Training materials

FinTech Sector

MENTORCERT project
Work Package 3

Leeds, 2019

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Introduction and learning objectives

These training materials have been prepared for the MentorCert Project. They aim to help business mentors or potential business mentors acquire knowledge and skills associated with the development of knowledge in specific business sectors. They are to be used as a resource to underpin the development of (1) project related e-learning materials (2) Face to face training.

Aim of the materials

The aim of the materials is to support business mentors and potential business mentors to achieve the 'hard' skills identified in the MentorCert skills card and outlined in the table below

Learning outcome
To understand options available to identify the scale and scope of the sector
To be able to identify relevant value creation models and apply at least one in a relevant sector context
To understand options available to map the sector eco-system and to apply at least one
Hypothesize about the future of the sector

Structure of the training materials

The training materials are ordered in the following way:

- A brief introduction to the FinTech Sector
- Examples of techniques that can be applied in the sector to achieve the learning outcomes (e-learning materials) (including case studies)
- Short case studies to be used in face to face teaching and learning
- Further references and resources

The training materials contain eight case studies to encourage work-related learning.

Long cases (to be used in the on-line training materials)

- FinTech Strategy (1) illustrates the role that a form of industry analysis can play in determining the scale and scope of the sector. It concludes by considering what a performance oriented mentor might consider when thinking about the implications of the strategy in a Fintech start-up.

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- Amazon (2) provides a short history of the company and its moves into the Fintech sector and asks business mentors to reflect on the company's competitive position and a mentoring model that is most likely to be appropriate to use in this context
- UniCredit (3) introduces the role of Integrated Reporting (IR) in articulating the value created by a bank. It seeks to develop business mentor understanding of the role that IR plays in demonstrating business value.
- FinTech North (4) introduces the role of stakeholder mapping to inform the strategic development of the Fintech sector in a region. The case concludes by asking a business mentor to consider the implications of the analysis for the development of business strategy.

Short cases (to be used in face-to-face training)

- Mynt (5) – a case to enable business mentors to explore fin-tech sector dynamics and analyse and articulate business strategies
- Home Credit (6) – a case to enable business mentors to analyse business and personal challenges and design an appropriate intervention
- Cash Cow (7) – a case to enable business mentors to consider expansion into international markets
- Banking scenarios (8) – a case to consider banking scenarios and their role in strategy development

Time and materials needed

These materials should be used in combination with other resources developed during the MentorCert Project and the TRUST ME project.

- A methodology handbook introducing a selection of thirty two tools and techniques that can be used to identify the scale and scope of the sector, value creation, eco-system mapping and hypothesise about the future of the sector (MentorCert available here)
- A TRUST ME Handbook for trainers available here

To complete the full e-learning module should take about fifteen hours in total (eight for the methodology module and seven for the FinTech module). It will take about 4 hours to complete the face to face element of the training.

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Overview of the sector

In this section of the training materials we provide an introduction and overview of the FinTech sector and an illustration of the key factors driving its development.

Defining the sector

FinTech (Financial technology) has emerged as a new economic sector and is often closely aligned with banking sectors in the economy in areas such as payments, credit, lending, retail investments, pensions, investment management and capital markets. Similar technology advancements are occurring in other related sectors of the economy for example, the insurance sector (sometimes referred to as InsurTech) and the regulatory sector (RegTech) are differentiated although they can be deemed to fall under wider definitions of FinTech sector (EC, 2017).

FinTech is mainly used to refer to firms that use technology-based systems either to provide financial services and products directly, or try to make the financial system more efficient. Examples of such systems include robotic trading, cashless payments, crowdfunding platforms, robo-advice and virtual currencies (EP, 2017).

The sector is sometimes classified as

(a) 'traditional' - where mainly large technology firms support incremental innovation and efficiency savings in the financial services sector and

(b) 'emergent' - where small innovative firms disrupt incumbent financial services firms providing radical breakthroughs that create new markets using new technologies. Both forms are seen to enhance the competitiveness of the EU economy (EC, 2017).

Economic contribution of the sector

An initial search for data on the economic weight of the sector suggests relatively few timely and authoritative sources on the size and economic impact of the sector. In 2015, management consultants estimated that the Financial Services industry as a whole provides €731 billion or 5.9% of the EU's total GVA, employment for 6.4 million people across Europe and contributes almost €209 billion in taxes across the largest European economies (PWC, 2015)

The European Banking Federation representing over 32 national banking associations and 3,500 banks in Europe suggests that the FinTech sector employs about two million people. These banks include large and small organisations in a range of subsectors including

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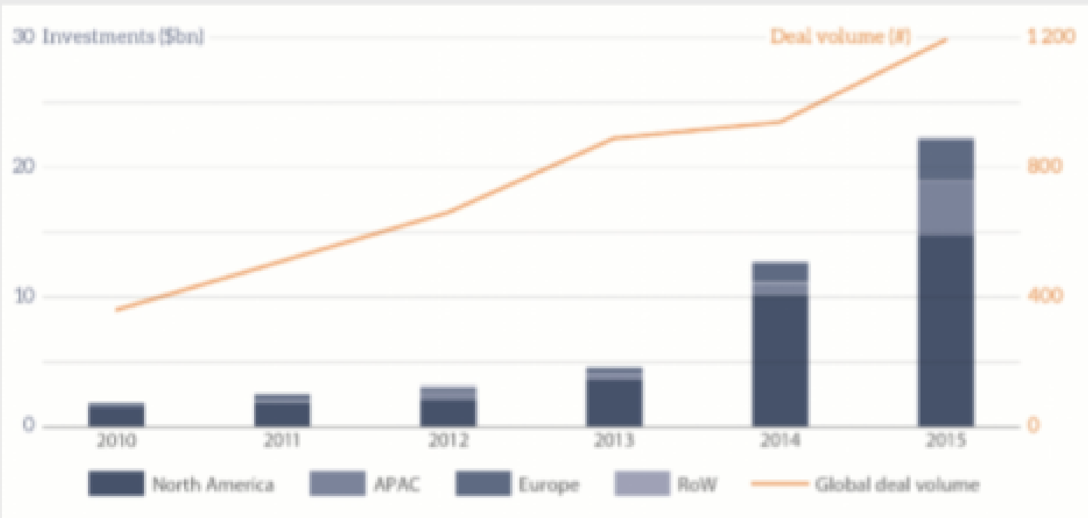
wholesale and retail, local and international. The majority of banks are investing in related technologies – 92% in blockchain technology and 62% in financial services software and regulatory technology for example (EFB, 2017).

In a study for the UK government, researchers estimated that 25% of global FinTech projects in the last five years were in Europe, with half of these in London generating an estimated £20bn in the UK alone (GOS, 2015). More conservative estimates suggest that the sector generates £6.6bn (in 2015) and employed around 61,000 people (about 5% of the total Financial Services workforce in the UK (HM Treasury, 2016).

The value of global FinTech investment in 2015 grew by 75 % to US$22.3billion. Corporates, venture capital and private equity firms have invested more than US$50billion in almost 2500 global FinTech start-ups since 2010.

Global FinTech financing activity (2010 – 2015)



Source: Accenture, Fintech and the evolving landscape: landing points for the industry.

Source: EP (2017, p4)

The rapidly growing FinTech sector has its rewards and challenges (e.g. data and consumer protection issues, risk of exacerbating financial volatility and cybercrime) and is increasingly attracting political attention. The European Commission set up a Financial Technology Task Force (FTTF), the European Parliament's Economic and Monetary Affairs Committee (ECON) and the G20 the Financial Stability Board are scrutinising FinTech.

The broad scope of FinTech presents challenges to regulators associated with for example (a) rule-based regulatory frameworks that set out compliance obligations clearly but can

Erasmus+
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be expensive and an obstacle to innovation and job creation (b) principle-based regulation which more flexible, but can create some uncertainty as to what exactly is expected in terms of compliance. Consequently, the institutional framework for FinTech continues to emerge and evolve (EC, 2017).

Regulation in the sector

The EC stance on regulation of the FinTech sector is that the framework should encourage firms operating in the single EU market to benefit from financial innovation and provide their customers with the most suitable and accessible products. It relies on three core principles:

- technological neutrality – policies should ensure that the same activity is subject to the same regulation irrespective of the way the service is delivered so that innovation is enabled and level playing field is preserved
- proportionality – reflecting the business model, size and systemic significance as well as the complexity and cross border activity of the regulated entities
- market integrity – should promote more market transparency to the benefit of consumers and businesses without creating unwarranted risks (e.g. market abuse, miss-selling, cyber security issues, systemic risks)

In the European Union, the European System of Financial Supervision consists of the European Banking Authority (EBA), the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA) as well as the European Systemic Risk Board.

In the European Union the European System of Financial Supervision consists of the European Banking Authority, the European Securities and Markets Authority and the European Insurance and Occupational Pensions Authority as well as the European Systemic Risk Board. At the national level, fully functional supervisory authorities are the characteristic of financial centres around the world. However, the specific structures of individual supervisory authorities and their approaches can be very different.

