



**Markets and business models  
under pressure: Fintech's impact  
in the real economy**

**Pier Luigi Gilibert, EIF Chief Executive**  
Rome Investment Forum – 16 December 2017

# 1. Fintech definition from FSB

“Technologically enabled financial innovation that could result in new business models, applications, processes, or products with an associated material effect on financial markets and institutions and the provision of financial services”.

Financial Stability Board (FSB)  
Financial Stability Implications from FinTech:  
Supervisory and Regulatory Issues that Merit Authorities' Attention  
June 2017

## 2. Disruptive technologies enabling the rise of Fintech

### Cloud computing (2006)

Amazon Web Services introduced in 2006. Cloud computing frees providers of financial services from having fixed location IT/computing/data services.

### Mobile (smart) phones (2007)

iPhone was introduced in 2007. Mobile phones free the users of financial services from having to go to fixed service locations.

### Blockchain / DLT (2008)

Blockchains allow to process (smart) contracts and transactions outside the traditional intermediary system relying on banks, freeing both users and providers of financial services from maintaining and protecting multiple ledgers of transactions/contracts.

### Artificial intelligence (AI)

The term AI was first coined at the Dartmouth conference in summer 1956. Since 2000, a major leap forward in developing AI / ML, potentially replacing human reasoning by software application in a wide range of sectors, incl. financial services.

# 3. The future of banking belongs to software companies?



# 4. Regulators' views and main areas of regulatory considerations



## European Commission

Fintechs: A more competitive and innovative European financial sector. Public consultation, 23 Mar – 15 Jun 2017

[https://ec.europa.eu/info/finance-consultations-2017-fintech\\_en](https://ec.europa.eu/info/finance-consultations-2017-fintech_en)



## Basel Committee on Banking Supervision

Sound practices: Implications of fintech developments for banks and bank supervisors, Consultative document Aug 2017, <https://www.bis.org/bcbs/publ/d415.htm>



## World Economic Forum / Deloitte

Beyond fintech: a pragmatic assessment of disruptive potential in financial services. Final report, Jun 2017

<https://www.weforum.org/reports/beyond-fintech-a-pragmatic-assessment-of-disruptive-potential-in-financial-services>



## International Monetary Fund

Fintech and financial services: Initial considerations, Staff Discussion Papers, Jun 2017

<https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2017/06/16/Fintech-and-Financial-Services-Initial-Considerations-44985>



