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THE FINTECH CAPITAL
FOURTH EDITION

LONDON'S FINTECH LEADERS TALK INVESTORS, START-UPS, COMMUNITIES & NEW FINTECH, TRADING TECHNOLOGY, ETRM/CTRM, BIG DATA AND OUTSOURCING VS INSOURCING

EVEN MORE of the Most Innovative Names In FinTech Speak Out!

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{ INCLUDING FEATURES FROM TOBY BABB, NADIA EDWARDS-DASHTI, ANTONIO CIARLEGLIO, TOM KEMP, ANDREW THOMAS AND ALEX ODWELL }

GLOBAL LEADERS IN FINANCIAL SERVICES AND COMMODITIES TECHNOLOGY RECRUITMENT

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BANKS ARE DEAD. LONG LIVE THE BANKS!

ERIC MOUILLERON
Bankable

'WE NEED BANKING, NOT BANKS'

In 1994, Bill Gates predicted the end of traditional banks. Twenty years later, a new wave of companies intends to disrupt financial services and reinvent the banking experience. Baptised 'FinTech' for 'Financial Technology', these companies operate in the fields of payments, lending, money transfer, data and analytics, and digital currencies. They long for innovative, transparent and inexpensive financial services that banks have failed to offer to their customers.

Frustrated with paying high bank fees for international money transfers, Taavet Hinrikus and Kristo Käärmann have reinvented how money is sent abroad. TransferWise, their peer-to-peer service, is spearheading a revolution against banks and promises a 'clever new way to beat bank fees'. It has become notoriously well known for its belligerent advertising campaigns including a highly successful campaign exposing high bank fees by spreading the words F¥€K, $CAMM€D and DA¥£IGHT ROBB€R¥ across bus stops, tube stations and billboards across London.

Internet has changed the way consumers interact with money – making it possible not only to transfer money, but also grant loans or raise funds in one click. While banks have struggled to shift from traditional branches to online services, FinTech companies are born mobile and are ideally positioned to target the new generation of 'digital natives'.

Fidor Bank in Germany is an online and mobile 'Community Bank' that offers 'banking with friends'. 'Fidor Bankers' sign-up through Facebook Connect and share saving tips on Twitter. The bank even offers an interest rate based on the number of Likes on their Facebook page. Fidor Bank's purely online and social media strategy has led to a 20% decrease in their cost of customer acquisition compared to High Street banks.

In a recent interview with Bloomberg, Marc Andreessen – co-founder of the $4 billion venture capital firm Andreessen Horowitz – proclaimed that FinTech 'can reinvent the entire thing'. He predicts that 'nonbank entities [will] spring up to do the things that banks can't do'. Will FinTech bypass traditional banks in the future?

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BANKS IN CONTROL OF BANKING

Despite the banking industry being shaken up by the arrival of non-bank players, it is still dominated by the same few big names that Bill Gates dismissed as 'dinosaurs' twenty years ago. The main reason is that the highly regulated banking industry creates high barriers to entry. Therefore, the industry has resisted disruption by new technologies better than other sectors such as books and music.

Banks definitely have had a head start due to years of investment in security, compliance and regulation – necessary divisions to which FinTech start-ups struggle to devote significant funds. Besides, banks have deployed huge capital intensive distribution networks through branches making their brands omnipresent.

"WHILE BANKS HAVE STRUGGLED TO SHIFT FROM TRADITIONAL BRANCHES TO ONLINE SERVICES, FINTECH COMPANIES ARE BORN MOBILE AND ARE IDEALLY POSITIONED TO TARGET THE NEW GENERATION OF 'DIGITAL NATIVES'."

Despite several attempts by anti-bank movements such as Occupy Wall Street to create mechanisms for people to bypass the traditional financial system, the reality is that banks remain in control of banking. Due to anti-money laundering rules and other regulatory concerns, large banks refrain from opening bank accounts for FinTech companies in areas deemed risky such as digital currencies and remittance. If banks holding the accounts of TransferWise locally decided to close them, they could shut down the revolution within a day.

Therefore, rather than building a new financial system, FinTech will ride on the rails of the existing one. Not only will they use banks' reliable infrastructure, but FinTech will also inherently benefit from their investment in security and compliance. By adding a layer of innovation to the existing system, FinTech will save time and capital as well as gain the confidence of their partners and clients.

BANKS FOR CORE BANKING

FINTECH AT THE EDGE OF BANKING

Traditional banks and FinTech will play complementary roles in building the "Bank of the Future". Banks will remain in place to provide the backbone on which non-bank players could rely on to offer value-added services.

FinTech will compete at the edge of banking to accompany and empower their customers in their every-day lives. Specialised players will provide tailor- >

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made offers for targeted markets and geographies. FinTech is addressing the underserved and revenue generating niche segments such as money transfer, personal financial management or mobile payments, all propelled by the Internet, which has proven to be a lot more cost-effective than branches in reaching the "last mile" customers.

For example, in the United States, Simple does not intend to become a bank itself, but to develop a better interface around how modern banking should work. Hence, the online banking service built a layer on top of The Bancorp bank's infrastructure. Using a similar model, PayTop offers a multi-currency prepaid card in France targeted at frequent travellers and students under Raphaels Bank's license.

Serving niche markets, FinTech companies know their potential clients and are able to monetize Big Data and analytics. For example, by inventing new risk-scoring models, OnDeck has reshaped how loans are granted to SMEs. It evaluates creditworthiness based on business performance analytics – compiling cash flow, credit history, public records, and consumer experiences – rather than just credit history files.

To conclude, the banking sector has been affected by the digital revolution over the past twenty years. Although the 'dinosaur' banks have undoubtedly evolved, they have not gained the agility of reptiles (yet). To cope with upcoming changes in the financial industry – which, according to the chairman of Lloyds Banking Group, will be more significant 'in the next 10 years than there has been in the past 200', - banks will have to innovate or live with razor thin margins.

Banks are considering various strategies to keep up with the pace of digital revolution. Firstly, the creation of dedicated internal structures will help spread an innovation culture within and across departments. Traditional banks could also leverage external innovation from start-ups by engaging through incubators and accelerators. Lastly, partnering with FinTech companies will help them to provide value-added services. FinTech companies are 'enablers' for banks to acquire digital innovations by adapting new white-label technologies and banks need to start finding some new friends amongst them.

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