

'Shaping the future: Embracing fintech to develop and thrive'.

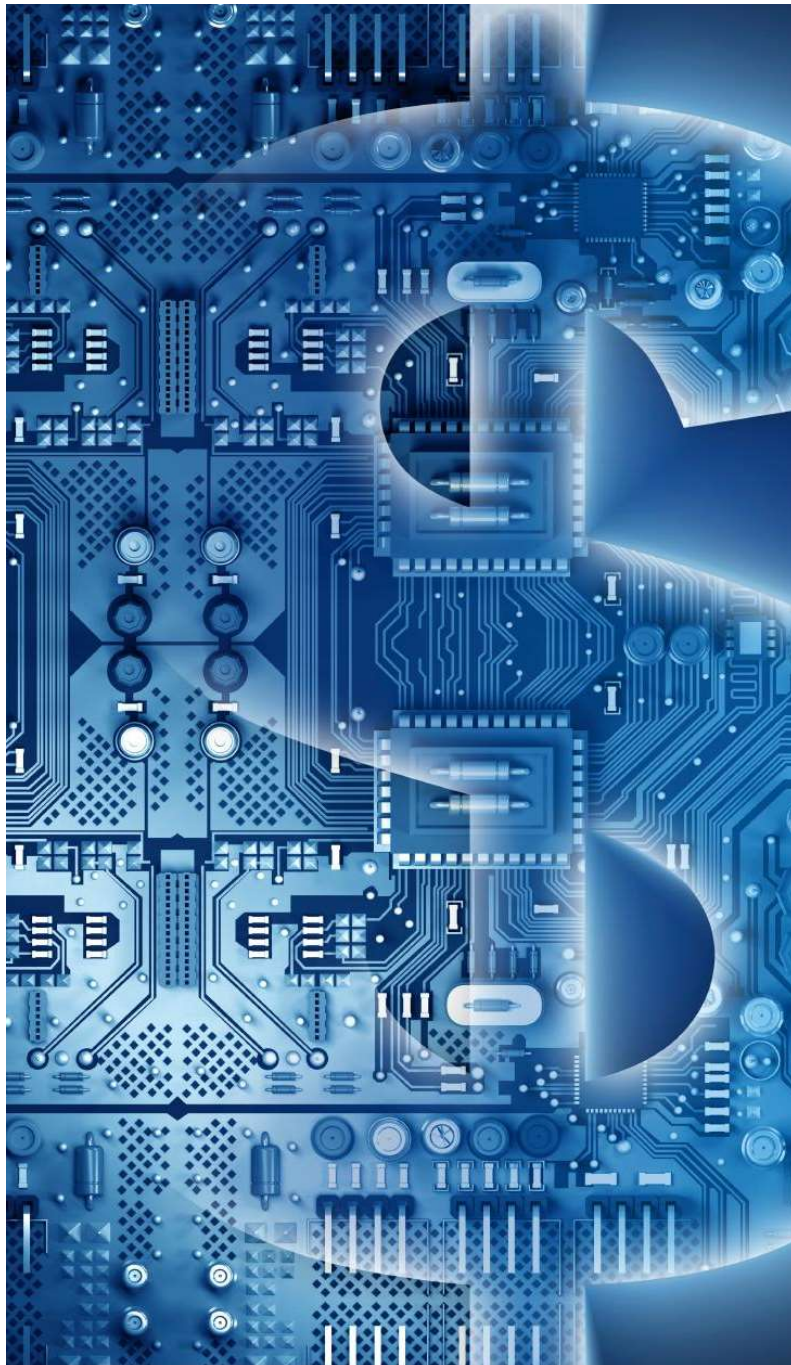
Evolution of Fintech: From maverick to mainstream

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Why did the development of financial technology emerge as an independent industry?

- *What caused banks to lose leadership in corporate ICT?*
- *What enabled Fintechs to emerge in a sector dominated by behemoths?*
- *What encouraged Fintech entrepreneurs into the domain of banks?*

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Development of banks and technology



- Finance and technology had evolved hand in hand for a very long time
- It took a sharp turn in 2007-8.
- Indeed, they divide the co-evolution of finance and technology into three stages, namely
 - (i) *The 'analogous age' prior to the late twentieth century;*
 - (ii) *the 'digitalisation era' from late twentieth century until 2008; and*
 - (iii) *the 'diverging era' with the advent of new financial providers based on advanced technologies.*

Arner et al., (2016)

It is easy
enough to
accept this
view

But what caused the split
with technology in 2007/8?



