

BUSINESS SWEDEN

VIENNA CALLING FOR SWEDISH FINTECH SOLUTIONS

SWEDISH FINTECH FOR CEE

- Austria and the CEE region, a vast area stretching from the Alps in the west to the Black Sea in the east, is becoming a new frontier for FinTech companies.
- The CEE region reaches over 170 million people and 16 countries, it is one of the fastest growing regions in Europe with a GDP growth of 3.9% (Euro area 0.7% growth).
- The CEE banking landscape is to a great extent consolidated through a couple of large banks - three of them headquartered in Vienna.
- To keep up with R&D and cost efficiency, banks in the CEE are now actively looking for external innovations.
- With a still developing FinTech community in Austria & CEE and an “overbanked” banking sector working hard on digitalisation, Swedish FinTechs that have a long track record of solving many of the challenges that banks in Austria & CEE are facing, have a strong competitive advantage in this region.



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VIENNA CALLING* FOR SWEDISH FINTECH SOLUTIONS

Vienna houses the largest banks and insurance companies in the growing Central Eastern Europe region (CEE), and these are right now searching for new FinTech solutions to tackle their growing needs for innovation.

The CEE region is twice the size of the German market and is one of the fastest growing regions in Europe with a GDP growth of 3.9% (Euro area 0.7%). It is to a large extent consolidated through a couple of large banks – three of them headquartered in Vienna. With a still developing FinTech community in Austria and CEE and an “overbanked” banking sector working hard on digitalisation, Swedish FinTechs with a track record of solving many of the challenges that banks in the CEE region are facing, have a strong competitive advantage in this region.

The CEE region constitutes a vast area stretching from the Alps in the west to the Black Sea in the east, and is becoming a new frontier for FinTech companies. With an average GDP growth of 3.9% (euro area 0.7% growth) many of the CEE countries have very beneficial corporate taxes, such as Hungary with the lowest CIT in the EU of only 9% and countries such as Belarus with an average net interest margin of 7.7% (in Sweden about 1%). The CEE region houses many profitable home markets for the regional banks, enabling investments in new technologies.

The main stage for influence in the CEE banking sector is Austria and many of the lead-

“ By looking into FinTech in CEE, you get a market twice the size of Germany, with the fastest GDP growth in Europe, consolidated around a couple of big international banks and with high net interest margins that enable investments in new technologies ”

Hampus Nilzén, Trade Commissioner Austria,
Business Sweden

ing banks in the region have their headquarters in Vienna. Via banks and insurance companies in Vienna, you can reach one of Europe’s largest FinTech markets.

In total, the FinTech market in the CEE region is estimated to around EUR 2.2 bn. Not all new FinTech technologies are established on the CEE markets yet, such as blockchain and IoT in banking, but they are definitely on their way.

Being home to international banks with a large footprint in CEE, Business Sweden has identified Vienna as an interesting FinTech hub for the Swedish FinTech sector with an unparalleled outreach to CEE.

* VIENNA CALLING, FALCO, 1985

The Austrian and CEE FinTech community might not be an insider tip very much longer as Vienna just entered as a newcomer at number 15 in a ranking of global fintech hubs by the Institute for Financial Services Zug.

Even in CEE, Sweden is seen as leader in FinTech innovations which creates significant opportunities for Swedish FinTech companies.

By approaching the CEE region, Swedish FinTechs can reach markets with high net interest margins which enable the implementation of new technologies. For example in Belarus, where Swedish FinTech Asteria could run a proof-of-concept through Raiffeisen's Elevator Lab, the average net interest margin is 7.7% (in Sweden about 1%). Same remarkable profitability for Austrian banks goes for most of the CEE countries where the average net interest margin is between 2.5 and 3.5%.

A great advantage is also the spread in markets you get by approaching CEE, ranging from very developed and capitalized countries like Austria with a GDP per capita of 44,175 USD to countries in earlier stages, like Croatia, with a GDP growth of 4 percent (GDP per capita 12,090 USD) or Bulgaria with GDP growth of 4.3 percent (GDP per capita 7,350 USD).

THE AUSTRIAN CEE FOOTPRINT - BANK & INSURANCE

Soon after the fall of the Berlin Wall, Austrian banks and insurance companies were early to enter the wide-open markets of CEE. Erste Group, Raiffeisen Bank International (RBI) and Bank Austria (today Unicredit Group) were able to position themselves as the top financial institutions in the region through acquisitions and an active growth strategy.

With the EU accession this growth has continued as the banks followed their clients into the CEE markets which soon became home markets for the big Austrian banks – in a similar way as the case with Scandinavia and the Baltics.

Since a few years back also Russian Sberbank has their European HQ in Vienna, making the Austrian capital even more attractive as a single entry point to the CEE region.

In 2008 Italian Unicredit acquired Bank Austria including all its CEE branches now belonging directly to Unicredit Group. However, much of Unicredit's CEE operations are still handled through the Vienna HQ.

