



UNIVERSITY *of* NICOSIA

Department of Digital Innovation

MSc in Blockchain and Digital Currency

BLOC 526 - Emerging topics in fintech

Session 12 - The future of fintech

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# Learning objectives and expected learning outcomes

## Summary

Session 12 concludes the course on Emerging Topics in Fintech by analysing a number of scenarios for fintechs. It therefore provides the analytical parameters for understanding the potential future of fintech, both from a theoretical as well as a practical perspective. The session also touches upon the potential role that bigtechs may play in the financial services ecosystem.

## Learning objectives

- Growth trends in the fintech ecosystem
- The potential role of bigtechs
- Five potential scenarios for the future of fintech

## Expected learning outcomes

- Develop a critical understanding of scenarios regarding the future of fintechs, especially as it pertains to the interaction with the customer
- Critically evaluate the potential role of bigtechs in the financial services ecosystem and the threats to fintechs

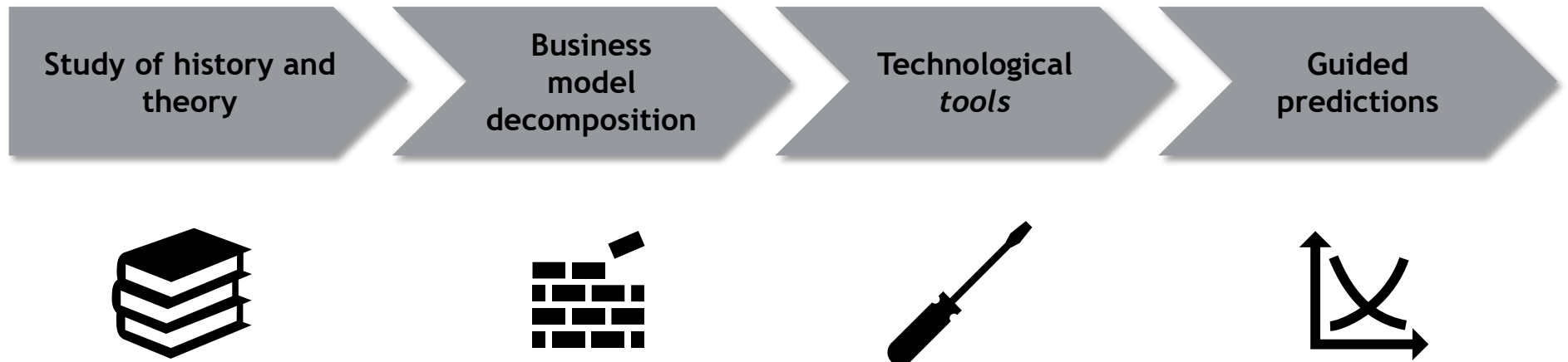
# Agenda

- Introduction and recap
- The growth of fintech
- Can BigTech be the future?
- Future fintech models
- Concluding remarks

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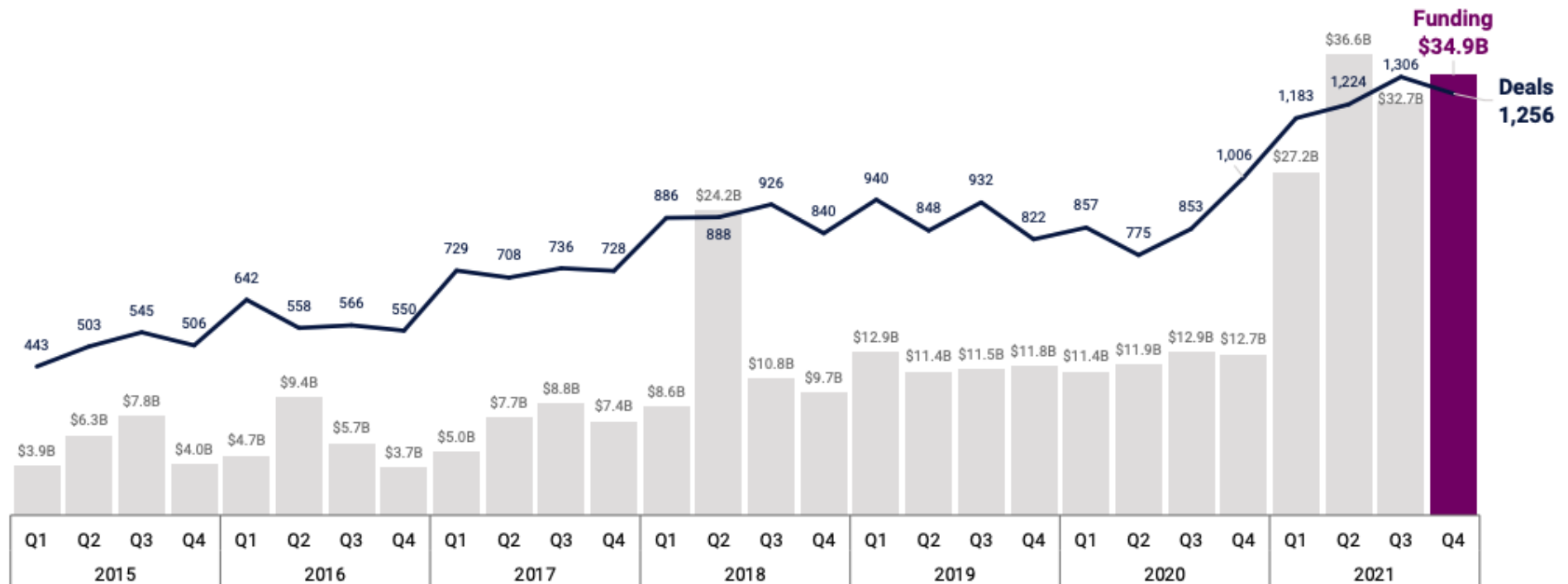
This session will pull together the analytical lens previously introduced in order to offer critical insights into fintechs



