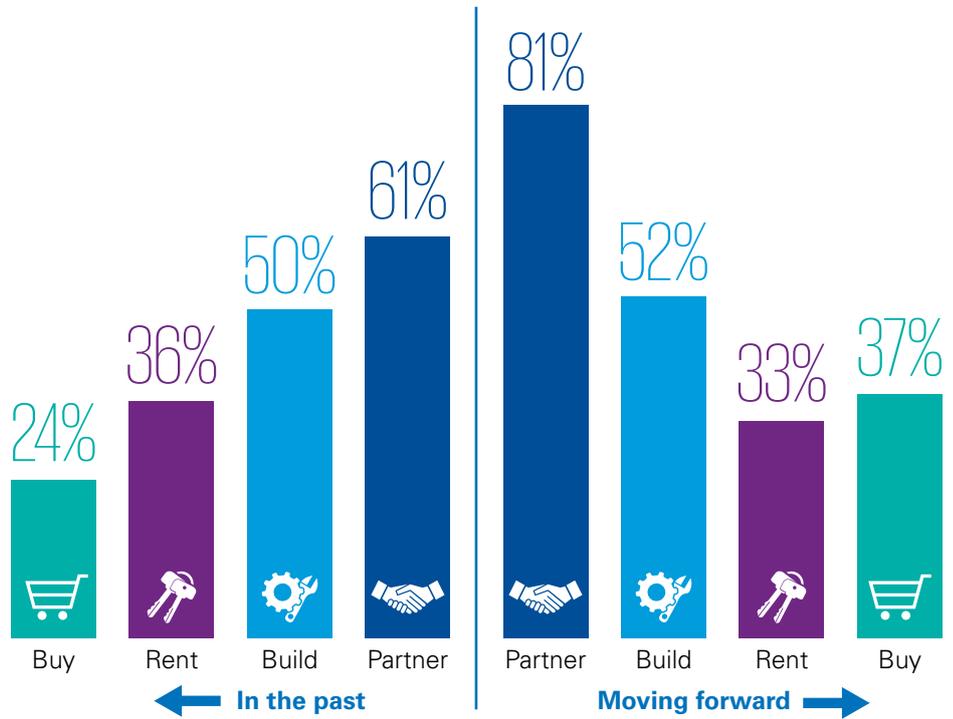
Source: KPMG International global fintech survey, 2017

<sup>12</sup> <http://www.goldmansachs.com/media-relations/press-releases/current/announcement-marcus-by-goldman-sachs.html>

When looking to partner with or invest in a fintech company, we consider the following key factors: market share, payback period, internal rate of return (IRR), ability to cross sell, distribution, social impact, transformation, mindset, skills and collaboration maturity.

**Bruce Adrain**  
 Head — Innovation  
 Capability Build at  
 Liberty Group  
 South Africa

### Strategy regarding fintech developments, in the past and moving forward



Source: KPMG International global fintech survey, 2017

institutions. Only 18 percent plan to focus on potential partnerships with competitors.

Long-term, two-thirds of respondents do not expect to partner with competing financial institutions — a

view that could limit their options. There are a number of fintech-related developments that would benefit from collaboration across competitors, such as blockchain, which would require consistent rules across organizations in order to implement on a large scale.

