

## FINTECH: AN INDUSTRY OVERVIEW

To gain an overview of the fintech market, we invited three industry representatives to a round table discussion: John Hucker, president of the Swiss Finance + Technology Association (Swiss FinteCH), Dennis Just, founder and CEO of Knip AG, and Bernard Lunn, founding partner at Daily Fintech Advisors.

Everybody is talking about fintech. There are fintech applications, networks, meet-ups, and a fintech industry. But what exactly is fintech?

DJ: Fintech is about finding ways to better service customers, about using technology such as software, hardware and mobile devices to make it easier for customers to take decisions and stay in control.

JH: Fintech may have become a buzzword now, but it actually has been around for quite a while. What made it really interesting are the developments in the postfinancial crisis. Banks have been seen as especially mature in their industry life cycle. However, in recent years, the ability of the financial industry to generate innovation is increasingly challenged by entrepreneurs.

BL: There are two different parts to fintech: There's one you might call "traditional fintech", where you supply technology to banks as in former years. And there's "emerging fintech" like Knip. You supply straight to the consumer, to small and big businesses. You might have relationships with banks for branding, partnership, and revenue sharing, but you don't depend on the banks. That's what I think is exciting.

### WE HAVEN'T PASSED THE FINTECH PEAK YET.

A lot of investments are going into fintech. For example, Knip recently raised 15 million Swiss francs, which is very respectable for Switzerland. Many traditional bankers are worried that consumers are starting to use services provided by start-ups. Is fintech a sustainable development or just a massive hype?

DJ: If you look at the hype cycle, we haven't passed the peak yet. The hype cycle helps us attract a lot of capital, allows us to experiment and learn way faster than banks or insurers can. Of course, we will see things flattening in the medium term.

Does this mean that fintech will require a lot of funding, since start-ups are just experimenting with newfound solutions without actually knowing what they're doing?

DJ: To a certain extent, this is true. Investors tell me they invest in Knip not because of our business model, but because they believe in the team and the people. While in the beginning we did not know how to exactly replace brokers with technology, we can now say that we have made it quite far. Possibly, we can go even deeper into the value chain and target the insurance carriers. We figure out from the consumer's perspective what kind of solution is needed, then adapt. That's the learning curve you can only force by pushing into the market and spending money.

Bernard, the companies you work with are a little further in this cycle. Do they have sustainable models?

BL: They do. I would reckon from Dennis that the hype cycle and the reality cycle are disconnected. The consumers in small businesses who are starting to use your product don't need the hype cycle. What investors are struggling with is that, in earlier days, they could slowly figure out when to enter a business. Today, 50% of the global population has mobile phones connected to the Internet. Once a great idea connects to the market, the scale-up is incredibly fast. We see a ton of businesses fail, but the few that succeed make up for it and even change the world.

John, your daily job has been with a private bank. What impact does fintech have on private banking?

JH: In private banking specifically, we haven't seen massive disruption yet. The Swiss banks still have a great reputation. However, client expectations have started to change. We all use our iPhones, so the simple fact that a bank should be able to interact with its clients on the channel that they're most comfortable with has challenged them to adapt and offer new services. But you can't just recreate the system overnight. You have a lot of constraints and also costs that have to be looked at. Start-ups,

on the other hand, connect great teams with flexible environments and greenfield situations. It's a powerful way of developing new solutions. That's a big role to play, and the Swiss banks are definitely interested in fintech.

*You don't think that private banking clients are moving their assets from traditional banks to, for example, True Wealth, Switzerland's first online asset manager?*

JH: The relationships in this higher-end client segment are based on trust, reliability, and high-quality services. So, how do you get into this digital world, but maintain a lot of the existing values you had in the private banking world? I don't think we've seen that yet. True Wealth is fantastic, but they have a long way to go to get the kind of scale that they would need.

BL: I fully agree with John. I don't think the private banking market per se is being disrupted. While the private banks tap the advised market, fintechs are getting great traction in the nonadvised market. It may seem small at first sight, but in the aggregate, the nonadvised market is far bigger.

