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Fintech New York: Partnerships, Platforms and Open Innovation



FinTech
Innovation Lab

Financial technology has been on the rise for the past five years.



Executive Summary

In 2014, the majority of the financial services industry began to embrace the potential of fintech in a big way.

After many years of laser-like focus on cost cutting and regulatory compliance, banks are ready to once again invest in growth opportunities. They are realizing the competitive landscape has changed dramatically and many of their core business functions are eroding and at risk from a new type of competitor. The rapid pace of digital technology innovation has forced banks to shift their attitudes and look to the external fintech community to help push them into open innovation.

Through innovation labs, venture capital funds and hack-a-thons, financial institutions are engaging with the fintech community. Banks are becoming more open to the idea of partnering with startups to push their growth strategy forward. This marriage is driving banks toward their next iteration – rebuilding themselves as consumer platforms that are as inherently digital as Apple or Amazon.

Banks realize they need to offer a broader value proposition to customers that includes both financial and nonfinancial services, and fintech can help drive that change. If not, they risk a mass customer exodus to those that will. Banks risk losing more than 30 percent of revenues to new competitors by 2020, according to Accenture research on retail banking.¹

With the rise of mobile banking applications and smartphone usage, some financial institutions have been able to create sticky relationships with their customers by providing relevant information at the right time. New digital customer-service experiences have grown out of the "Internet of Me," where customers are placed at the center of the digital ecosystem and expect relevant personalized services when and where they want them.² As customers have come to rely on many different connected devices, financial services firms will be able to create linked worlds based on individual behaviors and preferences.

By combining public data, from places like social media, with data from partners in other industries and their own internal data, banks may be able to tailor services to customers' needs, as well as open up new market opportunities in demographics that are currently "underbanked." Using social media to create new ways to verify identity and determine trustworthiness, companies like Lenddo are connecting banks with valuable customers they would have otherwise dismissed. And by partnering with service providers that consumers use in everyday life, such as grocery stores, dry cleaners and even car dealerships, they can help to create relevant and valuable customer offers that can be purchased with the swipe of a finger.

The insurance industry is also poised for fintech growth. Insurers have been using telematics for years to offer cheaper plans to customers who allow the companies to track their driving habits. Customer adoption of technologies like wearables and "Internet of Things" devices will give insurers access to real-time information, allowing them to

better assess risks and provide better customer service. For example, by monitoring health habits using wearable devices, they can not only tailor their plans for the individual, but also use their scale and partner networks to help customers live healthier lives by offering discounts on health club memberships or offering tips on healthy living.

One of the new rising stars in fintech is blockchain technology, which creates public ledgers for crypto currency exchanges. At the beginning of 2014, most banks would not have seriously considered using blockchain, given its association with some of the digital currencies that were operating at the margins of business practices. And yet today, many banks are taking a hard look into how it can help build another kind of platform, one that will allow banks, credit card companies and clearinghouses to work together behind the scenes to create safer, faster accounting and optimize use of capital by reducing counterparty risk and transaction latency.

As these examples illustrate, fintech is pervasive to banks and emerging in the insurance sector. The investment landscape tells a similar story.

Fintech innovation is driving banks to their next iteration - rebuilding themselves as consumer platforms.

Fintech Takes Off

In the U.S., over the past five years, fintech investment has had a compound annual growth rate of 56.6 percent from \$1.64 billion in 2010 to \$9.89 billion in 2014.

During the past year alone, we saw a nearly 200 percent jump in the value of U.S. fintech deals from 2013 to 2014. In New York, deal value grew by 32 percent from 2013 to a new high of \$768 million in 2014.

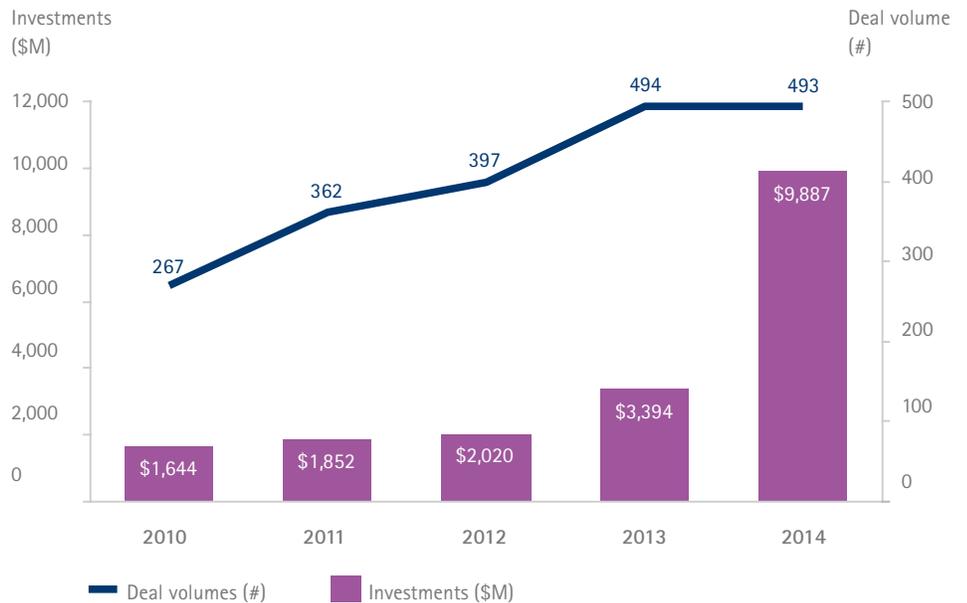
Globally, investment tripled from \$4.05 billion in 2013 to \$12.21 billion in 2014. By comparison, the overall market for venture capital investing is up 63 percent.³

The venture capital community is clearly signaling that fintech is the next frontier. Industries like media and retail have already been thoroughly disrupted. And while there are still plenty of investment opportunities out there in both of those fields, financial services, for the most part, is a growth play.

