

How are banks facing the challenge from finance start-ups?

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For the last five years, banks have seen the emergence of new players who compete with them or create new markets. Jean-Laurent Bonnafé, the Chief Executive Officer of BNP Paribas, and Florence Vasilescu, the founder of fintech FirmFunding, agreed to exchange views on this new environment at the VivaTech Show.

For the last five years, banks have seen the emergence of new players, who compete with them in their businesses or create new markets. Do you still consider them a threat?

Jean-Laurent Bonnafé: These players represent an opportunity if you know how to view them, and it is up to us to know how to capitalise on them. The financial sector is experiencing significant growth, comparable to that of the pharmaceutical sector a few years ago, when the biotech companies emerged. Traditional players have formed partnerships with some of these new players, bought others or even created their own start-ups. **The banks do no more with the emerging fintechs and support new ways of consuming financial services.** In the last few months, we have thus announced the launch of the Lyf Pay electronic portfolio, the result of the merger of two banking initiatives from BNP Paribas and Crédit Mutuel-CIC, but we have also acquired a neobank, Compte-Nickel.

Why have we seen so many new players appear? Because the markets were poorly targeted??

Florence Vasilescu: Yes, undoubtedly, because by developing each of these very specific services, the start-ups feed the impression of a more refined segmentation of customers and their needs. The financial sector also benefited from significant entry barriers, with extremely onerous and stringent regulation, **and customers? needs for strong reassurance: entrusting your money to a new player is not as straightforward as trying a new burger delivery service!** I started the business because I already had significant experience that meant I was not starting in the sector from scratch. Having worked for both large investment banks and the French Financial Market Authority (AMF), I had a good understanding of the regulatory environment and financing issues. I founded FirmFunding after having identified a need that had not been specifically addressed.

The banks have learned a lot from start-ups in the last few years. Does their ability to create their own start-ups spell the end of the golden age of fintechs?

J.-L. B: A new system is taking shape in the sector, and there will be no going back. Innovation can now come from external players or our own teams, because the banks cannot have all the good ideas. Showing that we can also incubate and develop new players is key to attracting the best talent: it is a promise to them that they will find we foster an environment

that favours new approaches. This is what we do every day.

We have yet to see the equivalent of Uber in finance: could the fintechs shake off their status as an irritant, and become major industry players?

F. V.: Given the segmentation that we have described, I am not convinced that a finance start-up can reach the industrialisation stage. Yes, these players will take on a more important role, but they will grow through partnerships. Finding the right way of working together will be key. Furthermore, we will also in this way avoid the risk of diluting our culture into that of a large group. This cooperative approach enables everyone to find their place and their area of interest.

J.-L. B.: Numerous innovations are competing. The speed at which its solution can be disseminated is therefore essential for a start-up. It is not necessarily the best idea that counts, but rather that with the best distribution model To ensure the greatest degree of visibility, the easiest solution is therefore to draw on the customer portfolio of a large group, because it enables the start-up to disseminate its innovation quickly. This approach is particularly suitable for the European market, which is highly fragmented and which therefore requires the right partner to be found for each national market.

The customer relations segment has nevertheless been particularly besieged with the appearance of the 'neobanks'. Was it also to meet this challenge that you recently acquired Compte-Nickel?

J.-L. B.: Banks usually develop a 'mass market' customer relationship. For its part, Compte-Nickel targets an extremely specific additional customer segment. While it does not of course offer the whole range of services of a bank. Compte-Nickel offers basic services at reasonable prices that are known upfront. Its genius was to launch itself from tobaccoist's. When you identify a very specific need - **a new angle, a new way of working, a different service, a service at a different cost** - you set yourself apart and can stay ahead. But there will be no substitution between these new players and us. There will rather be a movement - as is the case for car manufacturers, for example, who look to source new materials or components from emerging players.

The fintechs first targeted individuals. Then they increasingly invested in corporate clients, particularly in crowdfunding. How do you explain that?

F. V.: Crowdfunding is a complicated world, combining the offer of financial securities to the public, the circulation of payments and the fight against money laundering, and at the end of the chain, asset management and related investment rules. These are broad issues, which are not standardised at European level. This complexity and this need for credibility a priori means that more time is needed to invest in the B2B area. This is also why B2B fintechs are the best placed to work immediately with traditional players who already hold the necessary authorisations, typically on payment services and the fight against money laundering. Our case illustrates this fairly well. We are in a market place that enables SMEs to access the bond market and to borrow from debt funds, asset managers or private banks. The idea was to bridge a gap in the market: intermediaries find it difficult to process small bond issues in the traditional sense, because they involve some fairly significant costs. **This platform enables the advisers of these issuers to prepare their clients' issues and propose them to investors.** Intermediaries are therefore not 'uberised' in our model. It is not n established

market, it is a new service being offered.

Where will the next big innovation in the sector be?

J.-L. B.: Digital technology is putting pressure on prices. Does this mean that all banking services will be free of charge? No, of course not. The best way of meeting our customers' needs is to know them thoroughly, and to analyse their behaviour in as much detail as possible. Data analysis is thus critical. The bulk of future innovation will therefore come from the capacity to use all this data intelligently. Anticipating customers' future needs without being intrusive, using data responsibly and wisely, and commercial actions, which will no doubt be further upstream.

F. V.: Data will be key. But 'smart' data rather than 'big' data. It is not enough to collect data, you also need to know how to use it. I think the challenge of security in transactions is also very important. Will blockchain technology prevail? Will we see the emergence of other infrastructure? We will see. But the issue of security and therefore cyber security will be key.

Why have the GAFAs so far invested so little in the financial sector? Do you think they will do so in the future?

F. V.: The question to ask is rather: is it easier to be a digital platform and then offer banking products? Or to be a financial player and then go digital? I would be tempted to choose the second option...

J.-L. B.: I do not believe that the financial sector will be the focus of the GAFAs' interests. Looking at the development of their business models, we can see they are focused on other areas, such as healthcare or driverless cars. That does not mean that they will not one day challenge us in certain areas of our value chain. In theory, the GAFAs can do anything. But are they capable of doing it well, of taking market share everywhere? After all, they are still human organisations!

Focus on Jean-Laurent Bonnafé

BNP Paribas recently gained control of Compte-Nickel, the solution that enables a current account to be opened at a tobacconist's. Compte-Nickel is now targeting 2 million customers by 2020.

The Bank's 2020 strategic plan is focused on digital transformation and the use of data to provide better support to its customers; it plans to invest EUR 3 billion between 2017 and 2020, mainly in the digital arena.

Focus on Florence Vasilescu

Having graduated from HEC in 2007, Florence Vasilescu worked in finance and regulation, specifically in the finance department of Crédit Agricole CIB, and several years in the French Financial Markets Authority, before establishing the FirmFunding platform in January 2016.

This start-up defines itself as a 'European corporate bond market place', and gives professionals access to primary small/mid-cap issues.

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