

Under embargo until 3 March 2021, 2 p.m.

Media release Lucerne, 3 March 2021

FinTech made in Switzerland: clouds on the horizon

While the Swiss FinTech market has continued to grow in 2020, a closer look reveals that the sector shows signs of stalling. It is one of the findings of this year's FinTech study by the Lucerne University of Applied Sciences and Arts.

The Swiss FinTech sector has grown into a major provider of innovative solutions for the Swiss finance industry over the past few years. At the end of the year 2020, 405 domestic FinTech companies were based in Switzerland - 23 more than in the previous year, or an increase of six per cent compared to 2019 (see fig. 1). The majority of the companies offer solutions in the field of investment management and banking infrastructure. Their business models chiefly revolve around technologies in the areas of process digitisation, automation and robotics.

Despite the growth in Switzerland-based FinTech companies, there were also signs in the year 2020 that the sector's growth might be stalling. "The growth rate has been at its lowest since 2015," says Thomas Ankenbrand, Head of Programme and lecturer for Banking and Finance at the Lucerne University of Applied Sciences and Arts. Other indicators that point to a slowing down of the FinTech sector include the decreasing median of the companies' total capitalisation and the stagnant median number of employees. What is more, a glance at the Swiss FinTech companies' employees reveals that the proportion of those stationed abroad is on the rise. By the end of 2020, this group already accounted for more than a third of the total workforce of Swiss FinTech companies.

Conditions for FinTech companies are good but deteriorating in Switzerland

The FinTech hub ranking in the Lucerne UASA study (see fig. 2) reveals that, on an international scale, the conditions for FinTech companies continue to be favourable in Switzerland. However, "Compared to other leading FinTech ecosystems, the conditions have deteriorated slightly in the past few years," explains Ankenbrand. This is particularly the case for social and economic environmental factors. Further analysis shows that the quality of the environment positively correlates with the size of the FinTech sector. "Working towards maintaining these conditions is not only important for the FinTech sector, but for the Swiss finance industry as a whole," says the FinTech expert.

FinTech's gradual arrival in the real world

A large proportion of the business volume, be it financial transactions, lending or investments, continues to be processed by traditional financial institutions and a handful of established FinTech companies. What is more, a glance at the numbers reveals that the banks have become more efficient and that the effect of digitisation is gradually materialising. It is, among other things, the result of FinTech solutions that, according to the study, mostly focus on the business-to-business market, which includes innovative solutions for established banks. Generally, traditional financial institutions have increased their volumes under management while keeping the costs stable. "This development is however not mirrored on the earnings side," argues Thomas Ankenbrand. According to the study's authors, this indicates that any efficiency gains are directly passed on to the customer.

Open banking becomes reality through platforms

Amid the pressure on existing business models, technological progress, changing customer needs and regulatory requirements, open banking - in which banks and third-party providers exchange

data and services - is considered a significant trend within the financial sector. However, a survey among Heads of IT with Swiss banks published in the study shows that the pressure to open up banking interfaces and the need to acquire corresponding solutions particularly in the business-to-consumer segment is not significant at all. Additional impediments for the implementation of open banking solutions include high costs and expenditures as well as concerns relating to IT security and the current lack of standardisation. At least in part, the latter can be attributed to the fact that open banking is market-driven in Switzerland while regulated through the Payment Services Directive (PSD2) in the European Union. Due to this market approach, various platforms have emerged that allow for a secure and standardised exchange of data and services. These platforms are increasingly being used by banks as well, particularly in the corporate client business.

Skin in the game matters

Risk capital activity is the most significant indicator in the FinTech hub ranking. In this regard, Switzerland is in a good place overall. Indicators for this include the volume of risk capital invested in the FinTech sector as well as the Swiss FinTech companies own perception that they can raise new funding with comparatively low difficulties. In total, the sector managed to raise capital of around 260 million Swiss Francs in 2020. But the total capitalisation matters for individual businesses, too. A quantitative analysis in the study reveals that it plays a significant role in the valuation of a FinTech company, in addition to the company's revenue and its number of employees.

What is FinTech?

FinTech is short for financial technology and describes technology-based solution for innovative digital products, services and processes in the financial sector. FinTech solutions are designed to enhance, complement or replace existing financial services. Examples include mobile payment apps, crowdfunding platforms and robo advisors, but also cryptocurrency exchanges.



