



# FinTech trends, crowdfunding and the example of Zlty Melon P2P lending



18<sup>th</sup> International joint conference: CEE in the changing business environment  
University of Economics, Prague

Bratislava, May 25, 2018



Financial Technology company



Strategic Investor  
EU-JEREMIE-Fund

# Agenda for today



- A. Introduction: the FinTech ecosystem
- B. The FinTech segment of Crowdfunding
- C. Peer to peer lending & Zlty melon: what it takes to build a lending platform
- D. What's next in FinTech in the context of changing CEE business environment

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## A. Introduction: the FinTech ecosystem

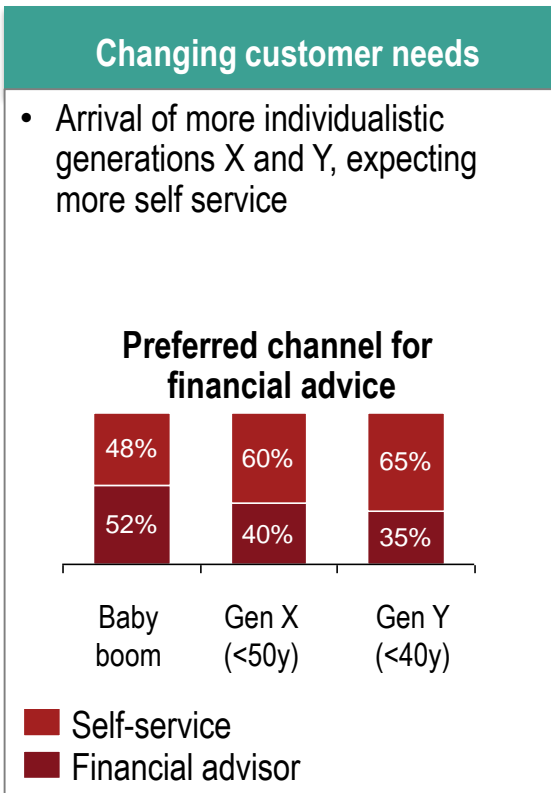
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# FinTechs are a result of several factors influencing the banking industry

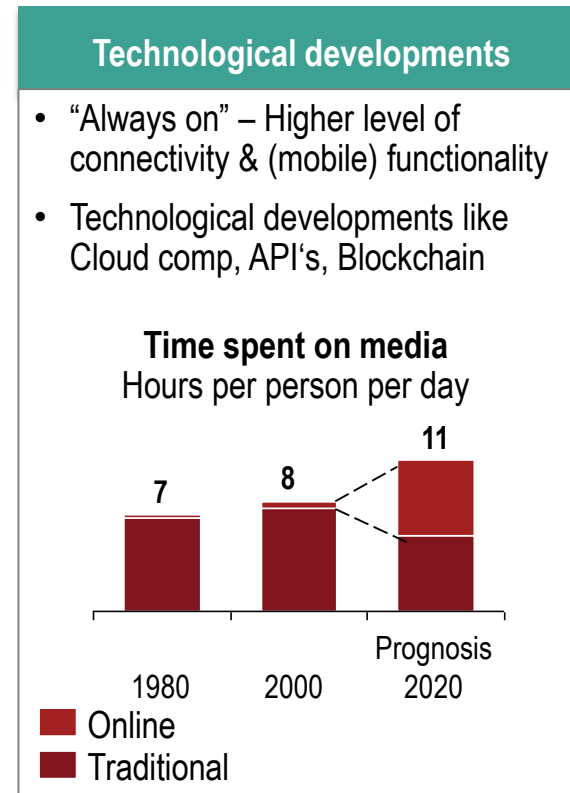
## Drivers for changing environment in the banking industry



**Need for more self-service**



**Need to reduce cost**



**Need for cross-channel availability**

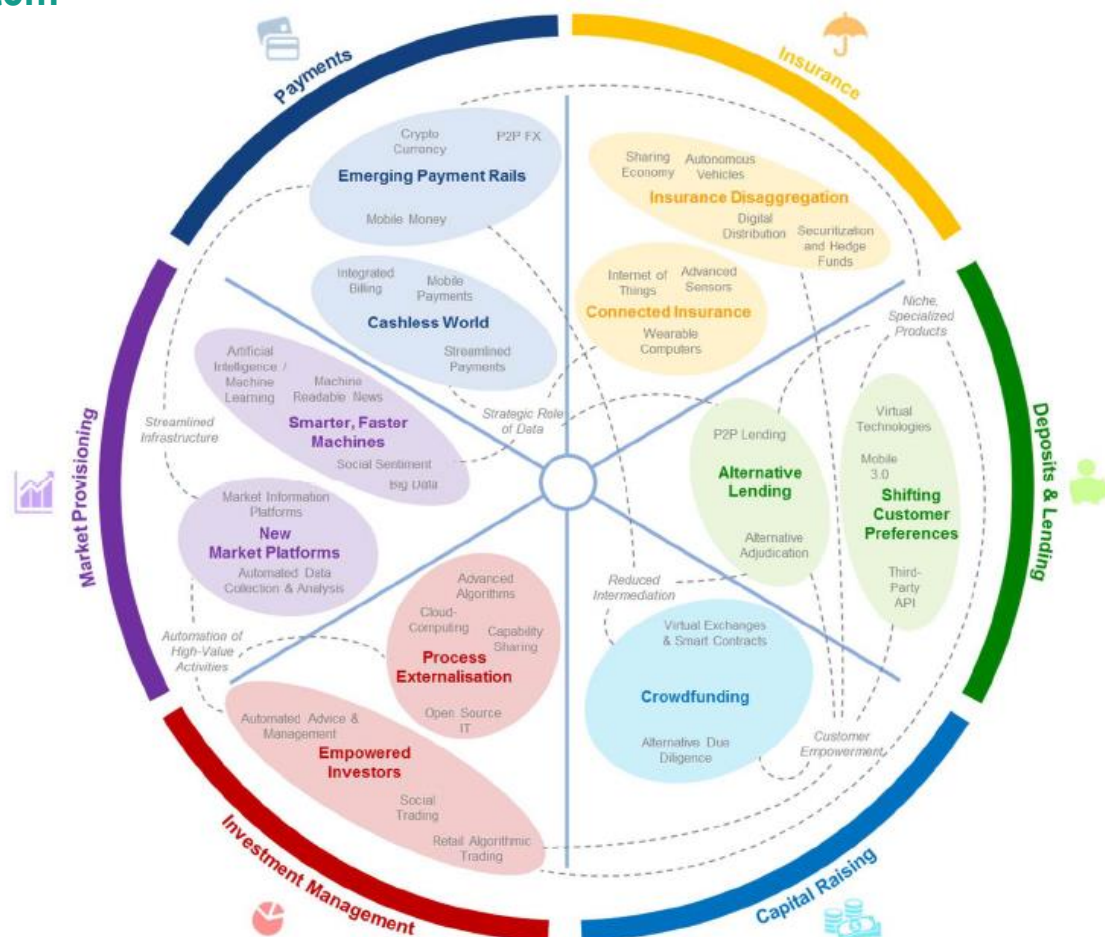
# The FinTech ecosystem can be divided into six core functions and eleven service clusters

