

## What to expect from fintech in 2018? A brief global outlook

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The year 2017 was definitely a record year for Venture Capital-backed fintech featured by \$16.6bn raised (Figure 1), 1128 deals executed worldwide and 8 new unicorns (companies with market valuation of \$1bn+). While North America surpassed Asia and confirmed its leadership in terms of money raised (after the decline of 2016, Figure 2), Europe experienced the biggest increase with a +121% YoY reaching circa the 17% of the whole funding to VC-backed fintech companies.

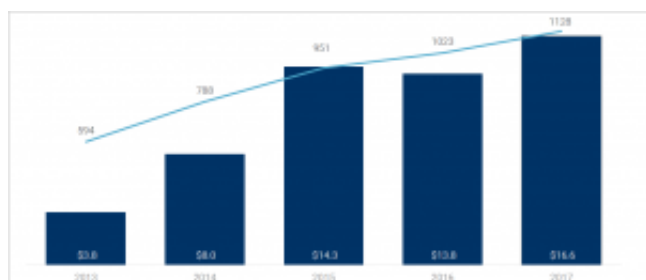


Figure 1: Annual global fintech deals and funding (\$bn) — Source: CB Insights

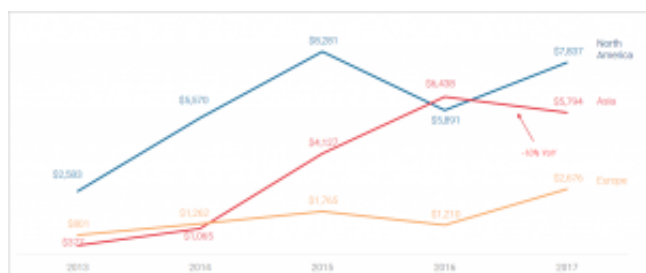


Figure 2: Annual funding to VC-backed fintech companies per region (\$m) — Source: CB Insights

Interestingly, the fintech space is changing and so are investors' behaviors. As we can see from the chart below (Figure 3), the global number of Fintech mega-rounds (\$100m+) dramatically increased from 2016 (35 vs 16). Investors, especially in the US, are making more concentrated bets.

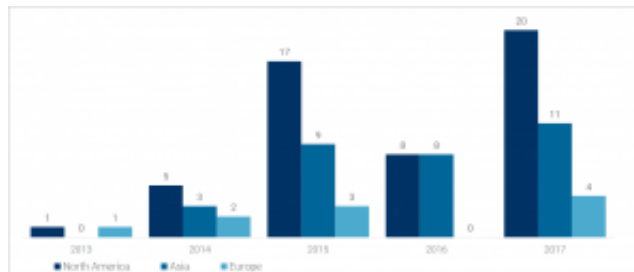


Figure 3: Annual global number of fintech mega rounds — Source: CB Insights

Looking ahead, what are the main trends to watch in 2018? According to a report recently published by CB Insights, these are:

- **Fintechs unbundling leads to rebundling**

Over the last years, Fintech startups have addressed single unserved financial products/services by improving customer experience. According to CB Insights, 2018 will be characterized by fintech rebundling and will see startups dealing with switching from mono-product to multi-product, leveraging technology for product innovation and opening new investing channels. Notable examples are Credit Karma expanding into tax and Revolut launching a cryptocurrency exchange on its platform.

- **European fintechs will expand their global footprint**

Several European banking startups already announced expansion plans. Revolut and N26 are about to kick off their operations in US. Funding Circle announced a strategic partnership with Kansas INTRUST Bank to support growth of US SMEs, and TransferWise is launching its new borderless account that can hold 28 currencies.

- **Banks forgo partnering in favor of fighting fintech with fintech**

Banks are finally actively investing in fintech startups across a variety of areas from Blockchain and Data Analytics, to Payments and Financial Services Software. Interestingly, banks are not only looking to invest in and partner with fintech startups but also working on their own fintech solutions. Marcus, Goldman's online lending (and deposit) platform, recently hit \$2bn in loan originations, just 13 months after its launch. Moreover, 2017 saw the launch of JP Morgan and Morgan Stanley robo-advisors.

