

# The time for Leap-frogging and a value-driven recovery?

Assessing the current and global implications of COVID-19, the immediate responses and the future outlook together with incumbents and startups within Financial Services.

A global perspective from the Copenhagen Fintech  
Global Advisory Board in partnership with EY Box

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## Preface

Christmas in Copenhagen is always a cozy time of year, including Christmas 2019 – when I heard the first reports of a dangerous virus on the loose in Wuhan province. Never in my wildest dreams that Christmas would I have imagined that by mid-March, 80% of Denmark would be under lockdown and massive global recession would wash over the world like a giant Tsunami.

At Copenhagen Fintech, we immediately changed our modus operandi and went all virtual from home. The Fintech Lab closed for outside visits and most companies chose to follow the same path. When we emerged from our shelters in the beginning of May, we immediately began to assess the damage together with our entire fintech community. What happened? How are our members responding to the crisis? What have we learned? What do we expect now? And how do we use our limited experience and our learnings from the past months to build an even stronger, more resilient fintech industry going forward?

This whitepaper gathers those learnings from our global community and begins to draw some important conclusions. It encapsulates a wealth of responses brought to the table in our Global Advisory Board (GAB) meeting, held 24 June 2020, where we began to assess implications from and response to COVID-19. While COVID-19 has caused societal, personal and economical devastation, it is also as an incident that has created a strong platform for systemically and structural rethinking. In the Financial Services sector, the background is for sure bleak, but the outlook is also bright. The shake-up caused by COVID-19 presents real opportunities for startups and incumbents alike to create trust, turn to sustainable alternatives and drive digital change, for good and for a better future.

In September the GAB will rejoin to cover the long-term implications and double down on what systematic changes are needed to enable these good intentions to become reality.

Our goal with consolidating and sharing our combined knowledge is threefold: to help start-ups and incumbents learn from a broad range of COVID-19 reactions and responses; to help each other prepare for the global turmoil; and to ensure that we are collectively ready to take the lead in a permanently altered financial services industry and society in general.

We hope you find these perspectives and insights and valuable.

All the best,  
Thomas Krogh Jensen

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# INTRODUCTION

## COVID-19 has radically changed the Financial Services industry

This whitepaper takes a helicopter view of the damage caused by COVID-19 to the Financial Services industry and how members of the Copenhagen Fintech community have responded. It delves into consumer behavior shifts, new market demands, strategic reactions and some future forecasting relevant to both fintech start-ups and financial service incumbents in both developed and emerging markets. This consolidated knowledge can be leveraged individually by our members to strengthen their own positions in their markets and, collectively, to build a stronger fintech community – in the Nordics and globally.

### Forced adoption of digital processes

At the start of the COVID-19 crisis, fear set in of catastrophe in the Financial Services industry, especially in fintech. But shortly into the crisis, these fears subsided as business continued for banks, insurers and asset managers despite major lockdowns thanks to existing methods for remote services and digital channels.

Digitalization is nothing new to the Financial Service industry – it was well under way pre-COVID-19. However, the crisis pushed the acceptance of digital into overdrive and increased the need for digitalization on many levels. There is heightened need for cashless societies, a heightened need for digital customer processes, including customer onboarding and video-based advisory, and a heightened need for better internal digital processes for incumbent

corporates that support their workforce in working from home and better management and HR processes – just to name a few.

### Lethal blow to some, a boost of business for others

On the fintech side, not all start-ups suffered from the COVID-19 tsunami of change. Depending on the business model, profitability, cash-burn rate, liquidity reserves and funding situation, some were affected negatively and some positively.

Chris Schmitz continues, “Fintechs in payments, for example, benefitted from the increase in digital payments at PoS, but if travel platforms were their major clients, of course, they took a hit. Neobanks that live off of FX rate spreads are suffering from the lack of travel and international business. While lending-focused fintechs (SME and consumer) are expected to suffer from higher default rates.”

### Rapidly changing mindsets and consumer behaviors

COVID-19 continues to affect people around the world in a variety of different ways. Although we all experienced the crisis in different ways, one thing we all shared in common is financial uncertainty. People have changed how they view money and changed their relationship to financial services and how to engage – at least for now, but perhaps for good. This uncertainty among consumers has heightened the need for incumbents to rapidly course-adjust, and it

seems evident that fintech will play a critical role globally to enable and drive this adjustment.