## A view on the FinTech ecosystem

6 core functions that comprise financial services:

- Deposit & lending
- Capital raising
- Investment management
- Market provisioning
- Payments
- Insurance

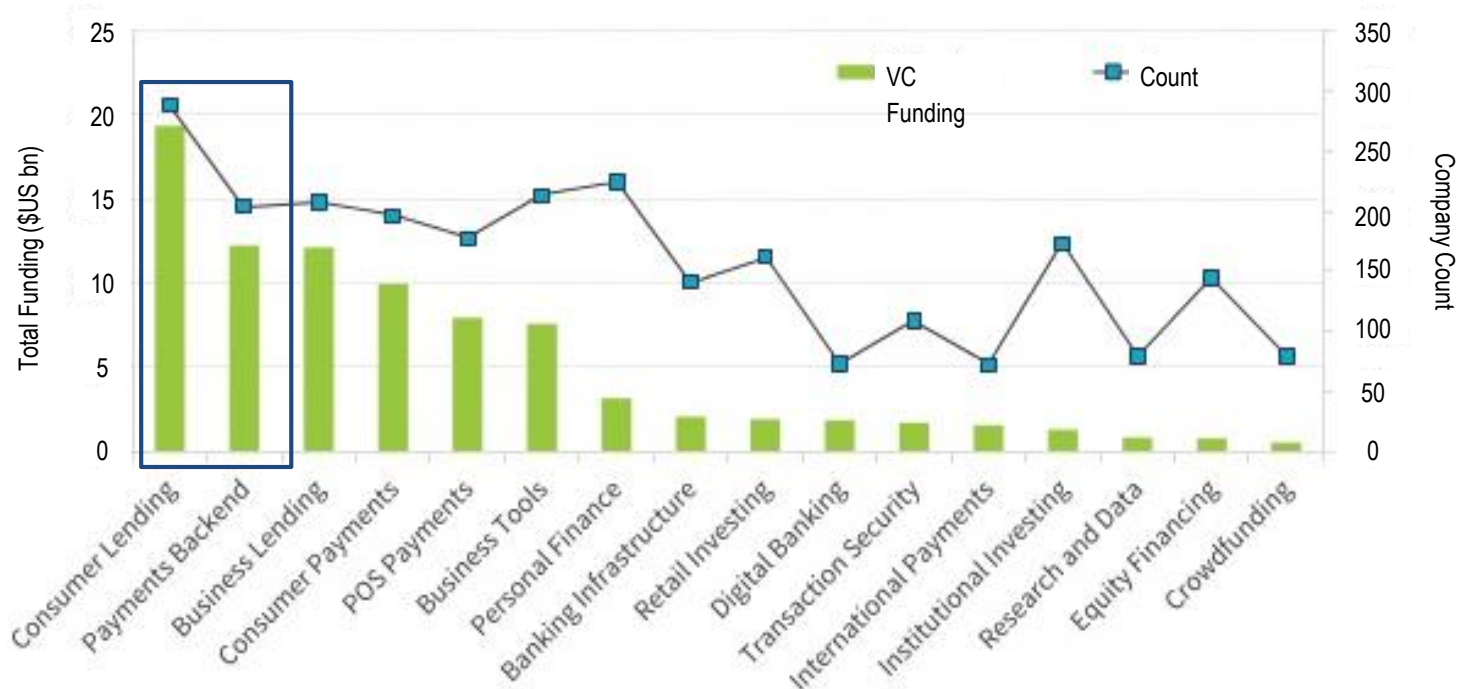
11 clusters of innovation putting pressure on traditional business models in financial services



# Significant investments in FinTechs have been made with a focus on Lending and Payments



## Venture investing in Financial Technology (FinTech)



Global FinTech investments 2010-2017: almost USD 100 bn

– of which USD 27 bn in 2017 and USD 1.9 bn in 2010

Lending and Payments related categories account for **74%** of venture funding and **45%** of total companies in the financial technology sector

# Also in Slovakia we do have a wide variety of FinTechs – Ministry of Finance started FinTech Initiative



# Banks are exploring multiple approaches to avoid disintermediation – Most moving to collaboration



## How banks engage with FinTechs

**45%**

are currently engaging in partnerships with FinTech companies (32% in 2016)

**82%**

expect to increase FinTech partnerships in the next 3-5 years

### 1. Collaborate

- Easiest and richest way of engaging
- Joint research and product development, partnering on open platform or ecosystem innovation, connecting via incubators



### 2. Invest

- Setting up a venture capital arm to invest in startups
- Good way to get deep into emerging disruptors but requires deep pockets, feasible by cash-rich banks



InnoVentures



### 3. Acquire

- Acquire FinTech startups outright, integrating them or running them as standalone entities
- Risk of parent bank's legacy processes and culture bleeding into acquired entity



### 4. Build

- Build new innovations in-house to create products that rival the best of FinTech
- Likely slower speed-to-market, higher risk





# FinTechs have changed banking innovation, but not yet established as dominant players



## FinTechs's role today

### WHERE FINTECHS HAVE SUCCEEDED



Fintechs have seized the initiative – **defining the direction, shape and pace of innovation** across almost every subsector of financial services – and have succeeded as both stand-alone businesses and crucial parts of financial value chains



**Fintechs have reshaped customer expectations, setting new and higher bars for user experience.** Through innovations like rapid loan adjudication fintechs have shown that the customer experience bar set by large technology firms, such as Apple and Google, can be met in financial services

### WHERE FINTECHS HAVE FALLEN SHORT



Customer **willingness to switch away from incumbents has been overestimated.** Customer switching costs are high, and new innovations are often not sufficiently material to warrant the shift to a new provider, especially as incumbents adapt\*



Fintechs have struggled to create **new infrastructure and establish new financial services ecosystems,** such as alternative payment rails or alternative capital markets. They have been much more successful in making improvements within traditional ecosystems and infrastructure