Financial services companies are also waking up to the vast opportunities enabled by the current wave of fintech. They are embracing things like cloud technology, mobile wallets and blockchain to fundamentally re-examine their business and operational models. We are seeing this in the increased investments from banks and insurers in fintech venture capital funding, incubators and startups.

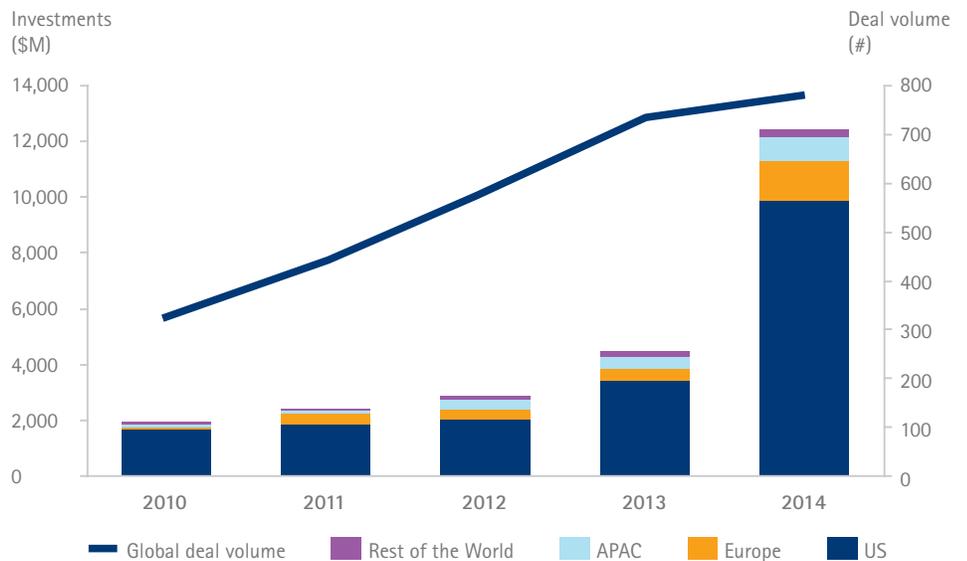
"There is increased interest," says Robert Gach, managing director of Accenture Strategy Capital Markets and co-founder of the New York FinTech Innovation Lab. "Financial

Fintech Deals and Investments in the U.S.



Source: Accenture analysis of CB Insights data

Global Fintech Financing Activity



Source: Accenture analysis of CB Insights data

institutions are trying to determine how best to connect into the fintech ecosystem, whether by investing, creating an incubator or in some other way. Even very sophisticated institutions are just now starting to realize the depth and complexity of fintech, and they want to do more. These firms are also recognizing the power of platforms and how important it is for the financial institutions to control the platform but provide the ability to integrate third-party products."

In New York, the biggest share of fintech investment deals was in lending companies: 47 percent of all deal values and 21 percent of the number of deals. New York-based Biz2Credit, a platform that matches small businesses with lenders, raised \$250 million in debt from Direct Lending Investments, which will go toward underwriting loans and helping Biz2Credit grow.⁴

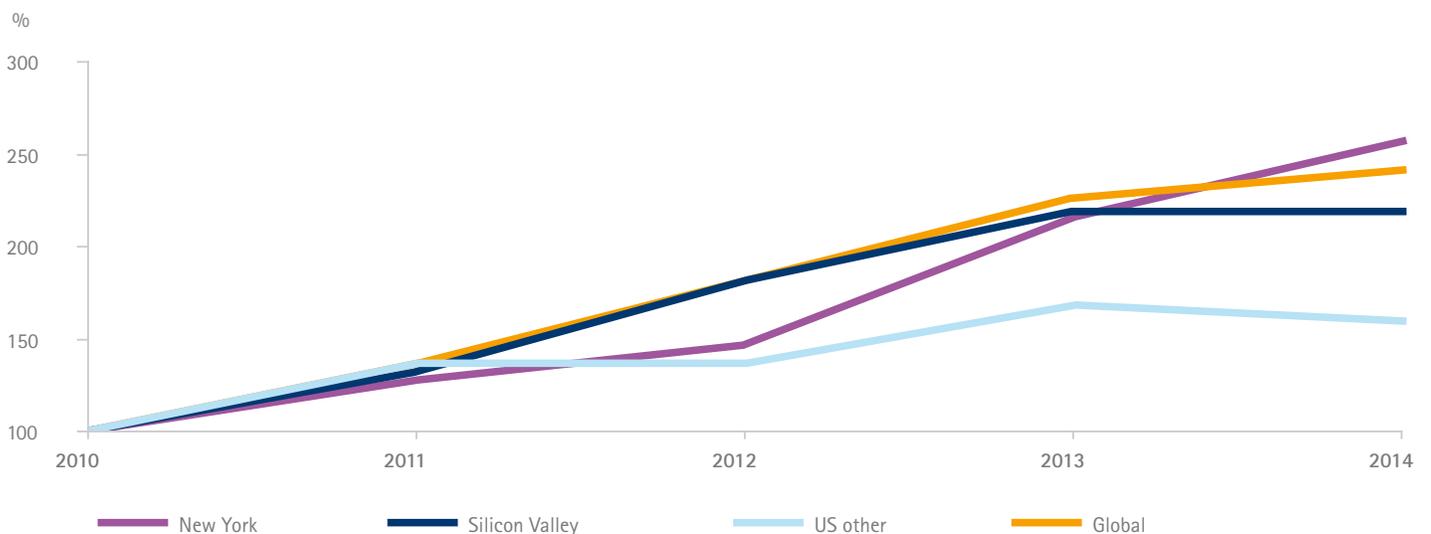
OnDeck Capital, which went public in December 2014 in an IPO that raised \$200 million,⁵ was