### Fintegration

/fɪntɪ'greɪʃ(ə)n/

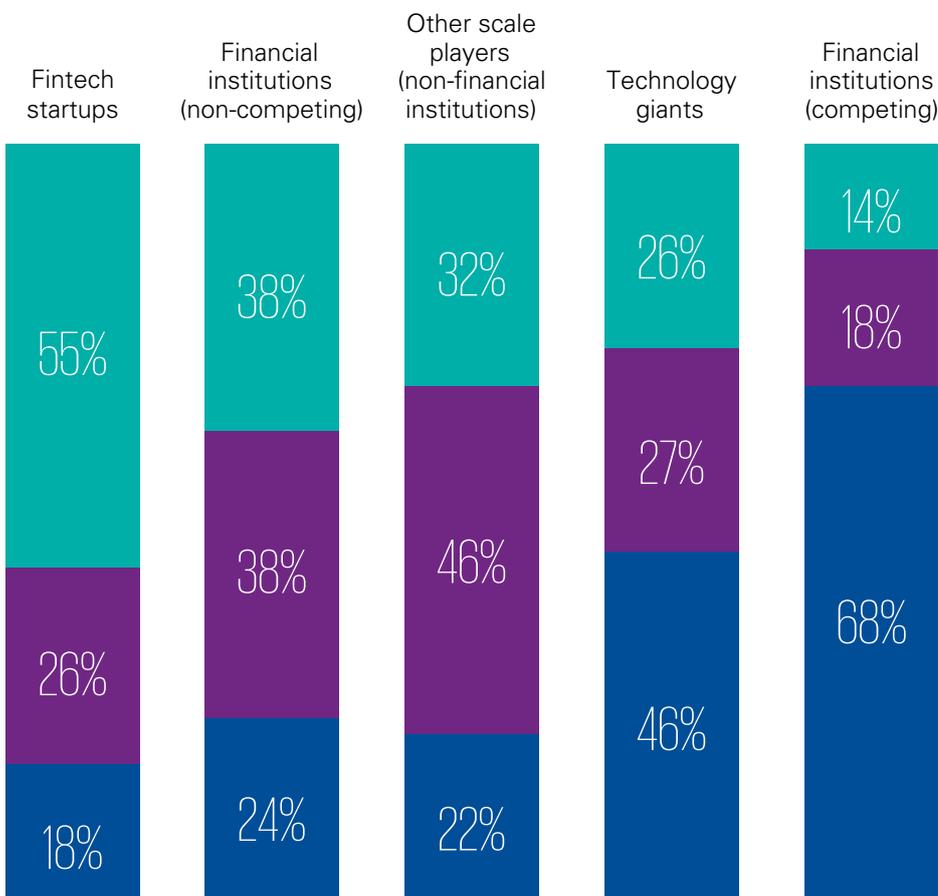
noun

1. The process whereby traditional financial institutions partner with fintech companies in order to gain the ability to integrate innovative solutions within their own enterprises.

## Taking advantage of scaled players

In June 2017, National Australia Bank and realestate.com — a long-established fintech company that has become one of Australia’s leading property search companies — announced a strategic mortgage brokering partnership in order to create an end-to-end digital property search and financing experience for customers focused on enhancing the customer experience and making the home lending process more seamless.

## Who are financial institutions partnering with? — all respondents



- Currently partner
- Plan to partner in the next 12 months
- Neither currently partner nor plan to partner in the next 12 months

Note: Charts may not add to 100% due to rounding.

Source: KPMG International global fintech survey, 2017



While regulation might be a roadblock to innovation, regulators can be a major supporter of it. Whether it’s the Office of the Controller in the US, the FCA or PRA in the UK or the MAS in Singapore — some regulators are looking at how they can change regulations to make it easier for financial institutions to get aid from fintechs and to help give fintechs an environment in which they can thrive. They’ve realized that fintech brings improved customer experience, improved customer outcomes, more transparency in financial services and more competition — and those are all things that, post financial crisis, the regulators are really, really keen to encourage.

**Murray Raisbeck**

Global Co-Leader of Fintech, KPMG International and Partner, Insurance KPMG in the UK

# Five key attributes of an effective partnership

While partnering offers numerous benefits, including access to talent, enablement of a portfolio approach and increased speed to market, it is not a straightforward process. Organizations that have established partnerships have found themselves mired in roadblocks, from lacking the application program interfaces (APIs) required to enable seamless integration to the time-consuming

process of establishing governance structures and risk management processes. Without strong guiding principles and a strategy for managing partnerships, it is highly unlikely that financial institutions will be able to achieve the full value that working with fintech companies can provide.

