Sustainable Fintech in Switzerland

GZA webinar – July 9, 2020
3 pm Korea Standard Time (KST) / 8 am CEST
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Sustainable FinTech

09.07.2020
Thomas Puschmann
Three Topics for the Webinar

1. Trends in FinTech

2. Deep Dive to Sustainable Digital Finance

3. Why Switzerland is one of the Hotspots for FinTech
1. Trends in FinTech

• Fintech is evolving into all financial domains including payments, investments and financing and especially RegTech, Capital Markets and InsurTech.

• Fintech becomes part of cross-industry “Digital Ecosystems” evolving into centralized and / or decentralized approaches.

• A third and currently emerging trend is the use of FinTech in the domain of sustainability which allows to increase the impact on economic, social and environmental conditions.
2. Deep Dive to Sustainable Digital Finance

- The financial sector is one of the key pillars of sustainability. (e.g., digital financing enabled agricultural supply chains).

- Sustainable Digital Finance has an enormous impact on social and environmental conditions (e.g., Task Force on Climate-Related Financial Disclosures (TCFD) from the Financial Stability Board).

- A new Global Center for Sustainable Digital Finance from Stanford University and the University of Zurich (www.sustainable-digital-finance.org) aims at conducting research and creating innovations (e.g., accelerator, start-ups, etc.)
3. Why Switzerland is one of the Hotspots for FinTech

• Switzerland is Europe’s No. 1 innovation champion and the No. 1 wealth management financial center in the world.

• Switzerland has evolved into one of the major FinTech hubs in the region with more than 360 FinTech start-ups and a broad variety of blockchain and crypto start-ups.

• Switzerland has a very well regulated financial services industry including novel (de-)regulations for FinTech and blockchain.

• South Korea and Switzerland have an innovation agreement which allows funding of science-based innovation from both national innovation agencies (Korea Institute for Advancement of Technology (KIAT) and Innosuisse).
Swiss FinTech Innovation Lab

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www.swissfintechinnovationlab.ch
Fintech in Korea

Fintech Center Korea
Simple payment market rapidly grows in Korea (tripled in last 3 years)

### Banking (Simple Payment & Remittance)

**Comparison of Top 4 Simple Payment Service Platform**

<table>
<thead>
<tr>
<th>Platform</th>
<th>Monthly Transaction</th>
<th>Accumulated User</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>Samsung Pay</td>
<td>KRW 1 Trillion (USD 835 Million)</td>
<td>14 Million (04.2019)</td>
<td>Released in 08-2015, NFC, MST method, No.1 Market share in offline, Service in 20 countries</td>
</tr>
<tr>
<td>Kakao Pay</td>
<td>KRW 4 Trillion (USD 3342 Million)</td>
<td>30 Million (08.2019)</td>
<td>Released in 2014 (The first), The highest accumulated user, The highest monthly transaction</td>
</tr>
<tr>
<td>Naver Pay</td>
<td>KRW 1.4 Trillion (USD 1169 Million)</td>
<td>30 Million (08.2019)</td>
<td>Plan to proceed financial service with Mirae Asset</td>
</tr>
<tr>
<td>Toss</td>
<td>KRW 4 Trillion (USD 3342 Million)</td>
<td>30 Million (08.2019)</td>
<td>Released in 02.2015, Sell the Mini-Insurance, Expansion Life-Finance Services</td>
</tr>
</tbody>
</table>

### Neo Bank

**Current Status of Neo Bank**

- Kakao Bank accumulated 4.35 million non-face-to-face accounts within 100 days after start of services
- It turned to a surplus in two years

**Success Factors**

- 40 million KakaoTalk members
- Customer-friendly UI, UX
- Mobile-only strategies → Focusing on mobile
- Unconditional Loan at low interest rate

**Effects**

- Digitalization
- Non-face-to-face accounts & transactions
- High competition in bank ecosystem
- Importance of security
- Catfish effect
- Fusion and bundling service expansion → Strengthen link with other industry
I. Fintech by sector in Korea

- **P2P Lending**

  Current Status of P2P Lending

  **Accumulated P2P Amount of Loans’ Increasing Progress in Korea**

  ![Graph showing the increase in P2P lending](source: Korea P2P Finance Association)

  - Risk management Know-how
  - Stable management of overdue - poor
  - Various investment product

