

## Goodbye “Fin”? Hello “Tech”!

The Swiss FinTech market has experienced a slowdown in growth compared to the previous year. At the same time, however, the industry has matured. This is shown by the results of the "IFZ FinTech Study 2020" of the Lucerne University of Applied Sciences and Arts. A pattern is emerging among the players in the industry: Tech companies are beginning to outpace the financial companies.

2019 was another record year for the Swiss FinTech industry. At the end of the year, a total of 382 FinTech companies were legally incorporated in Switzerland, which corresponds to an annual growth rate of seven percent (see Figure 1). This growth rate, however, is clearly lower than in the previous year when the market increased by 62 percent. While almost 70 percent of Swiss FinTech companies provide solutions in the product areas of investment management and banking infrastructure, the most frequently applied technologies are those related to process digitisation, automatisisation, and robotics, as well as the distributed ledger technology (e.g., blockchain).

### Switzerland’s good conditions continue to pay off

Besides the increase in the number of companies, the sector continued to mature in 2019, a development which is highlighted both by the increase in the average number of full-time equivalents employed at Swiss FinTech companies, as well as their total funding. “This development is not least due to the excellent conditions that FinTech companies find in Switzerland”, says Thomas Ankenbrand, study lead and lecturer at the Lucerne University of Applied Sciences and Arts. The two Swiss cities Zurich and Geneva are among the top three FinTech hubs identified in the most recent global FinTech Hub Ranking. The analysis of various leading FinTech hubs additionally shows that high joint venture and venture capital activity in particular are positively associated with the relative size of a country's FinTech sector.

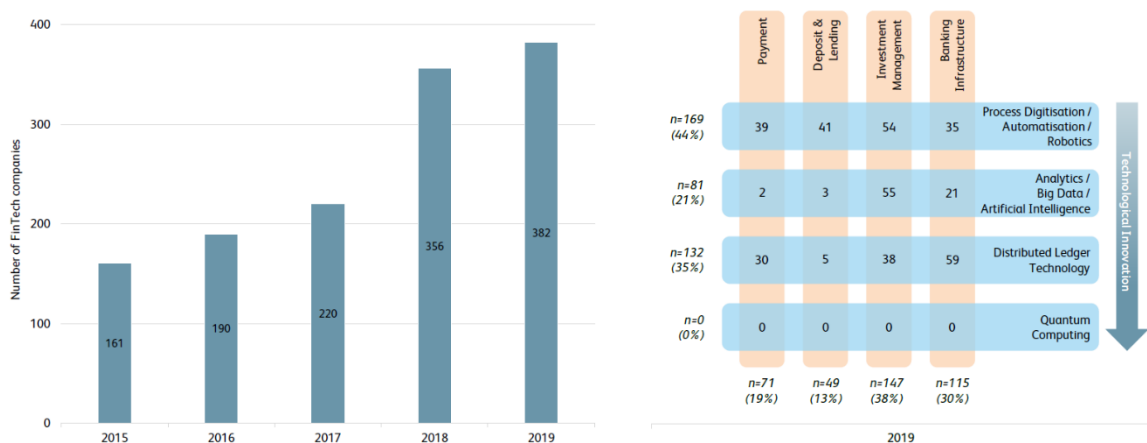


Figure 1: Number of FinTech companies registered in Switzerland as of the end of the respective year (right-hand graph) and FinTech Grid as of the end of 2019 (left-hand figure)

### While FinTech should seek to solve real problems, the industry is partly in search of relevant use cases

The main goal for entrants into the saturated Swiss financial market is to create additional value for the users. This can be achieved, for example, through a price or cost reduction, and/or increased convenience. Many FinTech companies, however, are struggling to find clients. The distributed ledger technology, as an example, has not yet been able to demonstrate its relevance through the first widely used applications in the financial sector. According to Ankenbrand, however, “In the future, DLT could enable efficient, transparent, and traceable data marketplaces.”