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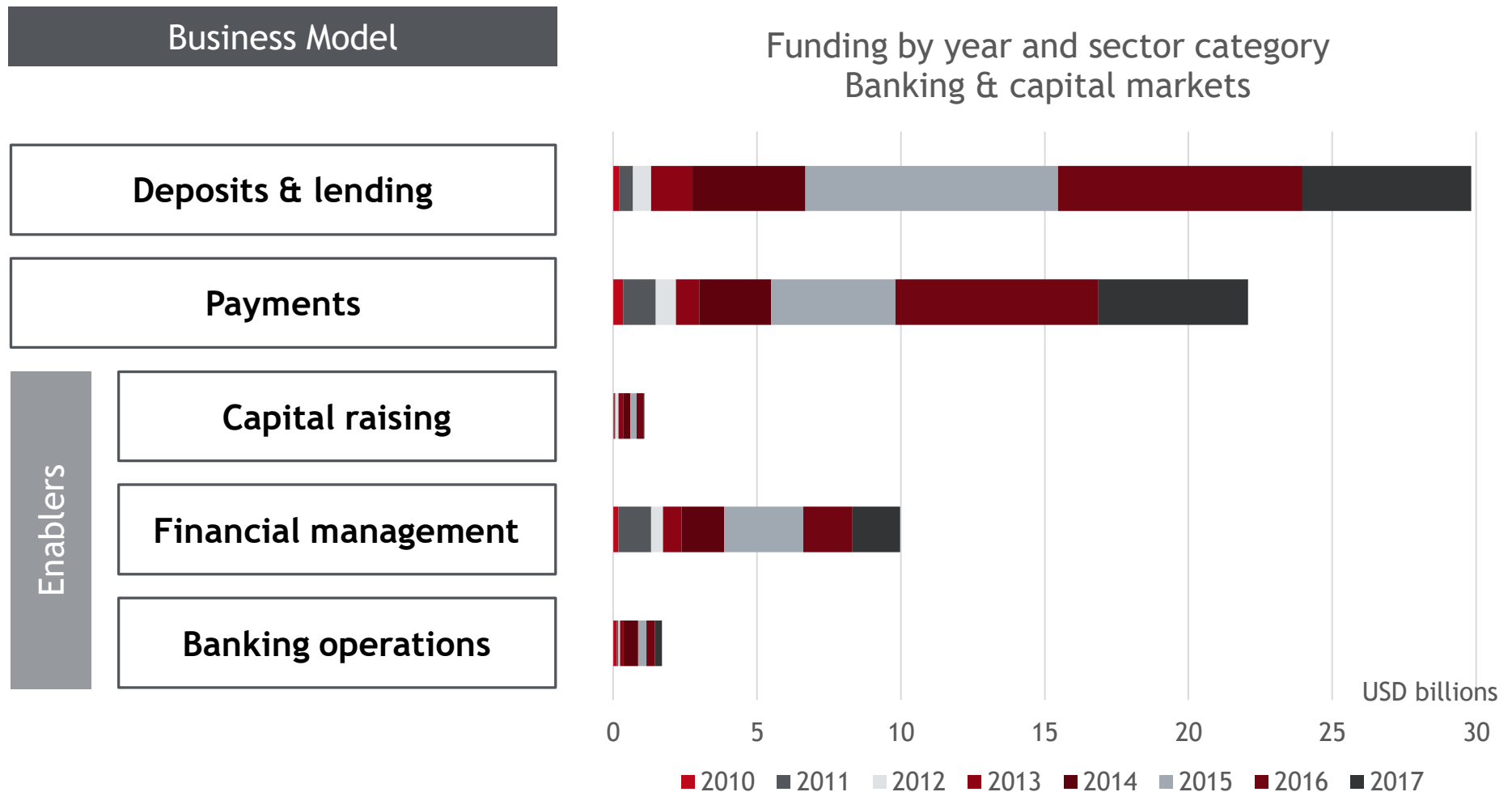
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# Investment in fintech has been growing rapidly over the past decade



Source: [https://www.cbinsights.com/reports/CB-Insights\\_Venture-Report-2021.pdf](https://www.cbinsights.com/reports/CB-Insights_Venture-Report-2021.pdf)

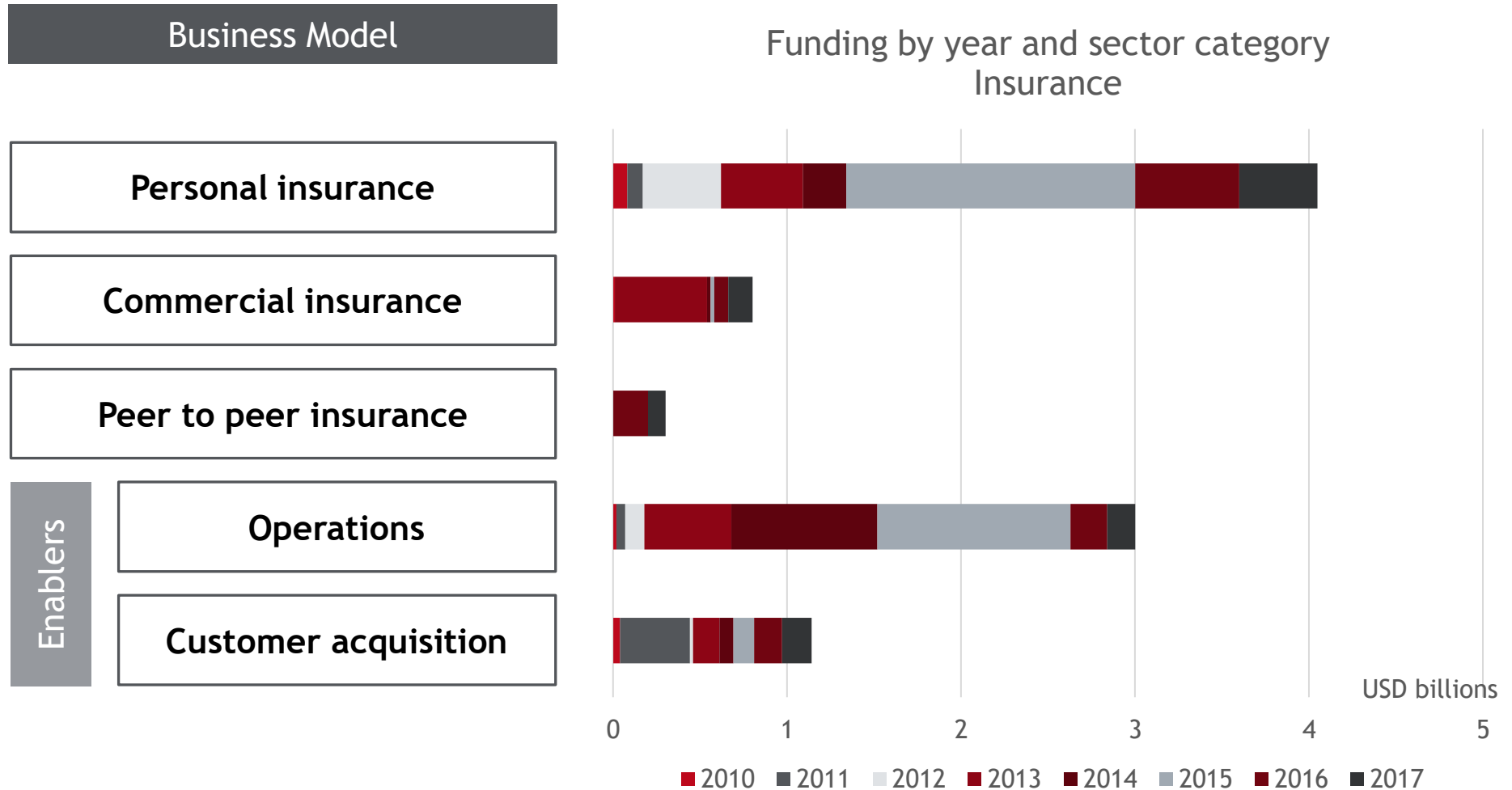
# Funding has been spread across the various banking tech business models