The Austrian large banking groups Erste Group, Raiffeisen Bank International and Unicredit Group (the CEE part) are the largest banks in CEE, at least one of them being



Figure 1 - Raiffeisen Bank International (RBI): Austria, Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Czech Republic, Croatia, Hungary, Kosovo, Poland, Romania, Russia, Serbia, Slovakia, Ukraine.



Figure 2 - Erste Group: Austria, Bosnia & Herzegovina, Czech Republic, Croatia, Hungary, Moldova, Montenegro, Romania, Serbia, Slovakia, Slovenia.

among top three banks according to customers, assets and turnover in Bulgaria, Belarus, Croatia, Czech Republic, Hungary, Romania and Slovakia and are all at least top 5 in all other CEE countries.

Also, neighbouring Budapest hosts one of the largest CEE banks, the OTP bank. OTP is present in several CEE countries outside of Hungary like Bulgaria, Romania and Slovakia.

Some of the successes of the banking sector in the CEE have been the willingness to adapt in the new markets as well as the Austrian legacy in the region and reconnecting to



Figure 3 - Unicredit Group (Bank Austria): Austria, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Germany, Hungary, Poland, Romania, Russia, Serbia, Slovakia, Slovenia and Turkey.

historically Austrian-owned banks. CEE countries are now often used as test markets for the Austrian banks before implementing solutions groupwide.

The penetration of Austrian banks in the CEE region is significant. In some countries like Croatia or Slovakia, Austrian banks have the majority of all national assets. Overall in the CEE region, the Austrian banks hold about a third of all the assets in the countries (fig. 4).

INSURANCE SECTOR

It is also important in this context not to forget the insurance sector which is also dominated by Austrian companies. The leading Austrian insurance companies Vienna Insurance Group (VIG) and Uniqa are holding top 3 positions in most of CEE countries.

Vienna Insurance Group alone has a client base of over 180 million people in 25 markets, among others: Austria, Bulgaria, the Baltics, Croatia, Czech Republic, Hungary, Poland and Turkey

Uniqa is present in the whole region with exception from smaller countries on the Balkans like Slovenia and Albania.

CHALLENGES AND NEEDS

Most solutions for the banking sector in Austria and CEE have, until recently, been developed in-house (with some external consultancy) or provided by established providers. Even though standard FinTech solutions, such as internet

Country	AT Assets bn EUR	AT Assets % of total	AT net banking income bn EUR
BG	11,3	20%	0,6
HR	25,4	60%	0,7
CZ	59,1	30%	2,1
HU	20,1	22%	1,3
RO	26,2	28%	1,6
SK	22,6	45%	1,0

Figure 4 - Austrian banks' assets in CEE markets. For example, in Croatia, Austrian banks' total assets in the country amount to 60% of the total Croatian banking assets.

and mobile banking, contactless cards, etc are highly established on the CEE markets, there is much room for new innovative and disruptive FinTech solutions. To keep up with R&D and cost efficiency, banks in the CEE are now turning towards external innovations.

Austria is considered one of the most “over-banked” countries in the world with about 4,100 bank offices in a country of 8.5 mn. Austrian banks have in average 1,700 customers per bank office, whereas Swedish banks handle over 10,000 customers per bank office (as a comparison Czech banks handle 4,300 customers per office; banks in the Netherlands 6,400 per office).

Austrian and CEE banks now aim to improve the efficiency of their branch network through increased digitization, not least digital solutions for SMEs and more advanced banking services online in general. The goal is to decrease branch offices by one third until 2020. This change is only possible with adequate FinTech solutions.

After dialogues with leading financial institutions in Vienna, Business Sweden has identified the following challenges in the financial sector in Austria & CEE:

PAYMENTS – the launch of numerous breakthrough solutions within the payments area have made this a hot topic, in particular when it comes to payment methods such as contactless and mobile payments, where there still is room for new innovative solutions.

INTEGRATION AND MIGRATION OF OLD AND NEW IT SYSTEMS – many of the Austrian banks and insurance companies are in need to modernise their IT systems but migration and integration of old and new systems has been and still is a challenge and can also be seen as one of the reasons to why Austrian banks have not been exposed to external innovation solutions to the same extent as Swedish.

REGTECH – information about clients is key in a market, where information is limited, like the CEE region. Austrian institutions are actively searching for innovative solutions and know-how within areas like KYC, AML and background checks.

SME BANKING – many of the banks in the CEE region have high margins but their clients are also much harder to value due to lack of comprehensive financial infrastructure. Many SME clients in the CEE region have an irregular cash flow, which can affect their payment ability, making their payment times longer than in western countries. There is therefore an active demand for adequate tools that can assist the banks in anticipating and proposing the right services to offer to their clients.

“ We are the first banking group in Central and Eastern Europe (CEE) to launch a fintech accelerator program of this scale ... through Elevator Lab we want to enable innovative FinTechs to offer real value-added to our 16.5 million customers throughout our 14 CEE markets ”

Johann Strobl CEO Raiffeisen International Business Sweden

LENDING – B2C as well as peer-to-peer lending is a trending topic in the FinTech sector in CEE and therefore of high interest.