Key factors driving the development of the sector

- Significant technological advances that include (but are not limited to) artificial intelligence (AI), big data, blockchain, cloud computing)
- Monetisation of data that has seen a fundamental change in the way consumers pay for financial services (e.g. advertising and monitoring or re-selling of data to third-party companies)

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- Infrastructure and devices that have led to a revolution in consumer connectivity allowing consumers and businesses to connect in new and innovative ways and transforming the market for e-commerce
- Economic conditions that have seen a lack of investment in technology by mature businesses operating in the Financial Services sector
- Radical innovations where FinTech companies are completely circumventing existing structures (e.g. Bitcoin). Mainstream consumers are increasingly likely to use new players as the traditional barriers of trust, credibility and familiarity are eroding and technology enables swift scalability.
- Incremental innovation where FinTech (once seen as a threat to incumbents promising disruption in an industry suffering from a loss of customer trust) is increasingly seen as a complementary resource (e.g. collaboration, outsourced R&D)
- A new range of regulations promoting financial services companies to monitor their activities more robustly (and leading to the development of a burgeoning RegTech sector)
- European regulations such as MIFID II, PRIIPs PSD 2 will require incumbents to adapt quickly and to move away from legacy systems. With increased competition driving prices down and increased regulation driving compliance costs up some sectors are facing huge margin pressures and are looking for lower cost delivery models (including RegTech solutions)
- Skills shortages – Attracting and retaining high quality talent is repeatedly identified as one of the most prevalent challenges faced by FinTech companies
- Potential to address financial inclusion where there is increasing recognition of the role that FinTech may play in engaging the huge number of people that are not currently serviced by the financial services sector
- Uncertainties around Brexit (e.g. its impact on the business operating environment, access to capital passporting rights)

Reflective questions a business mentor in the Fintech sector may consider?

- What are the key trends impacting on the Fintech sector?
- Describe some opportunities across different areas of Fintech?
- Analyse one area or domain of financial services that is likely to be disrupted?
- What are the main barriers to growth facing the sector?

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Case studies

to the selected Hard Skills of the MentorCert Skill Card

I. Strategic planning

Long Case(s)

FinTech Sector Strategy for the UK

Introduction

This case introduces the FinTech Sector Strategy for the UK[1] and illustrates the role that a form of industry analysis can play in determining the scale and scope of the sector. It outlines the size of the sector and charts some of the recent developments associated with FinTech in the UK. It concludes by considering what a performance oriented mentor might consider when thinking about the implications of the strategy in a Fintech start-up looking to invest in the UK.

Context and the challenge

Since 2008, the UK has grown to be the global FinTech capital. A report by Global Consultants EY[2] estimates that the UK FinTech sector represented circa £6.6b in revenue (in 2015) and attracted circa £524m in investment. With about 61,000 people employed in the sector (circa 5% of the total financial services workforce), more people work in UK FinTech than in New York FinTech, or in the combined FinTech workforce of Singapore, Hong Kong and Australia. The UK has always benefitted from a large financial services industry. However, much of the recent success of the UK's FinTech sector can be attributed to a well-served and well-functioning ecosystem that continues to develop in the UK.

The FinTech sector has the capacity to deliver huge benefits across society – to small businesses and to ordinary people including the disadvantaged and vulnerable. However,

[1] HM Treasury (2018) FinTech Sector Strategy: Securing the Future of UK FinTech https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/692874/Fintech_Sector_Strategy_print.pdf
[2] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/502995/UK_FinTech_-_On_the_cutting_edge_-_Full_Report.pdf

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markets are not perfect with government and regulators having a key role to play in removing barriers to entry and growth in the sector. One of the aims of the UK Government is to make the UK 'the best place to start and grow a business[3]' and the UK FinTech Sector Strategy looks at what further action can be taken to remove barriers to entry and growth and identifies new areas of opportunity offered by FinTech in the UK.

The state of play

Successive UK governments have consistently championed the development of the FinTech sector in the UK. This has included the introduction of new regulation and legislation including:

- The introduction of a new Payment Systems Regulator (2015) to ensure that challenger banks and FinTechs can gain access to the payment system on fair terms and that payments systems embrace innovation in the interests of consumers and business
- Legislation in 2017 so that non-bank payment services providers will be able to directly access payment systems, creating a level playing field with incumbent financial services
- Legislating to require big banks to share small and medium-sized enterprise (SME) credit data and to refer SMEs they decline for finance to designated platforms, with the intention of creating opportunities for these SMEs to access finance from a variety of providers, including alternative funders.
- Support for specific sub-sectors, such as setting up a joint government industry Board to identify barriers to the growth of Insurtech, and to develop solutions.
- The Bank of England FinTech Accelerator was launched in 2016 with the aim of partnering with firms working on new technology to harness FinTech innovations for central banking. As part of this work, it is investigating the potential of distributed ledger technology.
- Action to boost the UK's global position as a leader in developing Artificial Intelligence technologies through a new AI Sector Deal, and an AI Grand Challenge, intended to put the UK at the forefront of this industry
- Creation of 'Fintech Bridges' with Hong, South Korea, Singapore, and China which seek to promote the sector[4].

[3] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/664563/industrial-strategy-white-paper-web-ready-version.pdf
[4] https://invest.great.gov.uk/uk-setup-guide/

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The UK Government FinTech Sector Strategy

The strategy identifies key themes to support the development and growth of the sector.

- RegTech – reducing the costs and removing the difficulties associated with complying with regulation. The Financial Conduct Authority (FCA) has launched two flagship projects to help FinTech firms comply with financial services regulation
    - The Innovation Hub which assists firms with their applications to be regulated, helping them to understand the regulatory framework and what it means for them
    - The Regulatory Sandbox which helps FinTech businesses develop compliant prototype products, an important step towards reducing the regulatory burden on new firms
- Enabling access to a diverse pool of talent and support for finding and recruiting people who have the right attitude and skills to work in FinTech companies with an emphasis on skills shortage areas such as coding and software. UK Government initiatives include:
    - Investment in maths and computer science education
    - A new Computing Curriculum (launched in 2014)
    - Reforming the technical education system with the introduction of T-Levels (in 2020) and new employer-designed apprenticeships
    - The launch of a new Institute for Coding to enhance higher level skills provision
    - Digital skills partnership that brings together national and local organisations to address the digital skills challenge
    - Supporting mobility of workers in international labour markets
- Access to finance. Initiatives include:
    - Setting up a new investment fund within the British Business Bank
    - Expand the support available through the Enterprise Investment Scheme and Venture Capital Trusts
    - Supporting overseas investment in UK Venture Capital through the Department for International Trade
- Improve take up of new FinTech services and increasing competition.
    - The development of Open Banking in the UK provides significant opportunities. For example, through the use of Application Programme Interfaces to empower bank customers, both personal current account holders and SME business account holders, to safely and securely share access to their current accounts with FCA-regulated FinTech firms in order

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for them to provide a range of new products that better suit the needs of the individual or business.
- Partnering with incumbents through the development of a set of industry standards.
    - The UK governments FinTech Delivery Panel[5] is developing a set of standards that will support FinTech firms by providing them with a consistent understanding of what financial services firms will need from them before entering into partnership arrangements
- Supporting international expansion this includes
    - The establishment of four 'FinTech Bridges' with Singapore, South Korea, China and Hong Kong – each of which have links between governments, regulators and the private sector to reduce barriers to market entry and link UK-based FinTechs up with opportunities for international investment
- Uncertainty associated with Brexit
    - A proposed implementation period to provide some certainty and stability during the exit process

At the same time the strategy identifies two new opportunities
- The delivery of the benefits of FinTech across the whole of the UK. This includes
    - Providing widespread physical connectivity (4G and superfast broadband by 2020) and digital skills and training
    - Enabling financial inclusion to those groups that have historically been underserved by traditional financial services firms
    - Encouraging growth across all regions of the UK
- Utilising the potential of emerging technologies
    - Recognising the applications and implications of technologies such as crypto assets and Distributed Ledger technologies

Questions and answers

Is there likely to be a market for the company's product in the UK?
The strategy suggests that the FinTech sector has the capacity to deliver huge benefits across society – to small businesses and to ordinary people including the disadvantaged and vulnerable. New technology is opening up the financial services industry to new entrants which include businesses from other service sectors that bring with them new and more customer-focused business models, displacing traditional models of financial

[5] https://technation.io/about-us/fintech-delivery-panel/

service provision and opening up the market to new consumers. The result could be a virtuous circle where new entrants create new markets for new consumers, which in turn fosters greater financial inclusion. However, there are significant risks associated with the opening up of the financial sector to new entrants. Examples include questionable practices by businesses offering 'payday' loans, and fraud and exploitation by 'bad actors' targeting poorly educated new consumers. This places a considerable onus on consumers to understand how to make informed, wise decisions. Regulators will have an important role to play in consumer protection and ensuring that the benefits of the system are realised by all. The Strategy suggests that the UK presents a favourable context for investment and 1.5m people without a bank account a considerable potential domestic market.

What does the UK FinTech sector strategy tell the company about the support for FinTech start-ups in the UK?