Source: Deloitte



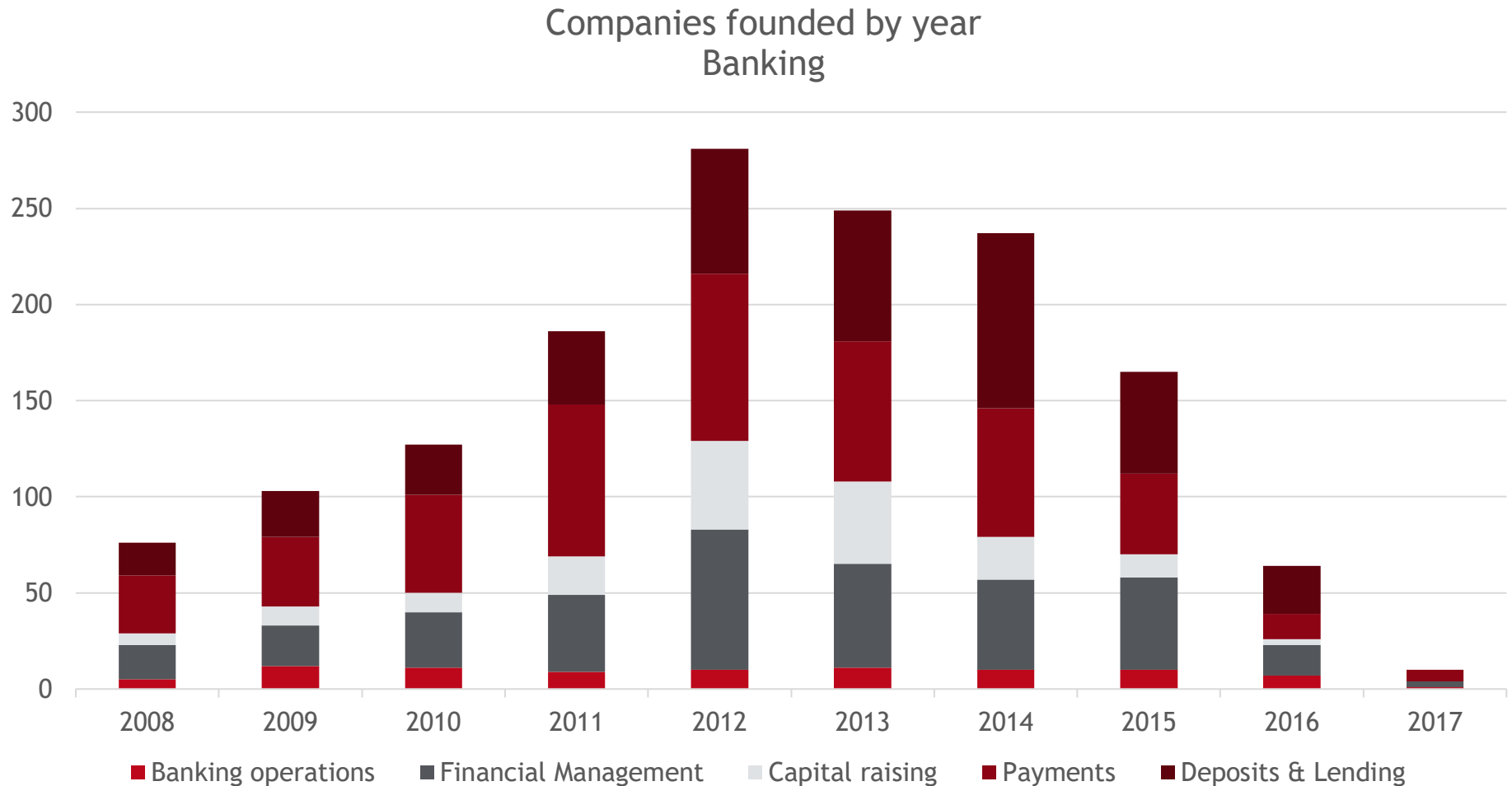
Similarly, insurtech business models and enabler functions have also attracted their share of funding