- **Wealth management will become the hottest fintech sector in China**

According to CB Insights, Wealth Management is on the rise in

China. Ant Financial's Yu'eBao is currently the largest money market fund in the world and Tencent just got a license to sell mutual funds to WeChat's user. However, VC investments in Chinese wealth tech startups are not as huge as we may think. In fact, only \$146m were raised in 2017, suggesting room for strong growth and opportunities for fintech startups able to deliver more comprehensive solutions as the industry undergoes a paradigm shift.

- **Latin America and Southeast Asia will see strong fintech growth**

It is not a secret that Fintech has flourished where banking infrastructure is underdeveloped, fulfilling the gaps in traditional banking models. CB Insights suggests that the next great opportunities may lie in Latin America and Southeast Asia. The need for innovative solutions is clear. For example, 40% of Brazilians are currently excluded from traditional banking systems and less than 5% of Indonesians have a credit card. In 2017, Southeast Asia saw \$218m invested in fintech (record year) and Latin America saw 38 fintech deals (clearly outpacing Australia and Africa). Alternative lending and blended solutions between fintech and commerce are the hot areas to watch.

- **More companies will look to sell pickaxes amid cryptoasset speculation**

2017 has also been the year of Crypto and, while blockchain is still in its very early days, investors and startups have entered the space looking for speculation. More than \$4bn have been raised via Initial Coin Offerings in 2017 and Cryptocurrency exchanges such as Coinbase surge in popularity. As crypto speculation continues, more companies will look beyond their initial use cases to enable and expand investment and trading.

- **Capital markets fintech infrastructure becomes a focus area for investment**

The next fintech era must rely on a stellar infrastructure to drive innovation in finance. In fact, one of the most urgent need for banks is to revolutionize their IT systems. Aiming at replacing legacy infrastructure, centralizing disparate customer data and creating open banking platforms, banks are very interested in solutions offered by startups like Plaid or Quovo (a data platform that leverages a robust suite of APIs & modular applications to aggregate financial data).

- **Banks deepen their partnerships with regtech**

Regtech is on the rise. VC-backed Regtech equity funding reached \$1.8bn across 176 deals since 2013 and many predict it will be the next big phenomenon. Regtech finally enables bank to optimize compliance activities, currently very costly and inefficient. Banks such as Santander, Barclays, and Goldman Sachs are some of the earliest to invest in regtech startups. Banks have made investments in products & services that range from identification and background checking software to blockchain and trade monitoring.

- **Insurance tech investment moves to the back-end**

Insurtech startups continued to be a hot area for fintech investment in 2017. Global deals rose 16% YoY in 2017 with

\$8bn invested since 2012. Although most of the funding still go to distribution-focused startups, a crunch may occur as winners emerge. On the other hand, back-end startups are finding more ways into insurers with claims being an area of focus.

- **Amazon is primed to get more aggressive in fintech –outside of the US**

Amazon is a great example of how new entrants are taking market shares from traditional players. Amazon has already successfully developed several financial services such as payments, lending and cash deposits in the US and, right now, is looking abroad. The tech giant is betting big on Insurance in Europe and in Payments in growth markets such as India and Mexico. It will be also very interesting to see how the battle with the Chinese Dragons (Tencent and Alibaba) will evolve.

