

Will Banks be overrun by  
Fintechs?

A wide-angle, high-angle photograph of Frankfurt am Main at dusk. The city's skyline is illuminated with lights, reflecting on the Main River. A large bridge with multiple arches spans the river in the foreground. The sky is a mix of orange and blue, indicating the time is either sunset or sunrise.

# ARE BANKS ACTUALLY STILL NECESSARY?

**Dr. Clifford Tjiok**

Chief Commercial Officer & Member of the Management Board  
bwf ICMA Conference, Frankfurt am Main, 11 September, 2023

Note:

All views and opinions expressed in this presentation are the personal views and opinions of the presenter



Many years of expertise regarding real estate products and related financial products

Market leader for third party Mortgage Loan Servicing in Germany

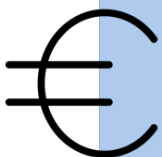
Market leader for third party Ground Lease Servicing in Germany



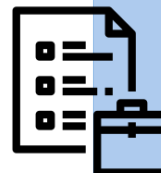
**>100**  
Specialist staff



Offices in:  
**Frankfurt, Essen and Eschborn**



**>20 bn. EUR**  
Assets under Management  
since 1999



**300,000**  
Mortgage loans  
in Servicing since 1999



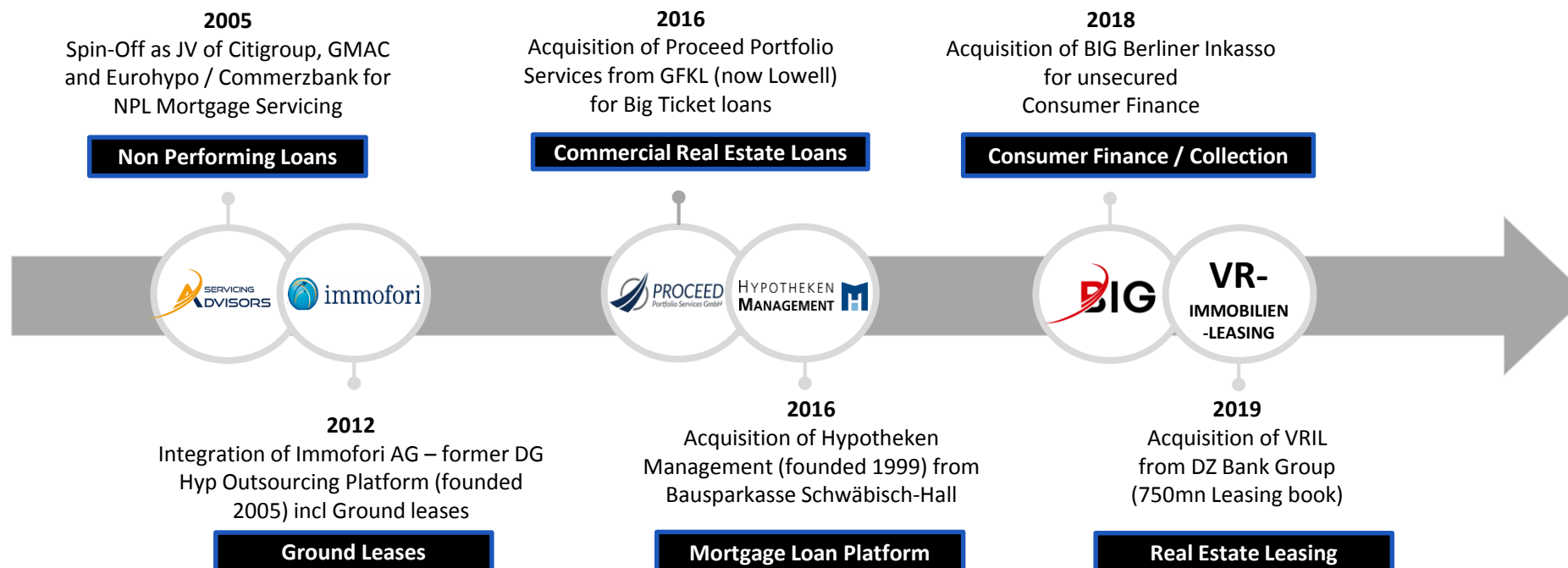
**Groundleases &  
Real Estate Leasing**  
as alternative Asset classes