How do we as fintech firms or large financial institutions rethink and adapt our value

proposition and business models to best serve the changing needs of our customers?

And as a community how could we in our different roles bring a sense of certainty and trust into all markets?

## PART 1

### NOW – How COVID-19 has impacted the different domains and different geographies

Copenhagen Fintech's Global Advisory Board (GAB) comprises representatives from both the corporate, investor and startup sphere from across the globe. Although there are many differences in how they experienced the crisis, there also many similarities.

#### VCs are investing in a now cleaned up Fintech market

Although Global VC-backed funding experienced the worst Q1 since 2016, investment is still happening, albeit on a smaller scale (CB Insights). Throughout the crisis, investors worked intensely with portfolio companies to secure liquidity through cost cutting, delaying investments, slowing marketing and customer acquisitions, etc.

Generally, investors refrained from early-stage opportunities, but advanced funding rounds will be completed under review of valuations. New funding rounds will be under higher scrutiny in the short- and mid-term. "There is definitely a clean-up happening in the market, where some more trendy, buzzwordy start-ups are disappearing," says Dirk Sebald,

Founder & CEO of Deon Digital. "But money is around. We've been contacted by a few VCs and Private Equities who are really pushing us to take things to the next level. This proves to me that investors are looking for good investments other than, for example, real estate."

***"If all banks only want to work with more mature start-ups, it will be impossible for early-stage companies to get their first customer. The answer might be to aim at more local or tier-2 banks."***

– David Rasson, Center of Expertise Lead Innovation ING Belgium & The Netherlands

## Successful collaborations continue despite the new order

Established fintech partnerships have experienced a fluctuation in activities. Some corporates have postponed their projects while others have expanded their ecosystem thinking. That means that many stable and sufficiently funded fintechs from all segments are profiting from the rapidly increasing demand for digital innovation.

***“We have seen an immediate impact of the pandemic on many of the startups in our community. We will continue to see the effects of the crisis for some time, as for many startups, KPI targets and the promises of future growth to investors has been undercut by drained sales pipelines and postponed partnership dialogues.”***

– Oliver Sjostedt, Head of Startup Growth  
Copenhagen Fintech

“In terms of working with fintechs, we are putting in infrastructure for them to work together with us,” says Ignacio Vera, Advisor to Banco de Chile. “The progress is slow, but it’s moving. What I recognize fundamentally is that we need them to progress quickly and to have more innovation – to provide the speed to market and the agility that we don’t have.” This suggests that incumbents still value the trait of successful fintechs – their ability to create new solutions with high agility and take them to market at speed.

According to David Rasson from ING Belgium, there is an increased focus on their existing fintech partnerships, with a mindset to ‘scale or die’. “What works well in one country is pushed more aggressively towards other countries; what’s not working is either stopped or challenged with clearly agreed upon next steps prior to taking a final decision. In the end, we will have fewer partnerships but the ones that remain will have a bigger impact.”

At OP Financial Group in Finland, there is an increased pull from the business on the innovation group. Päivi Järvenpää, Partnership Lead at OP explains, “We’re seeing a willingness to digitize anything that is not yet digital. We’ve started 4 new initiatives since the crisis began – this is encouraging. In terms of time horizons, the focus has gone from stage 2 to stage 1. Instead of focusing on the competition, we are focusing on helping business units meet the increased demand. And the speed of decision-making has increased as a result of COVID-19 as well.”

## The existing digital infrastructure separates mature and emerging markets

As with any global financial event, COVID-19 impacts developed and emerging markets differently. In some highly mature digital markets like Norway, public digital payment projects were carried out over a weekend. In less mature markets like Chile, banks and governments lacked the digital infrastructure to meet the needs of their customers and citizens.

***“In our case, the pandemic has accelerated the digital agenda. We experienced that so many of our processes were not fully digital. People could not get in contact with our branches, and for more complex processes, they still need to go to a branch. Our contingency plan for this pandemic was not enough.”***

– Ignacio Vera, Advisor to Banco de Chile

### CASE: DNB Norway

Soon after the COVID-19 crisis hit, the Norwegian government put together an emergency package for the small-to-medium business segment.

DNB Norway was part of creating a cash payment system to ensure delivery to the right businesses. The solution was created over the course of one weekend and by Monday, the first companies were receiving money.

“In the Nordics, we are in a unique situation. Customers are highly digital, banks are fairly digital and so is the public sector. Collaboration was key for this project, but it could not have happened without such a strong digital infrastructure.”