AUTOMATION & CLOUD – small and medium sized enterprises are showing more and more interest in financial management solutions that are automated and cloud based.

- Automation of processes / smart contracts, many Austrian banks and insurance companies are currently dealing with a large change in how they organize their business. Much of their processes have been the same for a long time and new solutions are high on the agenda.
- Robo advisory, there is a need for automated, self-service customized solutions, especially for smaller corporate or retail customers, for example for those that currently do not have enough capital to qualify for traditional investment services and opt for robo-advisors.

CYBERSECURITY is an area that is receiving more and more attention due to the increasing number of cyber attacks. In this field, the implemented solutions have been provided by global players, which has left room for new innovative solutions. This is also an area where the new Austrian government has expressed high interest.

- Blockchain is a hot topic globally and Austria and the CEE region is in this case no exception. Due to the big variety between the different CEE economies, various blockchain solutions are of essence to for example secure safe payments within the region.

LOYALTY MANAGEMENT FOR BANKS – it takes 5 times more effort and resources (time, money) to acquire a new customer than to keep an existing one, which emphasizes the importance of implementation of loyalty management for banks.

THE CEE FINTECH LANDSCAPE

Most institutes in CEE have been developing their digital solution in-house, such as Erste group who developed their own digital banking platform George. However, most have now realized that speed and innovation is hard to get only in-house so many are now actively searching to partner up with external innovative companies to help them accelerate their modernization and digitization.

Today, the FinTech landscape in Austria and to a large extent in CEE is, relatively speaking, still in the early phase. Lack of knowhow as well as lack of venture capital for startups have been some of the contributing factors to why the Austrian FinTech scene has been lagging behind the Swedish one.

Therefore, the FinTech sector in CEE is very much looking outside of CEE both for external innovation to be implemented throughout CEE, but also for inspiration to an up and coming FinTech hub Vienna.

FINANCIAL CLUSTERS AND FINTECH VENTURE FUNDS ON THE RISE

In the last two years Austria and the CEE region have seen a boost in FinTech activities with the launch of new clusters, funds and incubators:

- FinTech Austria – branch organization for Austrian FinTech companies including big

banks and insurance companies, www.FinTechAustria.org

- Raiffeisen Bank International's Elevator Lab – the leading FinTech accelerator in CEE. Participating FinTechs can via the Elevator Lab reach the whole RBI group covering the entire CEE, www.elevator-lab.com
- WeXelerate – one of the largest general incubator hubs in Europe with many of the leading CEE companies present and over 9000 m2 in co-working space, one stream being FinTech, www.wexelerate.com
- CEE-FinTech cluster in Budapest – leading platform for bringing together the financial industry, FinTech startups and investors, www.cee-FinTech.com
- Startup Yard – a seed accelerator based in Prague, connecting various startups with the industry, startupyard.com

Since this year, RBI together with UNIQA and Speedinvest, invest up to 50 MEUR in promising Fintech start-ups driven between the three investors. The investment tickets are between 1 and 4 MEUR. Raiffeisen Bank International also has its own corporate venture capital entity equipped with 25 MEUR. The purpose is to support their Elevator Lab ventures and the growth path of FinTechs in CEE.

VIENNA IS CALLING FOR SWEDISH FINTECH SOLUTIONS

Sweden has due to progressive political reforms, a vibrant startup scene and a dynamic venture capital ecosystem, risen as one of the leading FinTech nations in the world and there is therefore a significant potential for Swedish FinTech to capitalize on this opportunity in Austria and CEE now when the market is opening up to external innovation.

So why should Swedish FinTech companies answer a call from Vienna?

- The CEE region is a large market, 170 mn people, 16 countries, twice the size of the German market
- One of the fastest growing regions in Europe with a GDP growth of 3,9% (euro area 0,7% growth)
- Vienna is acting as a single entrypoint: 3 regional banks and 2 regional insurance companies headquartered in Vienna
- Local FinTech landscape is still in the early phase

- Relatively low presence of innovative external technology providers within the large banks
- Swedish FinTech industry has excellent reputation in Austria and CEE
- Swedish FinTech companies have a track record of solving many of the challenges that banks in Austria & CEE are facing, resulting in a competitive advantage

BUSINESS SWEDEN CEE CAN SHORTEN YOUR TIME TO MARKET

- With offices in Vienna, Budapest, Prague and Warsaw, we have a strong presence in the CEE
- Business Sweden in CEE has a large network and experience within the banking and finance sector
- With our full hands-on business incubation and support, we can shorten your time to market
- For an accelerated landing, we make sure that you select the right market and identify your competitive edge
- We can accelerate your sales in the CEE banking and finance sector with interim business development, sales execution, partner search & selection and sales & partner management
- Our other services include market expansion, public affairs and business incubation and operations



We help Swedish companies grow global sales and international companies invest and expand in Sweden.

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