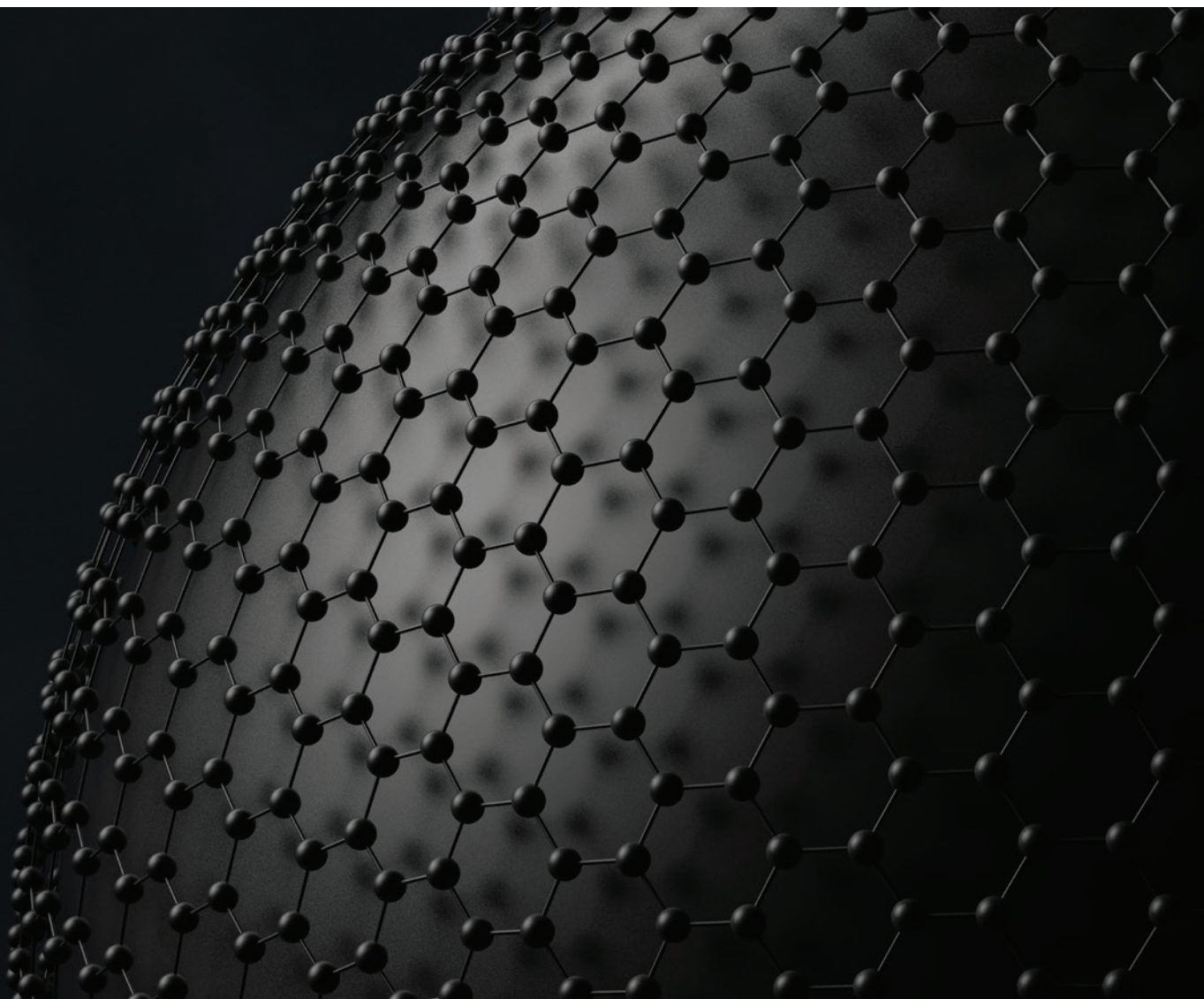


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FIVE PREDICTIONS FOR THE AUSTRIAN FINANCIAL SERVICES MARKET AND ITS CEE FOOTPRINT



BACKGROUND

Historical ties and geographic proximity helped Austrian banks and insurance companies expand into Hungary and the former Czechoslovakia in the early 1990s. Their footprint has since broadened dynamically across the entire Central Eastern Europe (CEE). Today Austrian players have subsidiaries with substantial market shares in more than 20 countries.¹

The exposure of Austrian banks related to CEE, compared to the rest of Europe, is high. The EU-15 banks share a total CEE exposure of €976 billion. Austria holds the majority stake with approximately 22 percent or €215 billion. This is followed by Italy (17 percent), France (16 percent), Spain (10 percent) and Germany (9 percent).