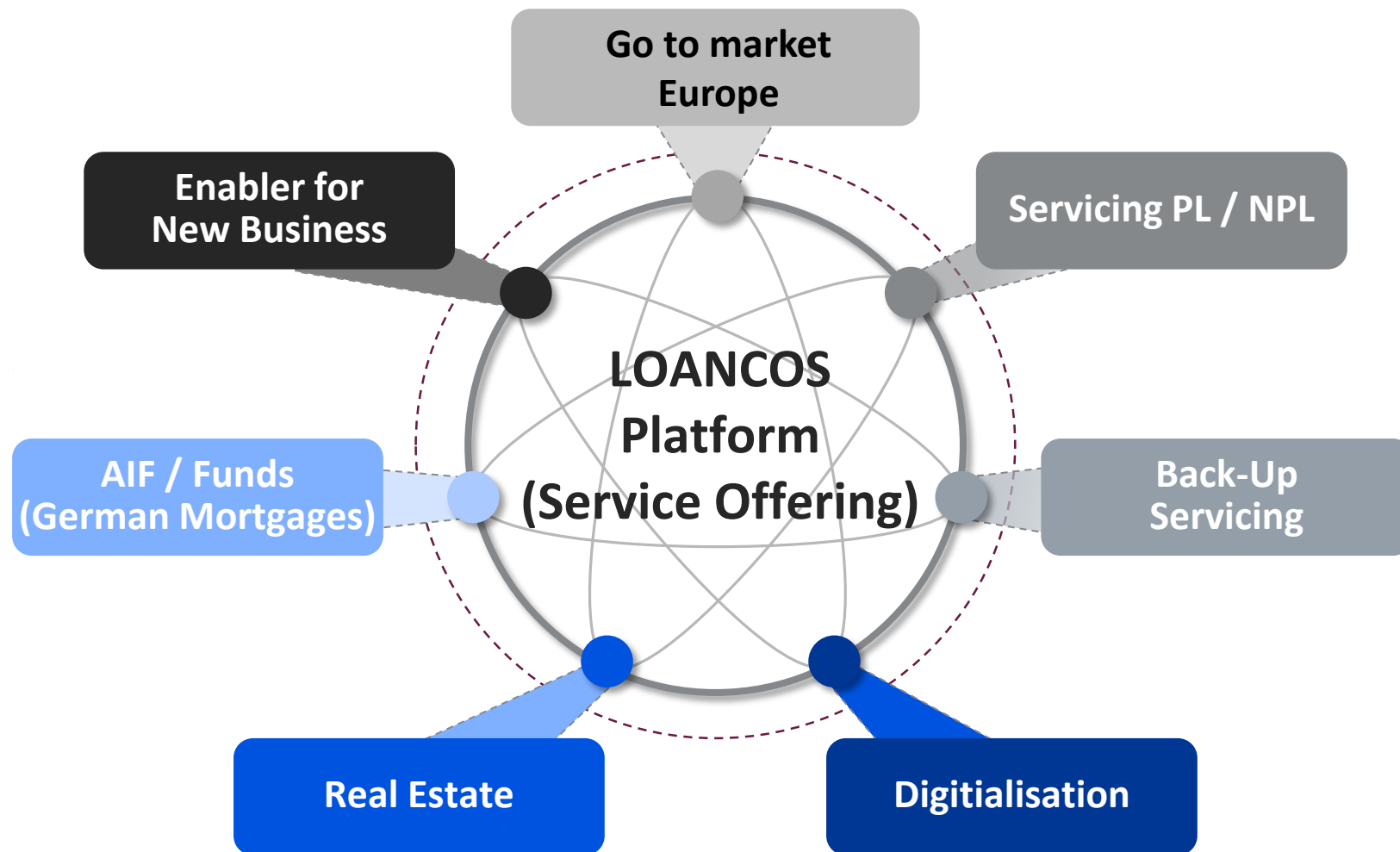


**50,000**  
Properties  
sold/resolved since 2005



### Comprehensive expert knowledge of LOANCOS Group







### **Banks will be the steel industry of the Nineties**

(Ulrich Cartellieri, 1990, former Board Member Deutsche Bank)