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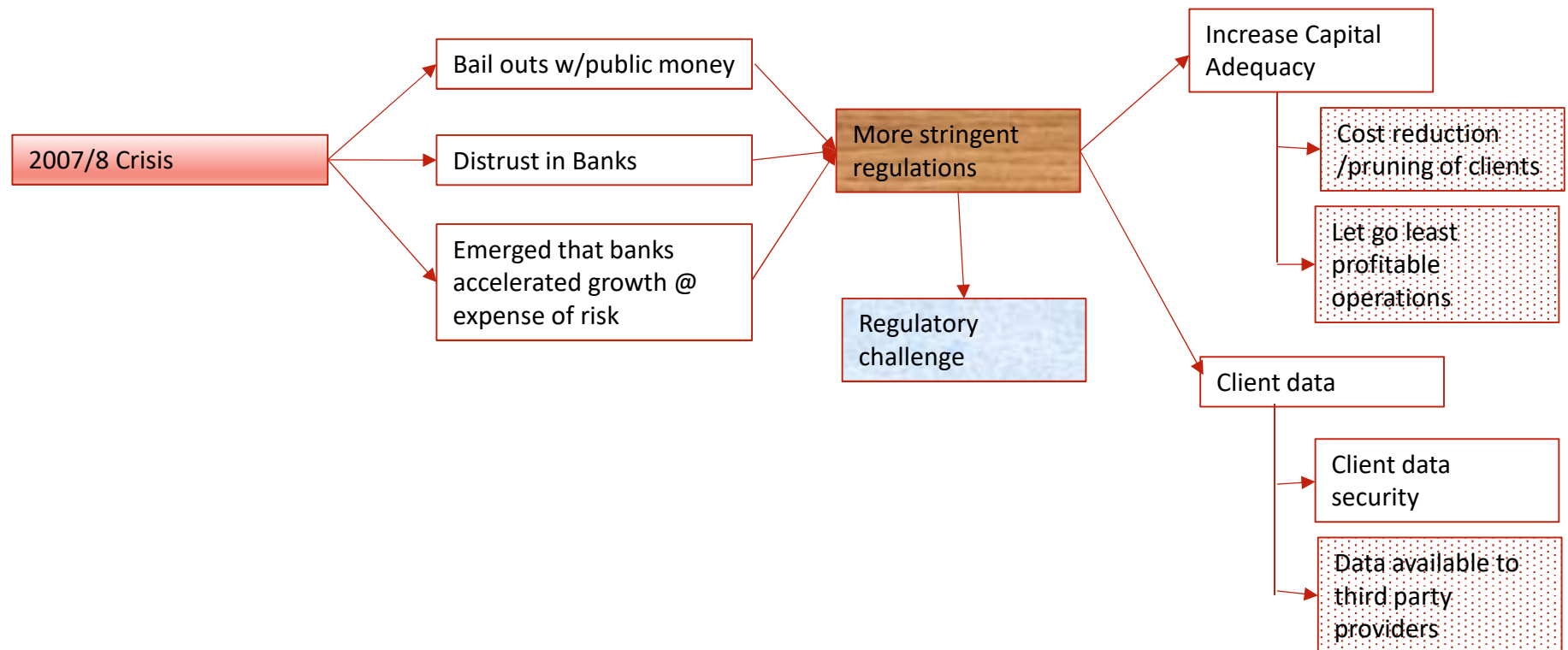
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As usual, a
multitude of
causes...

- It is rare to drill down to a single trigger
- Underlying changes tangled in an intertwined bundle of drivers and enablers
- We need to segregate this bundle and identify root causes
- Our research is aimed at explaining this phenomenon

Clearly, the 2007/8 Crisis was a factor:

