



POST COVID-19 BUSINESS MODEL AND POLICY CHOICES FOR DIGITAL FINANCE IN EUROPE

Joe Zammit-Lucia, Co-Founder and Board Member, RADIX

Ismail Ertürk, Senior Fellow, RADIX and Senior Lecturer in Banking, Alliance Manchester Business School

Webinar

Friday, 19 February 2021, 11:00am GMT

A Word From Today's Chairman



Professor Michael Mainelli

Executive Chairman

Z/Yen Group

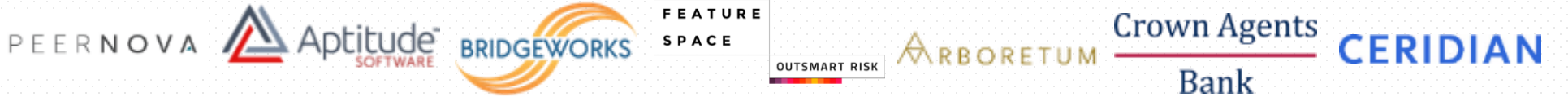


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Today's Agenda



- 11:00 – 11:05 Chairman's Introduction
- 11:05 – 11:25 Keynote Address
 - Ismail Ertürk
 - Joe Zammit-Lucia
- 11:25 – 11:45 Questions & Answers

Today's Speakers



Joe Zammit-Lucia

Co-Founder and Board Member

RADIX



Ismail Ertürk

Senior Fellow, RADIX;

Senior Lecturer in Banking,

Alliance Manchester Business School

Two Quick Polls - #1



What is most likely to be the main outcome of digitizing the financial system?

(note: pick the outcome that you feel is most likely rather than necessarily the most desirable)

- a) Improved efficiency within financial services providers
- b) Lower transaction costs for customers
- c) Banks and others focusing on locking customers into their digital ecosystem (walled garden)
- d) A wholesale transformation of the financial system to deliver substantial social benefit

Two Quick Polls - #2



How can Europe best organize to compete effectively with the US and China?

- a) Develop digital finance capability within EU structures
- b) Develop capabilities collaboratively between selected EU member states and non-EU members (eg UK and Switzerland)
- c) Leave all to individual countries to develop their own capabilities

A hand is shown in the foreground, pointing towards a digital interface. The interface features a world map in the upper left, a data table with columns for 'Name', 'Age', 'Gender', 'Salary', and 'City', and various geometric shapes and lines in shades of yellow and orange. The background is a gradient of orange and red.

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BUILDING DIGITAL FINANCE IN EUROPE

FINTECH FOR SOCIAL VALUE

Ismail Ertürk
Joe Zammit-Lucia

What we will cover today

What has Covid-19 taught us about 'FinTech'?

What is FinTech's promise?

Digital finance in Europe – how does it compare?

FinTech taxonomies

The public policy perspective

Creating a competitive digital finance capability in Europe

“

“Finance is not merely about making money. It's about achieving our deep goals and protecting the fruits of our labor. It's about stewardship and, therefore, about achieving the good society”

Robert J Schiller
Yale University



Covid-19 has created winners and losers in digital finance

The Winners

- Digital payments
- Digitisation service providers
- Well-capitalized start-ups
- Those who adapted their business models (management capabilities)



Challenges

- Flight to safety
- Fresh capital difficult to come by
- High deposits but low loan book companies
- 'Fin' more important than 'tech'
- Management capabilities tested

FinTech has faced challenges in financial markets

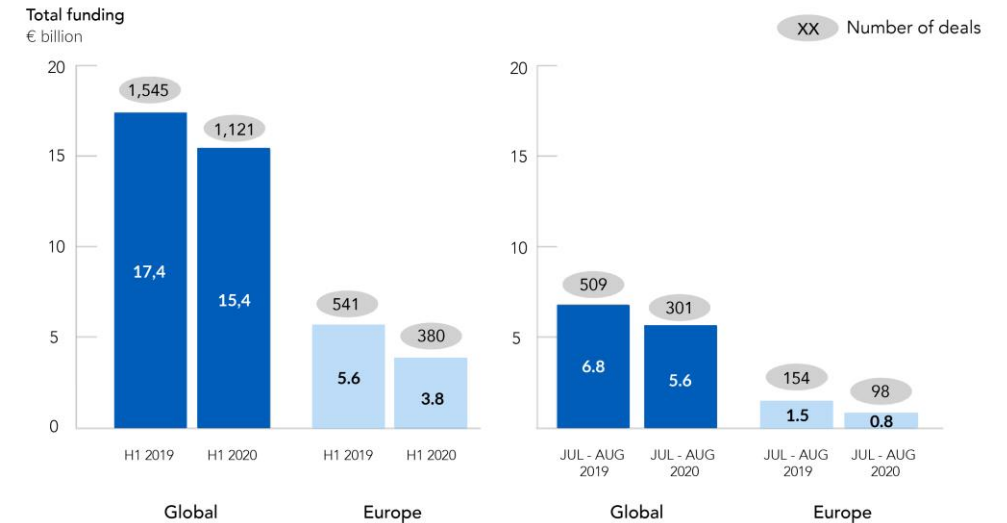
FinTech has underperformed since the Covid-19 pandemic