### **Banking is necessary, banks are not**

(Bill Gates, 1994, Microsoft Founder)



### **Too many banks making too little money**

(Economist 2004)



### **We are telling the savers that their deposits are safe.**

**That is what the Federal Government is vouching for**

**(Dafür steht die Bundesregierung ein.)**

(Angela Merkel, former Chancellor and Peer Steinbrück, former Minister of Finance, 5 Oktober, 2008)





Business model  
universal banking

### Bank account & credit card

### Payments transfer

- Domestic
- International

### Loan business

- **Retail clients**
  - Consumer loans
  - Residential mortgage loans
  - Loan brokerage
  - Customer identification
- **Commercial / Wholesale clients**
  - Corporate loans
  - Real estate loans
    - Existing property finance
    - Development finance

Business model  
universal banking

### Wealth Management / Investments

- Product brokerage / Advisory
- Own products
- Third party products

### Securities business

- Securities Trading: Buying and Selling of securities
- Custody

### Money Market and Foreign Exchange Trading

### Proprietary Trading



Business model  
universal banking



### Investment Banking

- Advisory re Mergers & Acquisitions (M&A)
- Arranging capital raising (Equity / Debt)
- Equity capital placement
  - Private placement
  - Stock market (IPO)
- Debt capital placement
  - Private placement
  - Capital market



## **Fintechs or „Someone is eating my Lunch“**



### **Unbundling: Breaking-up of Banks' value chains**

**Niche providers with a focus rather than universal banks' approach „Jack of all trades“**

**Focus is on specific (attractive and scalable) customer needs, such as**

- Bank account and card (e.g. Tomorrow)
- Payment (e.g. Paypal)
- Investments (e.g. Scalable)
- Consumer finance (e.g. Auxmoney)
- Securities trading (e.g. TradeRepublic, eToro)
- KYC Know Your Customer identification (e.g. IDnow, WebID, PostIdent)
- Residential mortgage brokerage (e.g. Interhyp, Dr. Klein, Bilthouse)

**Capture existing relationship between customer and bank for a specific customer need through radical standardisation and highly cost efficient approach**



### **Focus is interaction and transaction closure (customer experience / customer journey)**

- App-based
- Branches (Bricks and Mortar)
  - None as a general rule
  - However depending on business model may also have branches, e.g. residential mortgage brokers (e.g. Interhyp, Dr. Klein, Bilthouse)

### **Special case: Banking as a Service BaaS**

- Enabling of Direct Banking for other financial product providers

### **Special case: Neobank**

- Focus Asset side: accounts, credit card, payment transfers, e.g. N26, Revolut
- Focus Liability side: savings products, e.g. Raisin Bank



### How do Fintechs get funding?

- **Early Stage**
  - Seed / Friends and Family
- **Scaling Up:**
  - Venture Capital
- **Growth Stage:**
  - Private Equity, followed by strategic Buyer or Private Equity (Secondary) or Exit through IPO
  - Institutional investors or Private Equity for Forward Flow financing (residential mortgages, consumer loans)

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FINTECHS – LAY OF THE LAND



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### German FinTech Overview - Unbundling Banks