Source: Deloitte

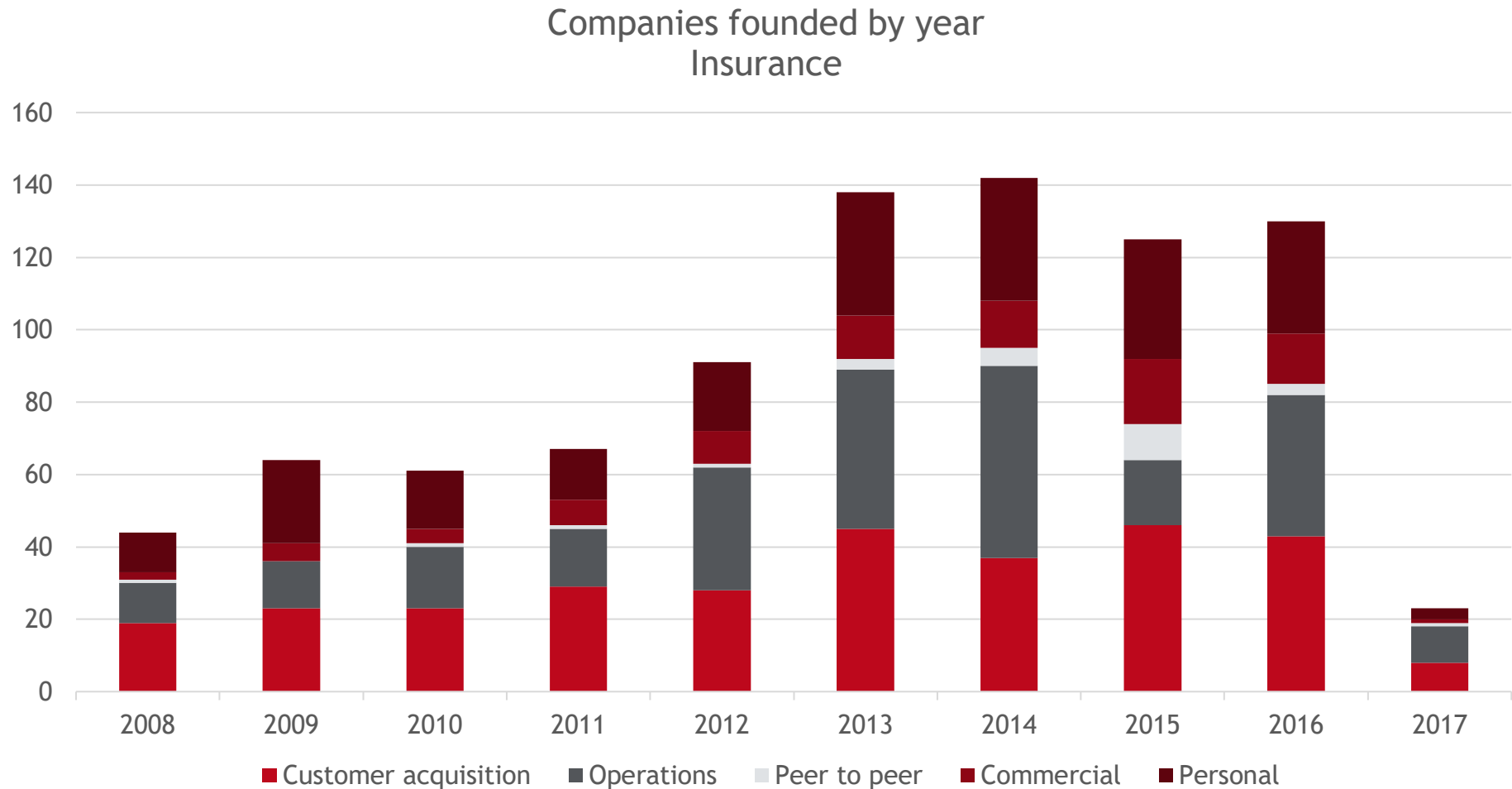
## As expected, the number of startups has been declining after the peak

### Banking



Source: Deloitte

As expected, the number of startups has been declining after the peak  
*Insurance*



Source: Deloitte

# The winners are slowly emerging more clearly

## Banking / Lending

Revolut



OakNorth



N26



monzo

陆金所  
Lufax.com

SoFi



ANT FINANCIAL



度小满金融  
Du Xiaoman Financial

TransferWise

stripe

Klarna

coinbase

gojek

adyen

paytm

## Insurance

众安保险  
ZhongAn Insurance

OSCAR

clover

Lemonade

policybazaar.com

Singlife

raisin.

OurCrowd

neyber

Liquid  
by Quoine

robinhood

Wealthsimple

## Payments

## Wealth & Brokerage

Being a unicorn does not guarantee sustainability  
But fintechs without funding are doomed...

# Takeaways

**1. Post rapid growth, the fintech sector is slowly consolidating**

- The winners at the moment are firms with high valuations and a large customer base
- For many of them, profitability remains elusive...

“Fintech won’t challenge us”

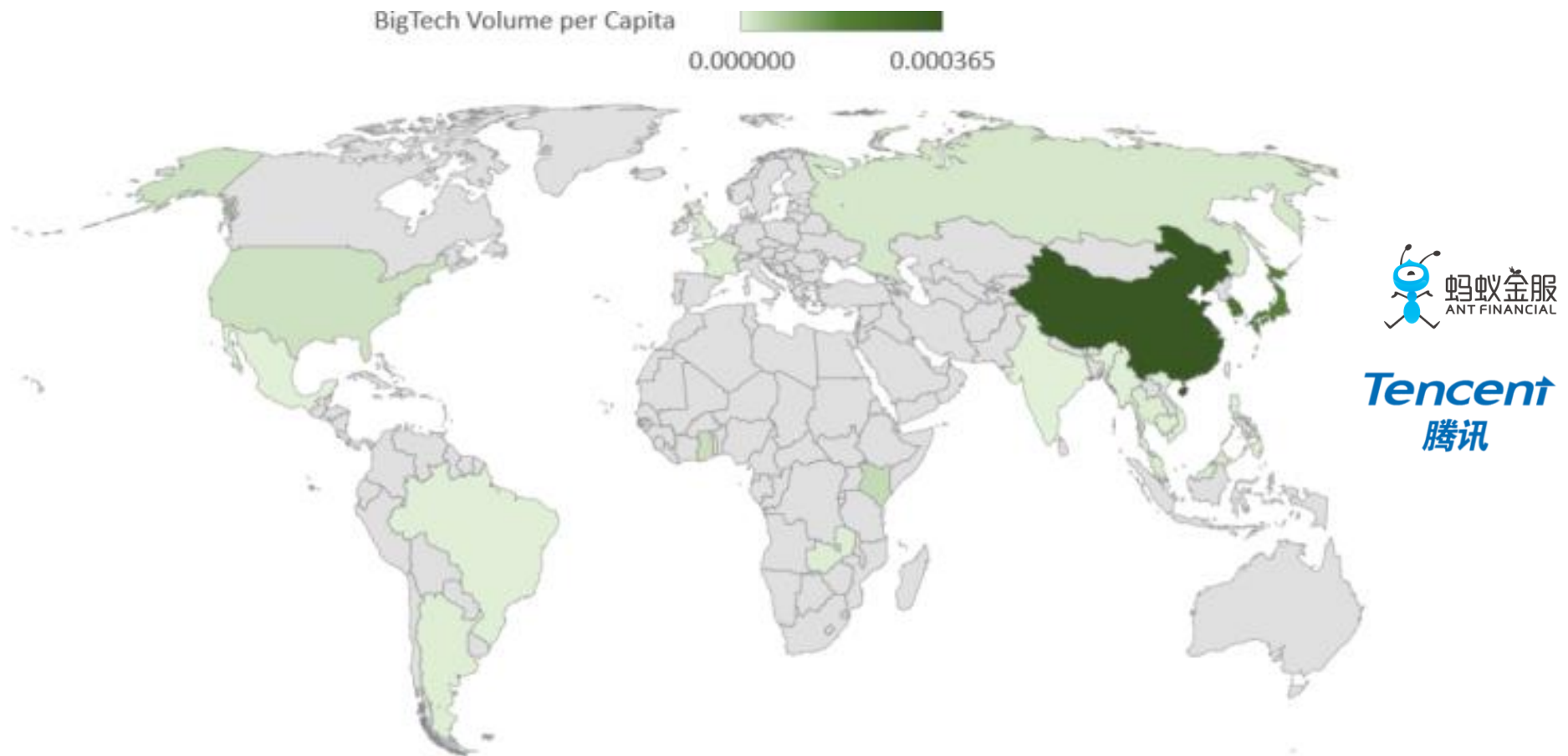
Jes Staley, Barclays

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# If one looks east towards China, bigtechs are already dominating the game

Provision of credit by BigTech firms in 2019



Source: Cornelli et al (2020), FSB (2020)

# Bigtechs keep flirting with financial services



- Apple Pay was originally released in October 2014
- On March 2019, Apple announced a partnership with Goldman Sachs and Mastercard to offer the Apple Card
- On June 2022, Apple started offering Buy Now Pay Later services, underwritten by Apple themselves!