The strategy suggests that the UK is a global leader of financial services with increasing Fintech activity taking place. Small start-ups and innovation within existing financial services is creating jobs and attracting investment in the UK. The UK government is committed to supporting the development of the sector and has already taken a number of measures to further this aim including a favourable regulatory environment, access to finance and support for the development of cutting-edge technologies. A report of this type helps investors, regulators, traditional financial services firms benefit from increased access to research and policy development in what is a fast moving sector.

What are the objectives for the start up- client base, revenue, profitability, shareholder returns?

The business mentor will attempt to get the mentee to be clear about what their goals are for the start up in the UK Fintech sector. This works on the assumption that there may be different implementation options for different goals. The mentor will guide the mentee along a path leading to an understanding of the implications of each goal or objective. For example, it may be that the mentee wants to build a client base quickly in order to benefit from future 'add ons' over and above the base system. In this case, the pricing strategy will be aggressive and a strong emphasis on marketing. If revenue growth or profitability is the objective, then the mentee will be encouraged to reflect on the overall marketing mix with a balanced approach to price, marketing costs, geographic 'footprint' etc. Finally, the mentor will pursue that concept of segmentation-targeting- positioning to see whether this approach would provide a more focused strategy in the first case. The overall purpose of this part of the dialogue is to instil a mindset of clarity (as far as possible in such situations) which will allow the mentee to make decisions within a strategic framework. Of course, this ideal may not be possible. A more opportunistic

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approach to goal setting can therefore be discussed with the mentee. In this case, the need for agility and flexibility will be the priorities.

What options does the company have?

The business mentor may ask the mentee to reflect on the reasons for location in the UK. It may be that the picture painted in the strategy does not reflect the reality of the Fintech sector or that there are significant socio-economic changes that make the UK a less attractive place to invest than it once appeared. There are other options in Europe that may offer better access to markets Germany for example, although its financial centre in Frankfurt is some distance way from its Tech centre in Berlin. If the company chooses to locate in the UK then there are further questions that might be covered with the mentee in respect of the various strategies that can be pursued.

Firstly, the mentor will work with the mentee to identify and isolate the specific strengths of the company and how they can be applied. If these are product advantages (differentiated for example) then the option will be to build on these as part of the entry into the market, emphasizing differences with potential competitors. If they are skills advantages, i.e. the start- up is able to draw on expertise that others may lack, then the option will be based on the application of resources to client challenges.

Second the mentor will cover the geographic spread of the start-up. Whilst the centre of gravity for FinTech in the UK is London, there is potential to enter a less crowded FinTech geography in Leeds or Manchester or opt for a technology focus in Cambridge.

Third, the mentor will circle back to the earlier discussion about goals and objectives and encourage the mentee to draw linkages between goals and options to ensure a joined up approach.

If the start-up selects the UK, what are the next steps the company may pursue?

The start-up should develop greater understanding of the UK market before committing to invest. This might involve the use of techniques such as SWOT, the BCG matrix and stakeholder mapping to support the development of business strategy and engagement with the eco-system.

Then it's very important to have a business plan- recognising that this may change as the process starts to roll out. Included in the plan might be sales, orders, debtors stocks and most importantly cash. It will include a point of view about resourcing and a timeline of activity. The mentor will work with the mentee to encourage a planned approach but at the same time discuss the need for flexibility in implementation.

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Amazon: From garage bookseller to Fintech giant [6]

Introduction

This case provides a short history of the development of Amazon and provides a summary of its product-market orientation in the Fintech sector. The case concludes by asking business mentors to reflect on the company's competitive position and the mentoring model that is most likely to be appropriate.

A short history of Amazon

When Amazon first launched in 1995 as a website that only sold books, founder Jeff Bezos had a vision for the company's explosive growth and e-commerce domination. He knew from the very beginning, he wanted Amazon to be 'an everything store'. In author Brad Stone's 2013 book[7] on the origins of Amazon, he paints a picture of the early days of the company and how it grew into the giant that it is today.

In the early days, Bezos, his wife MacKenzie, and their third employee, Shel Kaphan, would hold meetings in a local Barnes and Noble Bookstore. In 1996, Bezos met up with the owners of Barnes & Noble for dinner, and the execs said they admired Bezos but were going to launch a website soon that would crush Amazon. This rivalry that continues more than twenty years later which has seen Amazon go from strength to strength and Barnes and Nobel struggle to thrive in the dynamic economy[8].

Amazon has always expected employees to work exceedingly hard. Jeff Bezos expected employees to work 60-hour weeks, at least. Amazon's first Christmas season came and the company was dramatically under-staffed. Every employee was expected to take a graveyard shift to meet the rush in orders. They would bring their friends and family and would often sleep in their cars before going to work the next day. After that, Amazon vowed that it would never have a shortage of labour to meet demand for the holidays again, which is why Amazon hires so many seasonal workers. Amazon's labour practices continue to be a subject of great debate as it has grown into a commercial giant with stories of unfair practices surfacing in the media[9].

[6] The case study draws on 'http://uk.businessinsider.com/jeff-bezos-amazon-history-facts-2017-4

[7] Brad Stone The Everything Store: Jeff Bezos and the Age of Amazon

[8] https://www.forbes.com/sites/andriacheng/2018/09/06/barnes-nobles-problem-is-no-longer-about-amazon/#4b3510fd44d0

[9] https://www.theguardian.com/business/2018/may/31/amazon-accused-of-treating-uk-warehouse-staff-like-robots

When eBay launched onto the scene, Amazon tried to build its own auction site to compete but the idea flopped. Amazon suffered extreme growing pains in the late 90s and early 2000s. Facilities would be shut down for hours because of system outages, piles of products would sit around ignored by workers, and there was no preparation for new product categories. When the kitchen category was first introduced, knives without protective packaging would come hurtling down conveyor shoots. It was extremely dangerous.

In 2004, Amazon launched a search engine, A9.com. The A9 team started a project called Block View, a visual Yellow Pages, which would pair street-level photographs of stores and restaurants with their listings in A9's search results. On a budget of less than $100,000, Amazon flew photographers to twenty major cities where they rented vehicles to start taking pictures of restaurants. Amazon eventually dropped Block View in 2006, and Google didn't start Street View until 2007.

In 2007, Amazon launched the Kindle. The Kindle helped Amazon to survive and thrive in the period after the 2008 recession which saw sales and profits surpass Wall Street expectations[10]. In many of the early years Amazon had failed to post a profit however financial analysts were largely unperturbed. Now that Amazon is profitable, it sometimes takes a hit for not being profitable enough. Nevertheless, Amazon is at the forefront of developments in the economy and continues to innovate and grow.

Amazon's moves into FinTech

A CBI Insights report 'Everything You Need To Know About What Amazon Is Doing In Financial Services' provides an indication of Amazons business strategy in the FinTech sector using a product-market perspective.

Products

- Payments: Amazon experimented with payments for over a decade and Amazon Pay has evolved to include a digital wallet for customers and a payments network for both online and brick-and mortar merchants.
- Cash: Amazon Cash launched in April 2017 allows customers to deposit cash, without a fee, to a digital account by showing a bar code (either printed physically or digitally) at a partner brick-and mortar retailer. The Amazon Cash program

[10] https://www.theguardian.com/technology/2009/oct/23/amazon-profits

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bridges the gap between online commerce, using debit or credit cards as payment, and offline commerce that relies on 'cash on delivery' options like cash and gift cards.

- Lending: Amazon Lending was initially launched in 2011 to help small businesses finance and sell more goods on Amazon. In March 2018, Amazon had partnered with 9 banks to issue loans on an invitation-only basis that could range between $1,000 to $750,000. Amazon Consumer lending. The company offers Amazon Prime cards to help serve two broader corporate goals: grow Prime customers and increase marketplace sales. To attract card customers, Amazon has been adding perks exclusive to Prime members.
- Insurance: Amazon has not formally launched an insurance business but has shown nascent interest through for example Amazon Protect (launched in 2016) , a white-label service in the UK that provides accidental and theft insurance on consumer goods ranging from headphones to kitchen appliances.

Markets

Amazon is entering emerging markets to expand, but also take a deeper role in developing new financial services products. These markets are attractive because of rapid mobile internet adoption, a lack of legacy infrastructure, and a growing number of the population entering into the middle class. Two of the most notable markets are India and Mexico.

- Growing India is core to Amazon's broader market strategy and the company has verbally committed to investing $7B in the country.
- In addition to capital, several initiatives in India map to Amazon's financial services strategy. This includes making equity investments in FinTech and enabling SMEs by offering loans with partner banks, all of which ultimately drive more marketplace sales.

Amazon has quickly learned from expanding financial services in India and is looking to apply what it's learned to other developing markets, notably in Mexico.

- Amazon has launched Amazon Prime, Amazon Cash, and Amazon Cash debit cards in Mexico. All align with Amazon's broader strategy of building a low friction payments service to attract customers online and then providing shoppers an alternative to credit and debit cards to build loyalty.

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- Amazon Cash launched in Mexico in October 2017. Similar to the US model, it allows customers to reload their accounts through deposits (up to 10,000 pesos) at convenience store chains such as 7-Eleven and other merchants.