While this exposure presents risk, it is also an important contributor to Austrian banks' overall P&L, which totaled €6.9 billion in 2018, with the CEE share of €2.9 billion or approximately 42 percent.² In addition, the Austrian banking market leverage relative to its population is higher than that of other European countries.³

Austrian insurance groups active in foreign countries generated an accumulated premium volume of €13.9 billion in 2017 (written premiums net of reinsurance ceded, domestic and foreign business). This includes premiums of €5.5 billion or a share of nearly 40 percent from outside of Austria.⁴

Austria's Economic Landscape	
Strengths <ul style="list-style-type: none">• Strong macroeconomic fundamentals• Well-developed tourism sector	Challenges <ul style="list-style-type: none">• Winding down of Hypo Alpe Adria Bank• Underdeveloped venture capital market
Prospects <ul style="list-style-type: none">• Adoption of measures to ensure financial stability• Strong ties with China	Risks <ul style="list-style-type: none">• Banks' exposure to CEE countries

Source: Macroeconomic outlook report, May 2019

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1. Austrian Federal Ministry of Finance; Structure of the Austrian Financial Sector | Capco research
 2. OeNB (Austrian National Bank) April 2019; Facts on Austria and its banks
 3. Austrian 2018 GDP €387 bn/banking assets €986 bn = leverage of 2.5 (with a population of 8.9m). For comparison, GDP/banking assets leverage in Germany is 2.2, Romania 0.4, Slovakia 0.96
 4. FMA (Financial Market Authority) November 2018; Report on the analysis of foreign insurance business of Austrian insurance groups

BACKGROUND (CONTINUED)

Major Banks & Insurers with HQ in Austria	Countries Where Four or More Austrian Players are Active											
	AUT	BIH	BGR	HRV	CZE	GER	HUN	POL	ROU	SRB	SVK	SLO
Bank Austria (as UniCredit)	x	x	x	x	x	x	x	x	x	x	x	x
BAWAG Group	x					x						
Erste Group	x	x		x	x		x		x	x	x	x
Raiffeisen Bank International	x	x	x	x	x	x	x	x	x	x	x	
Sberbank Europe	x	x		x	x	x	x					x
UNIQA Group	x	x	x	x	x		x	x	x	x	x	
Vienna Insurance Group	x	x	x	x	x	x	x	x	x	x	x	x
#	7	6	4	6	6	5	6	4	5	6	5	4
Population - WEF	9m	4m	7m	4m	11m	83m	10m	38m	20m	7m	5m	2m
GDP per capita in EUR ¹ - WEF	45k	5k	8k	13k	20k	42k	14k	13k	11k	6k	17k	23k
10-year avg. GDP growth - WEF	1.4%	1.7%	2.0%	0.7%	2.0%	1.8%	2.1%	3.1%	2.6%	1.5%	2.8%	1.5%
Total assets - banking in EUR - OeNB; ebf	986bn	16bn	57bn	60bn	286bn	7,776bn	126bn	462bn	104bn	30bn	82bn	41bn
Gross written premiums - insurance in EUR - FMA	19bn	0.4bn	1.1bn	1.2bn	5.9bn	197bn	3.1bn	15bn	2.1bn	0.8bn	2.1bn	2.2bn
Fintechs with headquarters in country ²	144	3	68	22	86	1,108	85	161	99	15	46	29
Global Competitiveness Index <i>ranking</i> ³	21	92	49	63	32	7	47	37	51	72	42	35
Business dynamism - administrative requirements <i>ranking</i> ³	30	102	60	64	26	3	55	47	66	42	49	10
Business dynamism - entrepreneurial culture <i>ranking</i> ³	40	125	65	134	49	9	122	94	86	92	83	69
ICT adoption <i>ranking</i> ³	50	80	30	60	42	36	54	51	32	77	39	40
Financial system <i>ranking</i> ³	40	80	73	63	47	25	66	57	86	82	56	61
Innovation capability <i>ranking</i> ³	14	117	48	73	29	1	41	39	55	59	44	28
International Digital Economy & Society Index <i>ranking</i> ⁴	21	n.a.	36	32	27	17	24	34	42	33	28	29
Global Sustainable Competitiveness Index <i>ranking</i> ⁵	11	33	32	10	16	15	31	21	26	60	22	13

