BEING RESILIENT

FUTURE-PROOFING THE FINANCIAL SERVICES INDUSTRY WITH FINTECHS

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Fintech revolution – a look at the last decade

Fintechs were supposed to revolutionize banking and break dominance of legacy financial services institutions. Banks were under pressure and were ready to call themselves fintech or tech companies. Financial Services industry was going to be unbundled and tech companies were going to take over profitable bits of banking.

So, as we look at last 10 years of Fintech "revolution", what do we see? Well, three clear themes have emerged:

1. Surprisingly, biggest determinants of fintech's success have been **local regulations and strength of legacy banking industry**.
2. Fintechs' success has been a mixed bag. In some geographies, fintechs had a disruptive impact and played an industry shaping role. However, in most parts of the world, fintechs have acted more as catalysts and not the 'TNT' they were projected to be.
3. Customer experience, payments, lending and financial advisory have seen most disruption since the emergence of fintechs

Let us look at each of these trends in detail and more importantly, leverage this to understand where fintech industry is headed.

Theme #1: Local government support

India, China, Singapore & UK are examples of countries where there was systemic support and enablement of fintechs. In each case, industry redefining fintech(s) have emerged. Prominent examples include:

Paytm in India

Paytm is India's largest leading payment gateway offering comprehensive payment services for customer and merchants. Its use of QR technology to enable payments has significantly digitized Indian payment ecosystem. This success is built on significant investment by Indian government in building the 'India Digital Stack'.

WeChat Pay in China

Tencent FinTech services leverage **WeChat Pay** and **QQ Wallet** to connect people with financial products and solutions, build an open ecosystem for the financial sector, and collaborate with partners to provide innovative financial services such as mobile payment, wealth management, loans, securities trading, merchants, and utilities. WeChat's success builds on China allowing non-banking companies to offer full suite of financial services offering from credit scoring to collections. This is unfathomable in almost any other country.

Theme #2: Fintech as catalysts

Across the globe, there are many instances where fintechs have acted as catalysts speeding up the transformation of the financial services industry. This has taken different shapes - banks partnering with fintechs, banks acquiring fintechs and banks imitating fintechs.

Banks partnering with fintechs

JPMorgan Chase with Taulia

A strategic alliance between JPMorgan Chase and Taulia- AI powered supply chain management & finance solutions provider to offer unique & differentiated trade finance solution. JPMorgan Chase looks to leverage Taulia's industry leading supply chain technology solutions/platforms for all its clients to empower, enhance, optimize supply chains by increase in supplier onboarding capacity, flexible payments, and inject liquidity to strengthen their supply chain, augmented control of the supply chain operations.

OnDeck with JPMorgan Chase

JPMorgan Chase partnered with OnDeck, a fintech with leadership in online small business lending. JPMorgan Chase offered small business loan services to its 4 million small business accounts using the OnDeck partnership [2016-2019]. JPMorgan Chase's decision to bring loan processing in-house and provide similar services on its own platform resulted in the end of OnDeck-JPMorgan Chase partnership by end of 2019.

Barclays with Circle

Barclays was the first big British bank to form a partnership with a digital currency firm, social payments app Circle. Unlike a traditional money transfer company, however, Circle offers its users the opportunity to send not just written messages along with their money transfers, but also emoji's and even animated "GIF" videos, with no charge, following in the footsteps of China's WeChat Pay and AliPay.

Citi with PayPal

Citi and PayPal's payment partnership highlights a shared vision to create a broad interconnected ecosystem of global businesses and consumers that can make and receive fast, flexible and secure payments for commerce & trade. Starting first quarter of 2020, Citi clients will be able to make payments into PayPal wallets globally in more than 200 markets, their excellence partnership serves over 3500 clients, transactions over 25 currencies across globe.

Banks acquiring fintechs

BBVA Compass, Goldman Sachs, JPM Chase and Ally are few of the financial institutions that have acquired a fintech company to build or expand capabilities. Goldman Sachs' acquisition focused on lending (Clarity Money), JPM Chase on payment (Wepay), and Ally on investment management (TradeKing).

Banks imitating (and at times beating!) fintechs

Venmo was running away with P2P payments segment and banks risked losing other C2B payments business as well. This forced banks to revive previous attempts at inter-bank digital payment company and create Zelle. Today Zelle has significantly overtaken Venmo with over $187 billion in payments on 743 million transactions in 2019.

Theme #3: Domains disrupted

Customer Experience - ING Direct – a pioneer of "Digital only" banking

ING Direct pioneered 'online-only' banking and became a benchmark for digital banking. Along with the rise and influence of e-commerce, they brought about digital transformation to banking. The bank's philosophy- "Digital is who we are and how we do business" was a major breakthrough.

Payments - Stripe

Along with Paytm and WeChat, Stripe has made a big impact in payments segment. Stripe focuses on commercial segment and enables businesses to accept payments online.

Lending - Kabbage

A tech unicorn backed by Softbank leverages machine learning, artificial intelligence technologies for lending & mortgage business for small & medium businesses. Highly automated loan approval processes for small and medium business segments resulting in 61.34% increase in the Kabbage Small Business Revenue Index since 2017.

Financial Advisory - Wealthfront

Wealthfront's philosophy to "democratize access to sophisticated financial investment products through use of digital technologies" through robo advisors has completely reshaped the investment advisory industry. Cost of financial advice has reduced from 2-2.5% of AUM to 0.25% of AUM.

Fintech revolution – a look at the future and beyond

So, where is fintech industry headed, especially in this new normal of COVID -19 impacted world?

1. We see a continuation of "catalyst" effect of fintechs
   a. COVID-19 has brought out importance of digitization in financial services industry. Fintechs supporting digital enablement and process automation will see strong traction.
   b. Reach and capitalization of larger banks will help them survive impact of COVID-19
2. Fintechs are under threat due to business impact from COVID-19. This impact can be seen along two dimensions:
   a. Revenue impact –
      i. **Positive** – Lending (Consumer, Small Business & Mortgage), Digital enablers (AI, IOT)
      ii. **Negative** – Challenger Banks, Wealth management, Payments
   b. **Capital impact** – Lower capitalized fintechs face acquisition or closure

During and post COVID-19, financial services industry will see increased focus on digitization and offerings on AI, IOT, Cybersecurity, cloud, digital Identity, e-kyc, RegTech and API economy. This augur well for fintech industry and the role they play in catalyzing the broader financial services industry.

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