Source: NASDAQ for FinTech index and NASDAQ Composite, Yahoo for S&P 500

Fintech funding has declined both in Europe and globally.

Global venture capital fintech funding and number of deals in H1 2019/2020 and Jul-Aug 2019/2020

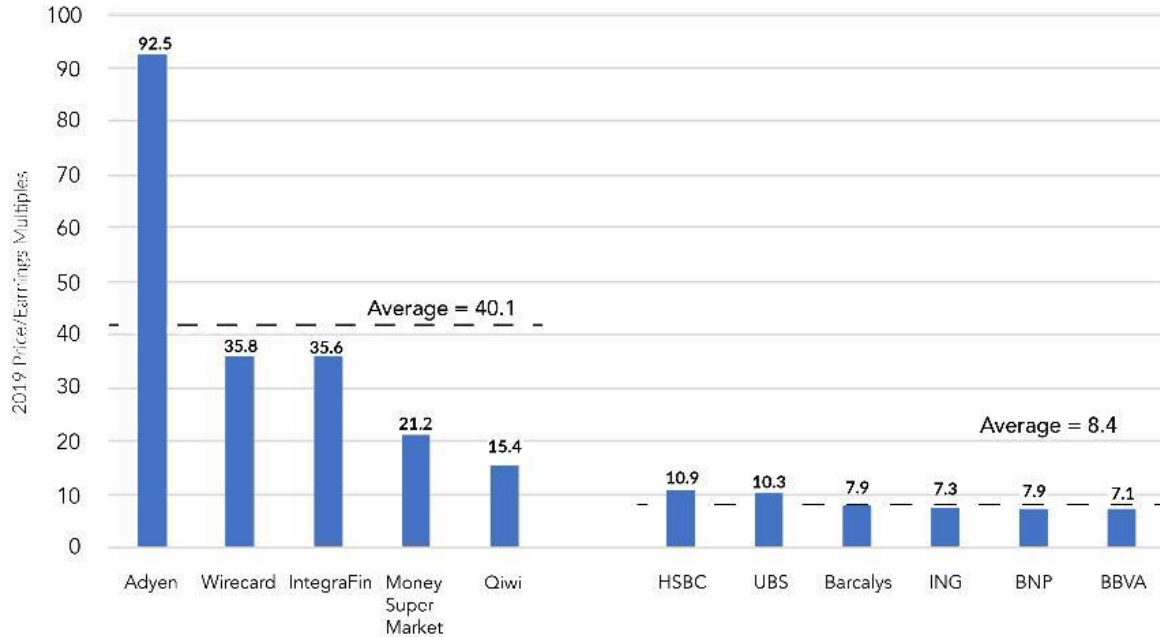


Source: Dealroom.co, McKinsey & Co



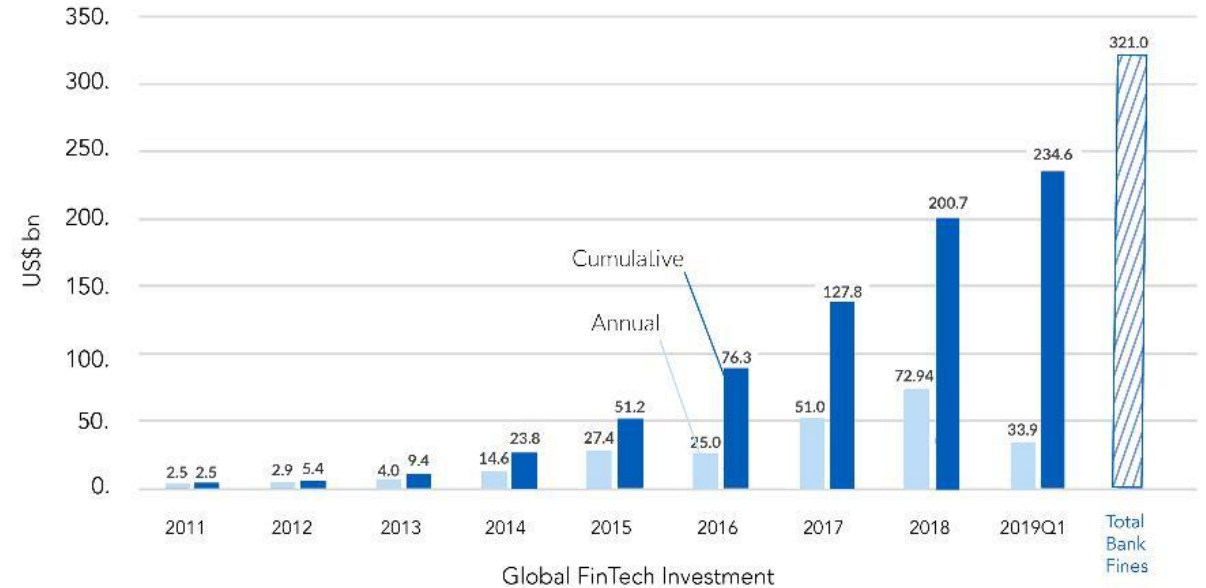
Are sky high FinTech valuations justified? And sustainable?