WEF (World Economic Forum)

OeNB (Austrian National Bank)

FMA (Financial Market Authority)

EBF (European Banking Federation)

ICT (Information & Communication Technology)

1) exchange rate USD/EUR 0.87

2) www.dealroom.co; Jan 2020

3) out of 141 countries; WEF; 2019

4) out of 45 countries; European Commission; 2018

5) out of 135 countries; SolAbility; 2019

Statistics for countries where established Austrian financial services market players are active

MARKET DEVELOPMENTS IN 2019

New players, both established and challengers, continue to enter the Austrian financial services market. Cooperation between financial and non-financial services market players is becoming more relevant, while the market itself remains highly competitive and challenging.

Below is a non-exhaustive summary of moves within the Austrian financial services market that took place in 2019:

- **N26 opened a new tech hub**, located in Vienna's startup hub **weXelerate**, with a long-term ambition of reaching a headcount of 300.
- **Post**, the leading Austrian logistics and postal services provider, is rebuilding its banking service from scratch to compensate for the cancellation of the long-term Post/BAWAG P.S.K. cooperation agreement. The launch is due to take place in April 2020.
- **ICBC** (Industrial and Commercial Bank of China), the world's biggest bank, opened an Austrian branch to support China's Belt and Road Initiative.
- One of the largest Austrian banks, **RBI** (Raiffeisen International Bank), initiated a holistic 'change the bank' program to support digitization and agility of the group.
- **BAWAG P.S.K.** launched a new digital banking app **klar** and partnered with **jö Bonus Club**, a customer loyalty card shared by several partners from different sectors, initiated by **REWE**. The bank's crowdfunding platform **Crowdfunding.at** enables jö customers to support social projects with Ös, the shared loyalty currency.
- Approximately 300 fintechs participated in the third batch of **Elevator Lab**, one of the largest CEE fintech networks.
- **Apple Pay** launched in Austria via **N26** and **Erste Bank Group** back in April 2019. Other Austrian market players have followed suit by integrating Apple Pay.
- The third **FintechWeek Vienna**, with over 20 events, continues to build the bridge between the startup/fintech community, established banks and regulators.
- **startup300** acquired a 100 percent share of **CONDA**. With this acquisition they invested in a technology provider of a security token offering and a white label crowdfunding platform solution.
- **Erste Bank Group** and **CONDA** launched the innovative corporate funding tool **FundNow**, which combines traditional and alternative funding channels such as crowd and equity financing.
- **BAWAG P.S.K.** acquired 49 percent in Finventum GmbH, the creator of the robo-advisory technology **Savity**.
- **bunq**, a challenger bank from the Netherlands, expanded to Austria and is now available in 30 European countries.
- **UNIQA** has developed a new service together with the startups **bsurance** and **playbrush**. The better their customers care for their teeth, the more UNIQA will reimburse them on health insurance. Both startups are **UNIQA ventures** portfolio companies.
- **Sberbank** was named the most innovative bank in CEE by the Global Finance magazine.
- **bitpanda** (platform for digital assets) landed a payment service provider license in Austria.
- **Wirecard** brings Chinese payments to Austria.
- **Vienna Insurance Group** launched its first internal startup **viesure**, based in the coworking space **Talent Garden Vienna**, which will focus on emerging trends in customer service and collaborate with **startup300**.
- **Volkswagen Bank** acquired a 20 percent stake of Credi2 GmbH (better known by their brand **cashpresso**) as an investment in credit processes digitization.

THE FUTURE

What will the Austrian financial services market look like in the next couple of years? And will today's major Austrian financial players remain prominent in the future? After all, we are living in volatile, uncertain, complex and ambiguous (VUCA) world, with many opportunities and disruptions ahead of us.