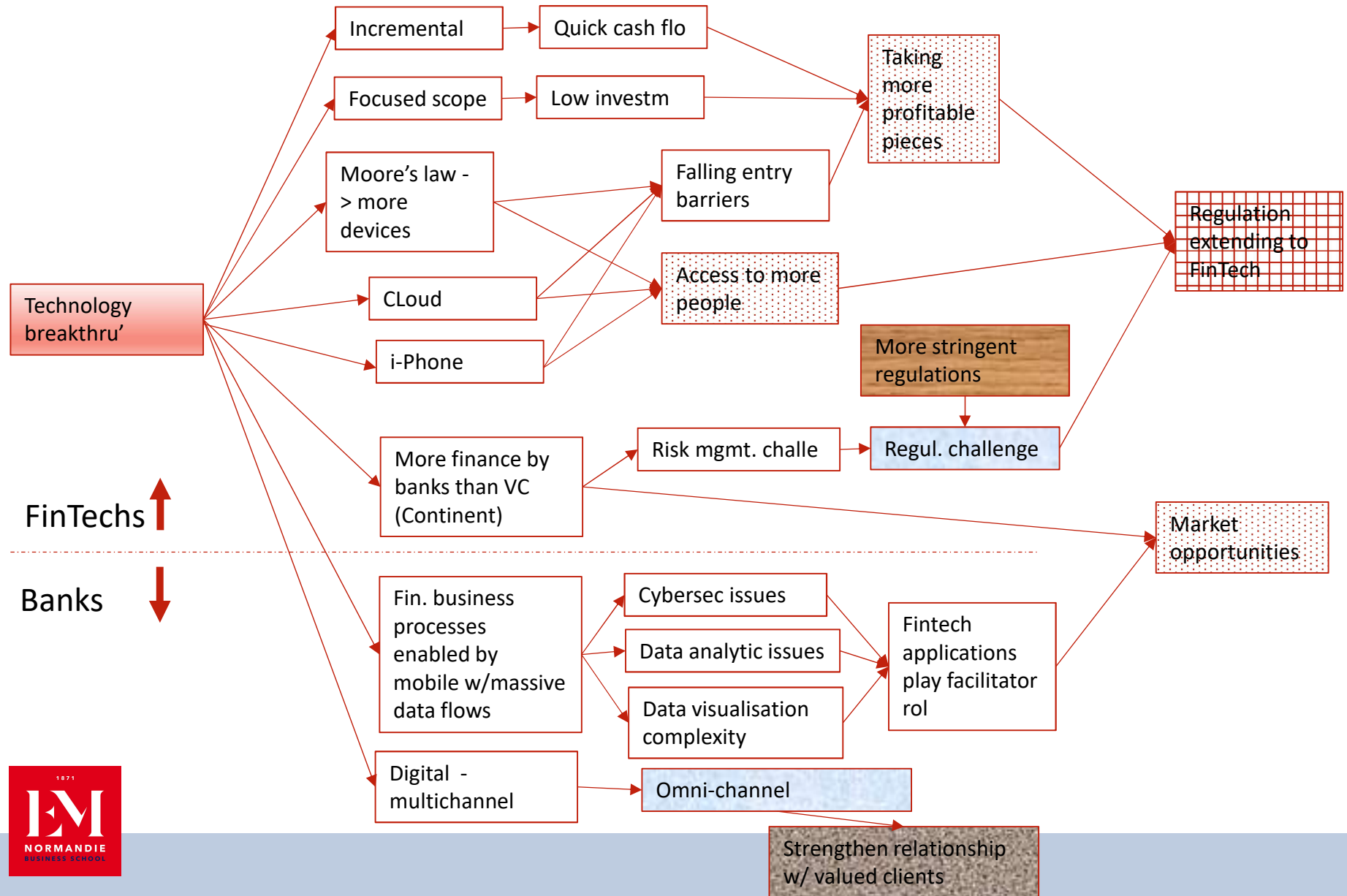





- Not really
- There have been many other crises and changes in regulations, but they did not distract banks from leading technological development
- Something else must have happened just at the same time

But does that alone
explain the split?

Unlucky for banks, technology breakthroughs:

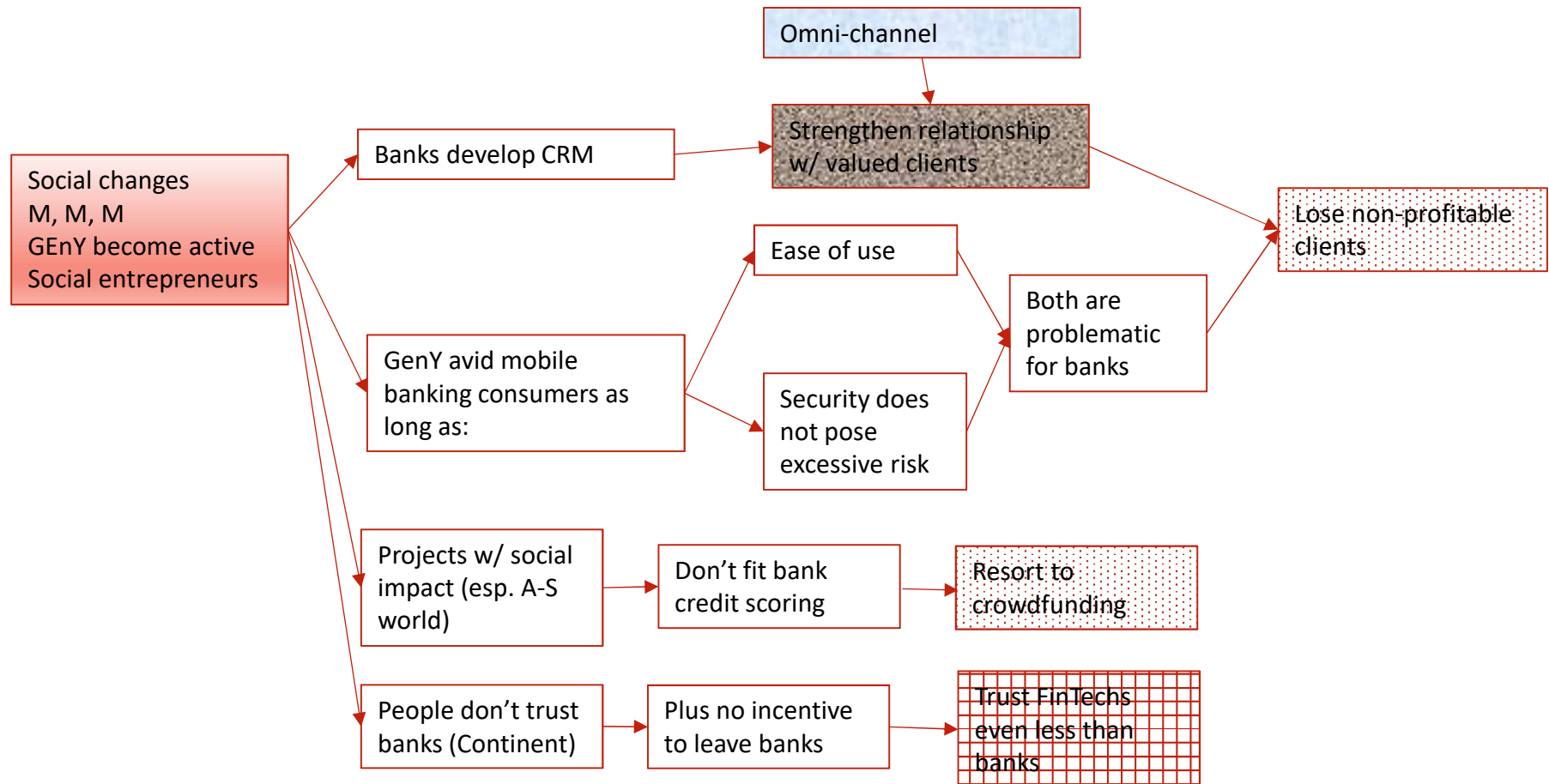




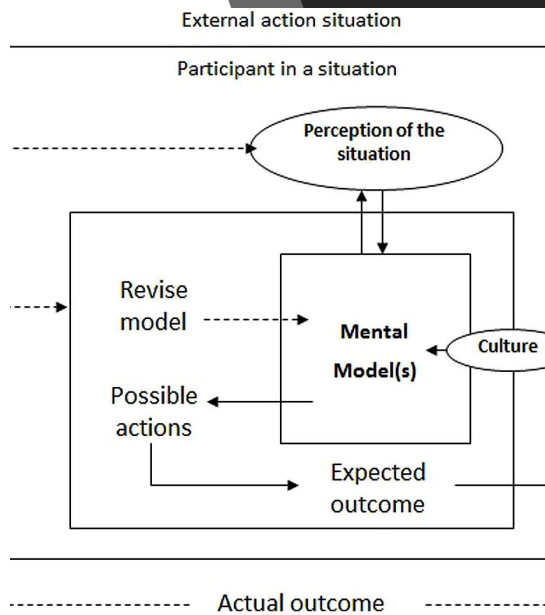
Does that
explain the
split?

- Only partially
- Inward looking banks, and technology breakthroughs was not all...

Another powerful factor: social changes:



In summary



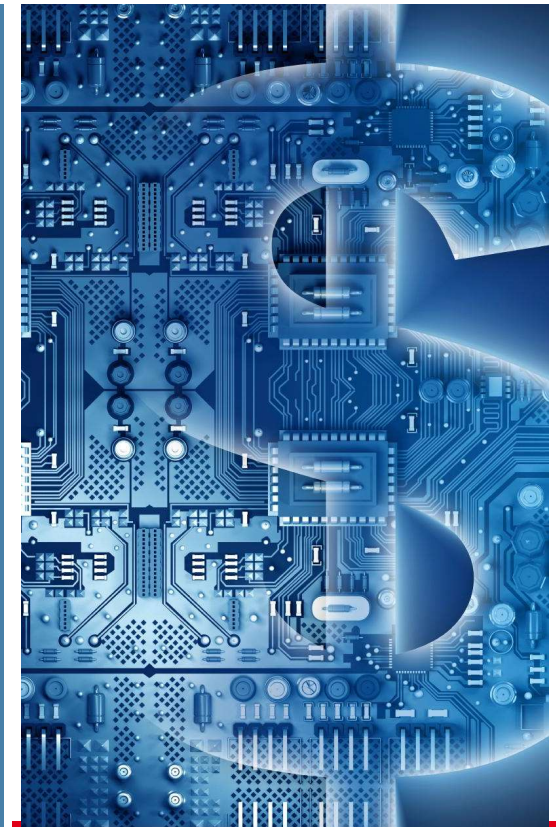
- **The conjunction of three factors has enabled the advent of the FinTech industry**

1. *2007/8 Financial crisis -> New regulations put wedge between banks and their clients: bank cost reduction/pruning of clients; let go least profitable operations; bank client data made available to third party providers*
2. *Tech breakthroughs -> falling entry barriers for emerging entrepreneurs; more devices available to people for digital access*
3. *Social changes -> Banks lose or weaken link with least profitable clients who are more open to experimenting with new financial service providers*



How has the Fintech industry developed ?

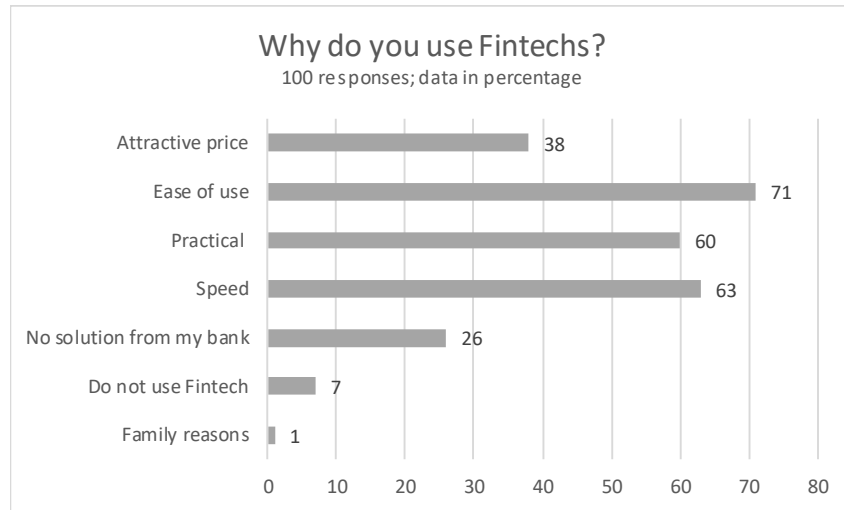
- What are the domains?
- What are the technologies?
- How do FinTechs relate to the banks?
- How will they stand in the face of Regulators?