  Rapid growth of P2P finance

- **Robo-Advisor**

  Current Status of Robo-Advisor

  ‘Koscom’ Robo-advisor Test-bed

<table>
<thead>
<tr>
<th>Type</th>
<th>Algorithm</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Korean</td>
<td>Data and Analytics FASST Korea</td>
<td>9.7</td>
</tr>
<tr>
<td></td>
<td>Kium Momentum</td>
<td>6.3</td>
</tr>
<tr>
<td></td>
<td>QV Pension Portfolio</td>
<td>6.2</td>
</tr>
<tr>
<td></td>
<td>KFI 177</td>
<td>6.0</td>
</tr>
<tr>
<td></td>
<td>KB Robo-rider</td>
<td>5.9</td>
</tr>
<tr>
<td></td>
<td>KODEX Robo-solution 1</td>
<td>5.5</td>
</tr>
<tr>
<td></td>
<td>Daishin Robo-balance</td>
<td>5.4</td>
</tr>
<tr>
<td></td>
<td>Kium Multi Asset</td>
<td>4.4</td>
</tr>
<tr>
<td></td>
<td>KEB Hana_Craft Asset Allocation Alpha</td>
<td>4.1</td>
</tr>
<tr>
<td></td>
<td>Samsung POP Robo Stock Fund</td>
<td>3.2</td>
</tr>
<tr>
<td></td>
<td>KIMRobo Global 01</td>
<td>9.1</td>
</tr>
<tr>
<td></td>
<td>December USA Stock Solution</td>
<td>4.3</td>
</tr>
<tr>
<td></td>
<td>ATOM Global Dynamic</td>
<td>2.5</td>
</tr>
</tbody>
</table>

  * 22-May-2017~26-Oct

  Source: Koscom

- It is concerned because real estate-related loans are significant portion (86%) of total P2P lending

  → estimated KRW 2 trillion (USD 1,670) in 2021
I. Fintech by sector in Korea

- **Crowdfunding**

  Current Status of Crowdfunding

  Total Funding Cases
  
 Filled circles represent the number of successful cases.

<table>
<thead>
<tr>
<th>Year</th>
<th>Cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>387</td>
</tr>
<tr>
<td>2017</td>
<td>287</td>
</tr>
<tr>
<td>2016</td>
<td>267</td>
</tr>
</tbody>
</table>

  Total Funding Success Amount

  USD $74.9 Mil

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>23.4 Million</td>
</tr>
<tr>
<td>2017</td>
<td>14.5 Million</td>
</tr>
<tr>
<td>2016</td>
<td>9.3 Million</td>
</tr>
</tbody>
</table>

  Funding Success Rate

  60% (Average)

<table>
<thead>
<tr>
<th>Year</th>
<th>Success Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>67%</td>
</tr>
<tr>
<td>2017</td>
<td>62%</td>
</tr>
<tr>
<td>2016</td>
<td>69%</td>
</tr>
</tbody>
</table>

  50mil US$ in 2017 -> 260 mil US$ in 2019 (5 times in 3 years)

  -> very rapid growth

- **Insurance**

  Major Insurance companies’ Insurtech innovation

<table>
<thead>
<tr>
<th>Insurance Company</th>
<th>Contents</th>
</tr>
</thead>
<tbody>
<tr>
<td>SAMSUNG LIFE INSURANCE</td>
<td>Establish CVC for Insurtech Startup Investment</td>
</tr>
<tr>
<td>KYOBO LIFE INSURANCE</td>
<td>Launch Blockchain Combined Disease Prediction Service</td>
</tr>
<tr>
<td>HANWHA GENERAL INSURANCE</td>
<td>SK telecom- Hyundai Motor establishes “Internet based Insurance company”</td>
</tr>
<tr>
<td>DB INSURANCE</td>
<td>Signed an MoU for Insurtech research with Korea Internet&amp;Security Agency</td>
</tr>
<tr>
<td>KB INSURANCE</td>
<td>MoU signed by three parties to prepare a simple claim system</td>
</tr>
<tr>
<td>HANA LIFE INSURANCE</td>
<td>Signed with InsureTech Company &quot;Ubicare&quot; to develop health-enhancing products</td>
</tr>
</tbody>
</table>

Driving habit-linked & Health-linked insurances start to release onto the market

- Health care Insurtech products have increased in recent years due to aging society and big data analysis
II. Fintech Innovation Stage

- **Four step of innovation in finance to support innovative growth**

  **Step 1**
  - Competition of financial service on digital market
  - Minimize time duration between production- sales- consumption
  - Unbundling market: Price/Quality (high cost-effectiveness) of individual service

  **Step 2**
  - Unbundling market
  - Digital Platform
  - Price/Quality of individual service
  - Customer Based X Loyalty

  **Step 3**
  - Using Big data (financial transaction data) in ABCDIG
  - Creation of new and diverse financial services (ex. MyData)

  **Step 4**
  - Increased use of O2O and sharing economy using financial transaction data
  - Contribute to other industries’ innovation
The Korean National Assembly passed a legislation called the Financial Innovation Support Act (the “FinISA”) on December 7, 2018. Based on this Act, Regulatory Sandbox policy and Open Banking came into force.

