mobey forum

DISRUPTIVE TALK!

BANKING DISRUPTED

A Range of Disruptive Areas Were Discussed

Online Lending

- Consumer lending
- Checkout lending ← Focus on a key area with significant disruptive activity for a "deep dive"
- Small-Medium Business lending
- Credit risk Assessment

Payments

- Domestic P2P/B/G
- International Money Transfers
- B2C, including both eCommerce and mCommerce
- New Payments
- Cloud based payments
- Discount / Vouchers

Small-Medium Business lending

Credit risk Assessment

Personal Finance Management

- Wealth Management
- PFM
- Aggregator roles

KEY 'TAKEAWAYS'

Ignore Fintech At Your Peril:

The CEO of J.P. Morgan told their shareholders about Fintech: "They all want to eat our lunch. Every single one of them is going to try"; More than €25bn has been poured into Fintech in the past five years, making it the number-one target for venture funding. An estimated 4,000 firms are challenging banks in every product line

Has Anything Changed?:

Some say banks have always been here. This is true. But will they be the same? Is there is a danger that banks may loose that all-important connection with the customer and may be relegated to be infrastructure providers. The workgroup was divided: In general, it is highly likely – given the opening up of the banking and payment industries – that non-banks especially technology driven outfits will carve out specific roles for themselves

Some Things Have Changed :

Generally speaking, customers' underlying financial needs haven't changed dramatically. However, the way in which they want to fulfil those needs has – this is particularly true for younger consumers (e.g., in the US, it is reported that the majority of millennials do not use credit cards)

No Time To Sit Still:

Banks must continuously innovate and upgrade their services to meet evolving demands or become disintermediated from their customers

But What's Holding Banks Back?:

For banks, the chief barriers to responding to the Fintech challenge are the "soft issues" - lack of a clear digital strategy, cultures unsuited to rapid change and an inability to attract top technological talent

Build on Bank Strengths:

Banks and other financial institutions which are allowed to hold customer deposits should use these deposits collectively as an economically efficient source of funds for lending

Specific consumer segments prefer the convenience of "product bundles" which specialist mono-liners cannot provide but banks can. However, not clear at this stage - some customer segments will go for multiple providers to source the best products. Others, while wanting products that meet their needs, may select bundled products

Also, though not everyone agrees, physical footprint (branch network) can be used as an "asset" particularly for selling what are called "high-anxiety" products (customers prefer to meet and talk and not just click on an app)

Create not Copy:

First "knee-jerk" reaction is to copy an impressive Fintech. Banks should build on new ideas and provide better service - not just duplicate a new service

Avoid Herd Mentality:

The "Me-Too" strategy does not go anywhere. What is required is to develop strong relationships with customers and unique service offerings. Example: Just because there are many digital wallets out there – should everyone issue a wallet?

Call for Culture Change:

Often, as many bank participants of the workgroup reminded us, the mind-set, skill-set, and more importantly, risk taking appetite is very different for bank executives (compared to the same in Fintech circles)

OK It's A Management Cliché But It Is Still True – Drive Towards Continuous Innovation:

Banks must continuously innovate and upgrade their services to meet evolving demands or become disintermediated from their customers

Don't Ignore the Business Case:

To take on the Fintech sector, there is a tendency to price low – or even provide services free. But Fintech companies have different perspectives on "exit strategies" – whereas banks are not in the business of merely attracting traffic and then cashing out

Partner with Fintech Sector for Distribution:

While banks should not loose that all-important customer interface, they should be open and flexible to partner with Fintech companies especially where such a move opens up a new distribution channel

For example, banks now use person-to-person lending platforms as new channels for distributing their lending products to access new customer portfolios

Partner with Fintech Sector for Innovation:

Everyone realises that bank cultures are less flexible than start-ups and sometimes developing new products and services can be a slow and cumbersome process requiring multiple approvals and 'blessings" from the right sponsors - often career-oriented bank executives will not "rock the boat" to take risks