Pre-Covid valuations of FinTech outstripped incumbent banks by a large margin



Source: Finch Capital

Global investment in FinTech is outstripped by the fines paid by global banks



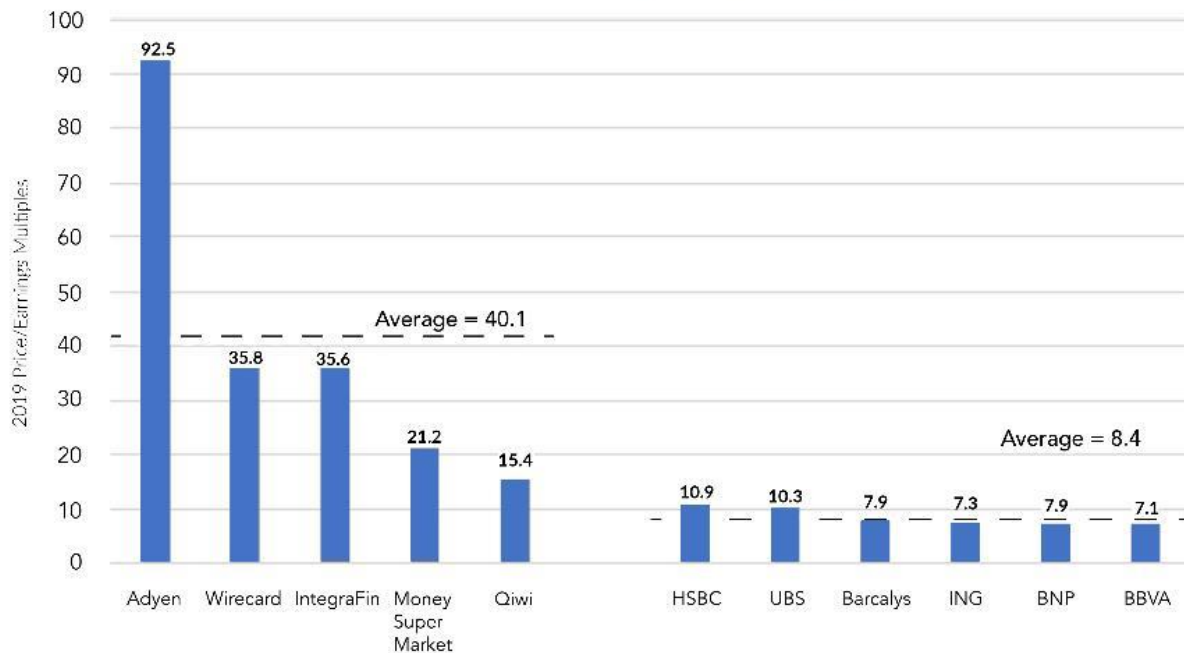
Source: Statista for FinTech investments, Boston Consulting Group for bank fines. Bank fines data is total paid between 2007 and 2018.