JH: There's a difference between what a bank will give you and what a private bank can officially afford to give you. Looking down the road, it's interesting where wealth comes from. A lot of these folks in the affluent segment don't look attractive when they're 35, but only when they're 60 and have sold their business. Generationally, the banks are ignoring that early end and it will be hard for them to recapture these people in 10 to 15 years when they are more viable.

## REGULATION DETERMINES HOW EASILY A START-UP CAN GET TO THE MARKET.

*Bernard, your company is doing business worldwide. Do you see any differences in fintech between countries or continents?*

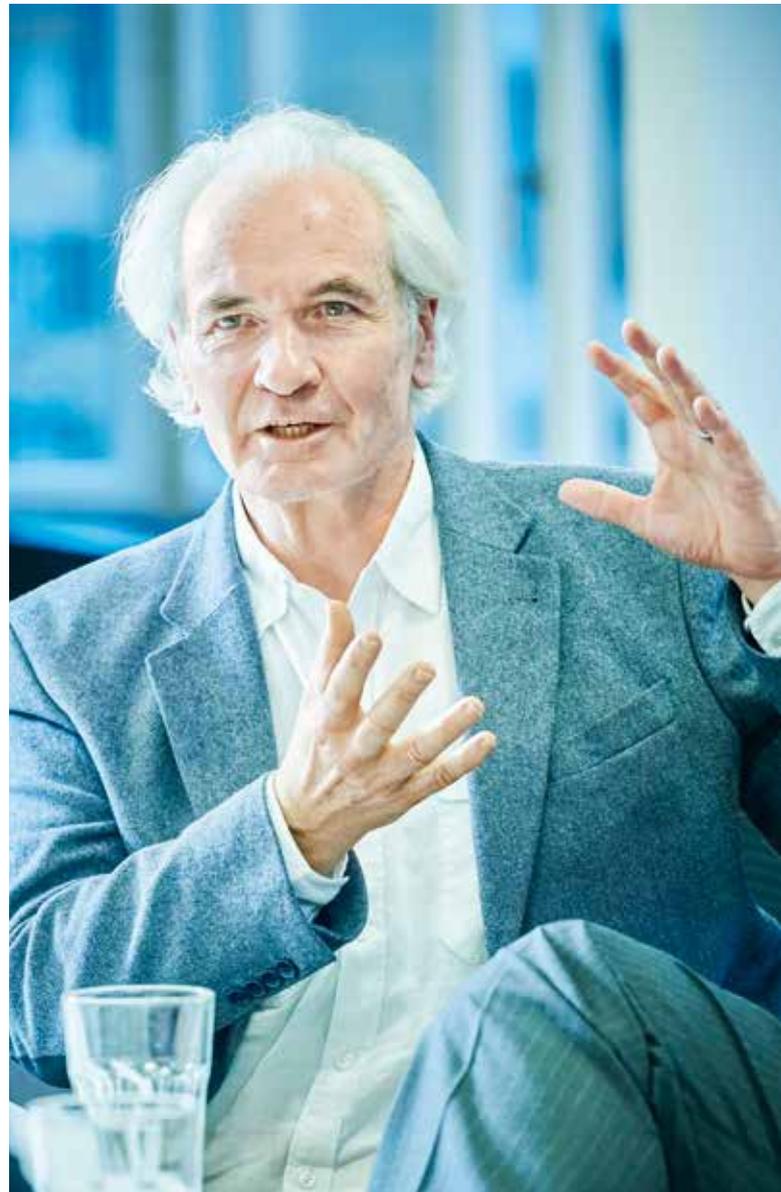
BL: The regulations are very different in the countries. That probably drives a lot of the change because regulation determines how easily a start-up can get to the market. One of the reasons why London is doing so well in this area is that, fairly early on, the UK government took the view that regulation is important. At the same time you don't want to make it so hard for companies to take off. They have found the right balance and that drives economic growth.

JH: The culture around finance is a lot different. I notice this big time when I visit Asia. Payment is a big thing in places like China where people are exchanging lots of little money and are interested in trading rather than being investors. Of course, each location has its own strengths. To me, two fintech hubs are really distinct: Silicon Valley because of the entrepreneurial culture, and Israel, which has a start-up nation culture. The national

security challenges they faced led them to become world leaders in IT security.