– Karen Heskja, Investment Manager, DNB Ventures.

COVID-19 accelerated digitalization in less mature markets, as money deployment suffered together with the informal economy, which often constitutes a large share of the total economy in emerging markets.

**“We can see that a number of central banks are combining digital currency with mobile capabilities to help push a cashless society. This enables microservices for the unbanked or underbanked and helps get money, for example, all the way to the farmer if we’re talking about the food supply chain.”**

– Mads Stolberg-Larsen, Head of Fintech and Blockchain at Tradeshift

### GAB Pulse-check

In a survey question, we asked the GAB members to look back at the impact of the COVID-19 crisis thus far.

**Question:**

Was your startup or financial institution negatively (1) or positively (10) impacted in these three categories?

1. Relationship between fintech and financial institutions
2. Existing bets on innovation areas by financial institutions
3. General funding of innovation activities

### Pulse-check: Looking back at the impact of the C19 crisis so far



### The results within the respective categories suggest the following:

1. The relationships between fintechs and incumbents remain intact
2. Existing innovative bets remain on the table
3. General funding of innovation has suffered – emphasizing that the focus is on existing bets rather than new moonshots

## PART 2

### NEXT – How the different players respond in the changed reality

While COVID-19 has caused societal, personal and economical devastation, it is also as an incident that has created a strong platform for systemically and structural rethinking. In the Financial Services sector, the background is for sure bleak, but the outlook is also bright.

The GAB believes that the shake-up caused by COVID-19 presents real opportunities for startups and incumbents alike to turn to sustainable alternatives, create unprecedented trust, and drive digital change, for good and for a better future.

### A sustainable recovery – can fintech bridge the gaps?

The COVID-19 pandemic has presented an ethical dilemma: human lives versus massive financial loss. What does that say about the choices societies, governments, consumers and the financial industry will make about how to handle the recovery? Will we sacrifice the green agenda for a quick and dirty recovery by turning on the same engines that we shut down in the early spring?

“Andrew Man, Head of Strategy, EMEA Corporate Banking of Citi, noted this may be the first year the world is on track to reach the UN Global Compact’s target of keeping global warming under 1.5°C.”?

**“There is clear momentum from business, civil society and international bodies on addressing the climate crisis – for example, the European Green Deal, signed into agreement by the European Commission in December 2019.”**

– Andrew Man, Head of Strategy, EMEA Corporate Banking of Citi

On the downside, as economies begin to recover, emissions could rise exponentially again. If former financial crises serve as an indicator for future events, they likely will.

Additionally, COP26 has been postponed due to COVID-19, there are many opponents to the sustainability agenda and US elections are coming up in November. In other words, there are plenty of things that can push the sustainability agenda off course.

Fintechs already have proven solutions for enabling environmental and social sustainable, such as ESG investments, but is there a bigger role fintech can play in ensuring the green agenda continues and that continued financial instability does not drive it off course?

That is a question our fintech community is working diligently to answer and impact. In the Nordics, we already have a strong impact focused fintech sector, with companies such as Matter Insights providing investors with sustainability profile of their portfolios, or Doconomy enabling consumers seeing the impact of their savings and spending on the planet. Such examples pays tribute to the fact that Fintechs can contribute to a value-driven recovery from COVID-19.

Another upside to the pandemic, according to Søren Juul Jørgensen, Research Fellow at the Center for Human Rights and International Justice at Stanford University, is that it has made us realize how interconnected we are.

“We experienced how organically we are connected to our communities – that even the air we breathe impacts each other. Because of this heightened awareness, I don’t believe we will sacrifice the green agenda.”

This interconnectedness is also supporting social sustainability to the extent that it is taking precedence over environmental sustainability. We saw this in the rise of the Black Lives Matter movement and the record number of people that showed up to protest over a record number of days across the US.

“This signals that we might be in one of those important moments where we see a change in the values and approach of individuals, industry and society,” Søren continues. “It’s important for businesses to pay attention to the new and stronger expectations on their responsibilities.”

The rise in social sustainability is also evidenced in the capital markets by the uptake in ESG bonds, where social bonds are taking precedence over green. Andrew Man continues, “ESG indexes are becoming essential building blocks of asset allocations for institutional, wealth management, and personal investors.

Moreover, the ongoing Coronavirus emergency has demonstrated the prevailing value of ESG investments, where ESG ETFs (Exchange traded funds) are showing up as YTD (year to date) and with less outflows in the recent sell-off.”