### The importance of “Tech” versus “Fin” is growing

Seven BigTechs are included among the ten largest companies worldwide (measured by the market capitalisation as of 2019). This underlines the relevance of technology-driven business models, which is also mirrored in the results of the analysis of the revenue models applied by Swiss FinTech companies (see Figure 2). They show an increased tendency towards the application of revenue models typically employed in the IT industry. Over half of the Swiss FinTech companies apply licence fees and/or Software-as-a-Service (SaaS). This leads to conclude the increasing importance of IT-typical revenue models compared to those from the traditional banking business. Nevertheless, the commission model is still the most frequently applied model by Swiss FinTech companies.

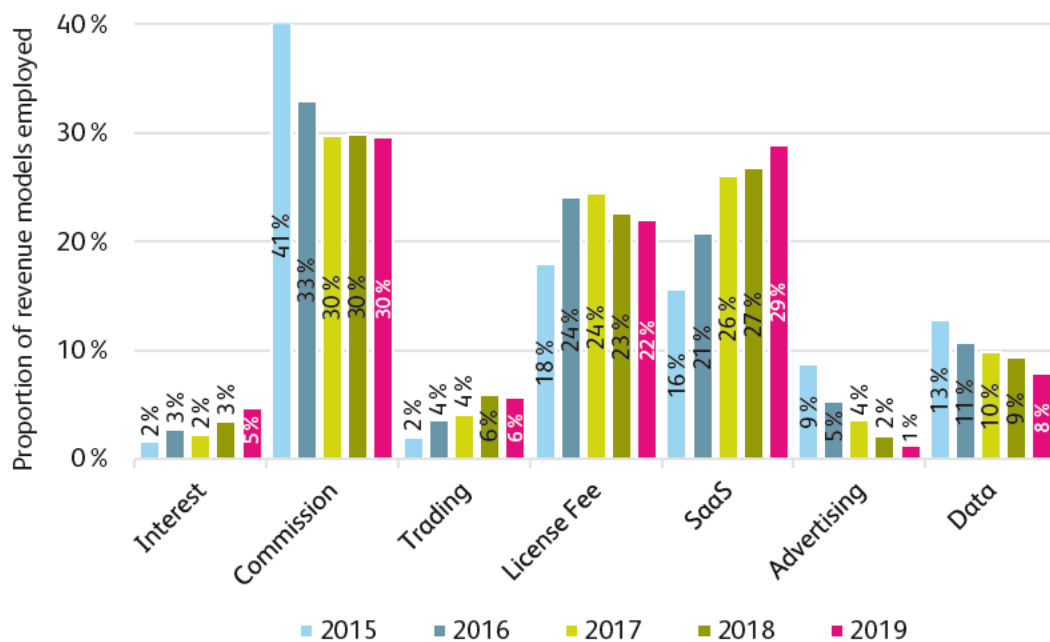


Figure 2: Revenue models applied by Swiss FinTech companies (n<sub>2019</sub>=152, multiple answers possible)

### Swiss banks: Only a few pioneers taking the technological lead

The results of the study indicate that Swiss banks are reluctant to engage in “change-the-bank” activities and assign a low priority to the implementation of FinTech solutions. However, with the first group of challenger banks emerging in the Swiss market, these pioneers could be key in pushing to bring technological innovation into the financial sector. This development, together with

the increasing offer of financial services by competing BigTech and FinTech companies, could reinforce the innovation pressure on traditional financial institutions in the future.

**The pace of change in the FinTech regulatory environment will likely pick up**

The Financial Services Act and the Financial Institutions Act have been in force since January 1, 2020 and are fundamentally changing Switzerland's financial market architecture, for both traditional financial services providers, as well as FinTech companies. Far from being an exception, developments in the regulatory environment related to FinTech will continue to evolve in the future. One example is the Swiss DLT Draft Law which is planned to be implemented in 2021.

**What is FinTech?**

FinTech is defined as solutions for innovative products, services, and processes in the financial industry, improving, completing, and/or disrupting existing offerings. Hence, FinTech companies are firms whose main activities, core competencies, and/or strategic focus lie in developing those solutions.

**IFZ FinTech Study 2020**

The "IFZ FinTech Study 2020" from the Lucerne University of Applied Sciences and Arts provides an extensive overview of the Swiss FinTech sector.

The entire study can be ordered at [ifz@hslu.ch](mailto:ifz@hslu.ch).

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