*Any specific strengths in Switzerland?*

DJ: One of Switzerland's strengths is its legal system. Compared to Germany, for example, it is easy to start a company here. In general, the strengths are on the product and the structural side, less on the execution side. CEOs of US companies told us that they invest in something, learn fast and decide whether it makes sense. If not, they may have burnt the money, but at least they have learned what not to do. This is basically how we run Knip. But nobody else in Switzerland does the same because the risk mentality is different here.



*Bernard Lunn: advises fintechs across the world.*



*Dennis Just: stirs up the insurance industry with Knip.*

If I want to use Knip, I give you private information about my insurance. As a not so well-known brand, how do you get people to trust you with that kind of information?

DJ: I think we're in a time where it's ok to give private information like an e-mail address or a mobile number. If I buy something online, I do it as well. Knip's main focus is on the service we provide to the client. As for the policies, that data comes from the insurance carrier, not the client. If you really want to use services, you need to provide the data to someone.

To be successful, I suppose you need a certain amount of insurance know-how ...

DJ: Insurance contracts are quite easy to understand. However, I wouldn't provide advice myself; I have the operational and strategic lead. For distribution, we have a number of expert advisors. Aged 29 on average, they have two to three years of insurance experience, but don't want to work in the traditional insurance environment anymore.

JH: Knip is a great example of people who can learn very fast, and their real talent is the entrepreneurship. Currently, fintechs and medtechs seem to be a little different from more generic start-ups: Many of the people who build these things have at least some industry experience. They see where things are broken. Matched with the younger, more innovative attitude, that is the perfect space to be in fintech.

**John, where are you now with Swiss FinteCH and what are your plans for 2016?**

JH: We try to focus on how we go beyond being one of the voices in the crowd to actually translating what we have built – which we think is really healthy for the people involved. Namely, topics like regulation and improving the conditions are important. We can either focus on the demand side, or on the supply side. The demand side is pretty healthy and there are many reasons for fintech in Switzerland to be drawing international attention. More work remains to be done on the supply side. I'm a big believer that Switzerland has the potential to deliver more fintech start-ups, and also to have more like Knip which are globally competitive. Therefore, we want to leverage that network to make sure more people are inspired to leave the banking industry and start something fresh.

## SWITZERLAND HAS THE POTENTIAL TO DELIVER MORE FINTECH START-UPS.

**Do you connect with the French-speaking part of Switzerland?**

JH: A primary focus of Swiss FinteCH is to be truly national. Many of the philosophies I started with were shared by Alexandre Gaillard, the Vice President of our group and the original lead in the Romandie. If we're going to be an international organization, we have to be present at least in those two places.

In October, Bernard and I were in Singapore together on a panel of global fintech hubs. That was part of the Swift conference where 5'000 to 7'000 people show up each year. They were early adopters of the fintech community and building that up at an international level through what they call innotribe. It happens that in September, Sibos is coming to Geneva. We're going to bring the international community that comes to town into the local community. During the week of the conference, there will be a lot going on.

As a retail bank, do I need to be more worried about the start-ups or the big tech companies such as Google or Samsung with massive resources?

BL: Google not so much. One of the biggest global tech giants moving into the space is Alibaba. If I was a bank, I'd worry about them.

JH: One of Alibaba's outstanding successes was their money market offering, namely the acceleration how things can reach 50 million users. We've never seen an Internet business scaling up like that before. What's quite alarming: A lot of banks look to Asia as being the next engine of growth for their businesses. So a lot of their development and why they're going to do fintech is because people are younger, they're generating wealth and are easy adopters of tech. If you look at the type of competition banks face from local tech giants, it's not exactly a fair fight.

## THE COMPETITION BANKS ARE FACING FROM LOCAL TECH GIANTS IS EXTREMELY STRONG.

Recently, FINMA and Swisscom announced online identification as a service. They move a standard process into video, but it still takes a while until I have my account set up ...

DJ: In Germany, there's NUMBER26 – one of the best examples of user experience. Onboarding really creates a wow effect. Within seven minutes, you have a bank account, and within one day, you have a credit card.