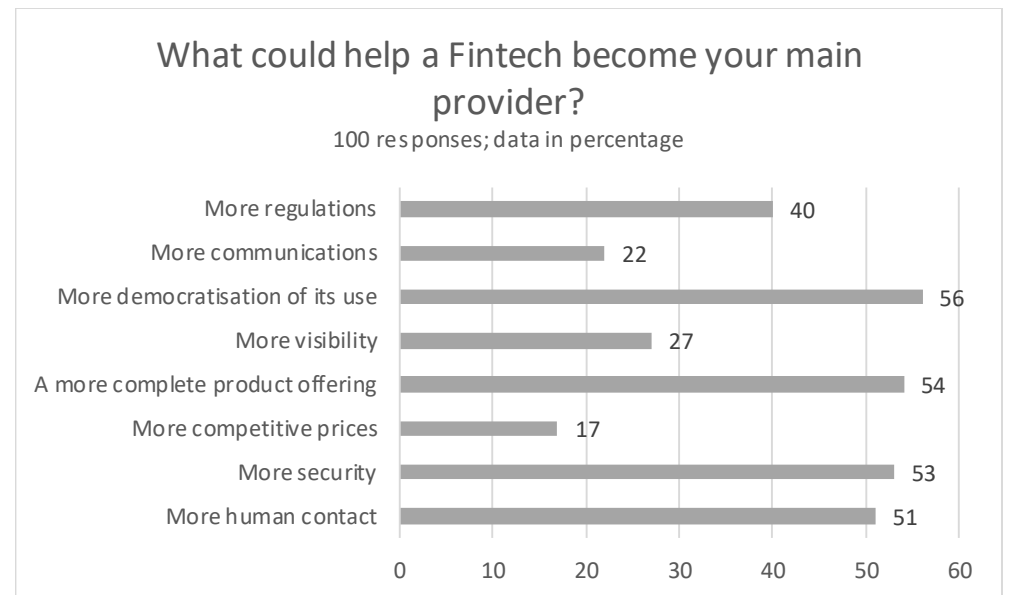
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What allures customers to Fintechs in France? Not price!



De Braquilanges (2019)





Interesting insight: Fintechs take the opportunity

- **Technological breakthroughs are all-important, but only a necessary and not a sufficient condition for the advent of Fintech**
- **Cultural-based influences have been essential**
- **The millennial generation is probably the most important:**
 - *They were let go by banks in their effort to focus on wealthy baby-boomers (especially in asset management services)*
- **Not anticipated:**
 - *Millennials are not wealthy (yet) but on the way to be largest demographic group*
 - *As a group they hold \$1tn in wealth (Pitchbook)*
 - *AM: Robo-advisors – Passive management – From remote locations – Monitored thru' mob app*
 - *To cap it all: 'Old generations learn to trust what is embraced by millennials'*

Interesting insight: More rivalry

- **The highest funded Fintech category is lending (Venture Scanner):**
 - *To consumers*
 - *To business*
- **Most of them based on the peer-to-peer business model**
 - *Constructing link between borrowers and investors*
 - *Some are co-lending with banks*
 - *Loan criteria varies between companies, but most want to avoid classic credit scoring*
 - *Looking for High Potential borrowers (how do you define this?) or interesting personal projects*
 - *Through low operating cost can offer lower rates to borrowers and higher returns to investors*



Interesting insight: Convergence?

- **Established banks found potential in Fintech**
 - *To invest in start-ups as opportunity ventures*
 - *But more importantly on internal Fintech projects*
- **To pursue several objectives:**
 - *Reduce operational costs*
 - *Provide more personalised services*
 - *Respond to customer behaviour changes*
- **So Fintechs' domain has extended from customer facing directly, to the back-office or mid-office through banks**



Interesting insight: Convergence, yes,



- But not only from the bankers' side
- Acceptance from Fintechs that they will not be able to change the market alone
- Sell themselves to banking groups looking for new solutions
- They actively search for collaboration opportunities with banks.
- They have allies in global tech giants such as Apple, that prefer their solutions over those offered by banks.
- One of Fintech strengths is that they are focused on the consumer rather than the product.
- Fintech in France: Deloitte: 'The future of Fintech is through the bank...and vice versa!'
- Interesting forc   for convergence: 76% of French people believe that no digital tool can replace an advisor. (de Braquilianges, 2019)

Fintech industrial organisation framework (p.1)

	Alternative Finance: Personal finan. Consumer bank. Lending Crowdfunding	Transactions: Payments, Remittances	Markets: Equity financing, Retail Investm. Instit. Investm, Crowdfunding	Backoffice: Banking infrast., Financial secur. Business tools Financ. research	Financial inclusion: Reaching out Fees & profitab., Micro finance	Crypto-currencies: Paym. Instrum or investment? ICO	Business partner integration: Telcos Retailers ...
Data : Exploiting 'Big Data'							
Algorithms: AI and cognitive computing							
Networks: 5G, faster data accumulation							
Cloud: Lower entry barriers; local vs central computation							
Exponential improvement in digital h/w: Moore's law effect							
Mobile							
Robotics and drones							