Banks and other financial services institutions should (and some already do) partner with more nimble start-ups, taking equity stakes in them, offering them their first contracts, serve as testing grounds, use their services, and also mentor and guide them

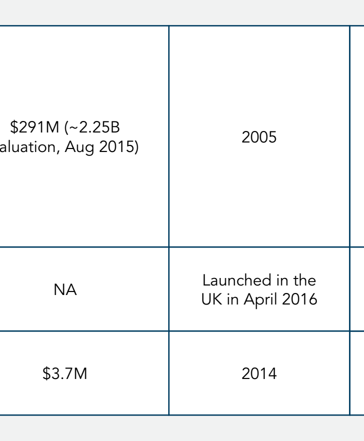
Such banks get to leverage a new innovation first and – of course – get to reap the financial rewards from their investment if the start-up protégé succeeds

GLOBAL LANDSCAPE

Key Market Activities

- Affirm has been supporting a number of major ecommerce platforms – Shopify, Kibo Commerce, BigCommerce, AspDotNetStorefront or Zen-Cart to offer financing options to their merchants
- In 2016, Affirm has struck several major partnerships with retailers and marketplaces to provide financing options including Wayfair, CheapAir, Expedia, Eventbrite, etc.
- In April 2016, Affirm acquired personal finance app Sweep to improve customer engagements
- Spliit has been partnering with major ecommerce platforms – woocommerce and Magento, 30+ payment gateways in the US and UK, and merchants e.g. GlassesUSA
- Klarna has been partnered with a big US-based retailer – Overstock (since Sept 2015) and major card networks (Visa, MC, AmEx) to enter the U.S. market

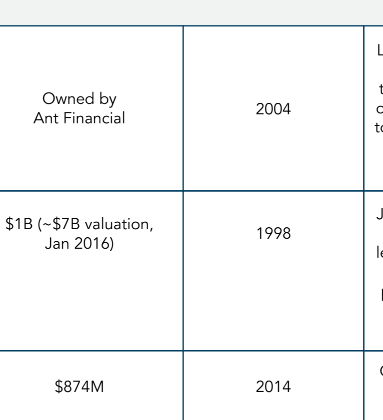
Selected Key Players	Total Equity Funding	Founded	Descriptions / Facts
GreenSky	$350M ($3.6B valuation, Sept 2016)	2006	GreenSky started with financing home improvement; now it also offers financing option for consumer products
affirm	$420M ($800M valuation, April 2016)	2012	Affirm's installment loans address the thin / no credit file population in the U.S. e.g. the Millennials
PayPal CREDIT	NA	Formerly BillMeLater was acquired by PayPal in 2008 for $820M	PayPal Credit offers line of credit to the customers
Splitit	$10M+	2009	Splitit enables merchants to offer interest free monthly installment payments to their customers



Key Market Activities

- In Feb 2017, Klarna acquired BillPay from Wonga for ~$75M to strengthen its market position in Germany
- In Nov 2016, Klarna acquired a Germany-based startup payment service provider Cookies
- In July 2016, Klarna partnered with the UK based online fashion company Lyst
- In April 2016, PayPal Credit launched in the UK
- In Dec 2013, Klarna acquired Germany-based ecommerce payment leader Sofort for ~$150M

Selected Key Players	Total Equity Funding	Founded	Descriptions / Facts
Klarna	$291M (~2.25B valuation, Aug 2015)	2005	Klarna offers customers flexibility to pay in full or installments after delivery Key Stats: Total customers: 45M # of merchants: 65,000 # of transactions per day: 400,000 Ecommerce market share in Northern Europe: 10%
PayPal CREDIT	NA	Launched in the UK in April 2016	Launching in the UK was the first international expansion of PayPal Credit
divido	$3.7M	2014	Divido offers customers flexibility to pay in full or installments after delivery



Key Market Activities

- China is a relatively fragmented market for purchase financing compared to the US and EU
- Purchase financing companies in China are generally targeting college students and young workers to buy the consumer products that they cannot afford with an one-time payment, primarily electronics. Some also offer financing for fashion goods, sports gear & equipment, travel packages, etc.