Markets are becoming more selective

We are getting past the hype around anything labeled 'FinTech'

Pre-Covid valuations of FinTech outstripped incumbent banks by a large margin



Source: Finch Capital

Evaluating FinTech for Capital Markets

Example	Relative valuation price to revenues	Growth impact CV-19 post-crisis	Unit economics post-crisis	Evaluation & M&A implications
Challenger Banks 	50x+	↔	↓ Less activity	↓ + Consolidation
Consumer Lending 	10-30x	↑ Credit need	↑ Higher NIM	↔ + M&A
Mortgages 	10-30x	↑ Remortgage More digital	↑ Higher NIM	↔ + M&A offline Brokers
SME Lending 	10-20x	↑ Credit need	↑ Higher NIM	↔
Wealth Management 	50x+	↓ De-risk	↓ Less AuM	↓ + M&A
Savings/Deposits 	50x	↔	↔	↓ + Valuation pressure
Insurance Distribution 	50x+	↔	↔	↓ + M&A with traditional
Insurance Products 	50x+	↔	↔	↓ + Valuation pressure
Payments/FX 	50x	↓ Less activity	↑ FX Spread	↓ + M&A
Enabling FinTech 	10-20x	↑ Demand	↑ Lower CAC	↑ + M&A by old tech

Source: Finch Capital



Will Europe be left behind by the US and China – again?

London apart, Europe needs to catch up with other global 'fin' and 'tech' centres



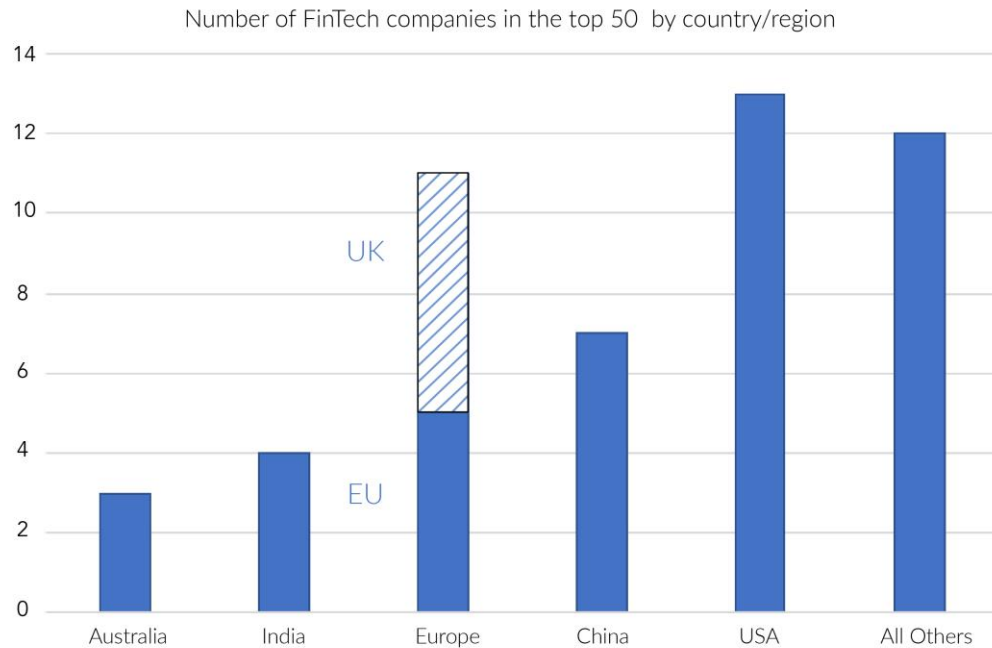
SMART CENTRES RANKING (July 2020)