Amazon has been in discussions with regulators and a potential 'Bank of Amazon' could offer a variety of key financial services products that support Amazon participants first and enable them to buy, sell, and transact much easier than any other platform. If Amazon chooses to pursue this, it represents a considerable threat to traditional incumbents in Financial Services.

Questions and indicative answers

How did Bezos go about growing the business in the Fintech space?

Bezos had a clear vision for the business that has been reframed several times to make the most of the opportunities that have emerged over the past twenty-five years. Amazon have embraced, mimicked and led changes in consumer behaviour, adoption of leading edge technologies, partnership formation and innovation. His competitive edge has influenced Amazons approach and he has always expected a lot from his workforce. His 'can do' attitude permeates the company and encourages new developments and high performance. The company's approach is grounded in product innovation and piloting before going all-in on a new product.

Amazon's strategy in the Fintech space has focused on supporting its core strategic goal: increasing participation (both from buyers and sellers) on its platform. Through trial and error, the company has set up key financial pillars across payments, cash deposits, and lending all of which are related to Amazon's broader growth and product strategies. The company relies on internal product development as much as it does on partnerships, mergers and acquisitions, or investments to broaden its financial services offerings. It is not surprising to see Amazon seed, invest, and nurture a product line with a long time horizon in several international markets.

What a SWOT analysis might look like at Amazon?

In preparation for the meeting with Bezos, a business mentor may choose to undertake some preliminary analysis to help the mentor to understand the competitive position of Amazon.

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Strengths	Weaknesses
Strong background and financial resources - Amazon has grown into a global e-commerce giant in the last two decades Customer centric: Customer relationship management influencing consumer behaviour and high levels of customer retention Cost leadership: Strategic alliances with other companies to control costs and offer high levels of customer service Efficient delivery networks: Fulfilment centres and logistics contribute to timey (and often free of charge or low cost) delivery to all locations. GLOCAL : "Go global & act local", Amazon is able to compete domestically through absorbing and by forming or collaborating with supply chain companies. Acquisitions of companies like Zappos.com, Junglee.com, IMBD.com, woot.com etc. has helped Amazon to continue to grow	Shrinking margins: Due to extensive delivery network & price wars Amazons margins are shrinking, which is resulting in losses in some markets. Tax Avoidance and job quality issues: Amazon has attracted negative publicity associated with Tax Avoidance and job quality in countries like U.S & UK. Most of its revenue is generated from these well established markets High Debt: In some developing nations Amazon is struggling to make the business profitable which negatively affects the overall profitability of the group and high debt. Product market performance– Sales of new products not generated expected income streams (e.g. fire phone and Kindle fire.
Opportunities Product innovation: Product development and differentiation in different product categories. Global Expansion: Expansion mainly in emerging markets where completion is	Threats Lower entry barriers of the industry: These affect Amazons business as competition increases and pressure is exerted on margins and the long term performance and sustainability of the company

less intense and markets ripe for development Acquisitions: Innovation and growth through acquisition that can decrease competition and add to specialized capacity. Opening physical stores outside U.S: To encourage customers to engage with the brand and increase customer loyalty.	Government regulations play a key part in the attractiveness of investment in the sector in different nations. Local competition There are many local players who take market share and make it hard for a big player like Amazon to make profits.

The SWOT analysis can provide the mentor with prompts in the mentoring conversation.

What mentoring model are you likely to adopt?

Given the complexity of the organisation and the characteristics of the mentee, the business mentor is more likely to adopt a facilitating approach to the intervention. The mentor may choose to use the TGROW model enabling Bezos to establish the agenda (Topic) for the meeting and through the questions posed by the mentor set goals (G) for the mentoring intervention. The mentors questioning will enable Bezos to articulate the reality (R) by asking questions such as; what is the situation at the moment? What have you tried so far? What has worked / not worked up to now.

At an appropriate point in the conversation the mentor will ask the mentee to articulate some options (O) by asking questions like; what could you try? What might work? Who has some expert knowledge who might be able to give you direction?

Towards the end of the meeting the mentor will 'wrap-up' (W). The mentor will ask questions such as: what are your next steps? What are the obstacles you might face? Who can support you? What do you need from me?

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Short Case(s)

Home Credit

The business: Home Credit Ltd

Home Credit Ltd is a Peer to peer (P2P) lender operating in Prague in the Czech Republic and is now active in ten countries, including Russia, Kazakhstan, Indonesia, Philippines and the US. It offers a diverse range of operations and activities supporting consumer finance products and services.

Home Credit Ltd target market is to lend to people with little or no credit history, a market that it aims is to be a global leader. The company has €21.8 billion in total assets, a net loan portfolio of €16.4 billion and a healthy net profit of €40 million. It employs some 130,800 employees around the world. Lead by Hezekiah Kanter the company has recruited a diverse range of employees ranging through former bankers, technologists and business entrepreneurs which they have found provides many opportunities for innovation.

The company saw a gap in the consumer market, with customers wanting less formal procedures and a simple to understand process. Home Credit saw this gap as a huge opportunity and developed this theme as their USP. They focus at developing products that are light touch in nature. For example a typical loan contract is 12 pages long, Home Credit have trimmed their documentation down to one on-line page (250 words).

The bank also changed it business model realigning its profit focus from banks fees to the generation of regular income, consumer loans and mortgages.

Even though they are a digital bank they do have 35 branches. Their banking location provides easy access ranging from clear disabled access to allowing dogs and consumption of food on the premises. Hezekiah feels that the branch network has plenty of life yet and provides the company with physical presence in the market place, providing a resource hub to build future capability attracting customers and potential employees.

It also likes to see itself as an empowered challenger allowing users to dispute any bank charge three times a year. Hezekiah's team have developed and now operate an app with a trash symbol – which customers used to bin a charge if perceived as unfair. The app also enables clients to browse a catalogue like Amazon on their mobile phone

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providing an easy-to-use user interface which present a wide range of contracts from which clients can select. This has been very successful and 1000's of contracts are closed every week. To get a loan a client merely has to fill in five fields online – and the decision to authorise the loan is instant.
Hezekiah is now deciding his next strategy and is toying with the idea of moving in Germany, China and India all within the next 12 months. Hezekiah realises that this may present a step change within the organisation and is concerned about capability, knowledge of and access to the markets. This is a big decision and one that is not without considerable risk.

Innovation

He is also thinking of diversification developing cloud resources to support core-banking activities, accessing other payments gateways and employing Telco data for monetisation to help clients gain greater business leverage. He is also looking to develop an outsourcing innovation lab that provides a virtual platform that generates and analyses anonymised data to predict who will default on paying back a loan for clients and for the company's own use and thereby build considerable analytic capability.

People Power

Hezekiah is aware that he also needs to develop his people more and not just in technical skills but also providing schemes that enable young managers to grow and flourish. He feels that often he is the sole innovator and leader that drives the business forward and needs to instil more enthusiasm, commitment and innovative thinking in his people to really change the pace of progress within the firm. He wants to develop leadership programmes to help young managers realise their potential and thereby build their resilience so that they are capable of competently working in less predictable emerging markets and thereby building their adaptive capacity.

Hezekiah has been working hard on this project and is devoting 16 hour days 7 days a week and has not had a holiday in several years. He sometimes complains of being tired and regularly picks up minor illnesses, which seems to stay with him for months. His wife says he over works, and he does admit that he would like to spend more time with his family as he feels his children do not know him.

Recently he was in a meeting with a close friend who suggested that one of his competitors are looking to develop more collaborative working to help in their global expansions something that he had not considered before as he had been reliant on organic growth, a strategy he is now doubting as successful in the fast-growing markets it operates in. It needs to be driven by innovative thinking and that means more people, more resource and more opportunity. The concept of merger, joint venture or acquisition seems a potential option, but Hezekiah is concerned regarding time and control but could also provide a route that enables the company to become the "world's biggest FinTech".

Mentor Task

A. What do you feel are the major problems facing Hezekiah?
    1. In relation to the core business, market potential and relation to self?
B. Using appropriate management tools how would you deal with these issues?
C. What sort of intervention do you feel would be appropriate to engage with Hezekiah regarding his vision and his personal circumstance?
D. What would you consider to be a critical issue in this case?

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II. Value creation models

Long Case(s)

UniCredit - Demonstrating value through integrated Reporting

Introduction

This case introduces the role of Integrated Reporting (IR), a process founded on integrated thinking which results in a clear articulation of the value being created over time. The case draws on the experiences of UniCredit, one of the trailblazers in the use of IR in the Banking Sector. It provides an indication of the value that the bank adds and the role that opportunities in the FinTech sector play in the bank's strategy. It concludes by asking business mentors to reflect on a number of issues associated with the role that IR plays in the development of the bank's strategy.

Context and the challenge

IR has been developed to be consistent with a number of corporate reporting trends taking place across the globe. These include opportunities afforded by new technology, and the need for transparency, accountability, inclusiveness, and a broader information set that is material to modern business.