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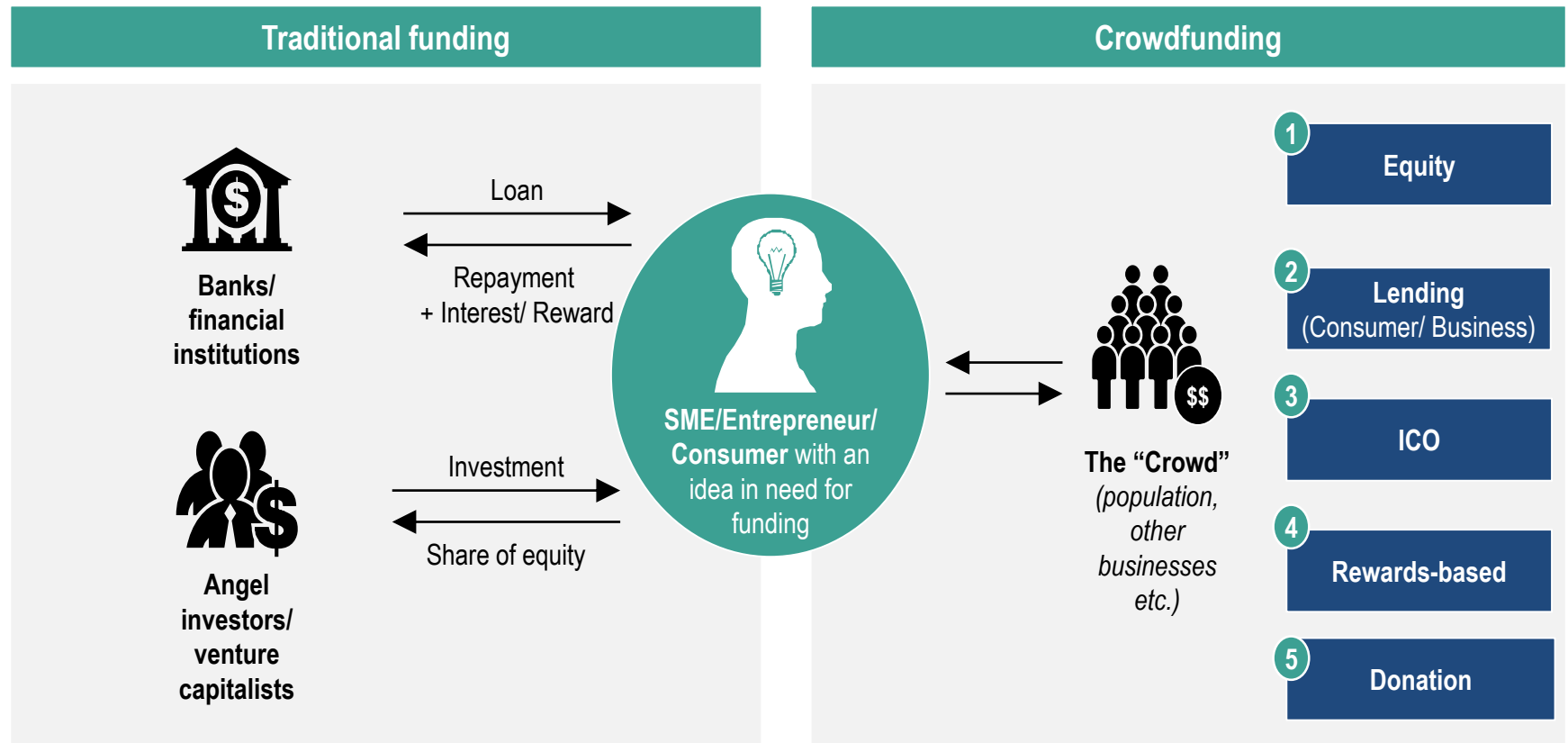
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# Crowdfunding complements traditional funding approach via banks, venture capitalists and angel investors

## What is crowdfunding?



# International crowdfunding platforms can be structured into five crowdfunding types

## Types of Crowdfunding

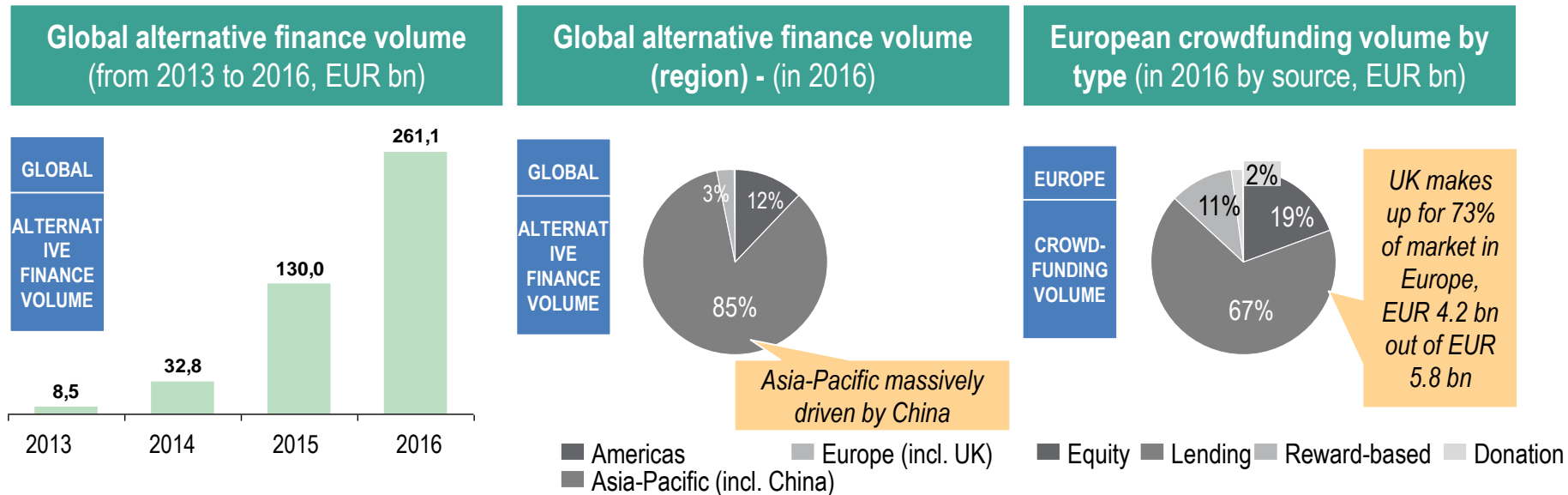
	1	2	3	4	5
	Equity <sup>1)</sup>	Lending	ICO	Rewards-based	Donation
Description	Individuals invest in a stake in a company, expecting a share of future profits (similar to common stock)	Individuals lend money to a company/ person, expecting the money to be repaid at a later stage with interest, a share of future profits or revenues	Individuals invest into a specific project, start-up or company, receiving a digital token in return, which represents equity or a certain utility the issuing entity promises	Individuals support a project financially, expecting to receive a non-financial reward (good or service) at a later stage (for free or for pay)	Individuals donate a desired amount to meet the funding aim of a specific project (e.g. charitable, artistic, religious), not expecting any financial return
Investor motivation	Financial return			Non-monetary reward or pre-purchasing	
“Famous examples”	<b>SeedInvest (US)</b>  Founded in 2012, connects startups with investors	<b>Funding Circle (UK)</b>  Founded in 2010, offers peer-to-peer lending for investors to fund SMEs	<b>Ethereum (CH)</b>  Crowdfunded in 2014, a blockchain network to implement smart contracts	<b>Kickstarter (US)</b>  Founded in 2009, offers funding for creative projects (e.g. music albums)	<b>GoFundMe (US)</b>  Founded in 2010, offers donation-based funding to any kind of project