1	London
2	New York
3	Singapore
4	San Francisco
5	Los Angeles
6	Chicago
7	Hong Kong
8	Tokyo
9	Boston
10	Zurich

Source: Z/Yen

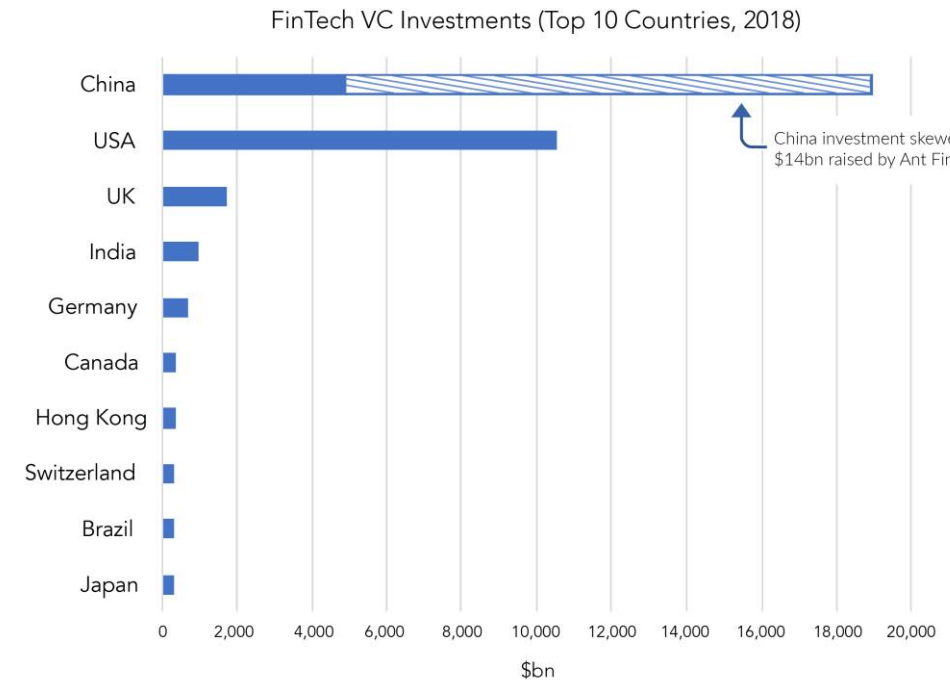
Europe as a whole can be competitive but lacks investment depth

Europe as a whole can become competitive with the US and China



Source: Annex 1
 Note: the number of companies as presented understates China as home to Ant Group, the digital finance company that dwarfs all others by some distance

The US and China comfortably outstrip Europe in FinTech investments



China investment skewed by \$14bn raised by Ant Financial



Today's Speakers



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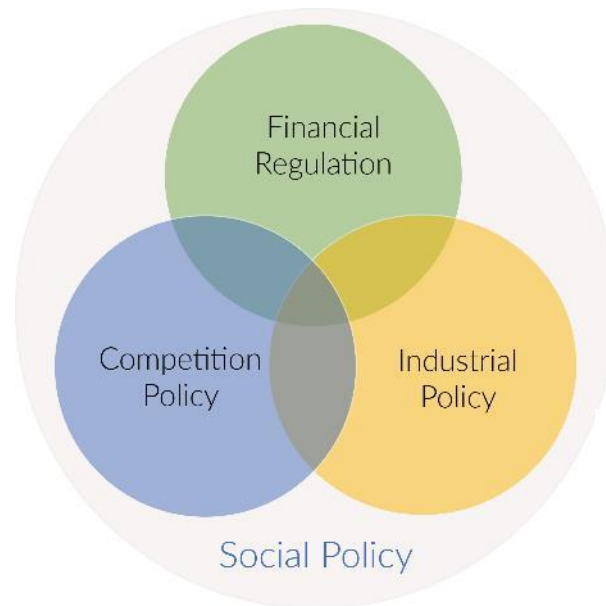
Senior Lecturer in Banking,

Alliance Manchester Business School

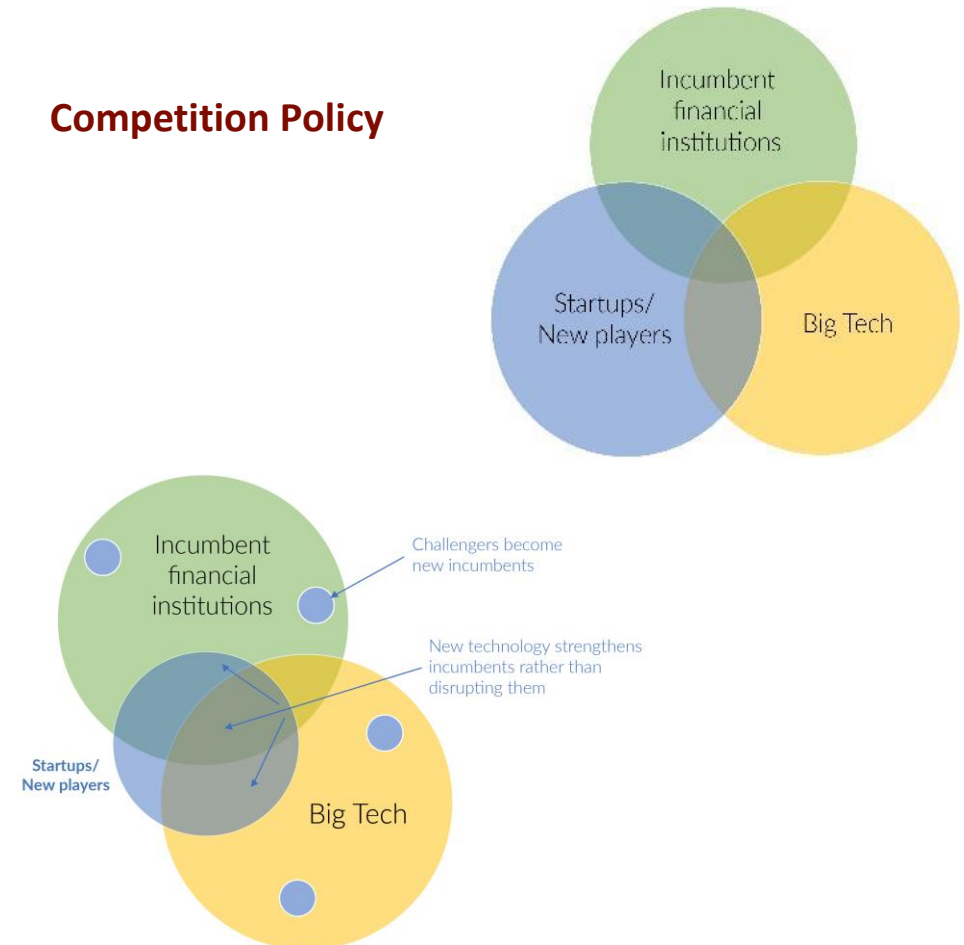
The future of European FinTech runs through public policy