another big New York winner last year. The company, which takes a big-data approach to small-business lending, has made more than \$2 billion in loans since it launched in 2007 and is now valued at \$1 billion.

"For fintech entrepreneurs, New York provides key advantages that no other city can match – close access to potential customers and a deep talent pool of individuals with an intricate understanding of the financial services industry," says Maria Gotsch, President and CEO of the Partnership Fund for New York City and co-founder of the New York FinTech Innovation Lab. "Given the growth prospects of the fintech industry, startup fintech companies are beginning to attract former bank executives to join them. With each passing year, New York City's fintech industry becomes more established and a larger force in the city's entrepreneurial and financial services ecosystem."

"Financial institutions are trying to determine how best to connect into the fintech ecosystem, whether by investing, creating an incubator or in some other way."

Percentage of Fintech Deal Growth



Source: Accenture analysis of CB Insights data

Where the Money is Going

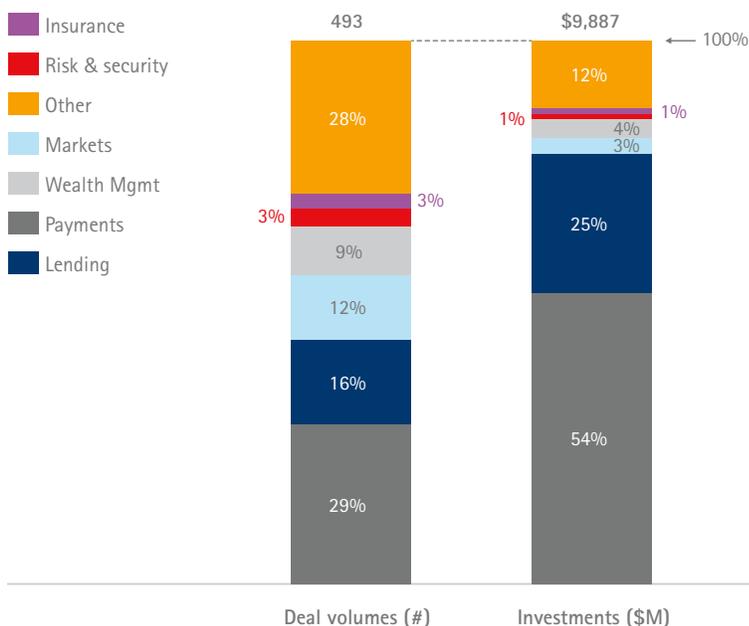
Payments accounted for the largest number of fintech deals in the U.S. last year (29 percent). Until recently, according to Matthew Harris of Bain Capital Ventures, when people talked about fintech they really meant payment companies like Square and Stripe, which paved the way for advances like Google Wallet and Apple Pay.

But Harris says it is late innings for consumer and merchant payment investments. A closer look at recent New York fintech deals proves this out. In 2012, 33 percent of the total number of fintech deals in New York were in payment companies. In 2013, payments accounted for 28 percent of deals; last year it was 21 percent.

While it might be harder to find substantial growth in the consumer and merchant payment space moving forward, there are still opportunities in the business-to-business (B2B) payment space. Hans Morris, of Nyca Partners, says that while retail payment advances have been focused on making it easier for customers to pay, B2B payment advances will be about reducing friction in cross-border invoicing and building new tools for things like payments within the sharing economy.

Lending was the second biggest space for fintech investments in 2014, accounting for 16 percent of deals in the U.S. and 25 percent of the deal values. As banks have pulled back from making loans, disruptive companies have

Fintech Deals and Investments in the U.S. by Segment (2014)



Other includes Account Management, Accounting & Finance, Others
Source: Accenture, Partnership Fund analysis on CB Insights

filled the void. Some of last year's biggest deals were to lending companies, including a \$300 million credit facility to Chicago-based Avant.⁶

Trading technology and wealth management were other hot areas for investment, especially in New York. For example, IEX Group, a stock exchange alternative, raised \$75 million.⁷ Investment in trading technologies (classified as "Markets" in the charts), including firms like ProSeeder Technologies⁸ and TrueEX,⁹ represented 12 percent of the number of fintech deals nationally last year, but nearly one in every four (24 percent) in the New York region. Investment in wealth management technologies made up nine percent of the number of fintech deals nationally but 18 percent in the New York region.