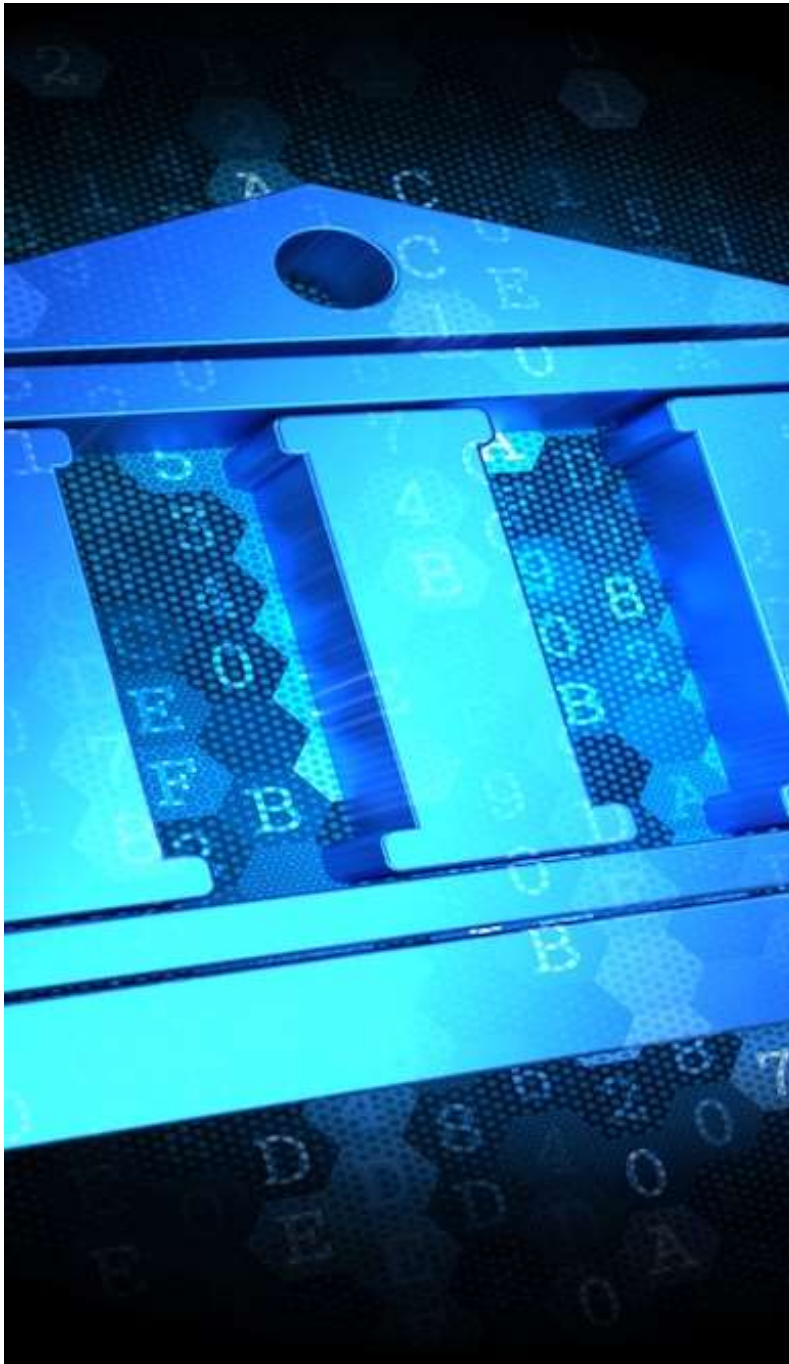
Fintech industrial organisation framework (p.2)

	Alternative Finance: Personal finance, Consumer banking, lending Crowdfunding	Transactions: Payments, Remittances	Markets: Equity financing, Retail Investm. Instit. Investm, Crowdfunding	Backoffice: Banking infrast., Financial secur. Business tools Financ. research	Financial inclusion: Reaching out Fees & profitab., Micro finance	Crypto-currencies: Pay. Instrum or investment? ICO	Business partner integration: Telcos Retailers ...
Bio-informatics and behavioural biometrics							
Blockchain							
All-in-one smarccards							
Virtual, interactive and augmented reality							
Neurotechnolog ies							
.....??????							
.....??????							