FinTech's Promise

- Disruptive
- Democratised finance
- Increase competition
- Align finance with societal goals



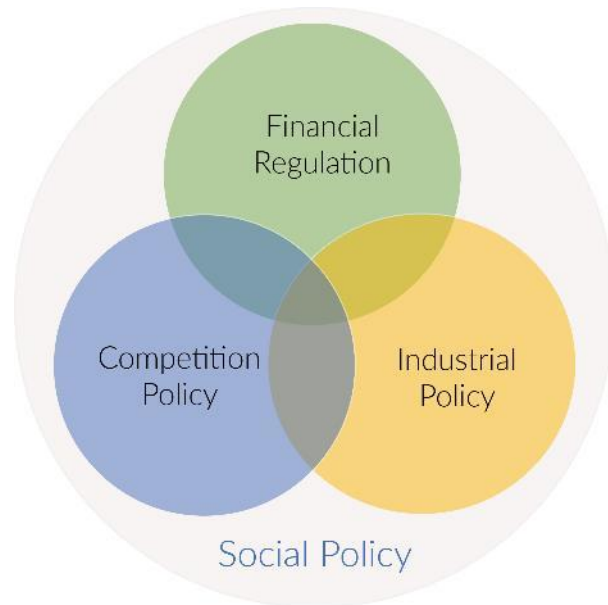
Competition Policy



The future of European FinTech runs through public policy

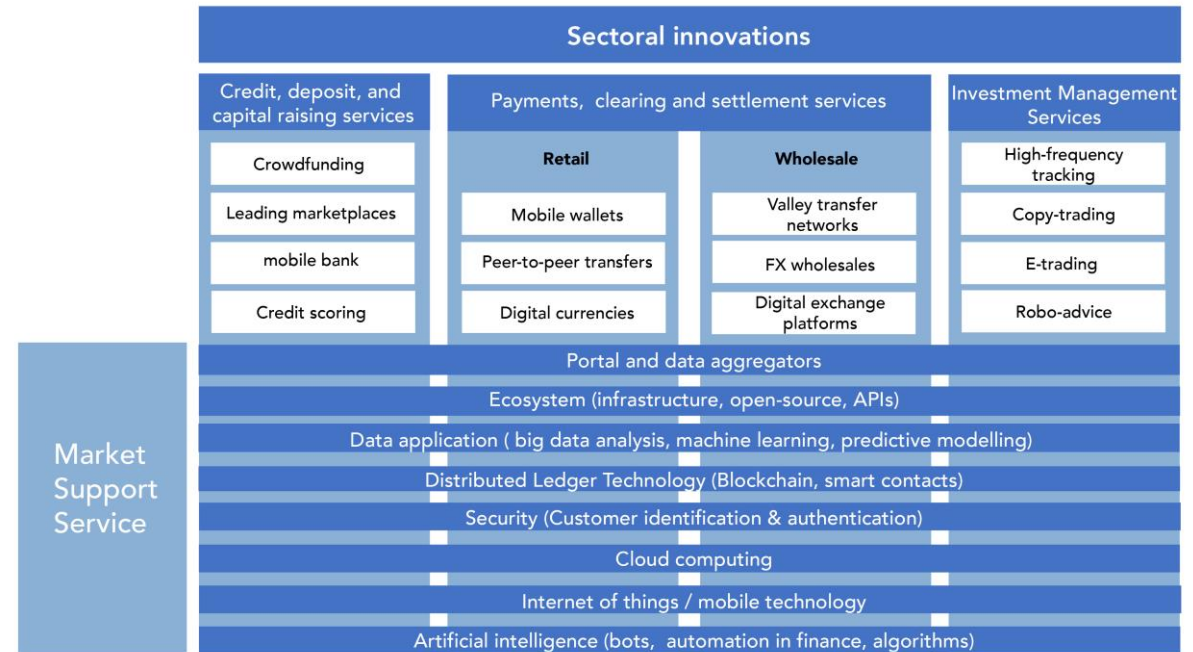
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Financial Regulation