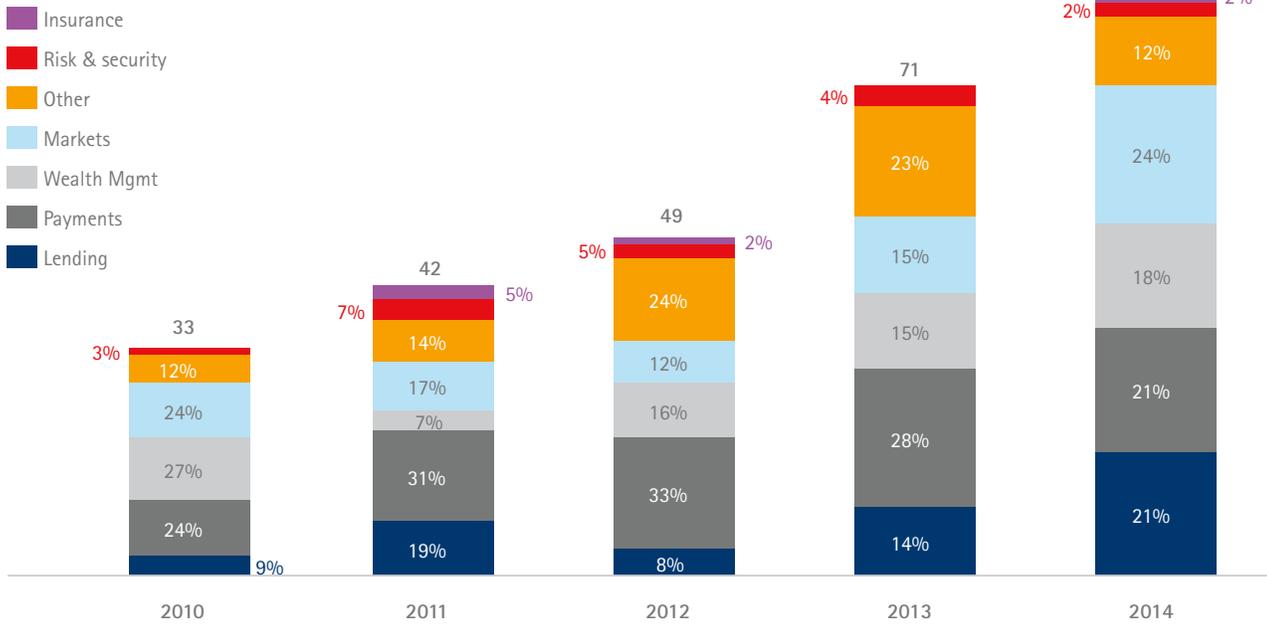
In the wealth management space, investments by both banks and insurance companies in automated investing advisory make up a large part of that market. These companies use automation to select investments that meet clients' risk tolerance and goals with very

low fees. They're easy to use and increasingly popular, especially among millennials. New York-based Betterment raised \$32 million last year in a Series C round that listed investors including Citi Ventures and insurer Northwestern Mutual.¹⁰ The Aite Group expects \$60 billion to be managed by automated investing advisory by the end of 2015.¹¹

In the past, financial advisors have managed relationships via one-to-one communications. Automated advisory is changing all of that. For less complex portfolios, it's replacing traditional, labor-intensive processes with algorithms that determine the best portfolio for the investor—bringing more sophisticated advisory services to a historically underserved sector.

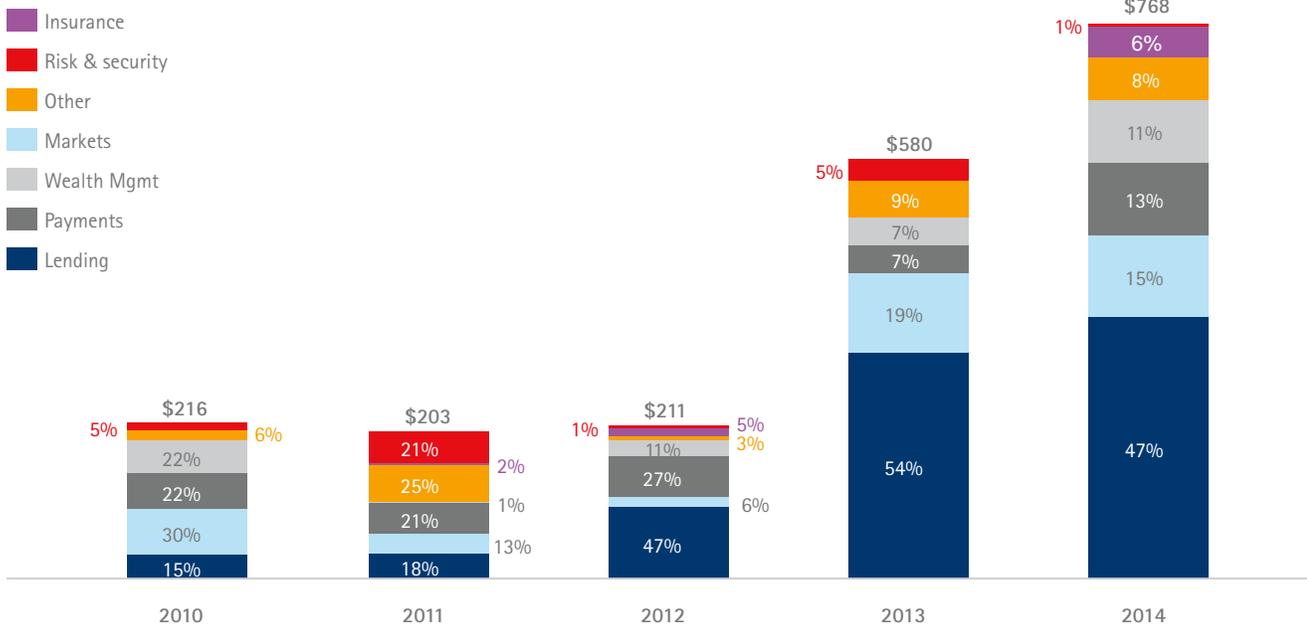
Even established financial advisory firms are embracing automated investing advisory. Charles Schwab and Vanguard both offer automated advisory services as a complement to their traditional services, extending their platforms to a wider variety of clients.