1. **Regulatory Sandbox**
2. **Buckle down to Open Banking**

### The amendments to the three major data privacy laws

1. **Personal Information Protection Act**
2. **Act on Promotion of Information and Communications Network Utilization and Information Protection**
3. **Credit Information Use and Protection Act**

### FinDX (Financial Data Exchange Platform, www.data.go.kr)

1. **Opening “FinDX” in May 2020**
2. **Trading Data**: financial, e-commerce, distribution, real-estate, AI, telecommunication, medical (Only partially allowed by law) etc.
V. Challenge for Fintech Industry

- New Business Model: MyData

Concepts & Business Model of MyData

① Concepts
- Gather MyData based on the “Right to Data Portability” collected by a third party (MyData company)

② Business Model
- To see integrated individual’s own financial information
- More efficient asset management for individual

Open Banking

+ Amended Credit Information Act (deregulation on Big data)

+ ABCDIG (early stage on technology convergence)

= MyData
V. Challenge for Fintech Industry

- Go Global Financial Market through Fintech

Questions for Korean fintech firms to do business in EU

- Do you have regulation Sandbox in EU?
- European tax structure
  - What kind of tax structure (ex. holding company) has benefit in EU? (ex: Luxemburg, Netherland etc.)
- European demand for Fintech technology and business model
  - What kind of business models and technologies are strong in demand in EU?
Regulatory landscape for FinTech in Switzerland

Ronald Kogens, LL.M.
REGULATION AND AUTHORITIES

- The Swiss Financial Market is regulated on a federal level – there are no local differences

- Although many Swiss financial market laws have similarities to the laws of the European Economic Area, they differ as Switzerland is separate

- All activities related to the financial market are supervised by the Swiss Financial Market Authority (FINMA) that acts as a single authority – conflicts of competences do not exist

- FINMA maintains a FinTech desk with specialists that have a deep-understanding of various technologies – you can have a conversation on the same level of knowledge

- FINMA offers the possibility to submit FinTech projects for review – if FINMA agrees with the legal analysis in the project description they issue a non-action letter
SPECIFIC AREAS OF FINTECH

DLT/Blockchain projects

• Switzerland is a hub for DLT-blockchain projects
• Clear guidance by FINMA on the qualification of tokens (publicly available guidance on the regulatory qualification of ICO’s and tokens)
• Stablecoin-Guidance https://bit.ly/3e810Mx

Neo-Banking/Payment Solutions

• Promotion of innovation “Sandbox-Solution” – no banking license for payment systems required for accepting of funds up to CHF 1m or less than CHF 3k per client
• FinTech license/Banking license – special license for FinTech companies that permits accepting of funds up to CHF 100m – pre-stage of becoming a bank.

Crowdfunding

• Money can be held by the crowdfunding provider for up to 60 days (no amount limitation) without the need of a banking license
OTHER ASPECTS OF SWITZERLAND

Technology affinity of other authorities

• Likewise FINMA, other authorities such as the tax authorities are also tech affine – tax authorities are also open for project discussion and issue tax ruling on national and cross-border matters

• All Swiss authorities apply the laws in a technology neutral way – tech projects shall not be treated worse than traditional projects

Optimization of laws to enable technology

• Legal certainty - Switzerland has initiated a process in 2017/2018 to verify whether certain laws (civil and public laws, including financial market laws) must be adjusted – instead of creating a new law, Switzerland focused on fine-tuning that is based on well-established legal principles.

• The Swiss government strives to create technology neutral laws.

Large Ecosystem

• Switzerland has a large ecosystem of FinTech companies and service providers. It also has a strong position in the “old-financial” world and provides access to major financial institutions that are now also focusing on technology.
RONALD KOGENS, LL.M.  
ATTORNEY AT LAW

SPECIALIST IN DISRUPTIVE TECHNOLOGIES

• Ronald Kogens specializes in disruptive and new technologies and represents companies at all stages of their life cycles – from formation, business model/product structuring and fundraising through strategic transactions and public offerings.

• He has a profound knowledge of technology, IP and financial market law, in particular in the legal and technical aspects of FinTech business models and the tokenization of financial products, cloud infrastructures (SaaS, IaaS, PaaS), data centers, licensing of IP rights (proprietary licenses, open source licenses such as MIT, Apache, BSD, MPL 2.0, GPL 2.0, GPL 3.0 or AGPL 3.0), software development, and forming decentralized ecosystems (decentralized, autonomous organizations or full economies) using DLT as well as blockchain technology (industry related permissioned blockchains, public-chain layer-two scaling solutions or side chains).

• Ronald Kogens is also specialized in angel investor financing (seed financing), venture capital financing (series A, series B, series C and series D) and private equity financing transactions.
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