**“COVID-19 is a litmus test for stakeholder capitalism”**

“What stakeholder capitalism is about: **ensuring the long-term preservation and resilience of the company and embedding a company in a society.**”

In this sense, a short-term economic crisis such as the one induced by coronavirus outbreak reveals which companies truly embodied the stakeholder model, and which only paid lip service to it, while fundamentally maintaining a short-term profit orientation”.

Klaus Schwab, executive chairman of the World Economic Forum (source: FT, 25.03.2020)

**Trust – from banking customers and investors towards financial institutions**

With social values changing and consumer expectations changing with them, there is consensus among GAB that trust has become more important than ever. Andrea Kates, Managing Director of Futureproofing: Next says, “People need to be able to trust our financial institutions with a capital T. Fear and uncertainty are latent. When it comes to financial services, trust is the true currency.”

As consumers have a new awareness about the value of their data and associated privacy issues, they are also hyper-aware that financial data can be a magnet for fraud or cybercrimes.

But how can fintechs deliver on trust?

Andrea believes they can do so by helping increase transparency in the market, building solutions that support, not invade a tribe, building trust into emerging technologies and improving cyber security.

**“Making AI trustworthy is the first step to its successful impact. The dark side is, without responsible and trustworthy approaches to AI, we [in fintech] will not be accepted long-term.”**

– Andrea Kates, Managing Director of Futureproofing: Next

Andrea suggests that fintechs need to see early signs of future grey swans – i.e. unexpected global events that could affect the industry going forward. Fintechs must continue to be quick to respond to important shifts in the market.

The results suggest that cyber security needs to be a focal point in fintech innovation. Cyber security is anchored in trust and it is also mentioned as a focal point for incumbents and a pre-requisite for successful partnership.

“In the Nordics we see that data insights have risen in importance as a result of COVID-19 – so that we can provide the government insights into what is happening financially.

And with that, comes heightened importance of cyber security. When more people are going digital, and more data is created, cyber-crime is going up as well,” says Karen Heskja of DNB Ventures in Norway.

**“The center of gravity has become the desire to create safe services for customers and employees. The role of safety and security has become more important.”**

– Päivi Järvenpää, Partnership Lead,  
OP Financial Group

### **Digital readiness – continuing the rapid digitalization of incumbents**

Many of the corporate members of the GAB admitted that the COVID-19 crisis exposed their lack of digital readiness – from their ability to serve customers to their ability to support team members working from home.

Ole Madsen, Chief Commercial Officer & Chief Digital Officer at Spar Nord says, “We realized that our customers were more digitally ready than we thought, so we made the decision to take transaction banking from 95% digital to 100%. On the other hand, we also found out that our team members were not digitally prepared. Productivity didn’t suffer, but our people weren’t comfortable with certain tasks like running video calls. We needed to make some adjustments from the HR side to help them.”

The very sudden halt in operations required many incumbents to turn to digital channels and move beyond roadmaps. Chris Schmitz, Partner, EY Financial Services, EMEA Fintech Lead, observe, “After the crisis, incumbents will increase their digital efforts, significantly investing in digitalization journeys, data-driven business models, AI-based automation and risk management or fraud detection.”

– Chris Schmitz, Partner, EY Financial Services,  
EMEA Fintech Lead

Working from home also raised many management questions for Banco de Chile. Advisor Ignacio Vera explains, “We aren’t used to managing people who are not close us and this has become a huge challenge. A lot of what we knew about people management was done face-to-face, walking down the hall to speak to a colleague, throwing parties to celebrate achievements and so on. The questions remains for us how to motivate people, how to keep them engaged and how to keep them productive.”

## PART 3

### BEYOND: How the fintech community can lead the change to a permanently different future

There is consensus among GAB that as a community, we have a responsibility to not react in desperation and simply try to rebound back to where we were. COVID-19 was a shock-wave, but it also left an open field for systemic and structural rethinking. As such, the shake-up present real opportunities for fintechs and Financial Service incumbents alike to create trust, turn to sustainable alternatives and drive digital change, for good and for a better future. Fintech and incumbents are jointly committed to step up and take a unprecedented responsibility to focus on societal and environmental good alongside short-term profitability. It also appears that VCs are onboard and ready to fund it.