1) Also include equity-based real estate crowdfunding;  
 Sources: Forrester, Company websites, PwC Strategy& analysis

# Global alternative finance experienced exponential growth – lending accounts for 2/3 of crowdfunding in Europe



## Global alternative finance volume<sup>1)</sup>



- **Global alternative finance volume** is expected to keep growing (CAGR until 2020 of 25%+)
- **North America (+ 6%) and Europe (+ 41%)** usually seen as technology **pioneer markets**, both limited growth in 2016
- **Asia's** loose regulation has led to a **massive growth (+134%) in P2P lending**
- **Crowdfunding** market having **strong growth potential** with **underlying uncertainty due to evolving regulations**

1) includes all crowdfunding types, balance sheet lending, debt-based securities, mini-bonds, profit sharing, invoice trading

Sources: University of Cambridge 2018, PwC Strategy& Analysis



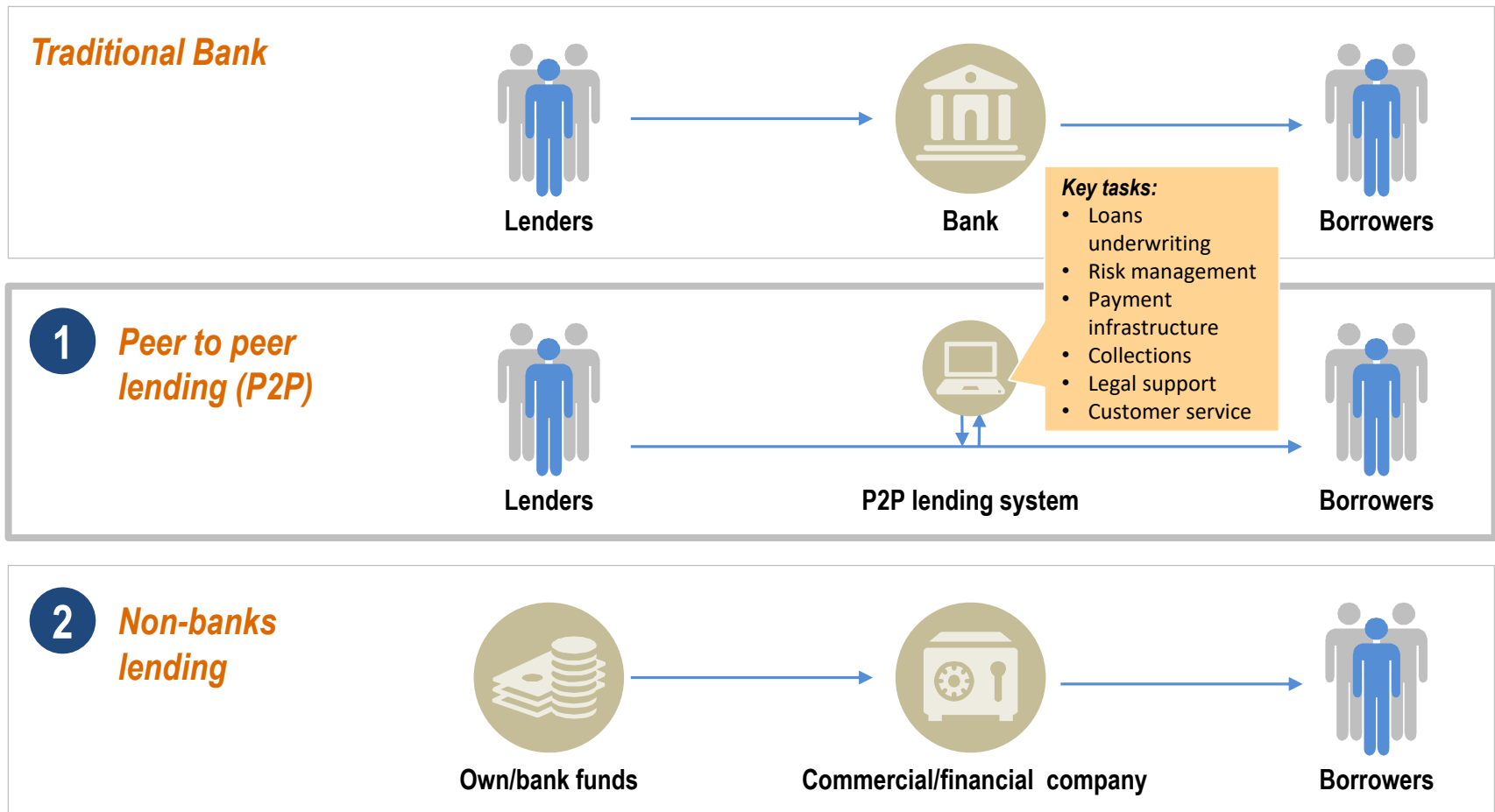
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# P2P lending is a new type of financial service: modern, transparent, fair, driven by a real community