LAST UPDATE 30 AUGUST 2019  
WWW.PAYMENTANDBANKING.COM

<b>PAYMENT</b> Transferwise, Billomat, SPENDIT AG, Zettle, Klarna, Belonio, RatePAY, AfterPay, KlikaPay	<b>BITCOIN</b> Bitbond, Bitwala, Coinify, DOGECOIN, P&F, BTC	<b>IDENT</b> IDnow, verify-U AG	<b>CREDIT</b> Finanzcheck, Lendico, loanbook, woco, tradico, Fininvest	<b>BANKING</b> mamooole, floribus, bunq, Revolut, Kontist, daxis, N26, MAMBU	<b>SAVINGS</b> voomo, modelogiq, BERGFURST, Cline, ZINSPILOT, Fincite, scalable, fair.de
<b>INSURANCE</b> passtap, VIRADO, Knip, Optisure, feelix, BRIX, covomo, ETHERISC	<b>DONATIONS</b> wikand, fraist, twingle, elefunds	<b>PFM</b> floribus, CENTRALWAY, feelix, aboalarm	<b>ACCOUNTING</b> troy, Fostit, Saleslog, SMAC, Billomat	<b>P2P</b> Payza, crangle, kitysplit, jendstar, collect, elopay, PAYMEY	<b>SWEEPSTAKES</b> SwiperStak, Jvertos, niilo, BUX, ayondo, LIQID, SAVEDROID
<b>ECOMMERCE</b> alipago, RatePAY, SEPAone, Grover, VAI	<b>ORDER / CASH</b> QuickBon, clover, GASTROFIX, roc-KASSE, Quandoo, PENTA	<b>RATING / RISK</b> RISK 42, BankenScore.de, bonify, Fraugster, SCORE KOMPASS	<b>API-BANKING</b> NDGIT, Payinn, fidor, YURKALAB, fin-API	<b>ISMPO</b> HOME ROCKET, imo ROCKS, Maklaro, MEZZAY, ZINSLAND, ENGELVÖLKERS CAPITAL	<b>FINTEGO</b> fintego, donut, zinsgold, Single Finance, Wiwin, kapilendo, SAVEDO, raisin, elinvar, WeltSparen
<b>FACTORING / COLLECTION</b> RECHNUNG48, COMMITY, PAIR, finto, PAGIDO, BILENDO, DECIMO, collectAI, TrustBills, fundflow, eCollect, bezahlit.de, innolend, FLEX	<b>TOOLS</b> xpenditure, innolend, FLEX				

LOANCOS Group – Value maximization for Loan & Real Estate Portfolios





## **Case Study:**

# **How to enable Credit business within Direct Banking?**



### Purpose & Client

- Loan brokerage for clients
- Extend loans to consumer clients

### Regulatory

- Brokerage and Advice: § 34c GewO / Trade Reg
- Loan extension: § 1 No 1 KWG, MaRisk, GWG, AO
- Loan- und Obligations Law: i.a. BGB (customer prot. etc)

### Servicing

- Preparing & documenting Loan decision making
- Preparing & sending of Loan documentation
- Paying out Loan and collecting credit installments
- Loan accounting (Ledger management) & Reporting

### Funding

- Acquire Investors for ongoing funding of Consumer Lending





Real example

Purpose & Client

- Loan Brokerage for consumers: Mortgage loan broker
- Extend Loans to consumers: Fronting bank

Regulatory

- Effect Brokerage & provide advice: Mortgage loan broker
- Extend loans: Fronting bank

Servicing

- Retained Servicer
- Bank

Important for scaling

Funding

- Peer-to-Peer aka Crowd funding
- Institutional Investors
- Capital markets, e.g. ABS securitisation