IR was introduced as a framework in 2013 and aims to build on existing developments to provide a more holistic form of reporting the value created by a business, by considering non-financial resources such as human, social, environmental and intellectual capitals as well as financial capital. Active consideration of how these capitals impact on the business, and on society generally, requires integrated thinking to ensure all business functions (e.g. sustainability, strategy, human resources, operations), not just the finance function, are involved in identifying and collecting data for these capitals, and looking at their connectivity – and how value creation affects the business now and in the future.

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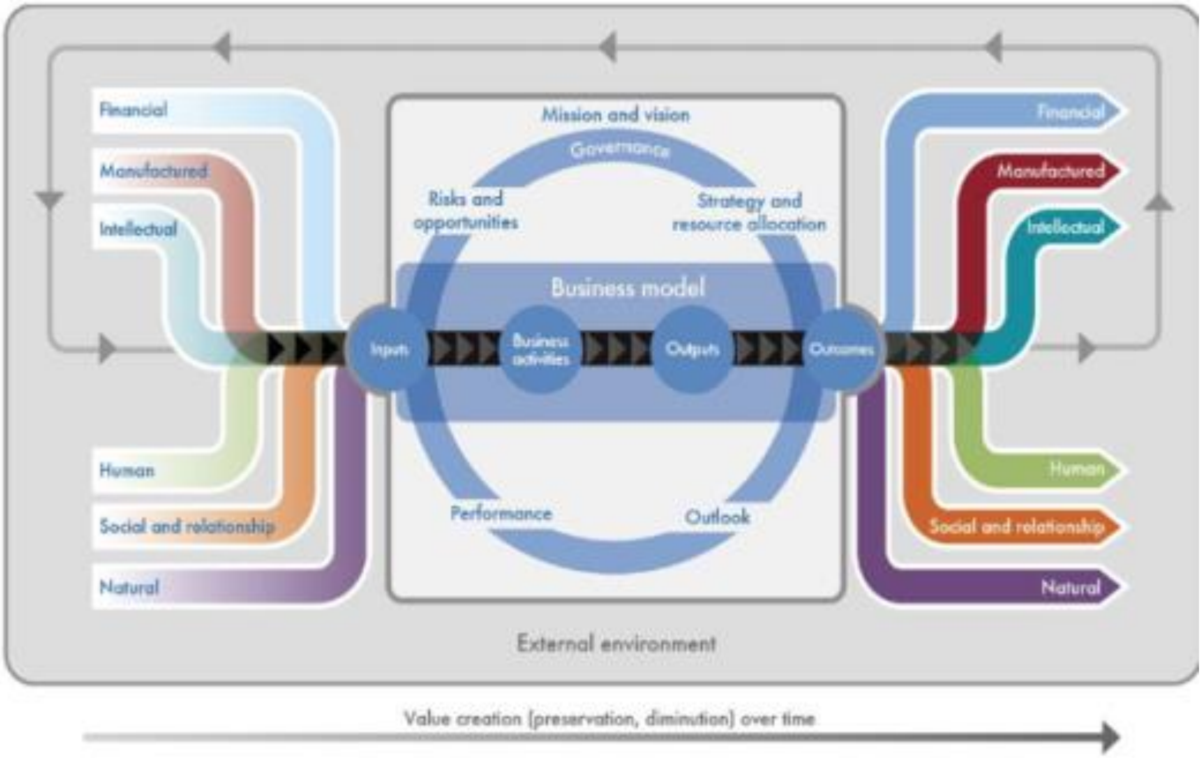
Figure 1:



The primary purpose of IR is to explain to stakeholders how an organization creates value over time. It does this through a combination of quantitative and qualitative information grounded in six 'capitals'. The capitals are stocks of value that are affected or transformed by the activities and outputs of an organization. The IIRC Framework categorises them as financial, manufactured, intellectual, human, social and relationship, and natural. Across these six categories, all the forms of capital an organization uses or affects should be considered[11].

UniCredit Group

UniCredit is a leading pan-European Commercial Bank delivering a unique Western, Central and Eastern European network to its extensive client franchise spanning 50 markets in 17 countries reaching 26 million customers and with more than 8,500 branches

[11] http://integratedreporting.org/what-the-tool-for-better-reporting/get-to-grips-with-the-six-capitals/

and more than 147,000 employees[12]. They are one of the first banks to report on sustainability in an integrated report using the International Integrated Reporting Council (IIRC) Framework. UniCredit has been listed on the Italian Stock Exchange (Borsa Italiana) since 2005.

In 2016, UniCredit presented a three-year plan, called Transform 2019, setting out specific targets for the years up to and including 2019. UniCredit were the first bank to give a full disclosure of the impact on the bank's capital ratios of new regulation coming into force in 2019. However, UniCredit management has always been very clear in saying to journalists and market participants that the bank's strategy does not stop in 2019 - what they are doing is to make sure they have long-term value creation well beyond.
Establishing a shared culture of *One Bank, One UniCredit* represents an important milestone along the road to sustainability for the organisation. It provides a long-term vision for the Group that anticipates the medium-term evolution of clients, new commercial dynamics, determines how employees are trained and developed and how the cost base is optimised. Five fundamentals are the principles that inform strategy and action today and in the future. These are:

- Customer first
- People development
- Cooperation and synergies
- Risk management
- Execution and discipline

UniCredit decided to adopt IR to report on its activities because it believes that integrated methods represent the most effective strategic and cultural approach to managing the organisation. The production of the first Integrated Report in 2016 helped to accelerate and improve the existing processes that the Group had in place, complementing more traditional forms of measuring performance. Through IR, economic and financial outcomes are measured together with other key values such as customer satisfaction, employee engagement levels, and impacts on the welfare of the communities in which the Group operates. UniCredit puts forward this approach as a key to understanding and creating sustainable value.
In their integrated report, UniCredit demonstrate how each of the six capitals recommended by the IIRC contributes to the value of the business. This is summarised in the table below along with the performance indicators outlined in the report:

[12] https://www.unicreditgroup.eu/content/dam/unicreditgroup-eu/documents/en/banking-group/at-a-glance/UniCreditGroupCompanyProfile_September2018.pdf

Table 1: Summary of the six capitals and the measurement metrics used in UniCredit

Financial Capital • Solid equity position (net profit/loss; Total asset; cost/income) • Balanced funding mix (Funding mix by source; Funding mix by country) • Long-term financial stability (Cost of risk; common equity Tier 1 ratio; Ratings)	Human Capital • Engaged colleagues (Engagement index) • Enhanced competences (Recruiting talent; managing performance; developing people • Value diversity and inclusion (Promoting gender balance)
Social and relationship capital • Long-term stakeholder relationships (Engagement with customers; interaction with stakeholder groups) • Social and economic development (Financial inclusion; social inclusion; support to community growth and countries prosperity)	Natural Capital • Air quality and soil, water and fauna conservation (60% reduction in green house gas emissions by 2020; Power usage effectiveness ratios; investment in renewable energy resources; promoting green bonds; financing energy efficiency)
Intellectual Capital • Capacity to innovate (Research and Development; sharing best practices) • Efficient and effective processes (Streamlining processes through increasing automation and digitization) • Secure and effective ICT systems (Simplifying and upgrading ICT; Enhancing ICT security)	

The UniCredit Integrated Report provides an indication of the bank's strategy towards FinTech which appears to be largely based on identifying and investing in FinTech companies to obtain innovative solutions. In 2016[13], UniCredit launched UniCredit EVO, a joint investment partnership with Anthemis Group[14] focussed on identifying and investing in best-in-class financial technology start-ups. By 2017, the Bank had reviewed almost 300 Fintech start-ups, identifying 40 promising companies and investing in two of them. These two companies offer solutions that promise to improve cash flow for

[13] https://www.unicreditgroup.eu/content/dam/unicreditgroup-eu/documents/en/sustainability/sustainability-reports/2016/2016-Integrated-Report_interactive_13042017.pdf
[14] https://www.anthemis.com/

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UniCredit SME clients and use artificial intelligence and data analysis to reduce cyber risk in various areas.

Integrated Reporting has helped UniCredit provide improved explanations of how it creates value through the identification and engagement of the organisation's stakeholders and engaging with them to understand what value means for them.

Questions and answers

What role do the six capitals play in developing understanding of the value created by the bank?

Role of capitals

Greater clarity on links between the capitals helps address the challenge of demonstrating their place in business strategy decision-making Giuseppe Zammarchi, who is responsible for group sustainability and foundations at UniCredit provides insights into the role that the capitals play in developing integrated thinking and understanding of the value being created by the bank.

> 'There are some [areas of the bank] where the impact of capitals can be found and described, but [it] probably was not the first thought of the management when they developed those initiatives' ……. The fact that we have interactions with so many colleagues who are providing data for the report, reviewing the data… that has created much more knowledge about what we are doing, how we do it and why we are doing it this way……So talking about capitals is growing and…hopefully will become the only way we talk at a certain point'.