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## Banca d'Italia: Revisione disposizioni politiche e prassi di remunerazione e incentivazione

21/03/2018 16:14

La Banca d'Italia ha sottoposto a consultazione pubblica le modifiche alle politiche e prassi di remunerazione e incentivazione nelle banche e nei gruppi bancari, in vigore dal del 17 dicembre 2013. Lo scopo è quello di adeguarsi al quadro normativo della European Banking Authority (EBA). Queste le principali modifiche:

### Rapporto tra componente variabile e componente fissa:

- È possibile individuare rapporti differenti (dal 100%, ex-2013, ndr) (entro il limite del 200%) per singoli individui o categorie di personale; in ogni caso, l'individuazione di limiti differenti per soggetti appartenenti a una medesima categoria di personale è eccezionale ed è adeguatamente motivata (2018). Se l'assemblea approva l'aumento del limite, non è necessario negli anni successivi sottoporre alla assemblea una nuova delibera, a condizione che non siano cambiati i presupposti sulla base dei quali l'aumento è stato deliberato.

### Remunerazione variabile da riconoscere in strumenti finanziari

- La quota di remunerazione variabile riconosciuta in contanti non può eccedere il 50% della remunerazione variabile, né sulla parte up-front né su quella differita;
- Eliminato l'obbligo di applicare sia alla parte up-front sia a quella differita la stessa proporzione tra contanti e strumenti finanziari;
- Richiesto che la parte differita sia riconosciuta prevalentemente in strumenti finanziari (piuttosto che in contanti), qualora gli strumenti finanziari vengano utilizzati per una quota superiore al 50% della remunerazione variabile totale;
- Si fissa in 1 anno (2 anni nel 2013, ndr) la durata minima

del periodo di mantenimento di tutti gli strumenti finanziari utilizzati per il pagamento della remunerazione variabile, senza distinguere tra strumenti finanziari pagati upfront e strumenti finanziari differiti.

#### **Remunerazione variabile da sottoporre a differimento**

- L'obbligo di differire almeno il 60% della remunerazione variabile quando questa rappresenta un importo particolarmente elevato si applica a tutto il personale più rilevante, e non soltanto a determinate figure aziendali di vertice come nelle norme vigenti;
- le banche devono indicare nelle proprie politiche di remunerazione il livello di remunerazione variabile che costituisce un importo particolarmente elevato, applicando i criteri fissati nelle disposizioni.

#### **Retention bonus**

- Remunerazioni il cui riconoscimento dipende dalla permanenza del personale nella banca (c.d. retention bonus): è confermata la natura variabile di questi compensi e sono vietate varie forme di remunerazione variabile garantita nella prassi identificate come "welcome bonus", "sign-on bonus", "minimum bonus", "entry bonus")
- Deve essere definito ex ante il periodo di permanenza del personale oppure l'evento al verificarsi del quale può aver luogo il riconoscimento del retention bonus;
- Il ricorso al retention bonus non deve costituire un mezzo per eludere le regole in materia di collegamento della remunerazione variabile con la performance e con i rischi.

#### **Piani di incentivazione pluriennali (LTIP)**

- il funzionamento e la durata degli LTIPs devono essere coerenti con gli obiettivi e la durata del piano strategico della banca;
- il periodo di valutazione della performance (accrual period) deve coprire un arco di tempo futuro pluriennale rispetto all'avvio del piano e, in aggiunta, almeno l'anno precedente l'inizio del piano;
- gli LTIPs devono essere ancorati a condizioni di performance la cui verifica deve avvenire prima che la remunerazione variabile sia attribuita.

#### **Golden parachute**

- I compensi pattuiti in vista o in occasione della conclusione anticipata del rapporto di lavoro o per la cessazione anticipata dalla carica (golden parachute) devono essere tali da garantire che il loro riconoscimento sia giustificato dai risultati e dai comportamenti del beneficiario e sia coerente con la situazione economica e finanziaria della banca.

#### **Banche che beneficiano di aiuti di Stato**

- Una banca, se beneficiaria di aiuti di Stato, deve sottoporre tempestivamente a riesame e revisione le proprie politiche di remunerazione, al fine di consentire il loro aggiornamento e la loro coerenza rispetto alla situazione contingente.