Developing fintech partnerships requires a significant amount of time

and effort on the part of financial institutions — both to identify the right fintech companies with whom to partner, and to ensure the resulting partnership is structured so that both parties can achieve their desired objectives. Looking at how leading companies approach partnerships, five key themes emerge. These include:

1.

**Focus:** Leading companies know what goals they want to achieve or issues they want to address through fintech and potential partnerships with fintech companies. When looking for opportunities, leading financial institutions start with the problem rather than the technology to ensure there is demand for a solution and that any solution provides the required value. Before attempting to 'plug and play' a fintech solution or partner into their organization's operations, they work to ensure activities are well aligned in order to reduce integration challenges.

2.

**Evaluation framework for fintechs:** Creating and using strong evaluation frameworks are an important part of ensuring that any fintech partnerships are well positioned to achieve specific outcomes. Leading companies use frameworks aligned to their business strategy, specific pain points and desired outcomes, in addition to the specific characteristics of the fintechs being evaluated (e.g. the quality of the fintech company's management team, the alignment of its strategic objectives with your own, its technology capacity, the scalability of technology solutions, potential integration challenges and cultural differences).

3.

**Outside the box thinking:** In today's constantly evolving fintech environment, effective partnerships can be established with a variety of different organizations, from fintech startups and technology giants to companies in ancillary industries, to actual business competitors. Leading companies look beyond traditional boundaries to form partnerships, forging alliances with companies well beyond their own sector in order to leverage insights, solutions and opportunities.

4.

**A global mindset:** Fintech innovation is evolving in unique ways in many different geographies as a result of their unique skills bases, innovation centers, government priorities and collaborations. Leading companies often have a presence in key fintech ecosystems in order to stay on top of signals of change and to help identify potential partners from outside their local jurisdictions. For example, Canada's CIBC, the National Australia Bank and Bank Leumi of Israel have formed an alliance in order to leverage joint innovation to improve the customer experience for all three banks. CIBC and the National Australia Bank have also partnered on a blockchain project.<sup>13</sup>

5.

**Experienced advisors:** When it comes to identifying and establishing partnerships, many leading companies have a network of advisors who can supplement their existing skill sets and provide assistance with both evaluating partnership opportunities and with managing the legal and risk management issues that might arise during the development and execution of any partnership arrangements.

Source: KPMG International, 2017

<sup>13</sup> NEWSWIRE: CIBC forms strategic alliance with National Australia Bank and Bank Leumi.

## Focusing on front office and back office

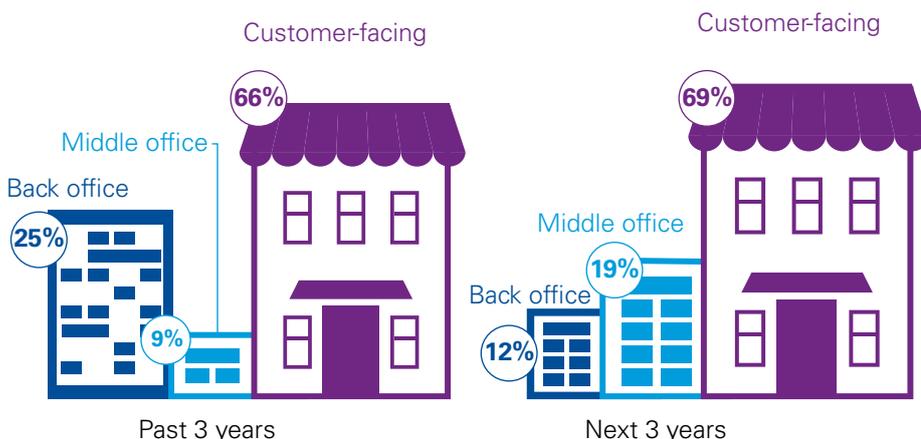
Over the past few years, two-thirds of financial institutions have focused their fintech initiatives on solving front-office, customer-facing issues, while 25 percent have focused on improving back-office effectiveness and efficiencies. Given the number of customer pain points related to financial services, this focus comes as no surprise. Customer-facing initiatives are expected to remain high on the innovation agenda of financial institutions in the future.