## European Banking Authority

2018 Work Programme – activity 29 (Fintech)

<https://www.eba.europa.eu/about-us/work-programme/current-work-programme>



# 5. What disruptive technologies have done to other industries



Retail commerce  
Don't own any shops



Urban transportation  
Don't own any cars



Hospitality / hotels  
Don't own any beds



Air transportation/  
national carriers



Combustion engine  
manufacturers



# 6. Strengths/weaknesses of current incumbents

## Strengths

Low funding costs

Strong origination networks

Perception of safety

## Weaknesses

Brick and mortar costs

Outdated legacy systems

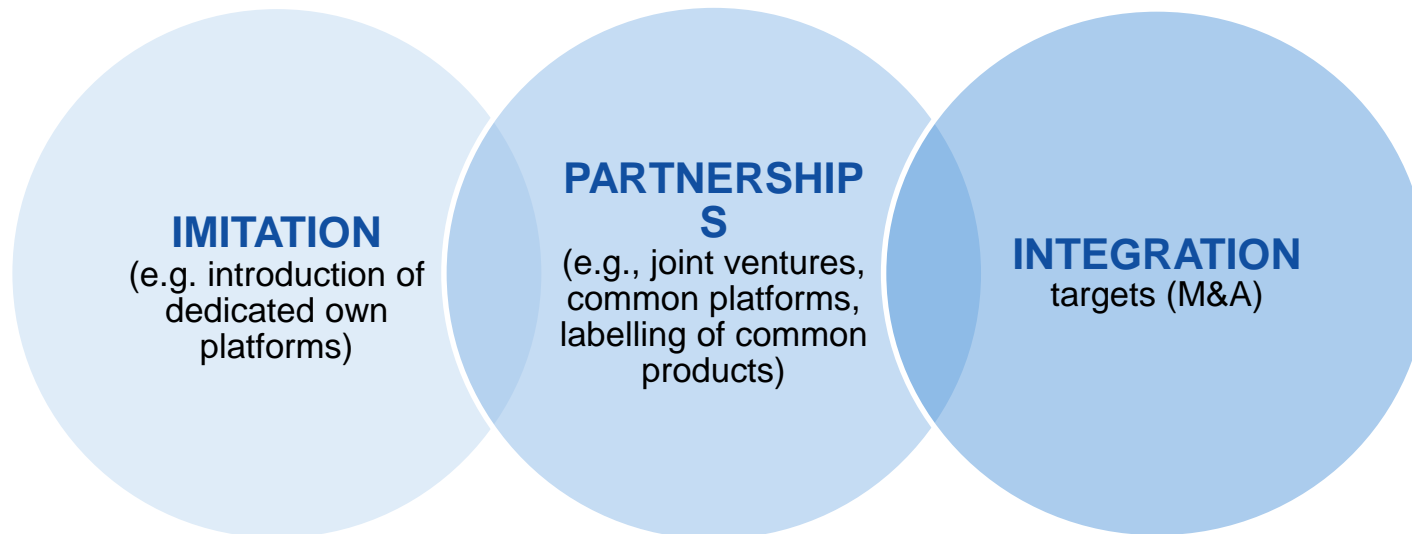
Slow processing

High staff costs

No access to talent (losing talent)

**RISE OF FINTECHS**

# 7. Banks under siege? And how do they respond?



- The industry has evolved from direct competition designed to disrupt traditional banking to one of **growing partnerships and integration** between fintechs and banks
- Partnerships between fintechs and incumbents also **outside banking** (e.g. microfinance and crowdlending, BA/VC financing and crowdinvesting)



# 8. Critical long-term trends shaping financial services



- Technological **advances** and their growing **acceptance** among consumers
- Rise of the **millennials** and **digital natives** with mobile devices and social media as part of their lives
- **Big tech** and **GAFA** interest in expanding into financial services (e.g. Google, Apple, Amazon, Alibaba, Baidu)
- Currently **fintech business models are still fragmented**: there isn't a single winning formula. Once found, disruption will be overwhelming.

# 9. What does this mean for EIF?

“The combination of crowd-based activities, social media and automated matching platforms that apply innovative technology **may significantly change the way consumer/SME credit is contracted and the way equity investment flows into start-ups, scale-ups and SMEs** more generally. Non-bank financing is offering **new channels of access to finance for individuals and small companies** facing difficulties to tap the traditional banking channels, especially due to the lack of appropriate collateral or ...historical credit information”.

European Commission  
Fintechs: A more competitive and innovative European financial sector  
Public Consultation, 23 March 2017 – 15 June 2017

FINTECH'S PROMISE OF  
EASIER AND FASTER  
ACCESS TO FINANCE

CAPITAL MARKETS UNION  
DIVERSIFYING SOURCES  
FOR SMES

**EIF'S OWN BUSINESS MODEL DISRUPTED**

# 10. EIF opportunities going forward

**REACTIVE**

**PROACTIVE**



**DO NOTHING**

**PARTICIPATE IN PLATFORMS**

**BECOME THE ENABLER OF PLATFORMS**

**BECOME A PLATFORM**

No specific actions taken on platform banking, based on the belief that disintegration of banking value chain is unlikely

Identify platforms with the greatest potential and participate as product providers on those platforms

Provide infrastructure (e.g., account and payment aggregation services) to enable platforms and their participants

Transform traditional integrated business model into a platform and generate value through making connections