## Overview of alternative forms of lending

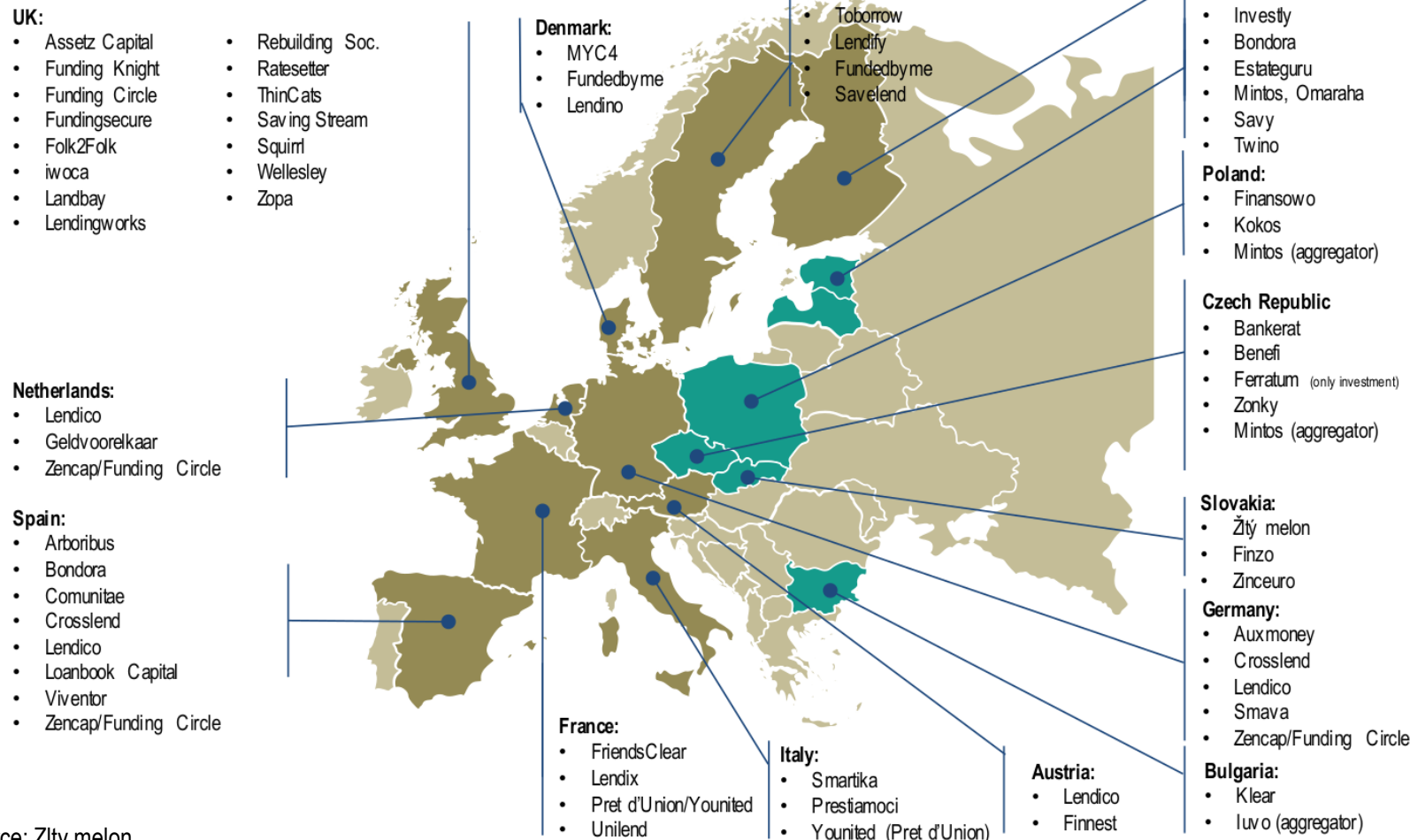




# P2P lending is successful across the EU: many players in different regulatory regimes



## Overview of (Central) European P2P lenders (selection)

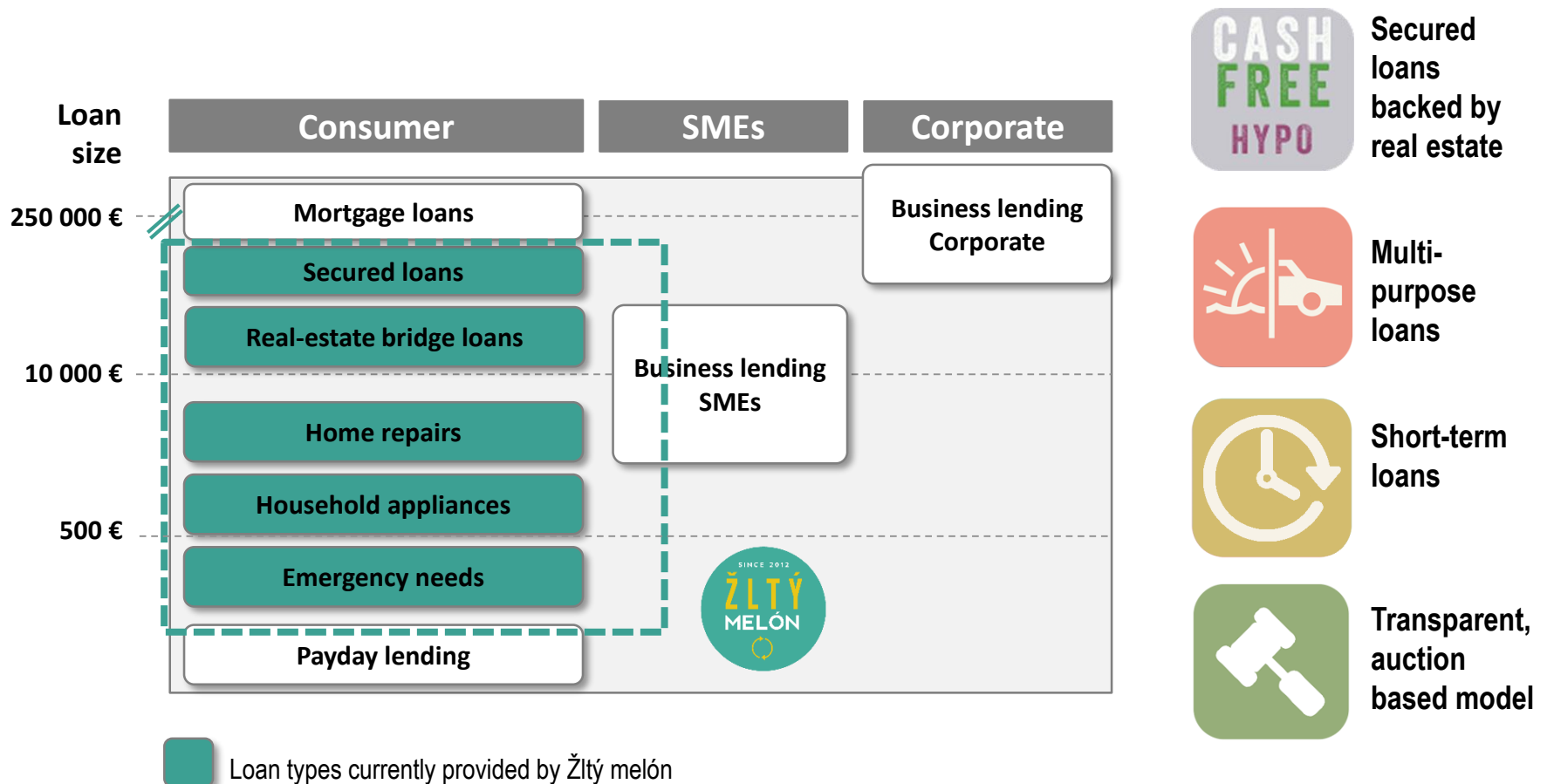


# P2P lending at Zlty melon: how does it work?

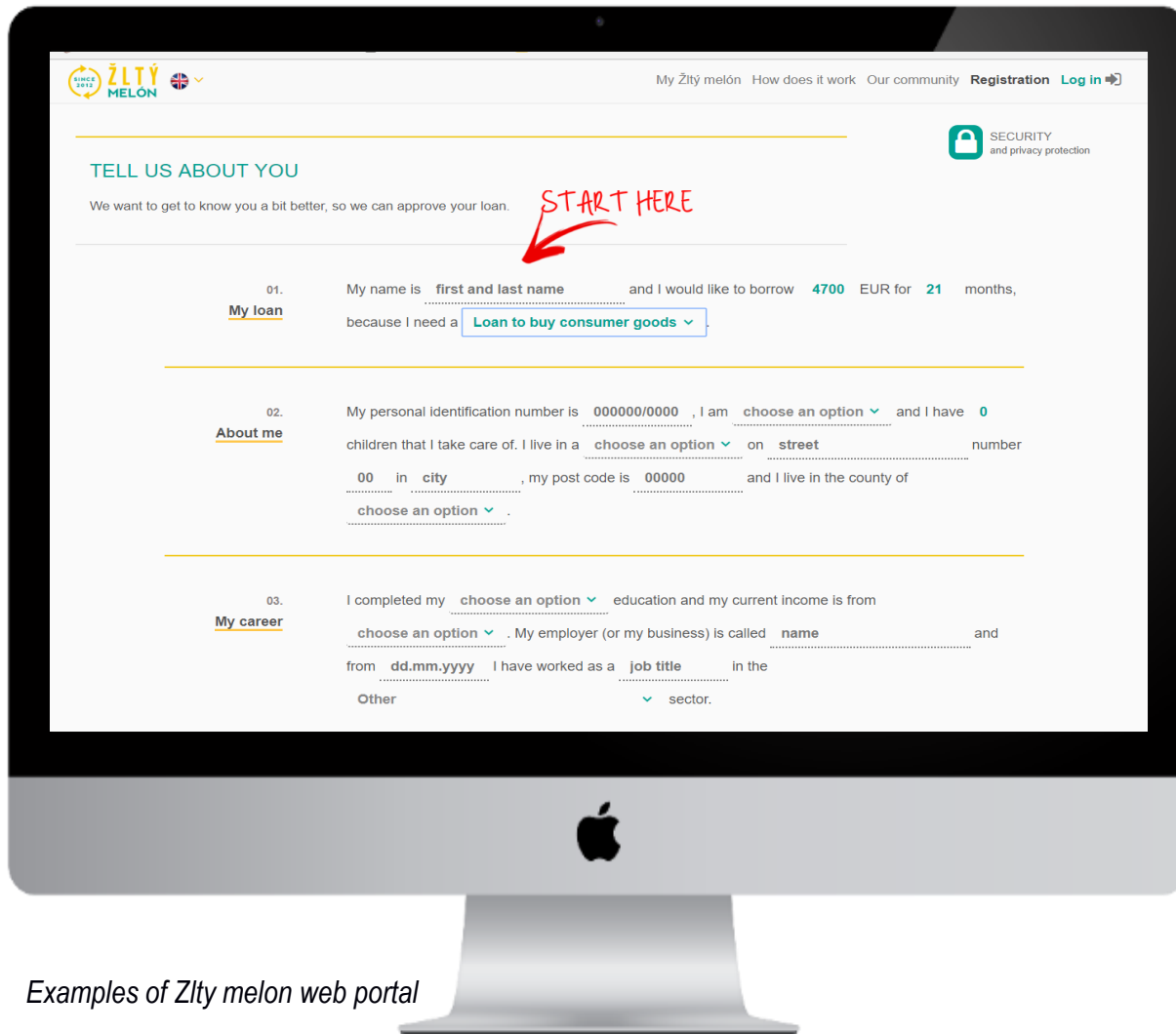


# A wide range of products with a better deal for different type of borrowers and investors

## Product offering of Zlty melon



# User interface built for ordinary people – All the features, none of the ‘fat’



## Frontend web portal:

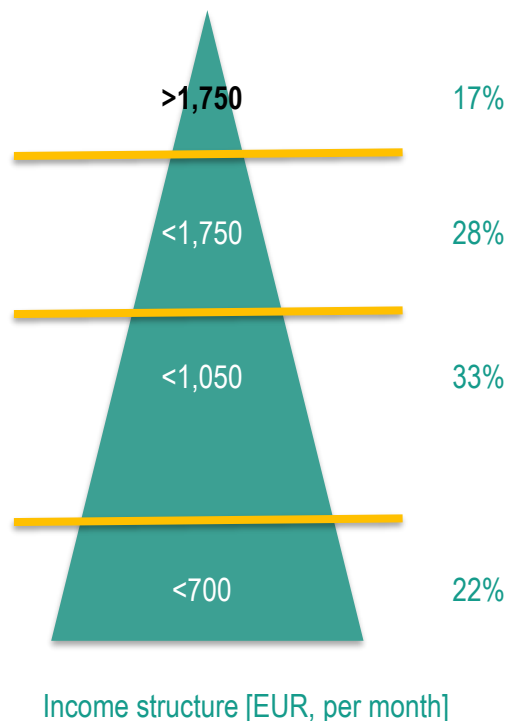
- Fully automated P2P loan auctions and payment processing
- Secondary market for the resale of investments in current loans directly between investors
- Multi-currency E-wallet
- Simple, yet powerful, user ‘dashboard’ for managing investments based on ‘natural language’
- Automated investment tool with support for predefined parameters as well as fully customisable
- User friendly tools for statistical analysis, data export and chart creation

Examples of Zltý melon web portal

# A better deal for stable middle class borrowers: Our customers choose us instead of their bank

## Overview borrower profile and investor activity

% of Zlty melon borrowers by income



### Overview of our borrowers:

- No loans are given to borrowers with an income lower than EUR 350 per month.
- Ca 22% of customers are from lower income segment (<700 EUR), next 33% from the mass segment (700-1050 EUR); higher income group (>1750 EUR) is 17%
- Education split shows more than 50% of secondary education and 34% university education