Evaluating FinTech from a Regulatory Perspective



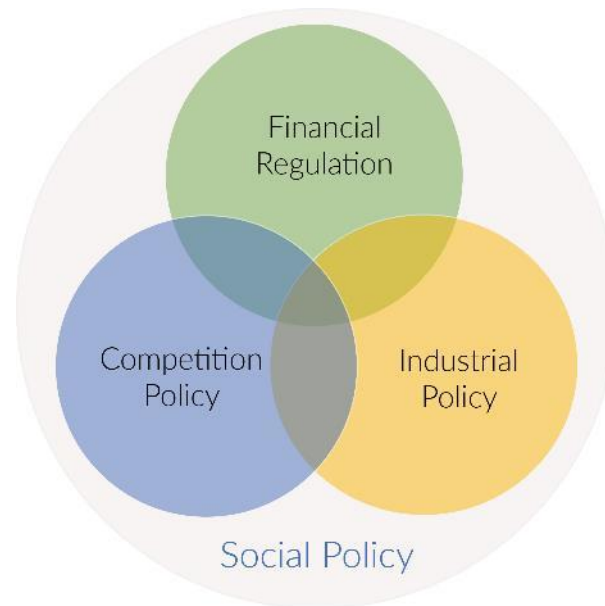
Source: Bank for International Settlement (2018)



The future of European FinTech runs through public policy

FinTech's Promise

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Social Policy – What is FinTech for?

Evaluating The Social Value Of Digital Finance							
Filter 1							
GOVERNANCE	Social mission driven	Is the company primarily driven by social or environmental mission?					
	ESG	Are governance standards and practices ESG compatible? Is executive pay meaningfully linked to social impact?					
	Financing	Do the sources of financing facilitate delivery of social mission?					
	Data	What are the policies for the ownership and use of customer data?					
	Transparency	Is overall business impact transparent – for instance through the use of Impact Adjusted Accounting?					
	Compliance	Where relevant, does the company have robust systems to comply with anti-money laundering and counter-terrorism financing regulations? Does it eschew transnational tax-avoidance structures?					
	Financial Stability	Is the company financially stable relative to its stage of development?					
Filter 2							
First Question: Does the company have performance metrics focused on outcomes rather than process?							
		Social Value Opportunity	Improved access for the excluded	Meaningfully lower costs/less collateral	Enhanced financial security	Increased financing for social &/or environmental impact	Market transformation potential
Functionality							
SERVICE PROVIDED	Deposit taking		++	+			++
	Consumer Lending		++	+			+
	SME Lending		++	++		+	+
	Wealth/Asset Management		++	++	++	++	++
	Insurance		++	++	+		++
	Payments		++	+/-			++
	FX and remittances		+	++			+

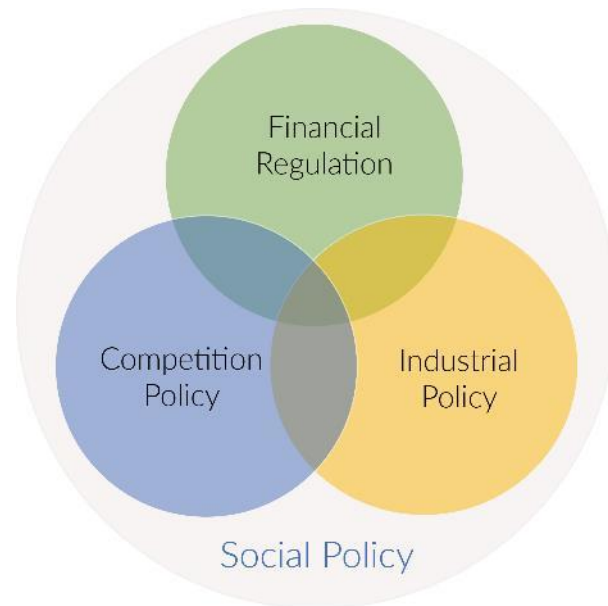
Source: RADIX Centre for Business, Politics & Society