**Impact of Profit Pool**

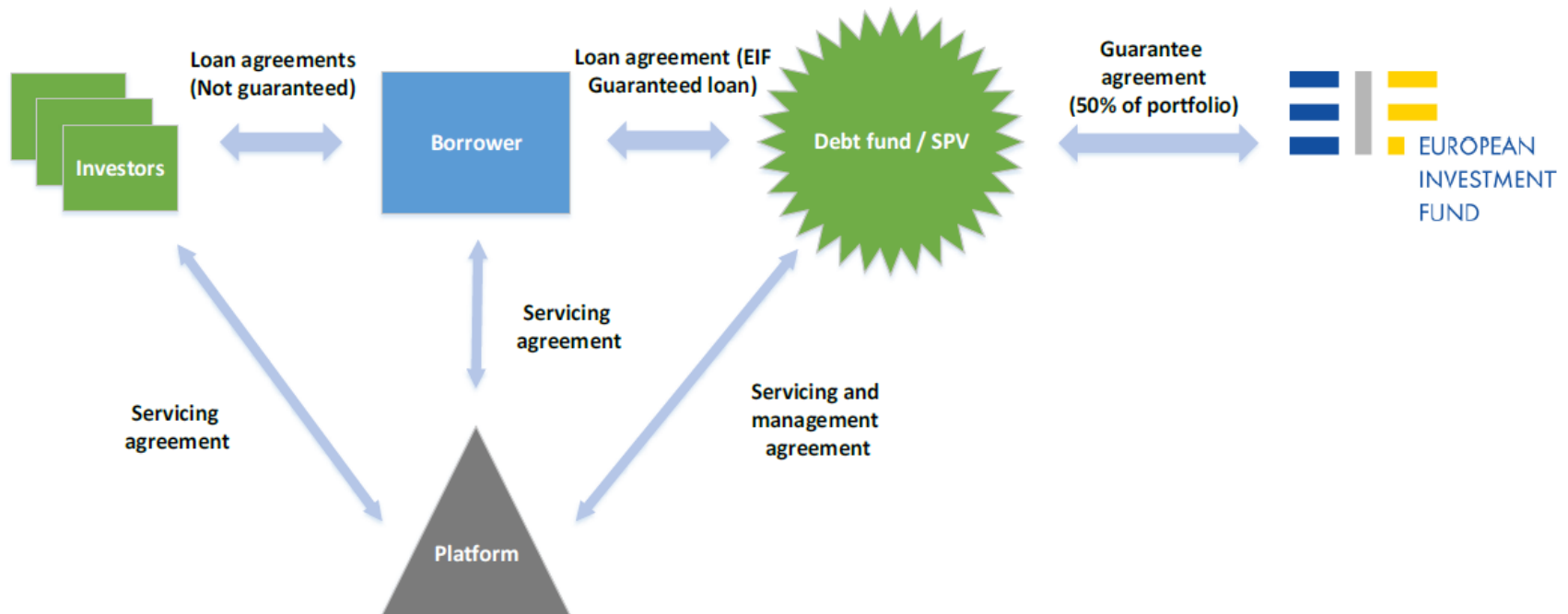
- Potential substantial shrinkage on revenues if universal banking model becomes unbundled

- + Increase in volume by diversifying distribution channels
- Lower margins on products distributed through platforms

