The FinTech survey 2017

A New Zealand perspective for FinTech start-ups.

In five years, we won't be talking about FinTech anymore.

Now I realise that's a strange way to start the first ever PwC New Zealand FinTech Survey, but it's true. The distinction we're now seeing between FinTech start-ups and incumbents could well disappear as corporates harness their own transformational potential and today's start-ups mature.

Last year, our Global FinTech Survey was titled "Blurred Lines" – referring to the growing ties between FinTechs and incumbents. Now, with the 2017 FinTech survey, we're looking forward to a world of no lines. At this point, today's FinTechs will have matured and partnered with existing Financial Services institutions, eventually becoming the new incumbents. The changes will be profound, and these new hybrid Financial Services organisations will look nothing like today's companies.

For start-ups and fast-growing businesses, the next few years won't just be a transformation in the size and scope of their operations. Building and maintaining trust has always been central to the performance of companies in Financial Services, as has regulatory compliance.

These are areas where today's incumbents have an advantage, and they'll be areas where today's FinTechs have to be competitive if they want to maintain their growth plans.

I'd like to thank all of this year's survey participants who have helped us to bring the FinTech Survey to New Zealand. We had a great response from local FinTech start-ups – well ahead of the global average – which gives us a unique insight into how they see the Financial Services landscape changing.

Andy Symons
Financial Services Leader and Innovation Partner

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The business potential of collaborating with today's incumbents

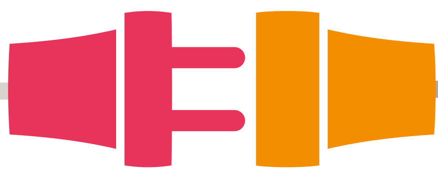
We're still seeing just the beginnings of the business potential that working with incumbents can offer to New Zealand FinTech start-ups. One of the standout figures from our New Zealand response is the difference in spending between Financial Services companies here and those overseas. Globally, 15 per cent of annual turnover is devoted to FinTech, but in New Zealand it's less than half at just 6 per cent. That's despite 85 per cent of our respondents reporting to be in partnership with FinTech start-ups.

That difference represents a huge opportunity for today's FinTech start-ups to build stronger relationships and expand the partnerships they are undertaking with established organisations. The percentage of revenue New Zealand companies are committing is only going to increase, and will have to do so rapidly in order to match the levels we are seeing overseas. The resulting partnerships, collaborations and opportunities to licence white label services to established organisations all represent key growth opportunities for today's start-ups.

Of course, there are also challenges to working with today's incumbents. Our survey found that the single biggest barrier when FinTechs and Financial Services institutions work together is around their different business models (78 per cent), followed by differences in knowledge and skills (56 per cent), and differences in management and culture (also 56 per cent). These pain points aren't going to disappear, although they may weaken as both sides work together more closely in the future. With 91 per cent of our respondents expecting to partner with FinTechs over the next three to five years, the companies that do well will be able to engage with these opportunities and use them as a learning point as they mature.

85%

of New Zealand respondents are already partnering with FinTechs



What will be the barriers to growth for FinTechs?

Perhaps the biggest challenge for FinTech start-ups over the next five years will be diversifying the channels they are using as growth tools. This was a clear trend in our survey data. Whereas our banking respondents, for example, are strongly focused on pursuing mobile and web applications, it was our FinTech respondents that were focusing on their call centre capabilities, developing a presence through branches and building their presence on social media.

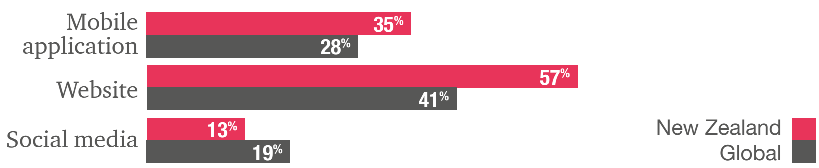
What's interesting is that it's these broader goals that are areas of strength for today's corporates. The biggest challenge for FinTechs now is to build out this broader service offering – so they can meet customer expectations on their terms – while retaining the same ease-of-use and simplicity that many start-ups have built into their existing service offering.

Regulatory uncertainty is another area which could hamper growth in the sector. While FinTech start-ups were much less likely to be concerned about regulatory uncertainty here than overseas (33 per cent vs 48 per cent internationally), there's still a risk that local uncertainty will affect the growth plans for fast-growing FinTechs over the next five years.

One final risk for FinTech start-ups as they mature is emerging technology. While it's easy to assume that FinTechs will always be on the cutting edge of new software, there's still a risk that new developments will replace or render obsolete the technology that today's FinTechs are building their service offering on. Artificial intelligence, for example, could completely reshape the way customers find, compare and choose an insurance product. That has major implications for the customer acquisition journey across insurers, brokers and InsurTech start-ups. FinTechs have to be just as proactive in the emerging technology space as established organisations if they want to ensure their service offering remains relevant in the face of new innovations.

Customer interactions go digital

Q: What percentage of your clients do you interact with through the following channels?



What does a two-speed FinTech strategy look like for start-ups?

In our full FinTech findings, we outline how today's corporates might engage with the FinTech revolution through a two-speed strategy that gives equal weight to partnering with start-ups and building their internal capabilities.

For FinTech start-ups themselves, the two-speed strategy is still a useful way to approach their growth plans, just with a different focus. Today's corporates aren't just competitors or commercial partners, they are both. The collective knowledge, customer trust and expertise in areas like compliance that today's corporates have is a valuable asset that start-ups can learn from and capitalise on by partnering with them as they scale their service offering.

It's this deeper level of knowledge that FinTech start-ups have to pursue if they want to really make the most of partnerships with corporates. The commercial potential of these partnerships is just the start, and today's start-ups have to be looking forward to the roadblocks they will face as they grow, and using corporate partnerships to help manage those risks.

A two-speed FinTech innovation strategy

Internal capabilities:

- Focus on the broader talent needs of the business as it grows, especially in areas like compliance.
- Build an emerging technology strategy that can explore the implications of this technology on your business model.

Partnering with Financial Services institutions:

- Find opportunities to work with corporates and co-create/white label/sell products to directly.
- Identify future growth roadblocks and how partnerships with Financial Services organisations can overcome these.
- Build a culture that is creative and innovation driven, but that also won't act as a handbrake when engaging with corporates.

Contacts

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