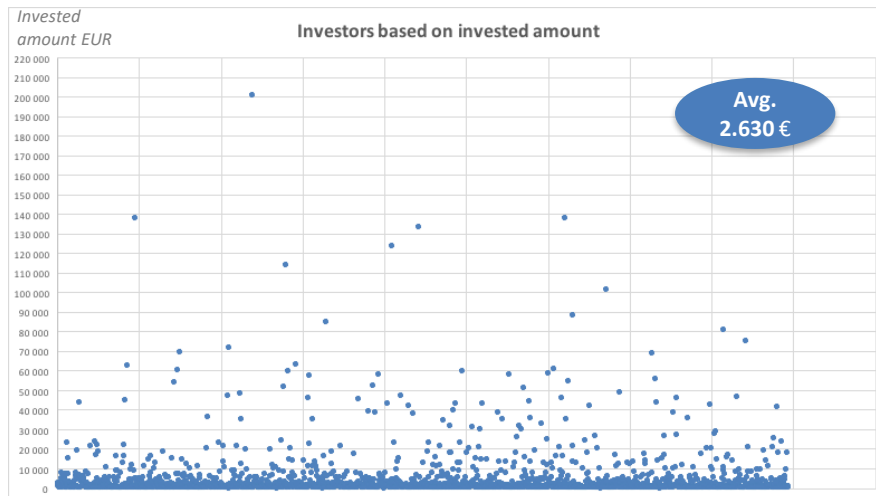
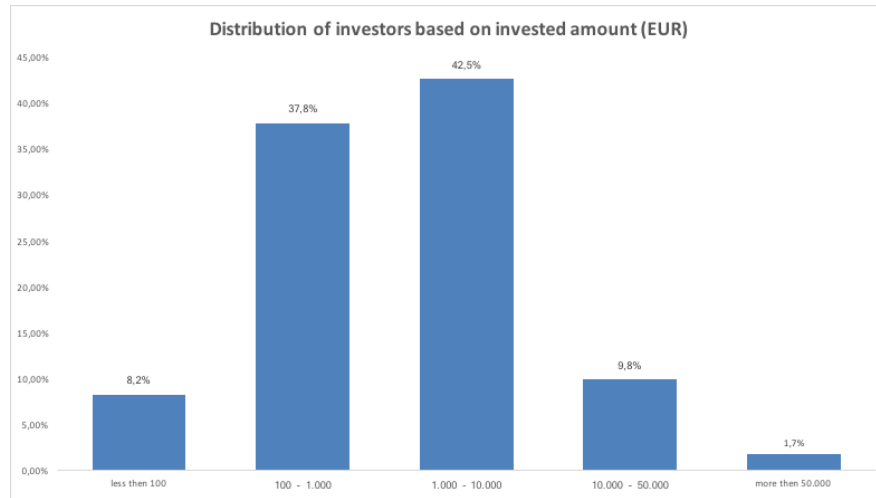
### Overview of our investors:

- Investors are mainly male between 24 and 45 years old, live in Bratislava and other cities
- Investors are fairly active: 70% have invested over the past six months and 50% within the past month – those numbers are before the introduction of “Auto-invest” option (active since May 2016)

# Investors committed to funding loans at scale: average amount invested is EUR 2,600 in 42 loans

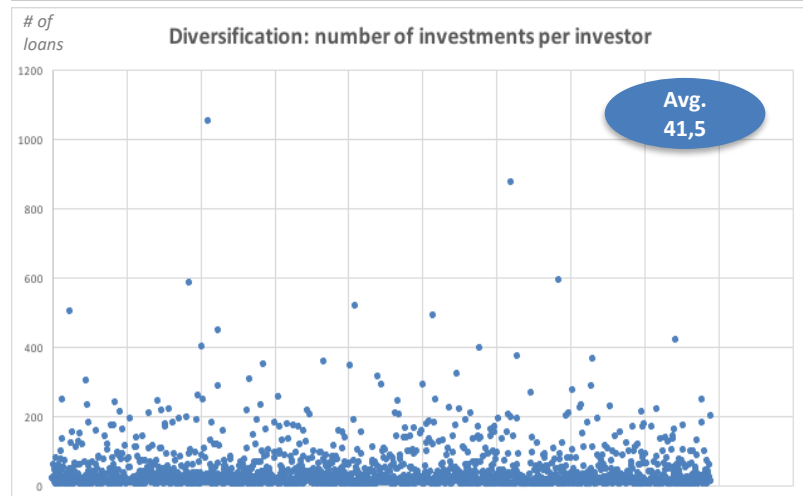


## How people invest their money on our platform



## Overview:

- 43% of investors invest between 1,000 – 10,000 EUR; 11.5 % of investors invest more the 10,000 EUR
- Average invested amount is 2,630 EUR across 41.5 loans; Average deposit is 2,100 EUR
- “Auto-invest” tool was introduced in May 2016 and is popular! Approximately 30% of investments are done using the tool
- Investors can also use our Secondary Market to sell their loans early, or to invest in existing loans (with a premium or discount depending on the status of the loan)