Fintech Deals in New York by Segment, (#)



Other includes Account Management, Accounting & Finance, Others
 Source: Accenture, Partnership Fund analysis of CB Insights data

Fintech Investments in New York by Segment, (\$M)



Other includes Account Management, Accounting & Finance, Others
 Source: Accenture, Partnership Fund analysis of CB Insights data

Banks Step Up in a Big Way

Banks are fully embracing the potential of fintech. During the past several years, most have been weighed down by the burden of keeping things running day to day. The crisis wiped out balance sheets, and subsequent regulations created an environment of extremely tightened capital. Businesses built on risk were suddenly forced to avoid risk as much as possible.

That has meant restructuring business lines to fit the new environment and looking everywhere for cost savings. While the banks were otherwise occupied, Silicon Valley snuck in. Companies like PayPal, first in online payments, and then Square and Stripe, extending the technology to physical payments and other value-added services for merchants and consumers, started taking market share in fields where banks used to dominate—and altering customer expectations around what they can expect from their payment provider.

"The biggest change over the past year is banks are realizing that they have put themselves at a disadvantage by laser-focusing on cost-cutting and compliance," says Cristobal Conde, executive-in-residence at the FinTech Innovation Lab and former President and CEO of SunGard. "Today they are more open than ever to using technology as a competitive differentiator."

In order to keep up with the significant advances in digital technology, banks are forging closer ties with the fintech community. The narrow view that all innovation and development needed to come from within—also known as "not built here syndrome"—has started to fade. Banks realize that the brightest minds aren't always inside their four walls, and that they need to look to the fintech community for additional inspiration and to help steer them towards open innovation.

Banks are partnering with fintech companies to find more efficient ways to power their businesses and more creative ways to serve their customers. Diving deeply into the fintech community is helping them identify emerging

disruptive technologies and find new ways to drive growth. Garanti,¹² one of the largest banks in Turkey, launched a mobile application, iGaranti, that unifies the bank's range of customer services in one central location and provides personalized services and access to the bank's ecosystem of retailers. Capital One recently acquired Level Money, a money management app that simplifies budgeting down to an at-a-glance, automatic view of spendable income.¹³ In February 2014, the Spanish bank BBVA bought online bank Simple for \$117 million,¹⁴ in order to gain deep insights into customers (mostly millennials) who prefer to do their banking entirely online, with no fees.

Financial institutions are also taking a cultural lesson from startups, a community that embraces rapid iterations to test and learn, and a fail fast mentality to quickly find the best path forward. Through innovation labs, banks are establishing "greenfield" sites, where teams can operate in a different environment that allows the startup mindset to supplant that of the traditional bank or insurance company.

In its fifth year, the New York FinTech Innovation Lab, co-founded by Accenture and the Partnership Fund for New York City, continues to help early- and growth-stage fintech companies accelerate product and business development by introducing entrepreneurs to top bank and venture capital executives. The lab has paired 31 startup businesses with mentors, giving them a fast track to access bank customers and win business. So far, the lab's 24 alumni companies have raised a total of \$176 million in financing after participating in the program. InkTank, an alum from 2013, was acquired in May 2014 for \$175 million.

Alongside accelerators and incubators like the New York FinTech Innovation Lab, many financial services firms have established their own labs and platforms for discovering emerging technology. For example, Bank of America hosts an annual Technology Innovation Summit where startups get to hear what the bank needs and the bank gets a chance to hear

from entrepreneurs about the latest solutions that can simplify and improve on how the bank serves clients. David Reilly, chief technology officer at Bank of America, says of the 230 companies that have attended its annual event, approximately 16 percent have gone on to become vendors with the bank.

American Express has partnered with research lab Ideas42 to crowdsource innovative personal finance software solutions from the academic and nonprofit communities. American Express provides both a platform for implementation and a pilot group of customers who have opted in to try out the beta products.