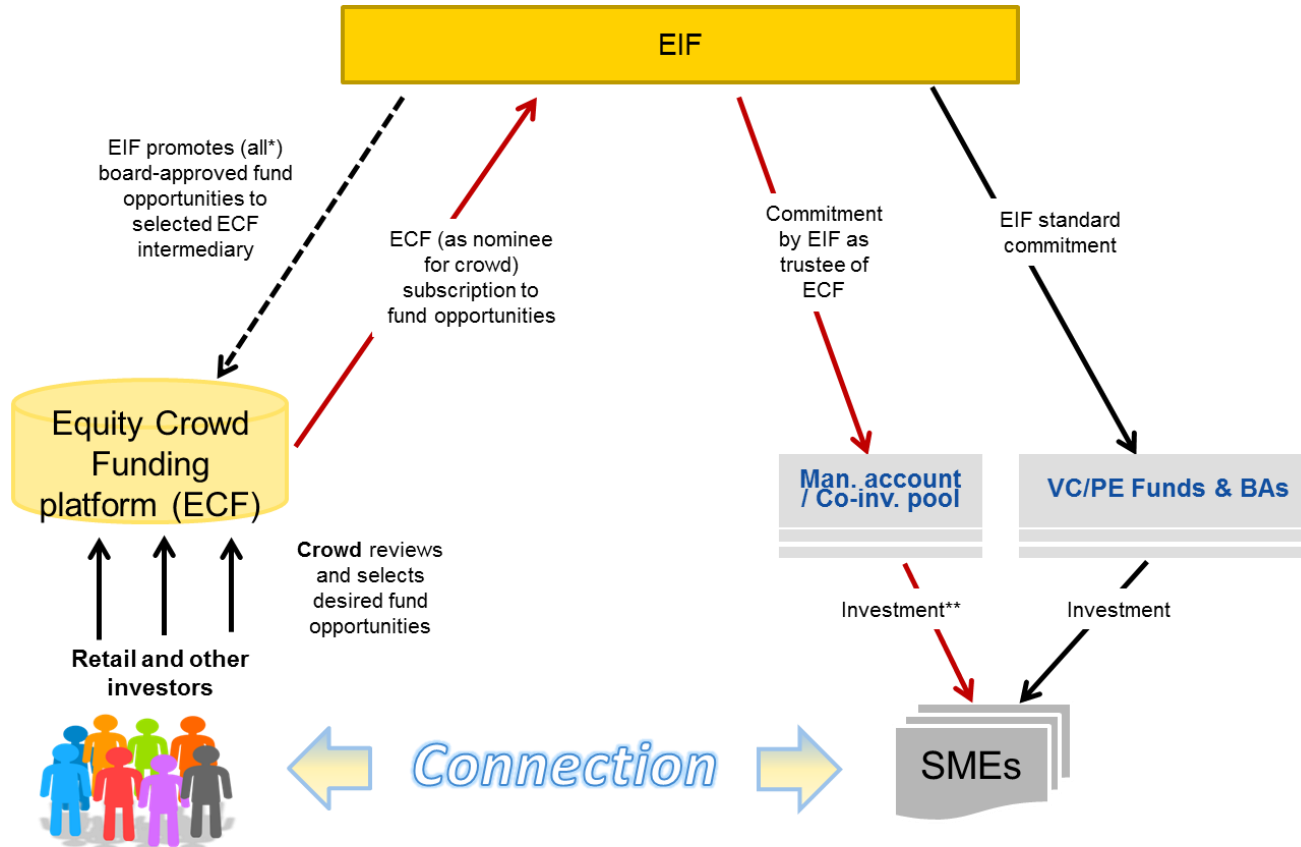
- + Additional volume-driven revenue stream
- Potential erosion of new revenues as the market consolidates, potentially globally

- + Increase in volume by focusing on scale
- Loss of traditional margins from "manufactured" products
- Potential cannibalization of existing revenue streams