However, the value of fintech driven improvements to the back office can't

be understated. "Technologies like cloud computing, blockchain, robotics and cognitive learning are all helping to deliver a step change, in the cost base of banks," explains Ian Pollari, Global Co-Leader of Fintech, KPMG International and Partner and National Sector Leader, Banking, KPMG Australia. "In a low-growth environment, these types of changes will become more and more important."

As back-office focused fintech matures, we'll see even more companies taking a holistic approach in order to ensure they are not missing some of the broader benefits that fintech provides.

## Focus of fintech investment, past and future — all respondents



Source: KPMG International global fintech survey, 2017

## The value of industry partnerships and consortia

While financial institutions should focus primarily on developing partnerships with fintechs and other tech companies that will help them achieve long-term value, there is also value in forming less traditional partnerships given the evolving nature of the fintech industry.

In order for certain fintech technologies to succeed, close collaboration across industries and between industries and regulators can be critical. Blockchain is a prime example of just such a technology. According to Eammon Maguire, Global Lead, Digital Ledger Services, and Advisory Director, KPMG in the US: "Blockchain requires a fundamental shift in thinking in terms of how accounting has been conducted for over a century — not just within a company, but across companies, industries and regulators."

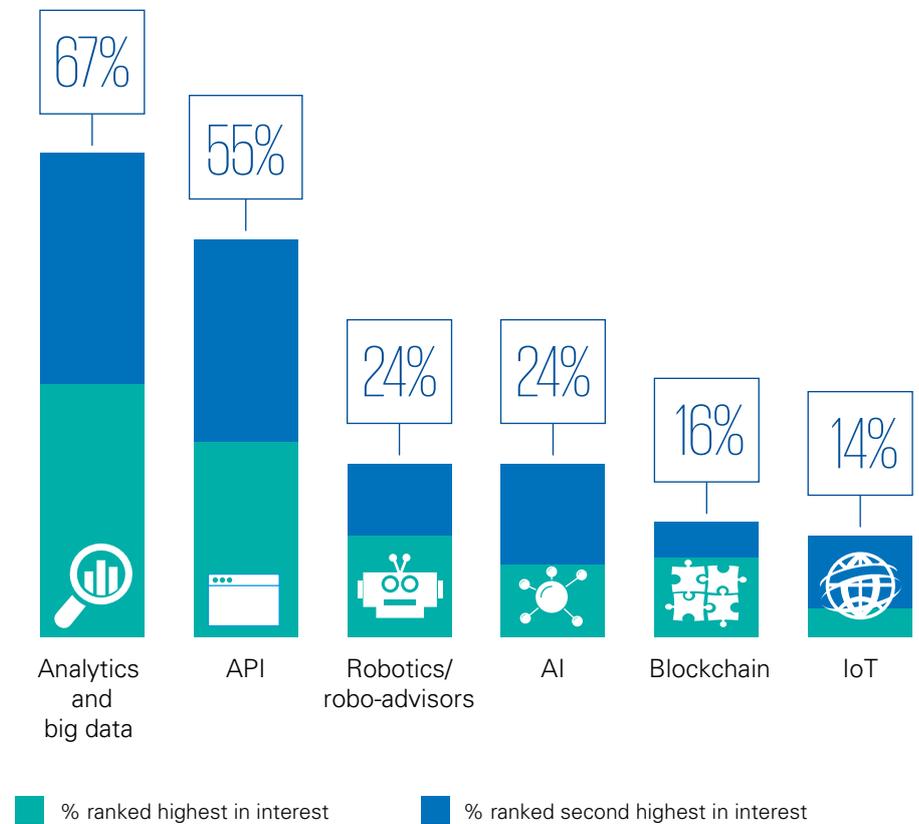
To be able to create a framework in which blockchain can be effective, companies within an industry need to work together to develop protocols for blockchain solutions. This is why industry consortia such as R3 in Banking and B3i in Insurance have appeared — to help consolidate efforts with respect to the evolution of blockchain.