The future of European FinTech runs through public policy

FinTech's Promise

- Disruptive
- Democratise finance
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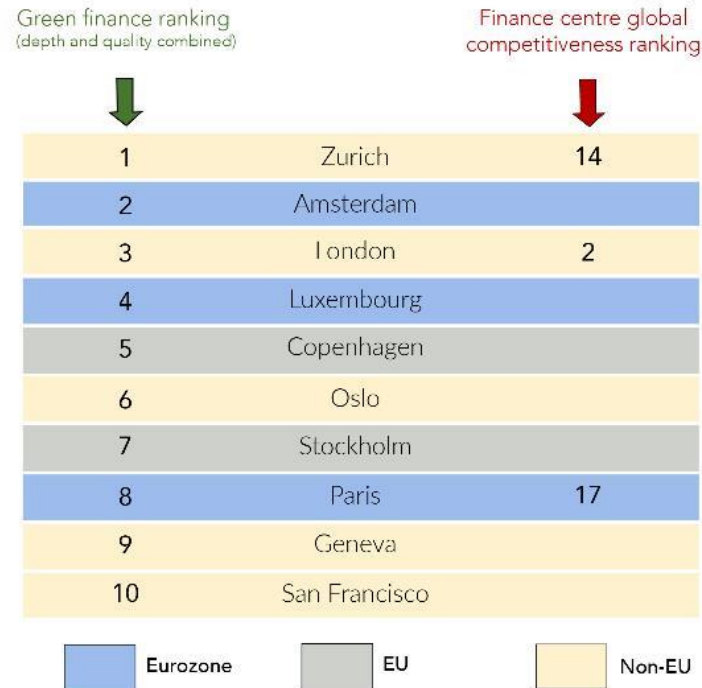
An industrial policy for digital finance

- Purpose
- Financing
- Play to strengths
- Coalition of the willing and able

The future of European FinTech runs through public policy

FinTech's Promise

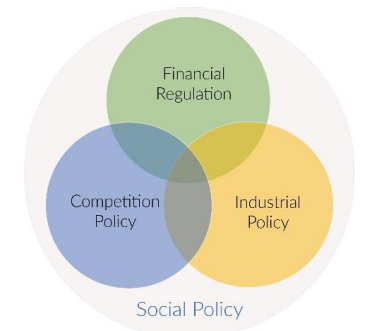
- Disruptive
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Source: Z/Yen, The Global Green Finance Index 6

An industrial policy for digital finance

- Purpose
- Financing
- Play to strengths
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The future of European FinTech runs through public policy

A multilateral investment fund

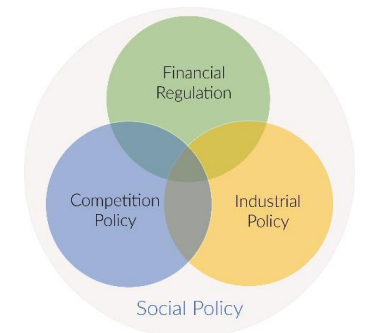


Mandate and governance

- Provide long term patient capital
 - start-up and scale-up
- Focus on added social value
- Encourage disruption and competition
- Countries with policy interest and capabilities
- Set investment rules in line with mandate
- Run as independent investment fund with public oversight of mandate

An industrial policy for digital finance

- Purpose ✓
- Financing ✓
- Play to strengths ✓
- Coalition of the willing and able ✓



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Questions And Answers



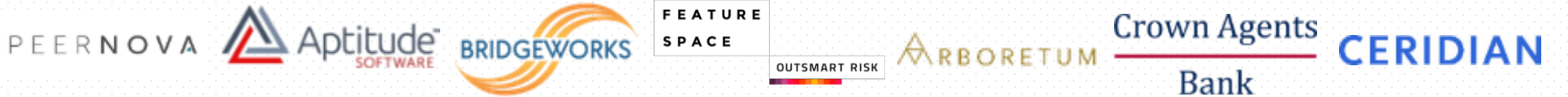


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Forthcoming Events

- Monday 22 Feb (08:30) Space: The Final Frontier Provides An Exciting Future For Our Global Community - BizTech Huìhuà Chat
- Monday 22 Feb (15:15) Tuttles All The Way Down – Digital Plumbing Upgrades Essential For Financial Services To Progress
- Wednesday 24 Feb (11:00) Beyond Brexit: EU-UK Social Security Contribution Rules

Visit <https://fsclub.zyen.com/events/forthcoming-events/>