As the crisis continues to unfold and eventually settle throughout the world, we expect to see a permanently different financial landscape. It's too soon to predict the lasting changes today – we need more time to pass to shape a perspective.

#### Copenhagen Fintech Week 2020

During Copenhagen Fintech Week, which will be 100% digital this year, we look forward to digging even deeper into these topics, with special focus on sustainability. We'll have presentations from 130 thought leaders around sustainability in the fintech space, and we'll be joined by 200 fintech startups working with sustainability – everything from financial inclusion to EST screening.

At the next GAB meeting, XX September, we will meet again to determine our 'BEYOND' and how our community can lead the change.

We will double down on what systematic changes are needed to ensure that good intentions becomes a new reality. It took a pandemic to sever attachments to legacy systems, what will it take to realize the visions for sustainable alternatives?

**We look forward to seeing everybody then and to experiencing another great Copenhagen Fintech Week together.**

#### About Copenhagen Fintech

Anchored in the Nordic region's renowned design and digital traditions, Copenhagen Fintech strives to support human-centric financial solutions with potential to shape our global society.

We aim to be the world's most inclusive and expansive financial ecosystem by connecting FinTech startups and financial institutions with superior research and consumer needs – and scaling the resulting solutions internationally.

## GAB Members

<b>Kamila Wincenciak</b>	Head of Fintech Partnerships	Alior Bank
<b>Gustav Steuch</b>	Managing Director	BNP Paribas
<b>Michael Gronager</b>	Founder & CEO	Chainanalysis
<b>Andrew Man</b>	Head of Strategy, EMEA Corporate Banking	Citi
<b>Ornit Shinar</b>	Head of Venture Investing Israel	Citi Ventures
<b>Dirk Sebald</b>	Founder & CEO	Deon Digital
<b>Mikal Hallstrup</b>	Founding Partner	BWD
<b>Bryony Widdup</b>	Partner	DLA Piper
<b>Andrea Kates</b>	Managing Director	Futureproofing : Next
<b>David Rasson</b>	Centre of Expertise Lead Innovation	ING Belgium
<b>Prof. Dr. Roman Beck</b>	Head of Blockchain Center	European Blockchain Center
<b>Nana Bule</b>	CEO	Microsoft Denmark
<b>Sopendu Mohanty</b>	Chief Fintech Officer	Monetary Authority of Singapore
<b>Daichi Iwata</b>	Director	NEC Corporations
<b>Brandon Mayo</b>	Head of Innovation & Experimentation	Nordea
<b>Ray Ferguson</b>	Chairman	Singlife
<b>Tomohiro Murakami</b>	Senior Technical Engineer	NRI
<b>Chris Colbert</b>	CEO & Founder	One Eighty
<b>Päivi Järvenpää</b>	Partnership Lead	OP Financial Group
<b>Chris Hill</b>	Head of innovation UK	RBC
<b>Tendayi Viki</b>	Associate Partner	Strategyzer
<b>Mads Stolberg-Larsen</b>	Head of Fintech and Blockchain	Tradeshift Frontiers
<b>Dr. Justo A. Ortiz</b>	Chairman of the Board	Union Bank of the Philippines
<b>Ole Madsen</b>	Chief Commercial Officer (CCO) & Chief Digital Officer	Spar Nord
<b>Heidi Skaaret</b>	Executive Vice President	Storebrand
<b>Karen Heskjá</b>	Investment Manager	DNB Ventures
<b>Ashok Kalyanwamy</b>	Chief Information Officer	Saxo Bank
<b>Ramon Vicente D. De Vera</b>	Senior Vice President	Union Bank of the Philippines
<b>Alexander Peh</b>	Vice President, Head of Merchant Solutions	RBC
<b>Katrine Mitens</b>	Executive Vice President, Buying & Owning Real Estate	Danske Bank
<b>Rudi Baxter-Warman</b>	Citi Country Officer and Corporate Bank Head for Denmark at Citi	Citi
<b>Kasper Svarrer</b>	Managing Partner	Maj Invest Financial Inclusion
<b>Ignacio Vera</b>	Advisor to Banco de Chile	Banco de Chile
<b>Søren Juul Jørgensen</b>	Research Fellow at Center for Human Rights and International Justice at Stanford University	Stanford
<b>Christopher Schmitz</b>	Partner, Financial Services at EY, EMEA Fintech Lead	EY
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<b>Ewan MacLeod</b>	Chief Transformation Officer	Sohar International

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