Selected Key Players	Total Equity Funding	Founded	Descriptions / Facts
Alipay	Owned by Ant Financial	2004	Leveraging Sesame Credit (Ant Financial's credit scoring technology), Alipay has begun offering short-term loan service to Chinese customers shopping on Alibaba's ecommerce platforms e.g. Tmall, Taobao
京东金融 JD Finance	$1B (~$7B valuation, Jan 2016)	1998	JD Finance provides a range of consumer financial products leveraging JD.com ecommerce plafrotm; JD Finance has partnered with ZestFinance to create new scoring technologies
趣分期	$874M	2014	Qufenqi is an online store that sells electronics and allows buyers to pay in installments. Qufenqi also partners with ecommerce sites e.g. Tmall and JD
分期乐	$345M	2013	Primarily targeting college students to buy electronics with flexible installment options

TYPES OF CHECKOUT LENDING

Instalment Loans

- Pay for specific purchase via an instalment loan
- Application made as part of check out process
- Interest decision made based on consumer credit
- Purchase has point back in instalments over pre-agreed period

Pay On Invoice

- Core feature of payment proposition
- Payment provider pays merchant immediately and collects monies from consumer
- Consumer can choose to convert payment into instalment loan

Approved Credit Line

- Apply for credit directly from popular online providers
- Credit given prior to any specific purchase
- Not tied to merchant or specific merchant or product purchase

THE OLD & THE NEW

Comparison With Conventional POS Finance

Typical Scenarios

Conventional Approach

- Offline application process
- Limited lending criteria
- Lack of transparency with regards to customer fees and charges

New Approach

- Modern technology platforms with flexible APIs facilitating superior user experience - especially on mobile
- Simple fully digital application process
- Lending decisions in real time

A QUICK ANALYSIS

Standalone Viability

Criteria	Score	Comment
Addressable Opportunity Size		Sizeable addressable market ○ Lending most suitable for large one off purchases rather than everyday spend ○ New lending approach of appeal to particular customer demographics
Business Model Economics		Invoice & instalment model offers high margin business (relative to payment processing) ○ Merchant fees (set up and monthly fees) ○ Consumer fees (late fee, instalment set up and/or mthly & % charge) ○ Cost of loan capital, payment collection costs & cost of default / bad debts
Distribution		Winning merchants is key ○ Merchant apathy for yet another payment acceptance method ○ Compete against crowded payment acceptance landscape ○ Go to market integrated with PSPs and major ecommerce platforms critical to success
Operational Leverage & Scalability		Similar challenge to other financial services ○ Understand local market conditions eg: difference in consumer payment preference and culture ○ Challenge to scale rapidly & finance loans in parallel & adhere with local regulatory requirements ○ Leverage business processes, technology platform eg: credit scoring methodology
Brand & Loyalty		Central challenge of low frequency of customer contact ○ Challenge of building brand despite low infrequent customer contact ○ Pressure to increase customer engagement by offering additional free services – diluting margins

FUTURE SCENARIOS

Scenario 1: Return to Conventional Instruments

- Credit conditions improve & new checkout finance approaches turn out to be temporary opportunity
- Return in popularity of conventional instruments such as credit cards
- Gap between new and conventional POS finance approaches become undiscernible anyway

Scenario 2: Stand Alone Survive & Mature

- Long term viability for stand alone service providers
- Merchants integrate directly or via PSP
- Permanent feature of lending landscape - reporting to credit bureaus to help customer improve overall credit rating
- Additional services provided

Scenario 3: Market Consolidation

- Proliferation of comparable offerings - stand alone to larger
- Majority of stand alone players struggle and absorbed by established lenders, payment provider and/or other alternative financial service providers
- Check out finance becomes 'table stakes' feature of existing service providers offerings

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