Capital One, which prides itself on embracing disruption, has innovation labs in Washington, D.C., New York and San Francisco.

"As a large organization, you need a ready supply of new ideas, insights and technologies, not just from the inside but also from the outside," says James Dolphin, Capital One's chief information officer for Retail and Direct Banking. "Working closely with the energetic fintech ecosystem is really useful for us, because we can learn a lot from these companies and share with them the factors that are important to our customers."

"As a large organization, you need a ready supply of new ideas, insights and technologies, not just from the inside but also from the outside."

New York FinTech Innovation Lab: Bringing Banks and Entrepreneurs Together

When Rob Metcalf came to the New York FinTech Innovation Lab in the summer of 2012, he brought with him unique software that could read tens of millions of emails. Digital Reasoning was already working with the government in the defense sector to scan documents for hints of terrorist activity.

But Metcalf suspected there could be a whole other life for his platform in the financial sector.

In the lab, he got to sit across the table from executives from two of the world's largest banks who told him there was a huge need for this kind of analysis at financial institutions struggling with strict new compliance rules.

"There are millions of emails flying around at large institutions," says Metcalf, "and a few of those emails may show that individuals within the company are doing things they shouldn't be."

Digital Reasoning, where Metcalf serves as president and COO, is now helping banks find those emails. Since the lab, Digital Reasoning has doubled its headcount to 100 and recently raised \$24 million in a Series C funding round led by Goldman Sachs and Credit Suisse.

Enigma is another company that came to the lab with a working prototype that didn't seem to have an obvious fit within the financial industry. The tech company compiles and analyzes data from thousands of open sources ranging from things like government contracting records to shipping manifests.

"What developed for us, by learning more about workflow and process in the financial services industry, was a deeper understanding of how our data could help things like loan underwriting and company verification," says Enigma co-founder Marc DaCosta. "We have found that the key to disruption and innovation in the industry is through close partnership and organic integration into what our customers are already doing."

Mazy Dar, CEO of OpenFin, says he found tremendous value in learning about the inner workings of a bank. For many small companies, a bank can seem like a giant wall — and finding the way in can be an almost impossible task.

"The hardest part of selling to banks is getting in with the key decision makers," says Dar. "Finding those people is really hard but, the lab quickly connected us with the right people."

Dar, whose company helps banks deploy and run native HTML5 applications on secure desktops, says his time in the lab helped OpenFin better understand critical pain points for banks—the need for a migration path to HTML5. Instead of focusing on only new HTML5 development, program mentors encouraged them to make it easy to integrate with existing applications. OpenFin has since raised \$10 million and has grown from seven to 20 employees.

In order to qualify for the lab, entrepreneurs must have at least a beta version of their technology available and must show how

they could benefit from working with senior-level financial services executives. Six to seven startups are selected each year by participating financial services executives, who base their decision on which technologies are most interesting to them and potentially solve a challenge within the bank or insurance company. So far, lab entrepreneurs have raised \$176 million in funding after completing the program.

Executive-in-residence Andy Brown says he's seen a big change in the companies applying for the lab.

"The level of companies coming to us is significantly better," says Brown. "The scale of the industry has changed and the quality and maturity of the ideas we're seeing are really well developed."

David Reilly, chief technology officer at Bank of America, says the New York FinTech Innovation Lab has helped him stay on top of new ideas and find new solutions to problems at the bank.

"Our peer group is really busy," says Reilly. "But we derive a lot of value from getting together during the New York FinTech Innovation Lab and staying tapped into this vibrant community."

The lab concept is spreading as more banks and insurers get into the game. That's going to be good for everyone. The more entrepreneurs who want to work with financial institutions, the more quickly the entire industry will move forward into the new digital era.



The Next Frontier

When looking at the next big trends in the fintech space, one sector that will continue to see strong growth over the next 18 months is blockchain, the underlying distributed ledger technology that supports the exchange of crypto currency and cryptographically secured financial assets.

Investors have shown particular interest in crypto currency and blockchain technology startups recently. In 2013, according to CoinDesk, there was only \$97 million in investments in the technology, most of which was for bitcoin-focused companies. In 2014, investments in the sector surged to \$349 million, with 102 deals. Compare that to the first five months of 2015 with \$350 million already invested in only 32 companies for an average investment of \$10.76 million. That's a big increase over an average \$3.43 million investment in 2014.¹⁵

Blockchain is a good example of how the financial services community is finding new uses for disruptive technologies. Bitcoin was founded in 2008 and released as open-source software in 2009. Until recently, it was seen almost solely as an alternative to the traditional payments business. While payments is still an interesting area for many startups, much of the industry has pivoted towards the underlying blockchain technology and its uniquely distributive nature.

Even established financial services companies and banks are exploring blockchain. UBS recently announced that it has established a fintech lab focused exclusively on crypto currency and blockchain technologies.¹⁶ Nasdaq has said it will use blockchain for its private market to test the technology in a live trading environment.¹⁷ Although much of the blockchain focus has been on front-office applications, blockchain, and similar distributed ledger technologies, may soon play a role in the entire life cycle of a trade, including clearing and settlement, collateral management, payments and reconciliation.