Politiche e prassi di remunerazione e incentivazione nelle banche e nei gruppi bancari (PDF)

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## EBA: progress in the work of supervisory colleges

18/03/2018 18:00

The European Banking Authority published today its report on the functioning of supervisory colleges in 2017, which summarises the EBA's assessment of the colleges' activities against the EBA 2017 Colleges Action Plan and the relevant regulation(s).

Supervisory colleges are the main discussion table for coordination and programming of supervisory activities. The involved parties can share information about the supervised entity, conduct liquidity risk assessment and reach decisions both on the entity's specific requirements and ad-hoc recovery plans needed.

The EBA identified four key topics worth of supervisory attention for 2017: non-performing loans and balance sheet cleaning, business model sustainability, operational risk (including conduct risk and IT risk) and comparability of risk-weighted assets (RWA). The report also assesses the extent to which these topics have been reflected in the colleges' work program.

The report concluded that the risk assessment supplied by colleges, although different in granularity, well summarized the evaluation of supervisory activity. Nevertheless, in some colleges, no improvements were observed for what concerns the timely distribution of mandatory annexes, covering capital and liquidity measures.

Considerable ameliorations in the capital and liquidity joint decisions were also observed. The granularity of information underlying the level of capital which was finally required after the joint decisions has improved considerably too, together with the articulation of the Pillar 2 capital requirement.

Significant improvements have thus been achieved over the last couple of years in college interactions, responsiveness, and in the quality, coverage and reasoning of the joint decision documents. Further efforts are however expected both from home and host supervisors to enhance the joint decision processes.

Report of the work of supervisory colleges (PDF)

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## ESA: the benefits and risks of Big Data

18/03/2018 17:24

The Joint Committee of the European Supervisory Authorities (ESAs) published its final report on Big Data, analyzing their impact on consumers and financial firms. The report results from a consultation conducted between December 2016 and March 2017.

The objectives of the report were firstly to map the phenomenon and assessing the potential risks, and secondly to raise

awareness of consumers of their rights in this regard and to encourage financial institutions to fulfill their obligations in setting the ongoing legislation features.

The main finding is that, despite some potential risk could affect consumers of financial services, the benefits of such innovations should outweigh the detriments. Consumers will profit from more tailored products and services, improved fraud analytics and enhanced efficiency of organisational internal procedures.

They must however be aware of the potential for errors in Big Data tools, which may lead to incorrect decisions being taken by financial service providers. Furthermore, Big Data set on an increasing level of segmentation of customers, which may potentially influence the access and availability of certain financial services or products.

The ESAs will continue to monitor any development in this area, and invite financial firms to develop and implement good practices on the use of Big Data. However, no legislative interventions will be taken at this time, as many of the identified risks are currently mitigated by the existing legislation. The ESAs have created also a factsheet on Big Data, aimed at informing consumers of financial services on the reports' key findings.

[Final report on big Data \(PDF\)](#)

[Factsheet on Big Data \(PDF\)](#)

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## ECB: second consultation on the new euro benchmark rate

18/03/2018 16:51

On March 15, 2018, the ECB launched a second consultation to market participants and interested parties on the new ECB overnight reference rate. Comments on this second and detailed report of the new features of this rate will be welcomed up to April 20, 2018.

The ECB expects to collect stakeholders' views both on the methodology adopted and on the key technical and operational features. The new rate was announced on September 21, 2017 and a first consultation has already been launched on November 28, 2017.

The objective of an ECB overnight rate is twofold: it will complement the benchmark rates manufactured by the private sector and will also serve as a backstop reference rate. Benchmark rates underlie many important features of financial markets contracts, and play a central role in the transmission of ECB monetary policy.

The rate will be based only on transactions in euro that are reported within the ECB money market statistical reporting standards. It is expected to be launched in 2020, after a public consultation to the industrial parties is answered too.

[ECB second consultation \(15 Mar. 2018\)](#)

[ECB first consultation \(28 Nov. 2017\)](#)

[ECB launches new overnight reference rate \(21 Sep. 2017\)](#)

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