At UniCredit, all the capitals except for manufactured capital are strategically relevant to the business. Zammarchi explains:

> 'Human capital is the engine for everything. It's always on the radar screen of top management… Intellectual capital is again very important – we rely a lot on ideas and innovation in order to be aligned with changes in society and customer behaviours. Natural capital is affected through the use of energy, for example to run data centres. The interaction between all these things creates some opportunities for the bank. For example, offering head office staff the opportunity to work from home one day a week reduces the carbon emissions produced by people commuting to work, and also boosts financial capital as office space is required for only 90% of the total workforce at any time'.

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How might the connectivity of the Capitals be demonstrated?
The connectivity between different capitals can be illustrated through case studies (e.g. p48-49). The Case Study on its 'Open' programme – a major turnaround initiative in Italy involves a review of the bank's distribution and service model, designed to enhance customer experience and nurture innovation. The case study is an effective and innovative way of demonstrating connectivity, both between different capitals and between the past and the present (through the presentation of results in comparison with 2015).

What are the implications of greater transparency for UniCredit and its competitors?
Zammarchi acknowledges that 'making sure you don't give out too much always worries every company management'. Even so, from his previous experience in investor relations, he says that: 'giving details and transparency is always a plus, provided you never give out any proprietary trademark or intimate secrets on how you deal with new opportunities'. Explaining how and why indicators are important and why management discusses them on a monthly basis sends two important messages: first, the commitment of management to meet these targets; and second, the need for staff in charge of specific indicators to 'pay more attention and be more engaged in doing a good job, because they know it's going to be on the CEO's desk'. An integrated report that is transparent about future objectives also gives external stakeholders (such as rating agencies) more confidence in the organisation, because it shows how much transparency is valued and this supports the credibility and viability of the company'.

To what extent is IR a 'quick fix' to sustainability reporting and strategy development?
Zammarchi suggests that multi-capitals thinking is more embedded in some teams than in others. 'There are some [areas of the bank] where the impact of capitals can be found and described, but [it] probably was not the first thought of the management when they developed those initiatives'. Nonetheless, over time, integrated reporting can encourage this integrated thinking. 'The fact that we have interactions with so many colleagues who are providing data for the report, reviewing the data… that has created much more knowledge about what we are doing, how we do it and why we are doing it this way…… talking about capitals is growing and…hopefully will become the only way we talk at a certain point. That will require more time'.

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Short Case(s)

Mynt

Introduction

This case draws on an example of a FinTech start-up supported by a large telecommunication company and provides an opportunity to reflect on business strategy and revenue generation in a company seeking to encourage financial inclusion.

Context and the challenge

There are many potential benefits from financial inclusion especially in the use of digital financial services such as mobile money services, payment cards, and other FinTech applications. Many national governments recognise the potential to address financial inclusion through the role that FinTech plays in engaging the huge number of people that are not currently serviced by the financial services sector.

A start-up to address financial inclusion

Mynt[15] was set up as a new micro-lender by the largest telecommunications company in the Philippines. The telecom company has more than half of the national phone market with over 50 million customers and it was a pioneer in the e-payments space over a decade ago. It has services that allow customers to transfer money domestically 'for free' as well as supporting Point of Sale and online transactions.
To put financial services in the Philippines into perspective, less than 5% of the population have a credit card and just over one third have access to bank accounts. Mynt's move into Financial Services is intended to build on large customer bases. Mynt does not aim to make money on payments per se but to provide a service that is as close to free as possible whilst leveraging the ability to create other revenue streams around this.
Globe Telecom initially attempted to incubate 'Mynt' but this proved to be challenging, in part due to the company's focus on its core business. As a result Mynt was established as a wholly owned subsidiary and is now a partnership between Globe Telecom, Ayala Corporation[16] and Ant Financial[17].

[15] Case study draws on https://www.bankingtech.com/2018/06/micro-lending-case-study-mynt/
[16] http://www.ayala.com.ph/
[17] https://www.antfin.com/index.htm?locale=en_u

Mentor task

- What does this case suggest with regard to the role that incumbents and disruptors play in the FinTech sector?
- What does the partnership of a telecommunications company, Fintech and conglomerate bring to Mynt's business model?
- What techniques could be used to help Mynt to further develop its business strategy for the long-term?

Cash Cow

Marc Browne is the CEO and owner of CashCow, a Company that started its operations in Hungary in 2015 offering a specialist peer-to-peer (P2P) lending platform. P2P is the practice of lending money to individuals or businesses through online services that match lenders with borrowers. This is done by the use of complex investment algorithms to match borrowers with investors according to each party's specifications. The platform works within an international financial group specialised in non-bank lending. The Group attracts funds to a loan-portfolio of its companies generating automated investments and buyback guarantee, which are seen to be attractive to investors who wish to hedge and spread their risks by operating a diversified portfolio of businesses operating across the globe.

Marc has spent a number of years developing technology that provides clients with an automated scoring process that ensures the issuance of standard short-term loans with a high speed of applications processing regardless of the legal and financial terms and conditions for borrowers in different countries. One of the key strengths of the platform is that the scoring system addresses not only established standard financial products but also adapts to the realities of the market not only considering the legal requirements but also the behaviours and cognitive profile of clients the local market. Further, as the company expands across markets its underwriting algorithms will continuously improve enhancing accuracy, overall scoring quality and more effectively matching client needs, with this in mind Marc is keen to expand both to generate income but also to enhance his capability.
Marc and his team specialise in the complex software aspects of these services although they are building their experience in the area of international marketing which has helped to inform their strategic aspirations and development.

Market Development

Initially the business has seen success through its operations in first Hungary and then Austria and has generated more than €4 million. However, entry into these two markets was due to Marc's network of business friends and family connections. A chance encounter whilst at an event in Kazakhstan has encouraged Marc to pursue opportunities to expand in this market.

However, this has presented Cash Cow with some unexpected issues, including some erratic fluctuations of the national currency. This was due to the country having significant revenues generated by the export of oil and gas and exposure to global geopolitical pressures, which had a dual impact resulting in increased demand for loans but also substantially cut profit margins from one loan.

Other issues they encounter is the nature of the legislative framework and the need for greater clarity differentiation between various types of lending companies and the oversight role of the National Bank creating imbalance in interest rates and uncertainty in the valuation of the market. They also found that the behavioural pattern of borrowers was also often unpredictable. They initially targeted youth and customised their products to their needs.

However, they soon found that they had access through a network of offline branches and their main customers were middle-aged or older women. They later discovered that there were cultural issues with it being considered shameful for a young man to ask third parties for a loan since as this reflected badly on their family, suggesting that they refused to support them.

Marc now wants to expand into other markets and is evaluating Estonia, Romania or Ireland as possible contenders. He feels he has little knowledge of these markets and particularly the behavioural profile of potential clients, the general stability of that sector and potential hidden barriers.

Whilst the company made rapid growth from 2015-17 they have had a period of stability and seek to move forward again. What seems to be apparent is that most fears when investing in new Fintech markets can be associated with a probable lack of demand and the consequential losses of any local project. CashCow's automated scoring system allows accumulating of knowledge in how to adapt to different markets can be seen to provide key advantage for investors and partners but Marc is at a cross road in deciding how to take the company forward.

Mentor task

As a mentor what areas would you first consider in relation to: -

1) Enabling Marc to gain a greater understanding of his potential markets
2) Developing an appropriate method of screening, evaluating and identifying which market to enter and what strategy to adopt
3) Helping Marc adopt a suitable decision-making process to evaluate his options to drive the company forward?
4) What issues do you think may surface when mentoring Marc?

III. Understanding the ecosystem

Long Case(s)

FinTech North

Introduction

This case introduces the role of stakeholder mapping to inform the strategic development of the Fintech sector eco-system in a northern region of England. The case outlines the context and provides a summary of the analysis. It concludes by asking a business mentor to consider the implications of the analysis for the development of strategy in a Fintech start-up.

Context and the challenge

The world is being transformed by a technological revolution, with established firms across the economy being challenged by a new wave of digital innovation. This is particularly true in the financial services sector, where Fintech promises to change the way that we bank, invest, insure and pay for things. With strong demand for Fintech products, a world-leading financial services sector, a thriving tech scene and a positive regulatory environment, the UK is riding the crest of this technological revolution.

However, much of the activity is focussed in London and delivering the benefits across the UK is a challenge recognised by policy makers[18]. London has become the world's Fintech capital with over £1.8 billion in venture capital invested in London's Fintech sector in 2017[19]. This dwarfs investment in regional centres such as those in Manchester, Edinburgh and Leeds.

One of the challenges facing policy makers, entrepreneurs, business leaders and others seeking to invest in the North of England is to understand the nature of FinTech and to identify markets, stakeholders and other opportunities that can contribute to the development of the sector.

[18] HM Treasury (2018) Fintech Sector Strategy: Securing the Future of UK Fintech. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/692874/Fintech_Sector_Strategy_print.pdf

[19] https://cicero-group.com/wp-content/uploads/2018/03/FinTech-Nation.pdf

A response

FinTech North is a not-for-profit, collaborative project conceived and created through the partnership of White Label Crowd funding and Whitecap Consulting[20]. Fintech North aims to

- Generate collaboration and knowledge share by building a FinTech community across the North of England
- Enhance reputation of the North as a Fintech region.
- Generate tangible economic benefit for the region and the cities within it.