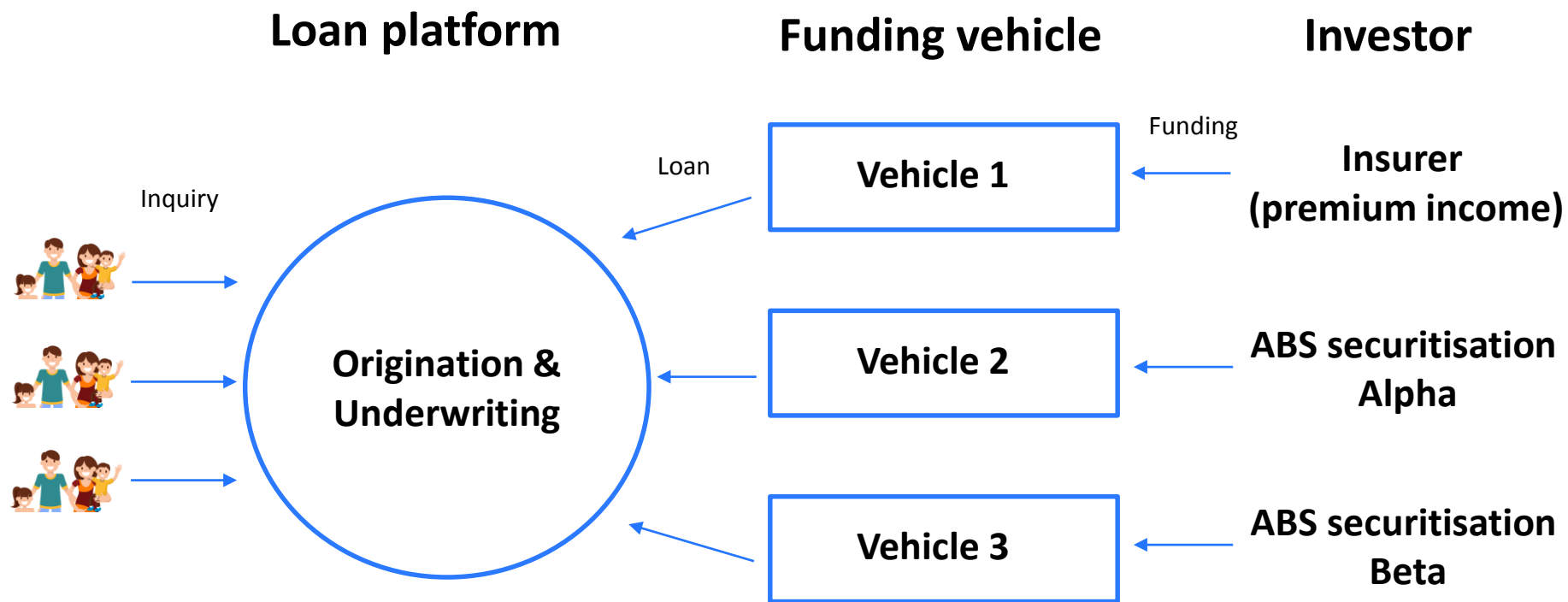
Important for scaling

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## LOAN FUNDING THROUGH INVESTORS



Real example





## How does a Bank of the future look like?



### Assets

Loan platform  
product I

Loan platform  
product II

Loan platform  
product III

### Liabilities

Investment platform  
product I

Investment platform  
product II

**Balance Sheet-based  
Bank**

- Risk Manager
- Interest arbitrage  
Manager
- Interest maturity  
Transformation

- Buy instead of Make / Act as broker for platform products (Loans & Investments)
- The Bank of the future looks more like an Asset Manager



## **Co-operation between Banks and Fintechs show the way**

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## CO-OPERATION BETWEEN BANKS AND FINTECHS



**B Payment & Banking**

### Kooperationen Banken und Fintech

Last update 28.04.2020  
www.paymentandbanking.com

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### PRO'S

- Governed by Regulatory oversight; helps to protect creditors (too much / not enough)
- Deposit insurance
- Contribute to provide Lending function (prime clients)
- Also taking care of tasks that are less exciting for Fintechs (such as Trade finance, maintain branches, KfW development bank loan processing)
  - General infrastructure
- Neobanks may have shown gaps within regulatory Compliance (no names here)



### CON'S

- Department store concept is out of date (... Jack of all trades)
- Specialised credit platforms cater for specific market segments, thus contributing to credit supply (e.g. near prime clients, SME, loans for municipalities)
- Lending function can also be effected by Institutional Investors and Capital aggregators
- Production and operating cost are way too high
- Structural inefficiencies & IT legacy landscape grown over time
- Drive for innovation Inside-out needs to be permanently kept alive





### Micro level

- Banks deploy Fintechs as a targeted Outside-in rejuvenation
- Range is anywhere between Co-operation and Take-over (e.g. Scalable through ING, MHB Bank through Weltsparen, meanwhile Raisin)

### Macro level

- Fintechs can be clearly set-up as global players for defined mono products (e.g. PayPal for instant payments)
- **HOWEVER: The international credit industry can not run on a network patched together out of Fintechs (investors prefer to cherry pick)**

➔ **Provided that Banks focus on doing Banking more focussed and efficient, they will be in a position to shape the future – That requires the will for ongoing innovation and transformation speed**

➔ **HOWEVER: Big Tech firms have also discovered Banking as a playground (e.g. ApplePay, GooglePay)**

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## SELECTED REFERENCES



Aareal



MACQUARIE  
BANK



DZ HYP

NORD/LB  
Die norddeutsche Art.