- Amazon cash was launched in April 2017, enabling customers to deposit cash to a digital account through retail partners
- Jeff Bezos has been open about his desire to expand the Small to Medium Business and consumer lending arms of Amazon, following the footsteps of Alibaba



- AliPay serves over 1 billion users and 80 million merchants
  - It's the third biggest financial services corporation in the world, behind VISA and Mastercard
- Ant's Tianhong Yu'e Bao money market fund is the largest fund in the world
  - Ant Fortune offers products from more than 80 Chinese fund institutions
- In October 2018, Ant Group launched the Xianghubao mutual protection plan
- On 14 February 2019, Ant Group acquired the British international money transfer services provider WorldFirst



But not all of them succeed...



**FT**.com  
FINANCIAL TIMES

## Facebook Libra: the inside story of how the company's cryptocurrency dream died

It had the blue-chip partners, the tech and the right players. None of which could save it

<https://www.ft.com/content/a88fb591-72d5-4b6b-bb5d-223adfb893f3>



## Google's pivot away from bank accounts shows why finance is a tough industry for tech giants

PUBLISHED SAT, OCT 2 2021 7:48 AM EDT



Hugh Son  
@HUGH\_SON



Jennifer Elias  
@JENN\_ELIAS

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### KEY POINTS

- Google is shuttering its bank account product nearly two years after announcing ambitious plans to take on the retail finance industry.
- One key factor: The new head of the business, Bill Ready, decided that he'd rather develop a digital banking and payments ecosystem instead of competing with banks, according to a person with knowledge of the decision.
- Google may have ultimately decided it wasn't worth antagonizing current and prospective customers for its various businesses, including cloud computing, according to a Friday research note from Wells Fargo banking analyst Mike Mayo.

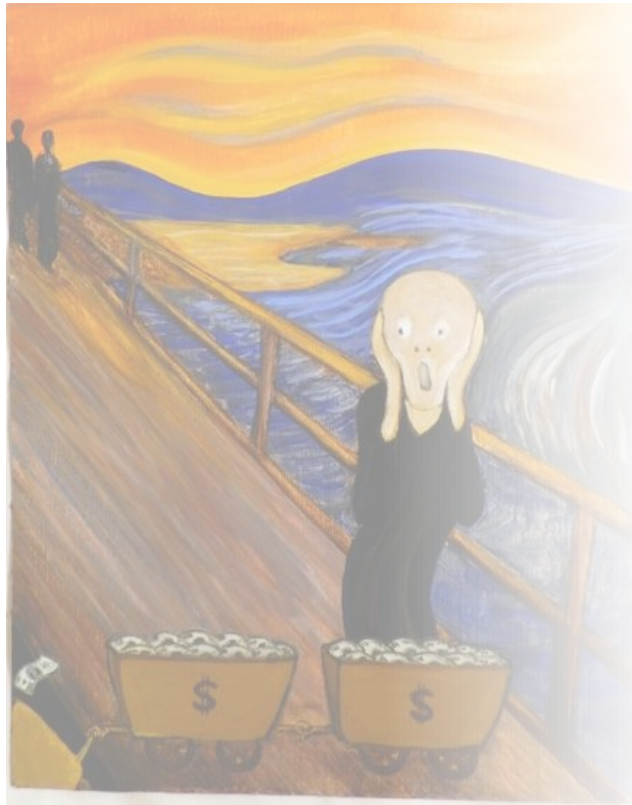
<https://www.cnn.com/2021/10/02/googles-pivot-away-from-bank-accounts-shows-why-finance-is-a-tough-industry-for-tech-giants.html>





## Question: Do you think that Google, Apple, Amazon or Facebook are interested in becoming banks?

Credit and underwriting risks are rather undesirable...



© Andrea Elizabeth

“Google, Apple, Facebook and Amazon don’t want to get into the business of banking. These firms will increasingly be in the business of selling banking products, apps and services to consumers in an effort to maintain acquisition traction. And they’re going to be looking at owning more and more of the payment process (before, during and after a transaction) because of the opportunity for high-frequency, low-margin revenue and the ability to capture purchase behavior insight.”

*Brett King, Founder of Moven*

# Takeaways

## 2. BigTechs vie for their share of the services in finance pie

- Bigtechs are unlikely to enter the mainstream banking and insurance sectors, they are much smarter than that
- By leveraging their client base and controlling our interaction with the digital universe, an intermediary role is more valuable

“Perhaps the biggest challenge we face with enforcement is making sure we have the right legal framework and powers to keep digital markets competitive and fair”