The organisation achieves these aims by managing a predominantly event-based Fintech entity focused on the Northern Powerhouse[21] – providing a platform for sharing best practice showcasing regional talent and facilitating connections[22]. FinTech North engages with key public and private sector organisations and higher education establishments in the region in a partnership to promote the sector.

Using stakeholder mapping to understand the ecosystem in Leeds

FinTech North chose to develop an analysis of the dynamics and characteristics of the FinTech sector in Leeds using a form of eco-systems mapping. The research and analysis was completed by Whitecap Consulting, one of the founders of FinTech North. This process involves identifying the key stakeholders in the system and their roles in it. This is illustrated in figure 1 below.

[20] http://www.whitecapconsulting.co.uk/fintech-north-2/
[21] https://northernpowerhouse.gov.uk/
[22] https://www.fintechnorth.uk/events/

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Figure 1: Leeds City Region – FinTech Ecosystem Overview[23] *(p15)*

The analysis by FinTech North provided a number of key findings:

- Leeds has a Financial Services presence that represents a major opportunity for FinTech which is currently not being realised to its full potential
- In order to attract more inward investment the FinTech sector in the Leeds City Region requires leadership and communication that works across the public sector, higher education and Financial Services and utilises existing success stories within the sector as focal points

[23] http://www.whitecapconsulting.co.uk/blog/leeds-fintech-report/

- Leeds has an underdeveloped ecosystem with few start-up and scale-up firms in FinTech related fields and can do more to encourage early stage innovation. The Financial Services corporate community are ready to partner and collaborate with new FinTech ventures, but the current volume of early stage FinTechs is insufficient
- There is a requirement for one or more physical spaces in Leeds, devoted to FinTech. To attract, develop and grow FinTech firms and encourage collaboration with established financial services organisations
- The communication and engagement between funders and FinTech innovators is not working effectively, which appears to be hampering the funding opportunities for early stage FinTech Firms in the region
- There is significant potential and interest for businesses and universities to work together on FinTech related projects, research activities and development of academic courses
- FinTech shares underlying technologies with other rapidly growing Tech sectors such as HealthTec and Data Analytics. As a result there are substantial intellectual capital, capabilities and commercial success stories that the region can capitalise on and communicate effectively with potential inward investors
- There is a bigger prize to be won by unlocking the potential of FinTech capability across the Northern Powerhouse, but to do this requires increased collaboration with other city regions

The report also puts forward a number of recommendations

- Develop a regional FinTech Strategy that supports the key stakeholders ranging from start-ups to corporates which can support the creation of a balanced, resilient and sustainable ecosystem in the Leeds City Region
- Enhance leadership and communication by creating a regional executive board and developing a FinTech engagement and communications strategy.
- Develop the ecosystem of start-ups and scale ups, working with key stakeholders to develop programmes, competitions and providing access to critical resources such as sandboxes
- Create more physical spaces for FinTech collaboration within the region. These could be bespoke developments in the Leeds City Region or could involve existing FinTech hub providers extending into the Region

- Enhance the links between funders and FinTech innovators by providing more clarity around the FinTech funding options available and how they can be accessed, and by considering a specific FinTech fund
- Develop the links between business and universities, aiming to build key strengths via collaborative work on areas including financial inclusion, RegTech, retail and SME lending and Data Analytics
- Leverage the region's existing and emerging strengths in adjacent Tech Sectors including Artificial Intelligence, HealthTec, Data Analytics and Smart Cities
- Identify unifying priorities across the Northern Powerhouse, helping drive and develop initiatives in collaboration with other regions

Questions and indicative answers

How can the stakeholder map be used in the first and subsequent meetings with mentees?
The mentor would seek to use the stakeholder map to encourage the mentee to identify key stakeholders and their roles in the system. They might ask the mentee to identify the key sectors and organisations and start to identify sub-group interests and agendas. Through the mentoring conversation, any omissions might be added to the map to ensure that it more adequately reflects the Fintech community in the locality.

Where can value be realised in the conversations between mentor and mentee?
The conversations can help to shape the story about how stakeholders interact and what they do in the ecosystem. The mentor might seek to tease out: How much reciprocity is there is the system? Are some stakeholders doing more than others? Do the stakeholders provide resources, work or sustain others in the network? How inter-dependent are they? Which are the most powerful or influential stakeholders and at what points in the system? The mentor may choose to seek to get the mentee to articulate the value of the eco-system or to use it to an aid to orientation for stakeholders both within and outside the eco-system. This type of interaction is an important process as it can be of used as a foundation to develop deeper understanding of the ecosystem and to evaluate options.

What are the critical success factors associated with stakeholder mapping?
The mentor may seek to test the extent to which the map provides the mentee with route map through the ecosystem – who they might seek to develop relationships with and what form these may take. The mentor may also ask the mentee to highlight areas of resistance of other factors that could undermine development of the eco-system.

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What might be the next steps?
The mentor may suggest the mentee uses the map as a foundation for further analysis and the development of communications strategies to support stakeholder engagement to further business interests. The mentor may suggest that it is used in combination with other tools and techniques such as the power/interest grid to help to identify who to build strong relationships with and where to invest energy and resources.

Short Case(s)

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IV. Futures

Long Case(s)

Disruptive potential in the payments sector

Introduction

This case informs understanding of the development of strategy in the FinTech sector through the application of Futures thinking. The case outlines the context and provides a summary of the analysis undertaken by the World Economic Forum (WEF) in their *Disruptive Innovation in financial Services Project* (2014-2018). The case focusses on the payments system and outlines three 'end states' that can be used to inform strategy development.

Context and the challenge

The Disruptive Innovation in Financial Services project (WEF 2014-2018) provides an opportunity to reflect on recent changes to the financial system – taking stock of the impacts that fintechs[24] have had and considering their evolving relationships with key stakeholders. The technologies of the Fourth Industrial Revolution have triggered a seismic shift in the financial system, the implications of which extend far beyond the fintechs that have pioneered their use in financial services. Value chains that have characterised the industry for decades are being disrupted and reshaped with implications for all stakeholders in the financial system.
WEF apply a multi-stakeholder approach to address disruptive potential and engaged the Forum's Financial Services, Innovation and Technology communities, professionals from academia and the public sector to produce an assessment of potential futures. The process involved over 150 interviews and 10 international workshops to encourage collaborative dialogue to discuss insights and opportunities concerning fintech disruption in the financial services industry.
The key findings of the project include

[24] Defined in this case as small technology enabled new entrants to financial services. This definition does not include large technology firms that enter financial services or incumbent financial institutions who increase their focus on technology

- Fintechs are changing how financial services are structured, provisioned and consumed, but have not successfully established themselves as dominant players
- Although fintechs have failed to disrupt the competitive landscape they have laid the foundation for future disruption
- Financial institutions will accelerate the commoditization of their cost bases, removing them as point of competition and creating new grounds for differentiation
- Sharing costs among peers and utilizing industry-standard automation tools will de-verticalize the value chain
- Technology and new partnership will enable organisations to bypass traditional value chains , thereby redistributing profit pools
- Power will transfer to the owner of the customer experience; pure manufacturers must therefore become hyper scaled or hyper focussed
- Customers will interact with fewer distributors as the market consolidates and major firms gain market share
- Data will become increasingly important for differentiation, but static data sets will be enriched by flows of data from multiple sources combined and used in real time
- As financial institutions seek to increase the amount and variety of data they collect, ownership and control of data will become a key issue for all stakeholders
- The arrival of new technologies, such as artificial intelligence will mean major shifts in financial institutions' workforces as the definition of 'talent' evolves
- Financial institutions increasingly resemble and are dependent upon large tech firms to acquire critical infrastructure and differentiating technologies
- Increasingly divergent regional financial systems mean that local players could quickly gain market share but find international growth difficult

The project identified seven key innovations that have made the most impact on the sector:

- Digital banking
- Lending
- Investment management
- Equity Crowdfunding
- Market Infrastructure
- Payments
- Insurance

This case focusses on one of these innovations – payments – and the description of several plausible but divergent end states that may emerge in the future.

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The key findings influencing the payments sector include:

- Payments have continued to migrate away from cash as customers shift purchases to online and mobile channels
- Payments businesses are experiencing intense pressure on margins in the face of competition and a challenging regulatory environment
- Regional distinctions between payment eco-systems are growing as both customer behaviour and regulatory environments diverge
- The European Unions revised Payment Services Directive (PSD2) will shift the payments landscape in Europe
- Mobile payment solutions have not sufficiently exceeded the functionality of pre-existing solutions in card-based markets thus limiting their adoption
- Customer acceptance of non-traditional payment schemes (e.g. alternative currencies) remains almost non-existent

A number of uncertainties are identified for each of the findings outlined above. The resolution of these uncertainties provides a foundation for the development of three diverging pictures of the future of the payments industry. Depending on how the key uncertainties are resolved, the potential end-states have very different evolutionary paths. The analysis maps these implications to four key stakeholder groups.