Would that be doable in Switzerland from a regulatory perspective?

DJ: There would be slight changes to registration, but it's very close to what is feasible here with the new circular of FINMA.

In the UK, the Financial Services Authority (FSA) is seen as progressive and a benefit for the fintech scene. What's the view on FINMA?

JH: Historically, FINMA was looked at as a real asset for Switzerland. With fintech, they've been a bit late and slow to figure out how to adapt. Part of it is the scale-up, they're a small organization. However, the last two years we've been engaging with FINMA we found those involved to be very open and pragmatic.

DJ: I agree with John that FINMA has always been extremely open. Yet, they're more like a neutral person that looks in the market and tries to push it in the right direction, whereas in the UK, the regulators act as an enabler, actively driving the market.

Bernard, you stated that moving from the minimum viable product to a large-scale deployment/user base happens within

a couple of months, i.e. very rapidly. Could this work in Switzerland?

BL: There are many reasons why you set up a business in Switzerland, for example the jurisdiction or the great crypto experience in Zug. However, the risk aversion is a major problem in doing business here. Employees, partners and talent tend to be more conservative. But more importantly: The consumers are conservative. Because everything works really well, there is little motivation to try something new.

DJ: Recently, I talked to the CEOs of two major Swiss companies about video identification. FINMA's circular is not very specific in this respect. If I were them, I would plug in my own process that is quite close to what FINMA describes and push it into the



John Hucker: builds a roundtable fintech players can connect to.



Martin Nokes: a new perspective on fintech.

market. It's the easiest way to onboard the customer. However, it might also be risky and therefore they are not doing it.

We've already talked about the strengths. Are there things missing that would enable Switzerland to be a leader?

DJ: The legal framework in Switzerland for business owners is good. At the same time, it would be better if one could obtain the necessary permits to hire foreign talent to work in Switzerland at a faster pace. This is why tech companies often struggle when looking for highly qualified personnel within Switzerland or reallocating them from abroad. Knip, however, has offices in three countries, which helps us to bypass this and hire the needed talent for our growth.

JH: We'd like to see continued awareness and green light for people to, say, disregard the risks and seize real opportunities to be doing something in fintech. To get things moving more quickly, Switzerland needs to open up culturally. While due to the federal system you have a lot of independence and all the cantons, we want build that roundtable that regulators, the industry and start-ups can connect to, so that there is a center of gravity. If Switzerland continues to do what it does well, and finally finds ways to solve it quicker, it has great opportunities to become a real innovator in financial services as well.

BL: Where people are going to say Switzerland is the innovator is around "Crypto Valley". In Zug, there's serious hard-core crypto experience and there are many really smart guys. If you combine that with Switzerland's experience in institutional capital markets, you got the makings of some major global players. ■

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## John Hucker

*John Hucker, CFA, is cofounder and President of the Swiss Finance + Technology Association, the center of gravity in the Swiss fintech ecosystem, representing stakeholders from all sides of the community. John is an MD at Taussig Capital. He most recently led fintech engagements for Credit Suisse Digital Private Banking. Prior to that, he held roles at UBS working with UHNWIs (ultra-high net worth individuals) and TD Asset Management working with institutional clients. He holds the CFA designation and an MBA from Said Business School, University of Oxford.*

## Dennis Just

*Dennis Just is the founder and CEO of Knip AG, a mobile-first digital insurance broker that makes it easy for customers to track all their insurance policies, premiums, and benefits. The staff is there to advise users on all facets of their policies. Dennis founded Knip in September 2013. Today, Knip has over 100 employees based in three countries. The start-up is registered with IHK, the German Chamber of Industry and Commerce, and certified by TÜV, the German Technical Inspection Agency.*

## Bernard Lunn

*Bernard Lunn is a founding partner at Daily Fintech Advisers. The company consists of a commercial part that works with fintech scale-ups, financial institutions and tech companies, and of an open-source platform written by entrepreneurs for entrepreneurs. Bernard is a serial entrepreneur and has done start-ups, scale-ups and turnarounds in the USA, Asia and Europe. He is a frequent speaker and moderator at fintech conferences.*