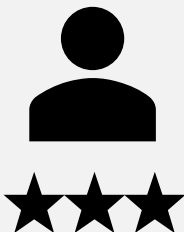


Margrethe Vestager, European Union

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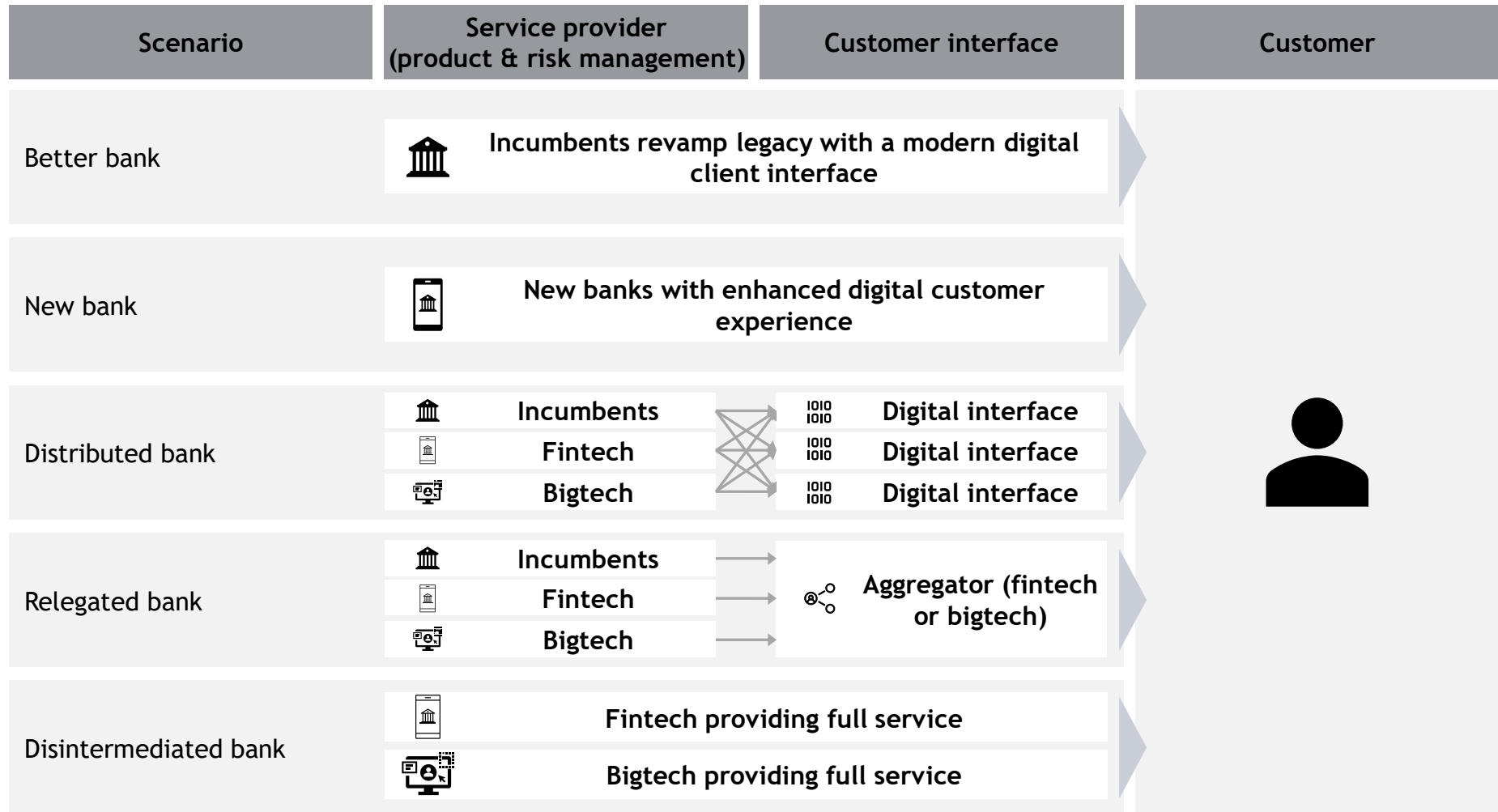
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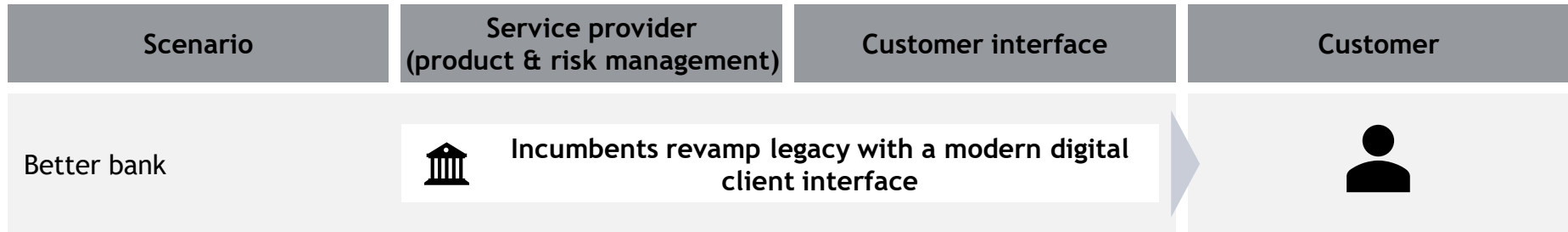
**Question: Regardless of the nature of service, what are the main parameters each service provider should achieve to succeed?**

Service provider	Success parameters	
 Bank	Customer acquisition	Financial sustainability
 Insurer		
 Fintech		

# The interface with the customer is one of the primary battle grounds for the future of financial services



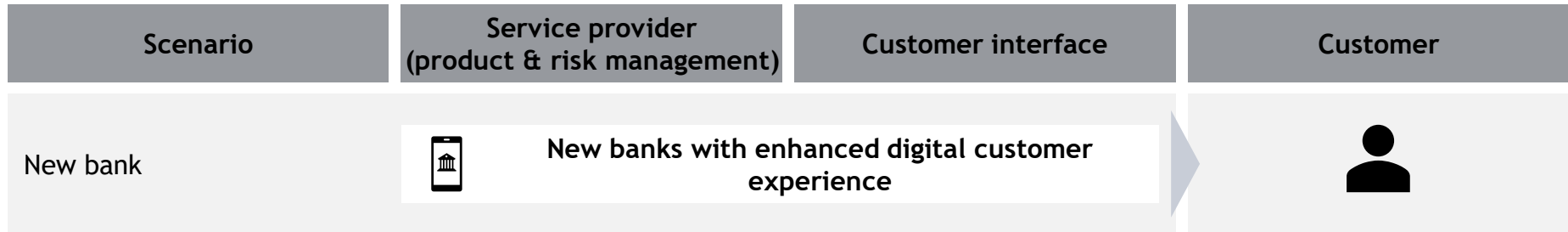
# The better bank scenario



Approach	Challenges
<ul style="list-style-type: none"> <li>Incumbents employ new technologies to develop value propositions that cannot be effectively provided with their current infrastructure                             <ul style="list-style-type: none"> <li>Biometrics, chatbots, virtual branches, etc</li> <li>Innovative payment services</li> <li>Lending process automation</li> </ul> </li> <li>Examples: ING Direct, Tangerine</li> </ul>	<ul style="list-style-type: none"> <li>Legacy platforms cannot support new technology deployment</li> <li>Incumbent bank business models are rather convoluted, with only parts of them open to automation</li> <li>Even though customer interaction may be (partially) automated, back end processes may remain manual and create bottlenecks</li> <li>Legacy ‘customers’ who prefer the traditional approaches to banking</li> </ul>