End state 1: As payments move from being a cash-cow to a loss leader, market leaders look for new strategies and the rest look for partnerships.

<table>
<tr><td>1</td><td colspan="2">Incumbent credit card issuer revenues decline precipitously as interchange shrinks and alternatives to revolving credit gain even more popularity</td></tr>
<tr><td>2</td><td colspan="2">Additionally, the development of new payment processing systems allows much greater customer access to real-time payments, with the expectation of low fees</td></tr>
<tr><td>3</td><td colspan="2">Many market incumbents and new challengers adopt a partnership model for payments, seeking to minimise losses while still offering best of brand solutions to their customers</td></tr>
<tr><td>4</td><td colspan="2">Some market leaders see this as an opportunity to create new revenue streams via data monetization, or use payments to lock customers into an eco-system</td></tr>
<tr><td colspan="3">Implications for stakeholders</td></tr>
<tr><td colspan="2">Customers

• Fewer issuers means fewer credit card choices</td><td>Intermediaries

• Less interchange means less profit per transaction</td></tr>
</table>

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• The remaining choices often represent better value for money – solutions will increasingly be free of charge • Where allowed by law, data may be shared with multiple parties as an alternative revenue stream	• Intermediaries have the opportunity to gain market share as banks withdraw from payment-related activities in favour of partnerships
Implications for merchants • More bargaining power means less fees paid to card issuers and intermediaries • The opportunity exists to negotiate for more data/other benefits in return for fees	Card issuers • Regulations and the appearance of alternatives mean that revenues associated with the issue of cards will decline • An opportunity to gain market share arises as some card issuers will stop issuing cards • Data increases in importance as a profit driver

End state 2 Post-PSD2, the world of online and retail payments systems could diverge significantly, creating two distinct eco-systems

1	Banks are required to develop open Application Program Interfaces that allow trusted third parties to easily and securely access customer accounts	
2	Merchants (large online ones in particular) expand their current online systems to easily tap into those APIs, moving traffic away from traditional cards	
3	Large techs design their systems (e.g. Apple Pay, Amazon One-Click) with direct bank connections built-in, and offer these to other online retailers to capture payments data	
4	Customers fundamentally move away from card-based online payment schemes, whereas point-of-sale behaviours are slower to adapt, creating two distinct eco-systems	
Implications for stakeholders:		
Customers • Direct connections with banks for online purchases mean less justification for the credit card fees		Intermediaries • Volumes and margins decline as some retailers and banks bypass traditional intermediaries

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• Adoption of online solutions may mean customers are more deeply entrenched in large tech eco-systems	• Consolidating is therefore likely, as players fight for a larger share of a smaller pool of profit • Lack of online business forces a shift of focus to retail shopping to retain profits
Implications for merchants • Less fees are paid to card issuers and intermediaries as more customers use direct solutions • The opportunity exists to choose partnerships with issuers/intermediaries if benefits align	Card issuers • Use of revolvers may decline somewhat as customers charge less to the card • Issuers may ally with partners to push use of their credit cards, driving up usage

End state 3 Instead of convergence in payments, the field of payments may fragment as merchants, intermediaries and schemes all see to differentiate

1	Even more fintech and other non-bank payment solutions start appearing in the marketplace, further fragmenting the payment experience for customers
2	As all solutions are based around credit card usage, customers find it relatively easy to juggle multiple payment applications and tools, and are rewarded with incentives
3	Market incumbents and credit card issuers continue to take their share of revenues but have difficulty piecing together a customer's spending patterns
4	As a result, data aggregation and monetization schemes mostly fail to get off the ground, presenting banks with a quandary regarding payments revenue

Implications for stakeholders:	
Customers • More bespoke solutions lead to individually tailored payment experiences • However, more fragmentation may lead to difficulty tracking spending due to many sources of payments	Intermediaries • Credit card fees continue or even rise, as more credit card usage gets built into Apps • However, nascent data monetization platforms largely fail due to a lack of information sharing

	• As a result, consolidation may occur, as it is required to collect/make sense of customer data • As customers struggle to manage spending habits, tools that offer tracking and advice could thrive
Implications for merchants • Tailored payment experiences with loyalty rewards encourage app usage , and may lead to more customer adoption	Card issuers • The base act of card issuing does not largely decline in revenue – cards continue to complete on rewards • Banks have the only complete picture of customer spending, thus retaining control over data

Source of the Case Study: World Economic Forum (2017) Beyond Fintech: A Pragmatic Assessment of Disruptive Potential in Financial Services. Online (accessed April 2019) http://www3.weforum.org/docs/Beyond_Fintech_-_A_Pragmatic_Assessment_of_Disruptive_Potential_in_Financial_Services.pdf

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WEF (2016) The Future of financial infrastructure. Online (accessed April 2019) http://www3.weforum.org/docs/WEF_The_future_of_financial_infrastructure.pdf
WEF (2016) A Blueprint for Digital Identity. Online (accessed April 2019) http://www3.weforum.org/docs/WEF_A_Blueprint_for_Digital_Identity.pdf

Reflective questions

- How can futures analysis be used in the first and subsequent meetings?
- What are the implications of the analysis for financial institutions?
- What other tools may be used to help the mentee develop strategy'

Key takeaways for financial institutions
Data Monetization: New competition and increased regulation will continue to make core payment activities less profitable, pushing payment providers to focus on data monetization as an important source of revenue. Data streams will be significantly more valuable where they are granular (e.g. Product-level) and multidimensional (e.g. location)., making data cooperation and partnerships critical to successful monetization.

Erasmus+
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Local Payment needs: Instead of designing payment solutions based on technology, institutions will focus on how their customers prefer to pay, and design payment solutions that fit their customers' lives – which will lead to regional solutions. Furthermore, emerging countries without a mature payments eco-system will likely take the lead in developing payment solutions

Power of large merchants: As the ability of large merchants to influence their customers' payment choices grows (particularly in online transactions), their negotiating power within the payments ecosystem will grow accordingly. Combined with the increased importance of product-level payments data, merchants will be able to wield this power to lower fees and influence the broader evolution of payments eco-systems.

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Short Case(s)

Intel and the future of banking

Introduction

Planning for the future usually involves looking ahead for 24-36 months at most. However, there are often benefits from looking much further ahead when developing business strategy. This case draws on scenarios developed by Intel, one of the largest semi-conductor-chip makers in the world. The company gather views from economists, anthropologists and technologists who all contribute to the research and development process to help understand not only the future of chip design or IT but of society. In 2017[25], Intel outlined four scenarios for the future of banking to 2030[26].

Scenario1 Stripped back platforms. As a core transaction platform banks lose their customer facing assets including branches, websites, apps and sales staff to become infrastructure providers, concentrating on transactional services, capital financing and loans and handling all aspects of regulation and compliance. Banks effectively become B2B companies, letting B2C companies handle the interaction with the services' end users. Other businesses able to deliver high levels of customer experience (e.g. Amazon, and Google) enter the market. However, this model requires the industry to open up completely so that data and money can flow freely.

Scenario 2 Full service hubs (fully featured lifestyle company) where banks embrace the data they have to gain better insight into their customers than even the most data savvy web company. This model requires the replacement of legacy systems with a modern platform to support agility and offer the architecture for big data analysis. However, there are plenty of challenges associated with funding and implementation of such platforms

Scenario 3 The bank as data custodian. As know your customer initiatives improve in the years to 2030, banks could become the holders of a single version of the truth about individuals –which could then be shared with other organisations - both government and private sector in federated systems. Banks will continue to benefit from a position of trust associated with data security and new technologies will enable a federated data infrastructure.

[25] https://www.finextra.com/newsarticle/30781/sap-financial-services-forum-london---day-1-live-blog
[26] https://www.intel.co.uk/content/www/uk/en/financial-services-it/possible-bank-scenarios-for-2030.html

Scenario 4: Reinventing capital markets With the increasing proliferation of connected devices in the Internet of Things, data on every aspect of international commerce will be made more publicly available. With Artificial Intelligence becoming more trusted to make decisions, the risks of transactions will be lowered, leading to lower rewards and less lucrative markets for investment banks.

Mentor tasks to consider

- What are the implications of these scenarios for your mentees business?
- What do they see as the reality of banking today?
- What opportunities for strategy development do the scenarios present?
- What are your mentees next steps?

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Additional resources and information
30 Fintech blogs to follow https://securionpay.com/blog/fintech-blogs-services/
Accenture – the future of Fintech and Banking https://www.accenture.com/us-en/insight-future-fintech-banking
European Parliament (2019) Fintech (Financial Technology) and the European Union http://www.europarl.europa.eu/RegData/etudes/BRIE/2019/635513/EPRS_BRI(2019)635513_EN.pdf
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CB Insights' machine intelligence platform, intelligence analysts, and global network of executives and startups empower people to articulate compelling answers to

difficult questions — about growth, about the competition, and about technology. https://www.cbinsights.com/research/fintech/

Corporate Finance Institution is a leading global provider of online financial modelling and valuation courses. https://corporatefinanceinstitute.com/resources/knowledge/strategy/

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