"The radical, wild-west phase of bitcoin is tapering off and we're beginning to see a much broader range of possibilities with both crypto currencies and the underlying distributed ledger technology, blockchain," says Matthew Harris of Bain Capital Ventures. "This is creating many more possibilities for the financial services industry and it's opening the door to new ways of thinking about how to do business and how it can be better structured to meet both consumers' and banks' needs."

Although the technology's potential is only just emerging, distributed ledger technologies will become the critical backbone of future capital markets. Banks should pay close attention and have strategies in place for working these technologies into their development roadmaps.

Financial services firms are making more investments in cloud technology. A new wave of cloud adoption has banks both beginning to identify which data can be hosted in the public cloud, and using cloud technologies to transform their data centers into private clouds, which offer similar capabilities and services to public clouds. This allows them to satisfy regulators by keeping their most sensitive customer data on site, while experiencing major benefits from the efficient, on-demand, instant availability of cloud servers and significantly lower costs. However, challenges remain for global banks as country-specific policies around data hosting and data privacy often conflict with one another.

Cyber security will also continue to see significant growth in the coming year. Overwhelming media attention surrounding huge data breaches has made cyber security a hot button for consumers. It's become an arms race, with financial institutions rushing to shore up their security systems, and those of their digitally integrated partners, as hackers are getting smarter about breaking those systems down.

"Security has always been a top priority in financial services," says Cristobal Conde. "The significant global pressure around cyber security will be career-defining for CIOs and tenure-defining for CEOs, if they fail to take prudent action against impending threats."

According to CB Insights, investment in cyber security companies hit \$2.4 billion in 2014, up 40 percent from 2013.¹⁸

"The radical, wild-west phase of bitcoin is tapering off and we're beginning to see a much broader range of possibilities with both crypto currencies and the underlying distributed ledger technology, blockchain."

New York Fintech Companies are Riding a Wave of Success

New York-based startups are among the most successful in developing innovations that address some of the trends that fintech experts are seeing on a national level: crypto currency, cloud computing and automated investing advisory services.

New York-based ItBit is the first Bitcoin exchange to receive a New York State Trust Company Charter, which licenses ItBit as a bank, and the first U.S.-chartered and supervised Bitcoin exchange to become fully compliant with New York state and federal law. The charter (awarded this year shortly after ItBit raised \$25 million in a Series A round) goes a long way toward legitimizing Bitcoin. Not too long ago, the crypto currency was viewed as a resource to fund illicit activities. Now, thanks to companies like ItBit, Bitcoin is becoming an important part of the overall financial system. Adding further legitimacy to the crypto currency trend, the two largest stock exchanges in the U.S. expressed their interest in crypto currency. In May 2015, the

New York Stock Exchange launched a bitcoin price index and Nasdaq announced plans to leverage blockchain technology in a trial with its pre-IPO private market platform.

DigitalOcean and Datadog are two New York-based companies that are having major success with their cloud technology offerings. DigitalOcean, founded in 2011, is a fast-growing cloud provider that is challenging big shots like Amazon Web Services and Google by focusing on customer experience while providing the latest hardware for optimum performance at very competitive prices. Last December, the company secured \$50 million in credit from Fortress Investment Group and is now recognized as the second largest cloud-hosting company in the world, according to Netcraft. Datadog, a software company that provides cloud monitoring and usage solutions to IT teams, recently landed \$31 million in a Series C funding round.

Betterment is one of the biggest players in the growing world of automated investing advisories. The New York-based company, which has raised \$105 million so far, is valued at \$500 million. The company is part of a group of new financial institutions that are giving their customers a new way to invest their money using algorithms instead of human financial advisors.

These are just a few examples of the kind of transformative innovation that has long been associated with New York City. Expect to see even more technology growth in New York in the years to come.

Insurance Industry Poised for Fintech Reinvention

Insurance is another area poised for fintech reinvention. In the U.S. alone, insurers lose \$5.8 billion a year as a result of consumers switching insurance companies.¹⁹ To accommodate this fickle customer base, 75 percent of insurers expect to overhaul their value chain in the next five years. Nearly half (43 percent) are either planning to or already have bought a fintech startup to help with the transformation.²⁰ According to CB Insights, in 2014 insurance companies and their corporate venture arms increased their investment in tech startups fivefold over 2013.²¹

A majority of insurers (59 percent) expect to acquire a digital startup in the next three years.²² Northwestern Mutual recently bought New York-based fintech startup LearnVest, a provider of online financial planning and client experience technology.²³ John Hancock bought San Francisco-based fintech startup Guide Financial, a software company that uses artificial intelligence for financial planning.²⁴ In both cases, the acquiring companies have said the startups will operate independently. But the insurers will be able to use the new technologies to transform how they help their customers achieve financial security.

While insurance is often seen as a stodgy industry where agents still use old actuarial tables to calculate things like how much longer a customer is likely to live, insurers are acutely aware of the threat of digital disruption.

"The insurance industry is in need of a makeover," says Don Desiderato Senior Vice President and Chief Information Officer of Insurance and Agency Technology at New York Life Insurance Company. "Fintech offers invaluable ways to solve legacy problems and attack some of our core challenges. It will ultimately help us design our future."