**“My biggest challenge is not legacy systems or processes, but legacy customers”**  
(Global bank executive)

# The new bank scenario

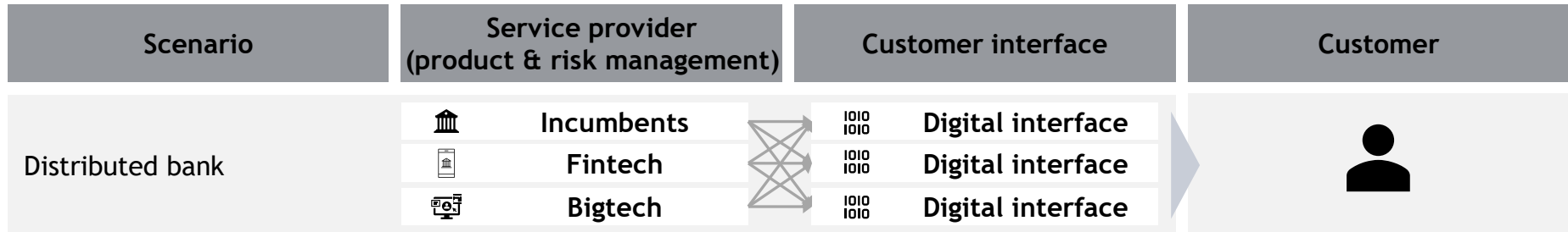


Approach	Challenges
<ul style="list-style-type: none"> <li>▪ New entrants develop “built-for-digital” banking platforms</li> <li>▪ Technology is applied to provide banking services in a more cost effective and scalable way</li> <li>▪ Examples: Revolut, Monzo, N26</li> </ul>	<ul style="list-style-type: none"> <li>▪ A banking license is essential, and the process requires material investment (time and money)</li> <li>▪ Offering a comprehensive suite of products can be rather expensive</li> <li>▪ Customers may switch for some services but not all of them</li> <li>▪ Fixed costs are high and require large customer volumes</li> <li>▪ Customer acquisition is rather expensive</li> </ul>

**The cost of customer acquisition for a UK fintech is about £1,100 per customer**



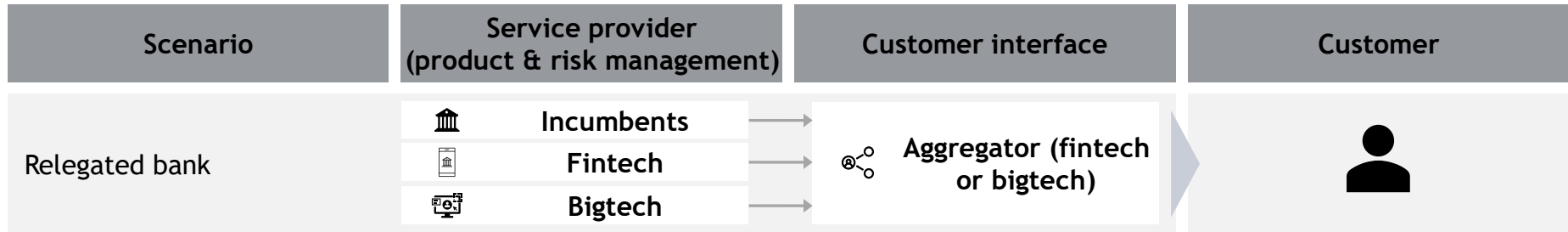
# The distributed bank scenario



Approach	Challenges
<ul style="list-style-type: none"> <li>▪ Niche product development, targeting specific customer needs</li> <li>▪ Client relationship not owned by a single player</li> <li>▪ Banks and fintech companies operate as joint ventures, partners or other structures where delivery of services is shared across parties</li> <li>▪ Consumers use multiple financial service providers</li> <li>▪ Examples: Ant Financial, MoneySuperMarket.com</li> </ul>	<ul style="list-style-type: none"> <li>▪ ‘Joint venture’ like collaboration models do not work well with power imbalances</li> <li>▪ Players may ‘cheat’ and try to internalise the product and client value chain</li> </ul>

Several distributed banking services models already operate, with mixed success (e.g. Citi and Kabbage)

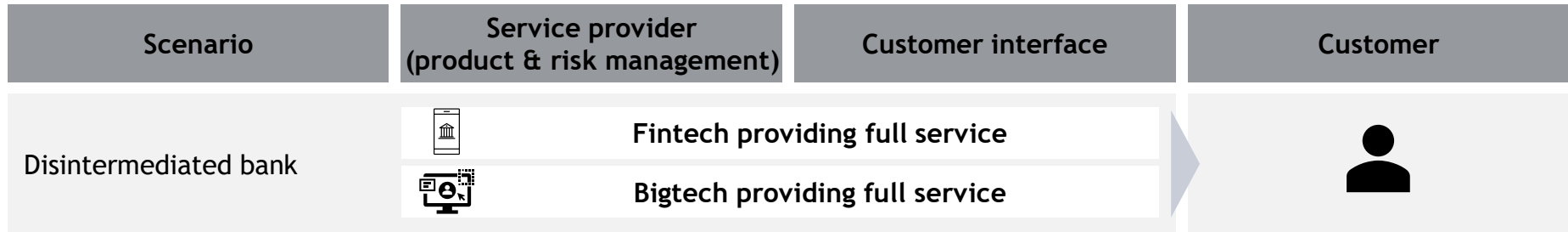
# The relegated bank scenario



Approach	Challenges
<ul style="list-style-type: none"> <li>Incumbent banks become commoditised service providers and cede the direct customer relationship to other financial services providers</li> <li>Fintech and bigtech aggregators use front-end customer platforms to offer a variety of financial services from a diverse group of providers</li> <li>Examples: BNY Mellon, Starling</li> </ul>	<ul style="list-style-type: none"> <li>Customer complaint management can be convoluted</li> <li>Reputational risks may arise from the promotion of sub-optimal service providers</li> </ul>

Hypothetically an undesirable model for banks; but what about economies of scale?