Figure 1: Overview of the Swiss FinTech sector

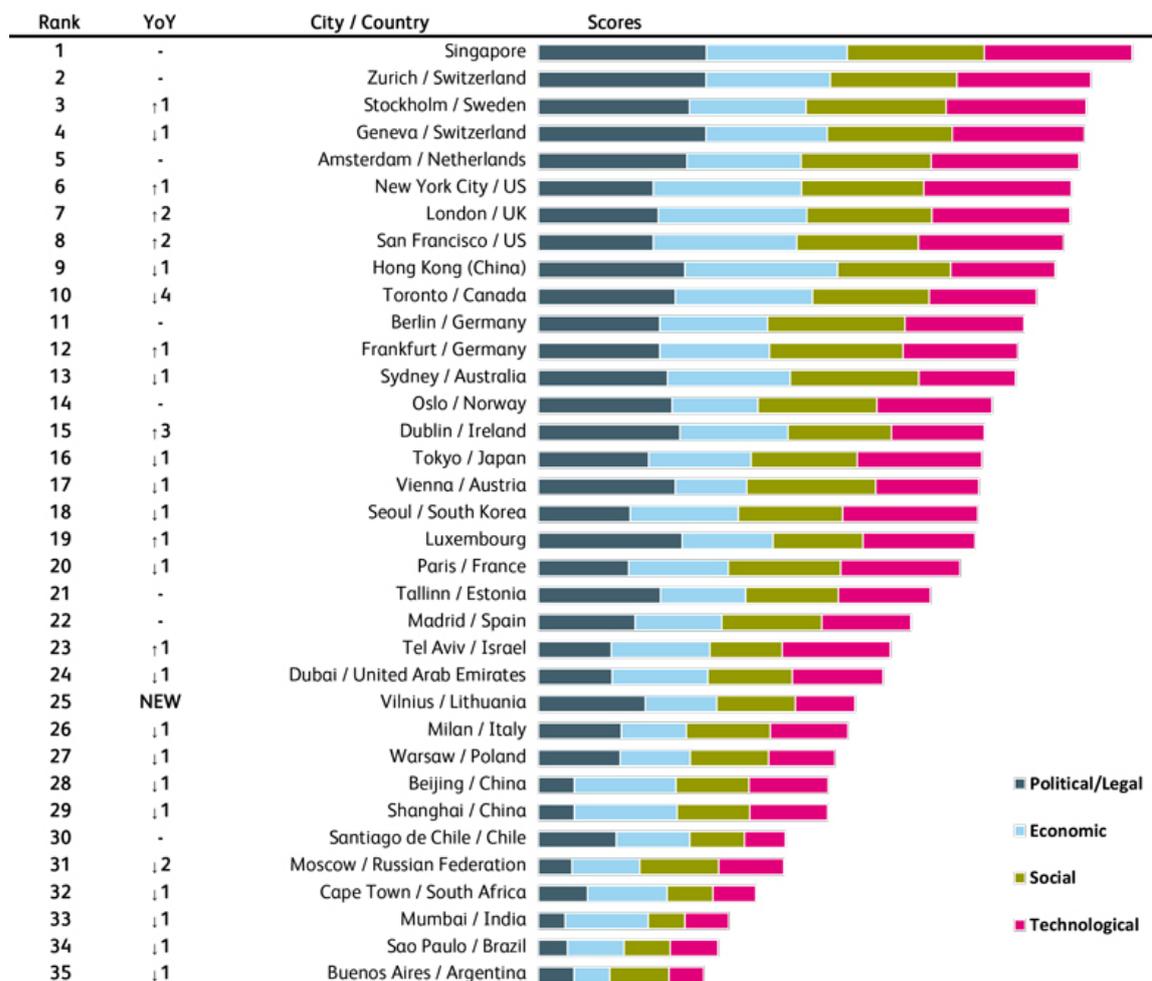


Figure 2: FinTech hub ranking

IFZ 2021 FinTech Study

The Lucerne University of Applied Sciences and Arts publishes an annual IFZ FinTech study. For the sixth time this year, the study provides a comprehensive overview of the Swiss FinTech sector.

You can order the study from ifz@hslu.ch.

Contact for media representatives:

Lucerne University of Applied Sciences and Arts

Professor Dr Thomas Ankenbrand, Head of programme and lecturer

T +41 41 757 67 23, E-Mail: thomas.ankenbrand@hslu.ch

Lucerne University of Applied Sciences and Arts – Central Switzerland's university of applied sciences

The Lucerne University of Applied Sciences and Arts LUASA is the university of applied sciences of the six Central Swiss cantons. It comprises the Lucerne Schools of Engineering and Architecture, Business, Information Technology, Social Work, Art and Design, and Music. More than 7,000 students are working towards a Bachelor's or a Master's degree, while an additional 4,500 participate in continuing and executive education programs. The Lucerne University of Applied Sciences and Arts is the largest university level institution in Central Switzerland and employs more than 4,000 people. www.hslu.ch