Company's name	Country	Activity	Notes	Web site
Lendingkart	India	Business Loan for small business	Co lending with banks	https://www.lendingkart.com/
KredX	India	Business Loan for small and medium business	Investors/ applied for a NBFC licence.	https://www.kredx.com/
WeFinance	USA	Lending to particular through finance by particulars		https://www.wefinance.co/about
Upstart	USA	bring together high potential borrowers and investors.	calculate the credit score on the borrowers background	https://www.upstart.com/
SoFi	USA	P2P Lending for students		https://www.sofi.com/
Rocket Mortgage	USA	Loans and mortgages	Focus on millennials	
C2fo	UK	Short loans		https://c2fo.com/why-c2fo/our-solution
Zopa	UK	P2P Lending	Founded in 2005 ("one of the world's first Web sites that aims to directly bring together borrowers and savers, cutting out financial institutions from the lending process" according to the New York Times)	https://www.zopa.com/about
Touch Bank	Russia	Retail banking	Online credits, loans, card & accounts management without paper work, Saving management	https://www.touchbank.com/en/
Smart asset	USA	Advices through database (find the best credit, loan solution among all the propositions on the market)	Tax, retirement, bank, account comparison tool	https://smartasset.com/about#contact
SimpleFinance	Russia	MicroLending	Asset backed loans, unsecured loans	http://www.ewdn.com/2017/06/30/russian-fintech-enters-debt-market/

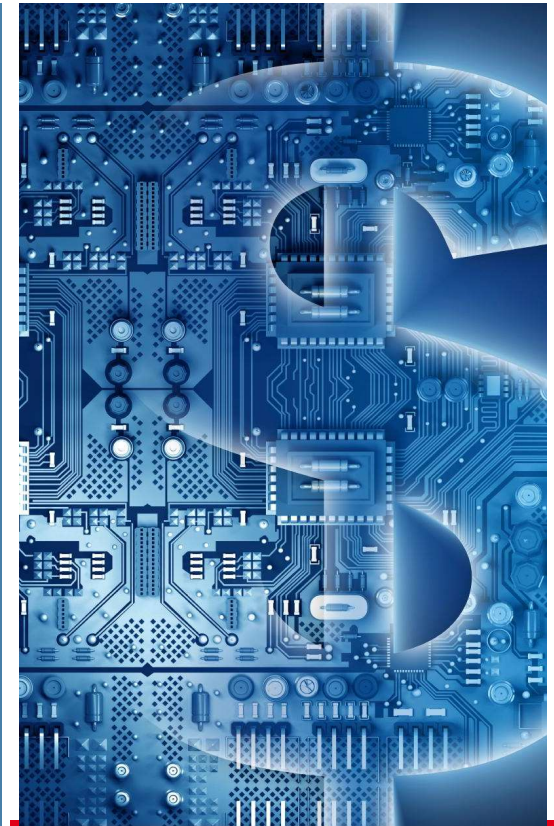
Sample from our database:

- From the Alternative Finance and Data Analytics cell



**Digital
banking : Banks
have not stood
still**

- ***Neither have
Banking
Supervisors***



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If you ask a banker which are the main issues that keep them awake?