Insurance companies that want to know more and understand the innovations coming 5 years down the road are the ones utilizing VC investments. Meanwhile, the ones that want to address pain points, make big gains and scale right now are forging partnerships. The result is a development of relationships with established tech firms — like Amazon, Google and platform-based businesses.

**Matthew Smith**  
Partner,  
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Insurance Sector Lead  
KPMG in the UK

### Emerging fintech technologies of most interest, next 3 years — all respondents



Source: KPMG International global fintech survey, 2017

### Most exciting fintech technologies over the next 3 years

When it comes to the next 3 years, technologies related to data analytics and big data are expected to attract the most attention from survey respondents. Seventy-six percent of insurers, 65 percent of banks and 58 percent of asset management companies ranked data analytics as one of their top two *emerging fintech technologies of most interest*, while API technologies and robotics/robo advisors also ranked high in this area. Not surprisingly, as a result of changes associated with PSD2 and other similar open banking regimes, banks are the most interested in APIs, with 60 percent noting it as a top area of interest.

While blockchain has received a significant amount of attention over the past 12 months, looking forward, it was only ranked as a significantly high technology of interest for companies in the asset management space — where 35 percent ranked it as a key area of interest.

Thirty-six percent of asset management companies also ranked AI as a top technology of interest, as did almost one-quarter of insurance companies. Insurers, meanwhile, showed a much stronger interest in technologies related to IoT than either banks or asset management companies.

Insurers are more interested in IoT because of the value of gathered data in providing more bespoke underwriting, pricing and propositions to customers. Connectivity allows insurers to become risk partners with their clients, protecting them through the prevention of accidents and potential issue notification, rather than simply providing protection after the event in the form of a claim.



...INNOVATION MATCHMAKING

The problem is not finding fintech solutions — it's **finding the right solutions**, aligned to the needs of the client organization. Matchi Challenges **cut through the clutter**, helping you to find vetted, high-quality solutions.

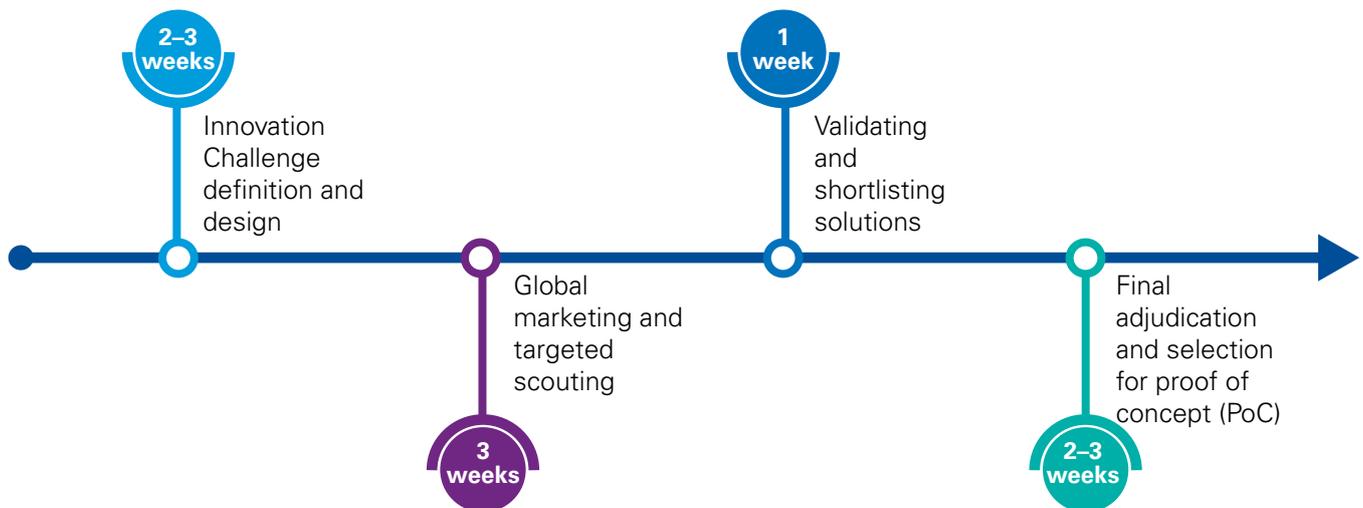
Matchi does this in a way that helps to **build support for innovation with key stakeholders**, while increasing speed to market via our proven approach.

