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MARKETS

'Fintech' Will Mostly End in Tears, Christopher Flowers Says

Renowned investor says most fintech startups will fail



J. Christopher Flowers, seen in London in 2013, is a veteran financial-services investor. PHOTO: CHRIS RATCLIFFE/BLOOMBERG NEWS

By *Simon Clark*

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The “fintech” revolution will end badly for most startups, according to veteran financial-services investor J. Christopher Flowers.

While a few new technology companies seeking to win business from established banks and financial-services firms will be extremely successful, the majority won’t survive because of a fundamental strategic contradiction, Mr. Flowers said.

Silicon Valley entrepreneurs, unlike traditional finance executives, hew to “the tech idea that you must get big fast and dominate a sector and achieve a network effect,” he said. But that isn’t a good approach to finance, he said.

“In lending, this idea is not only wrong, it is very dangerous indeed,” Mr. Flowers said. “It is one of the oldest adages in our business that the lender that grows fast is the lender with future losses.”

The former Goldman Sachs Group Inc. banker has led more than \$14 billion of investment in financial-services companies world-wide through his eponymous private-equity firm, J.C. Flowers & Co. He spoke at the Super Return private-equity conference in Berlin Thursday.

Mr. Flowers said that the most prolific area for fintech companies was in providing U.S. unsecured consumer loans and that there was a risk of poor lending decisions as offers of credit abound. “U.S. banks largely do not make unsecured consumer loans so they have left a void,” he said. “Literally hundreds of fintech companies are chasing this market.”

Fintech companies can be successful providing services to people in places that have been neglected and in providing financial infrastructure such as payments processing, but

traditional banks aren't going to disappear, he said.

"Do not expect bitcoin to displace the U.S. dollar and do not expect Visa to go broke," he said.

"Banks in the United States are required at some level to settle all dollar transactions so there is no scenario where banks aren't part of the picture."



A collection of bitcoins in December 2015. Mr. Flowers dismissed the idea of bitcoin replacing the U.S. dollar. PHOTO: BLOOMBERG NEWS

The slump in share prices of financial-services companies in the U.S. and across Europe presents opportunities to private-equity firms, as those companies consider selling assets, he said. Financial companies are generally in better condition than they were before the financial crisis in 2008, he said.

"These times have the makings for some great opportunities," he said. Large financial institutions trading at a discount to book value "will look to divestitures to improve their capital positions."

The investor also warned that it was "inevitable" that massive and rapid credit expansion in China since 2007 would end with significant volumes of bad loans, which will require restructuring.

"I cannot imagine a system better designed to produce bad debts," he said. "A massive amount of bad loans will emerge in China."

In Europe, events such as immigration from across the Mediterranean Sea and the U.K. referendum on leaving the European Union are adding to the uncertain future of the euro currency, which is impacting financial-services stocks, he said.

"For European banks, the risks are potentially significant. The refugee problem, in addition to being a humanitarian nightmare, introduces most unwelcome political risk into the politics of Europe and therefore for the euro. And the U.K. considering leaving the EU does the same," he said. "Whatever anybody says about the euro in the long run, whether it's a great idea or a stupid idea, I believe emphatically that in the short run a disintegration of the euro would have a disastrous effect on European financial institutions."

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