Insurers are also participating in and developing innovation incubators and accelerators. American Family Insurance and Microsoft have partnered to launch a business accelerator for startups focused on home automation, to help create safer and smarter homes.²⁵ Global insurer AXA sponsors the "Start-in" program, which promotes internal innovation by encouraging employees from all over the world to compete for the chance to

turn their ideas into prototypes.²⁶ These kinds of programs help foster creative ideas that may result in new insurance products and tools.

Advances in technology outside of what is usually defined as fintech are starting to have a huge effect on how companies insure things like cars and homes. For example, telematics—typically devices that provide the insurer with information about driver behavior—let insurers assess and price risk more accurately, which means lower premiums for safe drivers.

Soon wearables and the "Internet of Things" will offer even more ways to tailor insurance products and policies. Smartwatches, for example, can already track things like heart rate and activity, which can inform underwriting for life insurers. People are willing to trade privacy for cheaper plans—in fact, more than three-quarters (77 percent) of consumers are willing to provide personal information to reduce their premiums, speed up claims settlement or help manage their risk.²⁷ In the next few years, we will see an increasing number of insurance companies partnering with innovative "Internet of Things" and data companies to integrate this information more robustly into their policy-making decisions.

The "Internet of Things" can potentially bring every insurable asset, life and activity into the digital realm and connect them in ways that will let insurers create new services. The connected home uses sensors on things like front doors, thermostats and smoke alarms, which can help consumers manage risks and prevent accidents. In the future, these devices will become crucial tools for home insurance policies.

As ubiquitous and relatively inexpensive technologies continue to lower the barriers to entry and encourage new competition, insurers will have to embrace fintech or risk being disrupted. Technology giant Google has already entered the insurance space, and startups are starting to change the traditional insurance model. Metromile, for example, offers car insurance based on how many miles a consumer drives, and German-based Friendsurance allows a network of individuals to insure one another.

Nearly half of insurers are either planning to or already have bought a startup.

"The insurance industry is in need of a makeover. Fintech offers invaluable ways to solve legacy problems and attack some of our core challenges."



Conclusion

Financial services companies have always had deep roots in technology.

The industry's actions to become more digital will solidify fintech's staying power. Financial services firms are faced with a few strategic options on their path to becoming digital: build or acquire digital assets or partner with third parties to access new technologies, ultimately to help transform the industry.

Over the past year, investments have tripled. Banks and insurers are putting together innovation labs, venture capital funds and summits at an increasing rate in an attempt to find the best new ideas and to work together with entrepreneurs to turn those ideas into businesses.

As banks start to weave together their fintech threads (in payments, lending, data analysis, blockchain, etc.), they have an opportunity to build and become the new platforms of tomorrow. Application programming interfaces (APIs) create gateways for the exchange of information and allow banks to build an ecosystem of platform partners that can help bring a broader range of products and services to their customers. By creating their own platforms, banks will be able to better understand their customers and find ways to integrate themselves into their daily lives.

Millions of newly available data points and enhanced data analysis will help banks to make better offers and form smarter partnerships with payment companies, retailers and customers.

Two-thirds of banks are already using open innovation programs to integrate applications and collaborate with business partners. Almost

half (45 percent) are integrating industry platform data with digital business partners, and 55 percent are experimenting with "platform as a service" solutions.²⁸

We're in the midst of a major disruption in financial services as banks and insurers aggressively pursue digital transformation in various forms, from partnerships to acquisitions to strategic investments. The industry is moving from a consuming focus on regulation and challenges related to antiquated technology to becoming a fast-moving center of innovation. We are on the verge of a complete digital transformation of financial services.



Methodology

This report is based on Accenture's and the Partnership Fund for New York City's analysis of fintech investment-data from CB Insights, a global venture finance-data and analytics firm. The analysis includes global financing activity from venture capital and private equity firms, corporations and corporate venture capital divisions, hedge funds, accelerators and government-backed funds from 2010 through 2014. Fintech companies are defined as those that offer technologies for retail, commercial and investment banks, insurers, asset managers and payment services providers as well as alternative providers of financial services (e.g. P2P platforms and digital currencies exchanges). Accenture Research has reclassified CB Insights deals through its proprietary methodology, identifying seven different product categories (lending, payments, markets, wealth management, insurance, risk and security and other) to evaluate the level of investment change in these segments of the financial services sector.



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About New York FinTech Innovation Lab

The New York FinTech Innovation Lab is a 12-week program co-founded by Accenture and the Partnership Fund for New York City that helps early- and growth-stage financial technology (fintech) companies accelerate product and business development by gaining exposure to top bank, technology and venture capital executives.

About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with more than 323,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US\$30.0 billion for the fiscal year ended Aug. 31, 2014. Its home page is www.accenture.com.

About Partnership Fund for New York City

The Partnership Fund for New York City is the \$115 million investment arm of the Partnership for New York City. The Fund's mission is to engage the City's business leaders to identify and support promising NYC-based entrepreneurs in both the for-profit and non-profit sectors to create jobs, spur new business and expand opportunities for New Yorkers to participate in the City's economy. The Fund is governed by a Board of Directors co-chaired by Charles "Chip" Kaye, co-chief executive officer of Warburg Pincus, and Tarek Sherif, Chairman and CEO of Medidata. Maria Gotsch serves as President and CEO of the Fund.