- **Capitalisation of their institution**

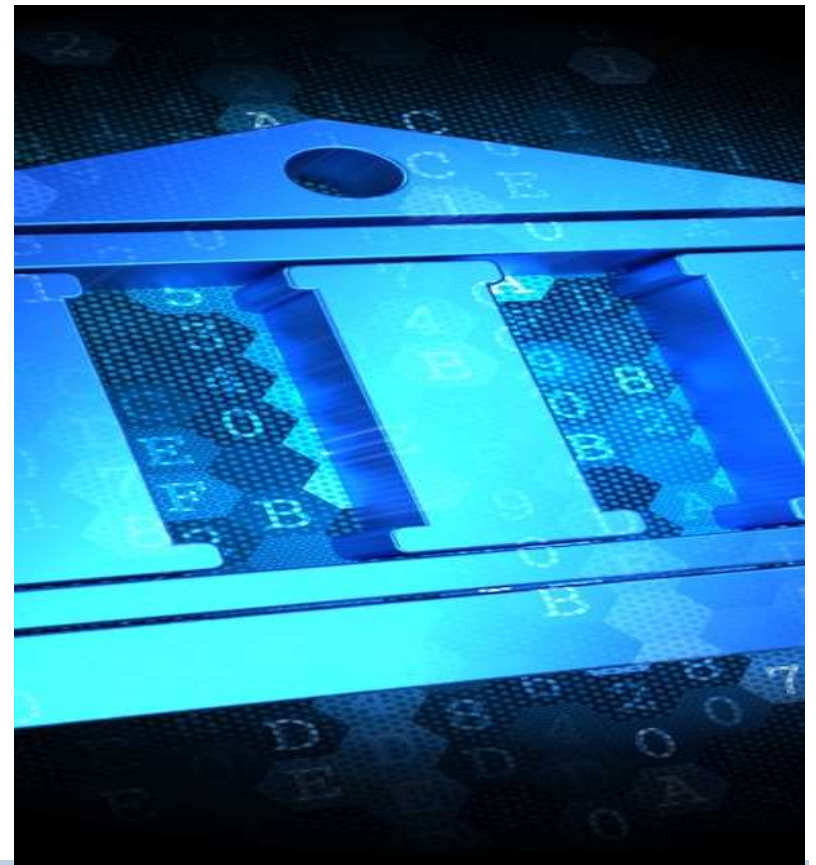
- *And regulations in general*

- **What to do about Fintech**

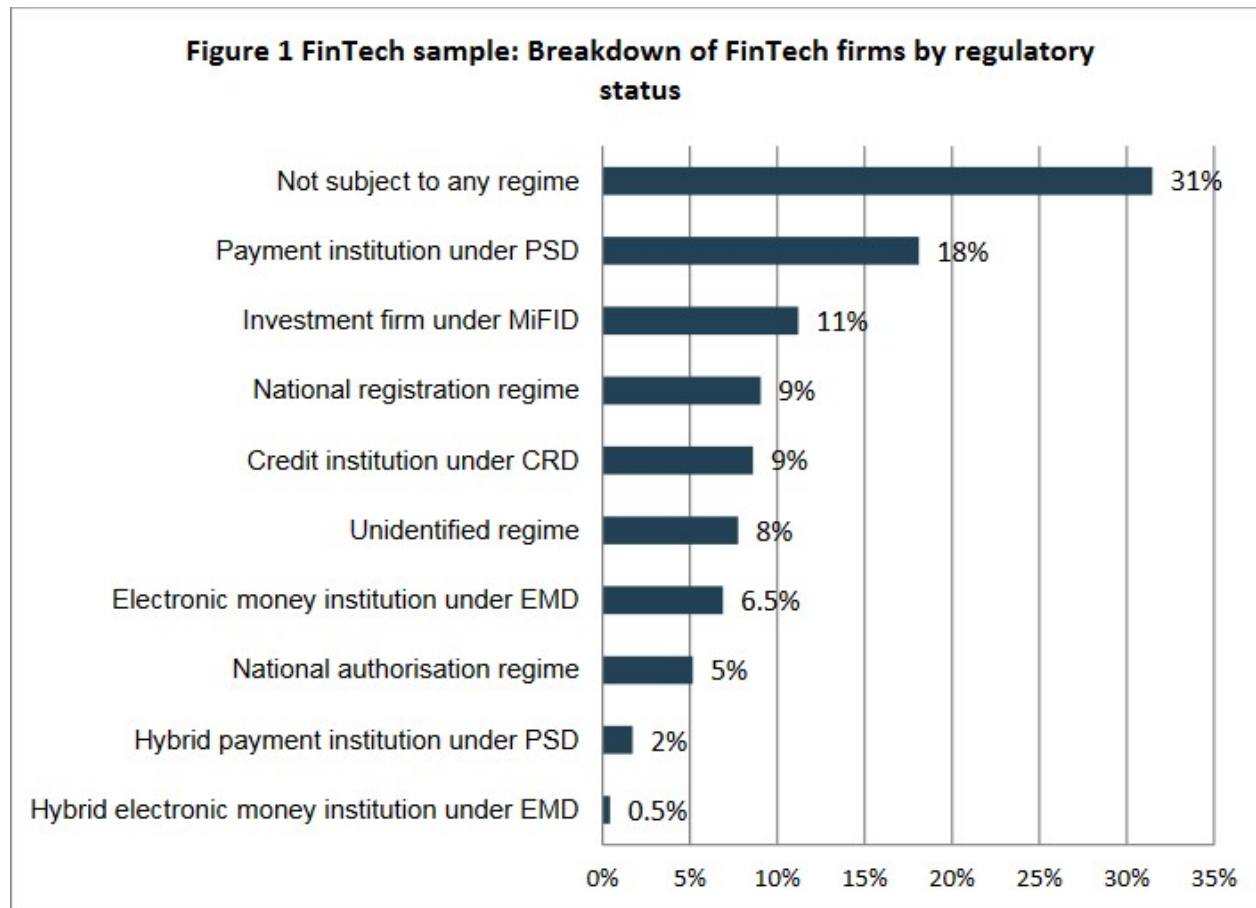
- *Transform or standalone*
- *Open banking – loss of control*
- *How to capture loyalty of customers*
- *Improve public image*

- **What should be there?**

- *Turning banking into a profession*
- *Implications? Incentives*



Overview of the European Fintech actors



Source : *Discussion Paper on the EBA's approach to financial technology*, EBA, 2017

Conclusions and wrap-up



- Short term distractions in an organisation or an industry, combined with tectonic changes in its business context, can cause long term havoc
- Distracted by the 2007/8 crisis and its immediate regulatory changes, the industry lost sight of the technological breakthroughs and social changes that were happening around it
- After decades of having been a driver and leader for technological change, the industry left windows wide open for nimble companies based on ground-breaking technologies to emerge and eat its lunch
- It is extraordinary that in such a closely regulated industry the Fintechs could find gaps in regulations to eat away at some of the most profitable icing on the banking industry's cake
- It is also extraordinary that in such a short period of time Fintechs could open up into so many different business domains, enabled by the emerging of such an unprecedented number of different game-changing technologies

Conclusions and wrap-up

- The Fintechs managed this with little capital in comparison with the deep pockets of the institutions they outpaced
- They achieved this precisely by focusing on niches where the market was already there and waiting for a solution
- So in a way, it was more a pull by social changes than a push by the Fintechs (this is quite different from other areas of entrepreneurship where the pioneers created a market)
- Around 1/3 of Fintech business is not regulated, but looking forward, count on that banking regulations will move further into the Fintech space
- Banks have found it very hard to keep up: Selecting a new technology that will drive its processes is no minor decision for a bank – and in times when so many technologies are emerging, it is hard to predict which will be the winning ones
 - *Banks have more to lose than Fintechs*
- However, there are success cases amongst banks