# The disintermediated bank scenario

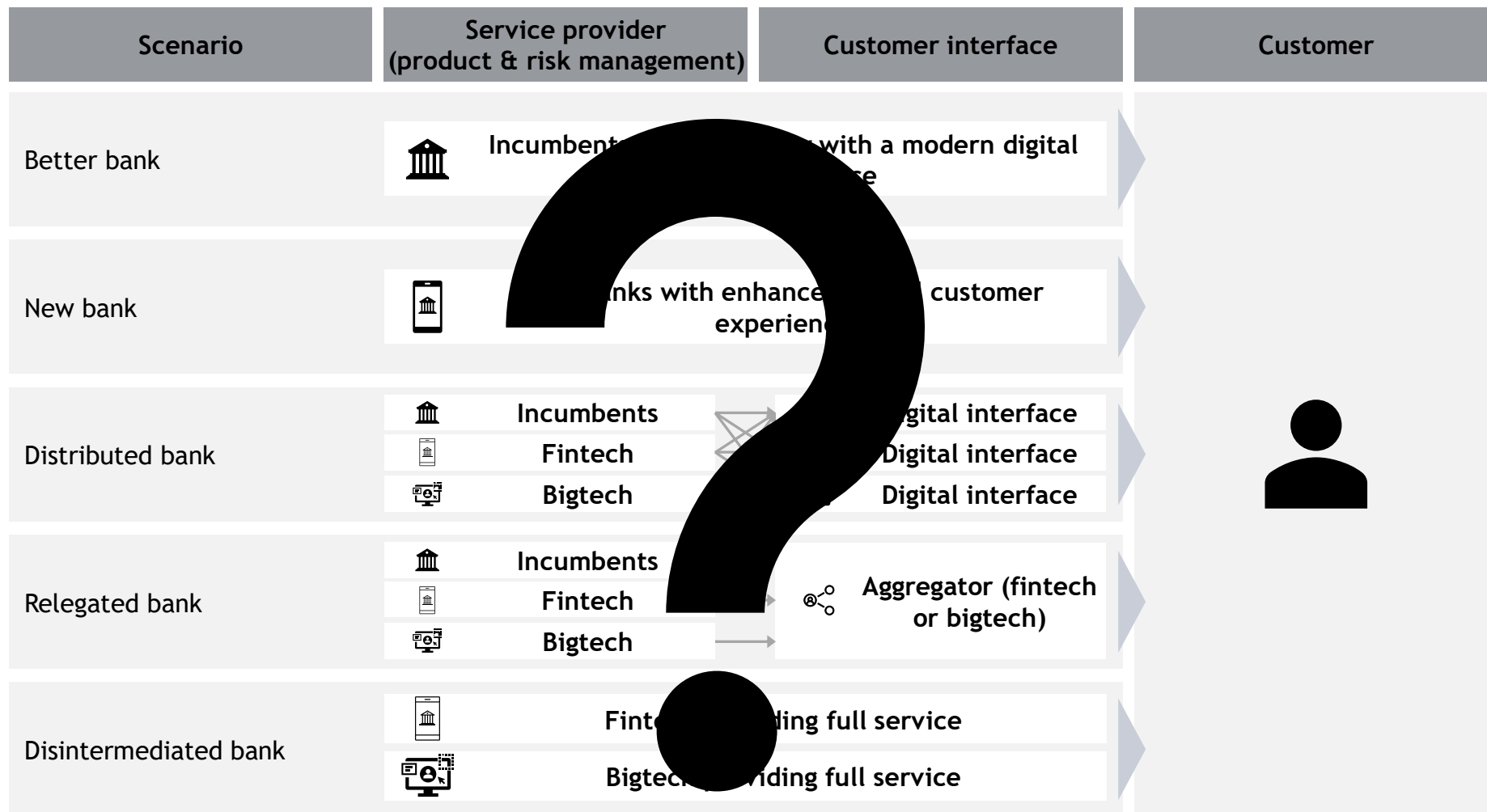


Approach	Challenges
<ul style="list-style-type: none"> <li>Fintech and bigtech companies offer end to end financial services</li> <li>Customers choose directly the services and the provider, instead of relying on intermediary banks</li> <li>Examples: peer to peer lending platforms, cryptocurrencies</li> </ul>	<ul style="list-style-type: none"> <li>Fintech and bigtech companies will be regulated as financial service providers</li> <li>Customers assume direct responsibility for their transactions, increasing the risks they are exposed to</li> </ul>

**An unlikely scenario, as intermediation is not necessarily a bad thing!**



## Question: Which scenario do you think is more likely to play out?



# Do not dismiss the value of relegated banks...

## FINTECH FUTURES

### Analysis

### The relegated bank – a positive scenario?



Periklis Thivalos, True North Partners:  
the “relegated bank” scenario is worth  
considering!

- The BCBS analysis presents the relegated bank scenario pretty catastrophic for incumbent banks and risky from a financial stability, consumer protection and data privacy point of view
- Could a focus on production and risk management (a relegation to “plumbing” the financial system) be the source of competitive advantage, instead of a path to oblivion? Could it result in material economies of scale, massively wider and more efficient distribution and a shift away from areas where banks traditionally performed poorly? Customer service and end-user distribution were never a bank’s strongest cards, so why keep trying?
- Interestingly, insurance firms have traditionally focused on production and underwriting (risk management). They generally don’t have high street branches; they happily work with independent brokers (and not-so-independent agents); and they have no problem white-labelling their production and risk management capabilities for use by third-party distributors. So why is this intermediated approach so bad or potentially risky for banking?
- **Bank executives should actively consider the “relegated bank” scenario as a potential *option* to be pursued to survive the disruptive wave of fintech and bigtech**

<https://www.fintechfutures.com/2018/04/the-relegated-bank-a-positive-scenario/>

# Takeaways

## 3. Competition and co-ompetition are not mutually exclusive

- Various scenarios may play out between incumbents and fintechs
- Ultimately, they boil down to ‘control’ of the customer relationship and financial sustainability

It does not matter who ‘wins’, as long as the winner can be profitable in the long term

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# Summary of takeaways

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- The winners at the moment are firms with high valuations and a large customer base
- For many of them, profitability remains elusive...

## 2. BigTechs vie for their share of the services in finance pie

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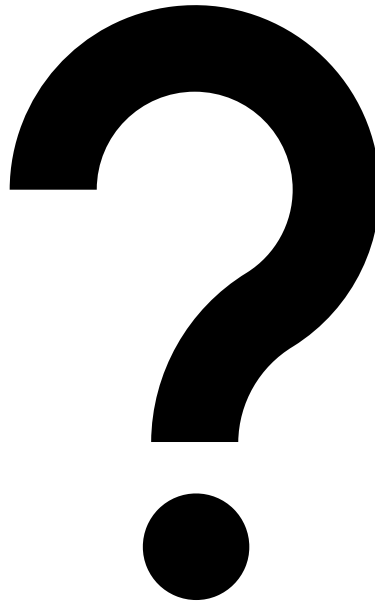
- Various scenarios may play out between incumbents and fintechs
- Ultimately, they boil down to ‘control’ of the customer relationship and financial sustainability

We cannot predict the future. But with the study of innovation throughout history and the appropriate analytical lens, we can make credible predictions about it





**Question: How many of you would like to become fintech entrepreneurs in the future?**



I hope this course has offered you the appropriate analytical tools to succeed!

Any questions?

Q & A



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## Questions?

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