## Finding the needle in the haystack

KPMG recently acquired Matchi, a leading global fintech innovation and matchmaking platform that connects financial institutions with leading-edge financial services technology solutions and companies worldwide. Matchi's database includes over 3,500 fintech solutions.

Using the Matchi platform, financial institutions are able to search for a specific company or solution, or they can use the platform's proprietary 'Innovation Challenge' capability to present specific problem statements to the global fintech market and receive recommendations on solutions from fintech innovators.

## Innovation Challenges and scans help to quickly source qualified fintech solutions aligned to strategic focus areas — either to resolve issues or capitalize on opportunities



In this way, financial institutions are able to access and unlock the leading-edge technology and deep customer insight of the world's best fintech firms for their own operations. The need for a strong evaluation framework for fintechs was discussed earlier in this report. The team at Matchi have had to come up with a set of criteria they assess when vetting a fintech company. Some of the items they look at include:

-  performance metrics such as number of users/ transactions (depending on the nature of the solution)
-  the top three client benefits provided by the solution
-  current and past clients
-  balance of technology staff within total headcount
-  founders' professional experience.

For more information, contact us or visit [matchi.biz](https://matchi.biz).

# The road ahead





At the rapid rate the industry is evolving, financial products and services — and the technological infrastructure underpinning financial institutions — will look remarkably different in a decade compared to how they look today.

The past 5 years have introduced a level of disruption never experienced before. The ability of emerging fintech companies to quickly gain traction in the global financial services market is forcing financial institutions to evolve to remain competitive. They must adopt the customer-centered innovations and back-office solutions that will help them provide a more tailored, value-added customer experience.

New competitors (both in the shape of fintech startups and technology

giants responding to opportunities to add value) as well as new solutions are catalysts for change in an industry long defined by tradition. From AI, automation and augmented reality to the cloud, IoT and data analytics, fintech is transforming the financial services' status quo.

Financial institutions that take the time to define their fintech strategy and align it to their business goals will be best positioned to help forge the future of financial services.

As you consider how best to leverage fintech to forge your own path forward, ask yourself:

1. What will we be famous for?
2. What role do we want to play in our clients' lives?
3. Where should we play?
4. How can we win?

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## **About KPMG International's global fintech survey, 2017**

In order to provide financial institutions with deeper insights into fintech strategies and priorities across the industry, KPMG conducted an online survey of fintech decision makers from financial institutions around the world in spring 2017. The 168 respondents represented companies based in 36 countries. To supplement the results of the survey, KPMG conducted in-depth interviews with senior executives from leading financial institutions and our own financial services and fintech leaders from around the world.

## **About KPMG's Global Fintech practice**

Through working with emerging fintechs through over 35 fintech hubs worldwide, our Fintech professionals bring global insight and capabilities in digital, payments and innovative technologies to various financial institutions, helping them fully realize the potential of fintech and create business models that enhance bottom line performance, meet customer demands and gain competitive edge.

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