Fintech companies operate in spaces where banks either don’t exist or are inefficient, such as P2P payments, mobile app/digital space, financial advising, and lending/borrowing. Take the largest fintech company Ant Financial as an example. It offers a full range of financial products from payment to loans, wealth management, credit scoring and insurance services. When there was a lack of individual credit records for banks to access individuals’ credit worthiness, Alibaba launched Huabei, a consumer financing product which uses customers’ historical activities and reputations on Alipay, Taobao and Tmall to calculate their credit scores and then allows them to obtain financing without a credit history. In the same manner, When Alibaba found that SME (small and micro enterprise merchants) were hard to get financing from banks, it then established AliLoan to offer unsecured micro-loans for SMEs. I am particularly interested in companies like Venmo, because it is something I personally use and see the value in. I think peer-to-peer payment is the biggest inefficiency of banks that affects me personally, so I recognize the immediate value of such FinTech companies. Similarly, I recognize the void that PayPal and Alipay are filling, and find it interesting to compare U.S.-based payment companies like PayPal and ApplePay to the widespread success of AliPay in Asia. I am also interested in investing apps like Robinhood, because it makes investing easy for the younger generations. I am not convinced it is better than traditional methods, but I do understand the appeal. Being in the MSBA program, I find credit card technologies fascinating in their accuracy in detecting fraud. I am not familiar with Fintech companies that do this, but I know that all major credit card companies and banks have this functionality. I have also seen apps like Mint that track personal finances, and essentially provide visualizations and descriptive analytics on your spending habits to create awareness. In my opinion, Fintech companies in this space are building on a bank’s untouched capabilities. While banks have all of your spending information, they are either too bulky/slow to provide such a feature in the same way that a tech/ FinTech firm can offer it or they do not see the value. The best fintech bets are the ones that are helping existing financial institutions innovate. And the largest category of successful fintech are the ones that are helping banks get there.

The most obvious way that FinTech companies impact the financial services world is by removing frictions as we discussed in class. For example, Alipay was created to build a new trust system to facilitate the growth of e-commerce. Without e-payment, trust was a limiting factor for e-commerce to achieve prosperity. Larry Summer is of the opinion that Fintech will not wipe out banks the way Netflix wiped out Blockbuster, but they will have a significant impact on the pricing structure of specific products, as FinTech companies are offering competing products at either better prices or in a more convenient manner. He projects that banks won’t be as threatened by Fintech firms as they will be by their own poor lending, and other decisions/economic factors. The PWC report also detailed how traditional financial services firms are partnering with or acquiring FinTech companies to build capabilities and improve user experience. Jamie Dimon offers a different strategy to address this point in his letter to shareholders by saying that Chase has and will continue to build out capabilities internally to compete with FinTech firms. For example, he mentions specific app functions like ChasePay and digital banking options that compete with FinTech firms. He believes that J.P. Morgan Chase’s vast resources allow the bank to maintain a competitive advantage. He suggests that FinTech firms are challenging the establishment to innovate quickly, which J.P. Morgan Chase has been and is doing, and he does not believe that FinTech firms will ever replace banks, confirming the points made in Larry Summer’s blog.

According to the “CB Insights Fintech Report Q3 2018,” over $32 billion dollars were spent in FinTech deals globally. The US and Asia account for the bulk of the deals, with Europe in a distant third place; however, it appears that Africa, South Africa, and Australia could potentially be the “new frontier” of FinTech, as they remain virtually untouched but are currently experiencing significant growth. The majority of the unicorns touch the payment space in the form of micropayments, ecommerce, payroll, retail, and food-ordering. It is possible that this market is now saturated, but the theme of convenience remains constant. Making the daily lives of users more seamless and convenient in terms of payments is the theme across the board, and attracts a widespread audience.