Evangelische  
Bank



NRW.BANK



Bank of America  
Merrill Lynch



DEGUSSA  
BANK



ING DiBa  
Die Bank und Du

wüstenrot

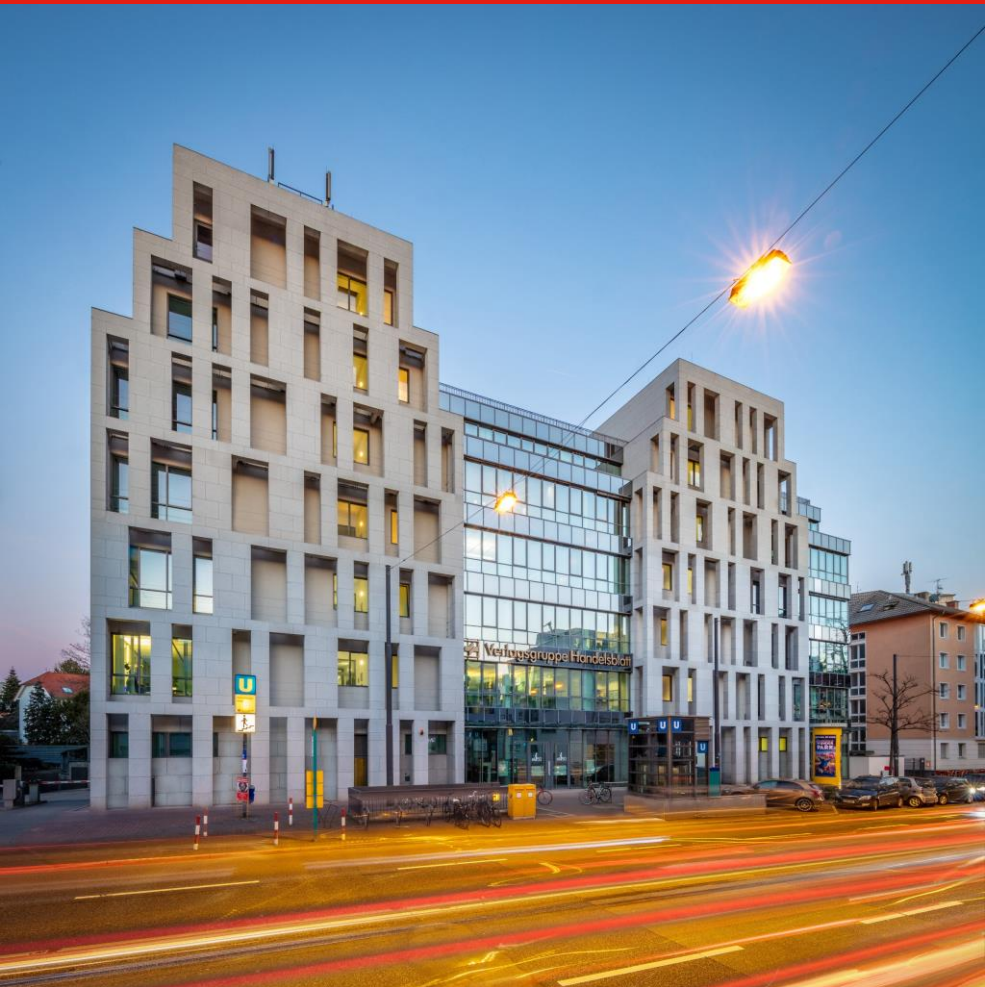
COMMERZBANK



Creditplus  
BANK



Oldenburgische  
Landesbank



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