# 11. Possible engagement model – debt financing



# 12. Possible engagement model – equity investments

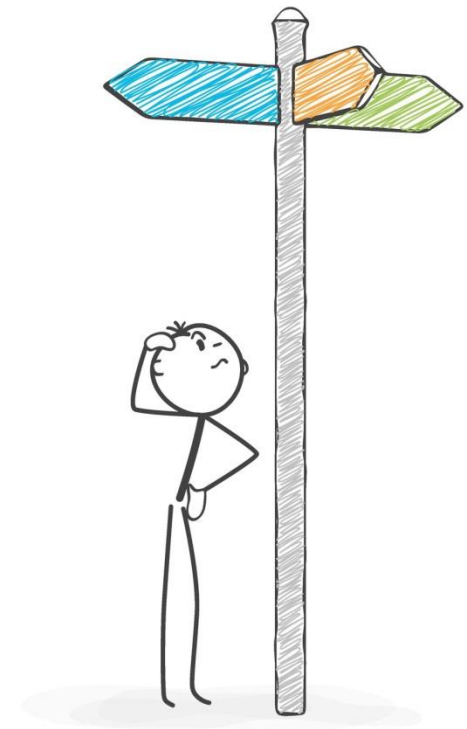


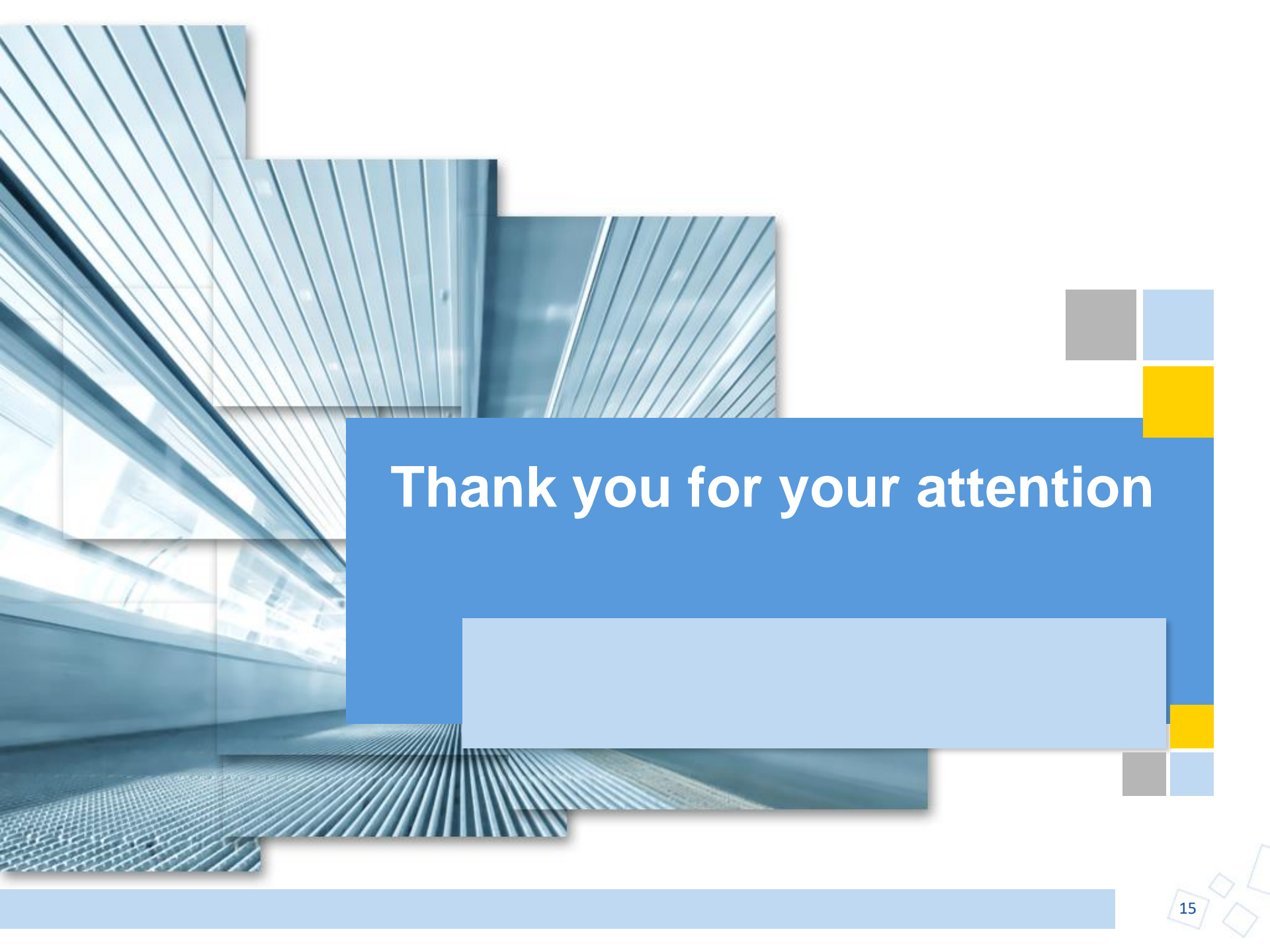
\*subject to fund manager consent

\*\*GP acting as trustee for EIF (in turn as trustee for ECF)

# 13. Conclusions

- **There is value in fintech for the real economy.** Being aware of shortcomings, EIF is not ignorant of these developments and is exploring ways for the development of its own business model.
- **Regulation: main challenge is to protect the safety and soundness of the financial system** while not preventing the spreading of useful innovations in the fintech sector.
- Capital Markets Union (CMU) supports these developments - and the **diversification of SMEs' financing sources.**





**Thank you for your attention**