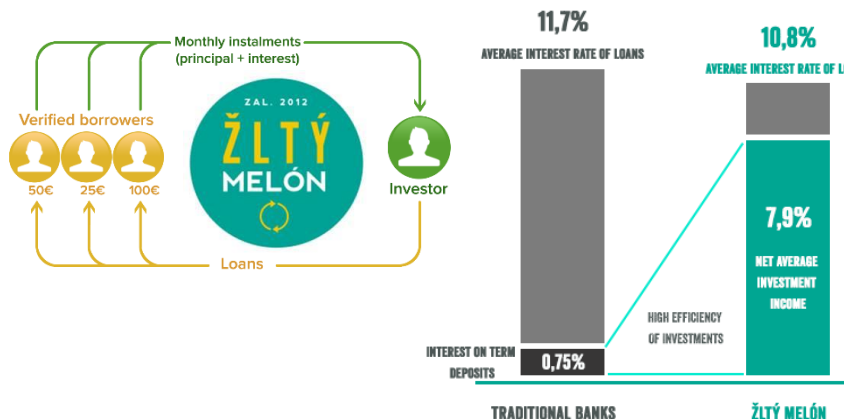


# Zlty melon shows that P2P lending works in Central Europe too



## Transparent, direct, attractive

Better rates for borrowers, better rates for investors



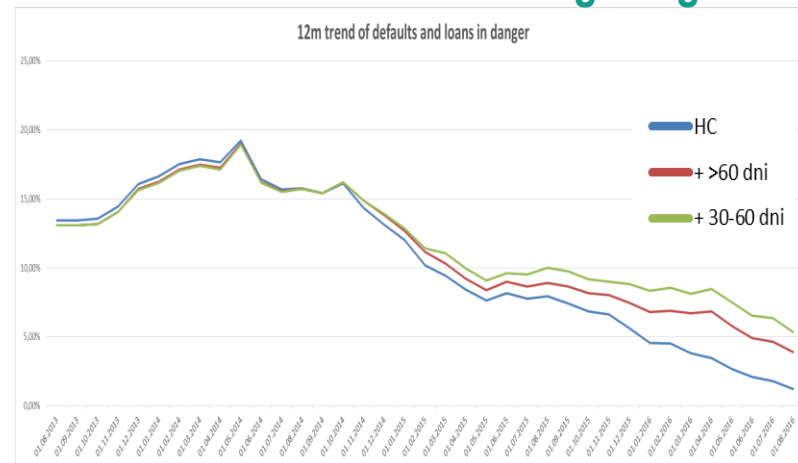
## Easy for clients (full service & support)

- **Applications verification and credit scoring** – innovative risk models, fraud detection, Kos, DBRs, external DBs APIs, and much more.
- **Loans administration and payments processing** – internal accounts, detail transactions, pairing and clearing, auto checks, etc.
- **Investment portfolio management** – e.g. investors accounts, portfolio analyzer tools, profitability, logs
- **Collections** – Integrated soft collections and proved hard collection processes
- **Communication, marketing and client support**

## Effective business model for over 5 years

- **More than EUR 180 m of loan request since 2013** – strict risk model enabled loans provided of >EUR 9.0 m
- **Average volumes comparable with other European players** – average loan ticket volume of 3,500 EUR and average investment per investor of 2,600 EUR
- **High investor loyalty and activity** – 2,700 active investors, of which over 63 % have invested over past six months
- **Borrowers are from bankable population** – Borrowers have previously borrowed from banks and/or other reputable consumer finance firms
- **Increasing marketing effectiveness** – Improving marketing activities and decreasing customer acquisition costs

## Default rates under control: Single digit



# Our plans are already in motion and key strategic initiatives will generate returns in 2018



## Strategic initiatives for further growth:

- Strategic partnerships – Co-branded or White-labeled solutions (“lending as a service”)
- New lending products – e.g. Real-estate loans and employer loans
- New system functionalities and focus on mobile– e.g. New analytics for investors, APIs, mobile applications, further optimisation of onboarding and application process (e.g. full support for applications on mobile devices)
- Marketing - Effective direct and targeted campaigns supported by brand building and increased public awareness
- Territorial expansion - Other CEE markets currently underserved by p2p lending

## Key benefits and strengths of Žltý melón:

- State of the art IT system (The world’s first international multicurrency P2P platform)
- Proven and attractive loan portfolio performance
- Loyal and active client base
- Most recognized FinTech brand in Slovakia
- Operational efficiency
- Business that is already scaling up, not a risky startup
- Strong management, shareholders and operations team





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# What's next in FinTech in the context of changing CEE business environment



## Key challenges:



Make the different FinTech business models profitable by scaling up to create attractive investor stories in CEE



Support innovation & entrepreneurship by building ecosystem of incubators, accelerators, (international) training, research & education around FinTech



Role of the Regulator: „good intention is not always good“

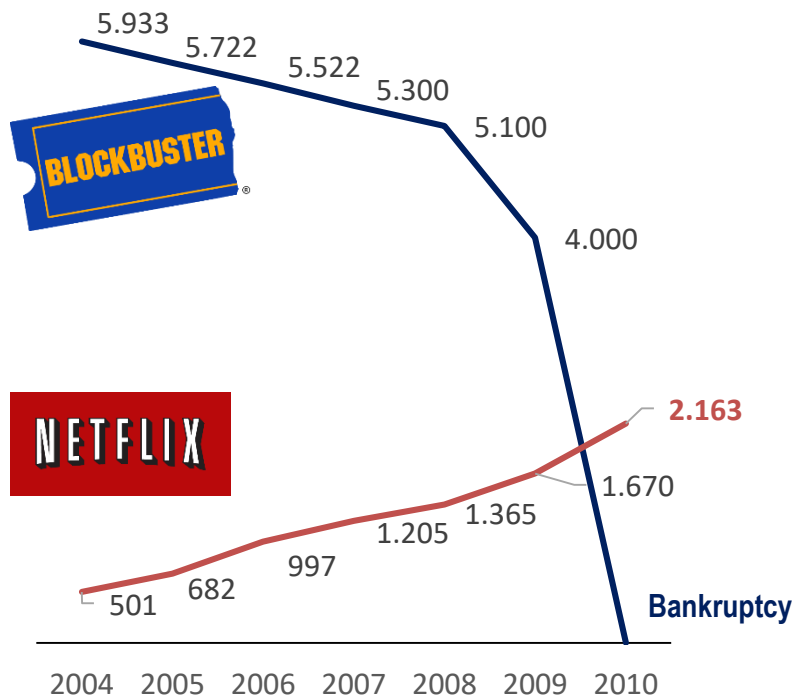
## What's next in FinTech:

- New technologies like blockchain & AI – but real disruption always comes from elsewhere
- Making use of new licensing
- Keep building & training talented and FinTech experienced pool of people
- Successful cooperations with Banks and others...before BigTech comes...

# Lesson learned: Block-busted by digital streaming

## Blockbuster disrupted by Netflix

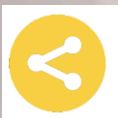
**Blockbuster & Netflix**  
2004-2010 (USD\$ Mn)



### Blockbuster refused to cannibalise...

- Blockbuster was the largest provider of video rentals in America, with a company value of **\$8.4 Bn** 1990s
- Availability of on-demand movie / TV content from players, including Netflix, significantly reduced the need to endure trips to brick and mortar video rentals stores
  - 2000: Blockbuster turned down a chance to acquire Netflix for only \$50 Mn
  - 2002: Management's reaction  
***"We have not seen a business model that's financially viable long-term in this arena. Online rental services are 'serving a niche market.'"***
  - 2010: Blockbuster filed for bankruptcy, with a company valuation of only **\$24 Mn**

# SUMMARY OF MARKETPLACE LENDER ŽLTÝ MELÓN



We are showing that P2P lending works in Central Europe too



Equity investors have shown trust and believe in our model



We are ready to expand across CEE – want to partner with us?

[www.zltymelon.com](http://www.zltymelon.com)