The following global trends help understand what the future might look like and must be taken into consideration, particularly in strategic planning:

- **Demographic change:** population growth, young vs. old countries, old vs. young generations, migration, urbanization, war for talent, etc.
- **Digital transformation:** data and analytics, automation, connectivity, omnichannel approaches, user and customer experience, accessibility anywhere / anytime, etc.
- **Technology and innovation:** exponential growth and agility of tech, artificial intelligence, security, adoption in 'social service' models, evolution of communication channels, blockchain, Open Banking, etc.
- **Sustainability:** scarcity of resources, ownership of responsibility, climate change, etc.

Based on recent market developments and global trends, below are our five predictions for how the Austrian financial services market will evolve over the next five years:

- 1. CEE will continue to be a major market for Austrian financial services players.**
 - At the same time, exposure to the CEE countries will remain a major risk.
 - Established Austrian players will continue their digital transformation, including the CEE business.
- 2. Neobanks (fully digital banks with no physical branches) will continue their growth story and reach a market share of over 25 percent (currently around 12 percent⁵) within Austria's banking business.**

- Generation Z (born between 1995 and 2010) are digital natives and expect services to be accessible anywhere and anytime.
- Neobanks will connect with other ecosystem players to support seamless user and customer journeys.
- Funding rounds by venture capitalists will continue to boost the evolution of neobanks, enabling new brands to become further established.
- Alongside traditional and new banking players, global technology companies will further expand their online business into banking services.

- 3. At least one insurtech company will enter the Austrian financial services market and challenge the position of established insurers.**

- Unlike their banking counterparts, Austrian insurance companies have not yet been confronted by insurtech firms competing for ownership of end-customers.
- Established Austrian players are already collaborating with startups and have started to drive their own digital transformation.
- However, challenger insurtech companies who are already active in other markets (e.g. Germany) can easily enter the Austrian market.
- With the right risk appetite and capital injection, existing market participants could also adapt their business by vertical integration and become a challenger insurtech.

- 4. The Austrian startup ecosystem will develop further and the venture capital market maturity level will rise.**

- Austria's startup ecosystem and its international ties to cities known for their entrepreneurial culture have developed steadily over the past few years.

5. Capco research, 2019; considering direct banks from established players and new challenger banks that have already entered Austrian financial services market.

THE FUTURE (CONTINUED)

- However, based on various startup hub rankings⁶ as well as statistics⁷, Austria and its capital Vienna rank midfield compared to other countries and cities. According to WEF, the following two factors influence the rankings: attitudes towards entrepreneurial risk and administrative requirements such as cost or time of starting a business.
 - The latest governmental program, presented in January 2020, aims to follow a best-of-vision for Austria's startup ecosystem and catch up with the more advanced startup hubs.⁸
 - In particular, the adoption of legal frameworks and initiatives related to providing risk capital will support the Austrian startup landscape evolution.
 - In addition, initiatives such as [Moonshot Pirates](#) will continue to encourage young minds to dream big and adopt entrepreneurial thinking.
- 5. Austria will become one of the most advanced countries on the sustainability and environmental fronts. Austrian financial services firms can additionally profit from boosting this agenda through their CEE positions.**
- EU initiatives such as [Action plan: Financing Sustainable Growth](#) (May 2018) and [European Green Deal](#) (December 2019) are changing regulatory frameworks and market behaviour.
 - Commitment to improve the environment and combat climate change will shift from corporate social responsibility to the risk management agenda.⁹
 - Fundamental initiatives towards sustainability (e.g. operational changes) will support companies in the war for talent.

Contact us to discuss the future of Austrian financial services, our five predictions and how Capco can help you make the most of the country's unique position within Europe.

6. e.g. valuer.ai/blog/top-50-best-startup-cities/ | www.startupblink.com

7. WEF; 2019; The Global Competitiveness Index; sub-indices related to business dynamism

8. derbrutkasten.com; January 2020

9. www.rmmagazine.com/2019/03/01/taking-action-on-climate-change/; March 2019

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ABOUT CAPCO

Capco is a global technology and management consultancy dedicated to the financial services industry. Our professionals combine innovative thinking with unrivalled industry knowledge to offer our clients consulting expertise, complex technology and package integration, transformation delivery, and managed services, to move their organizations forward.

Through our collaborative and efficient approach, we help our clients successfully innovate, increase revenue, manage risk and regulatory change, reduce costs, and enhance controls. We specialize primarily in banking, capital markets, wealth and asset management and insurance. We also have an energy consulting practice in the US. We serve our clients from offices in leading financial centers across the Americas, Europe, and Asia Pacific.

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