FUTURE OF FINTECH

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RELATIONSHIPS

From disruption to collaboration

The dynamic between fintechs and traditional financial institutions is shifting from disruptive competition to innovative collaboration, but what are the benefits of these partnerships for clients and customers?

Josie Cox

When Metro Bank became the first UK financial institution in over a century to be granted a banking licence, it paved the way for a slew of others and introduced the term "challenger bank" to the vernacular. But almost a decade on, the neologism might be turning into a misnomer.

As the new generation of financial service providers swells and comes of age, traditional banks are increasingly realising fintech collaboration is the best way to thrive and that challenging the nifty newcomers might actually be fruitless.

A recent survey conducted by newswire *Finextra* and the European Banking Authority showed that 81 per cent of banking executives consider working with partners, such as emerging fintech companies, to be the best way of tackling digital transformation, not least because clients are increasingly demanding it.

"Regardless of how fast incumbent banks can run internally, the real opportunities to deliver game-changing innovation will open up by collaborating with third parties, such as fintech startups," says Danny Healy, an executive at software company MuleSoft, which is owned by tech giant Salesforce and helps organisations, including HSBC, Mastercard and Atom Bank, create strategies for application programming interfaces, or APIs.

"The key advantage of emerging fintechs lies in their ability to build and move fast, while offering unbeatable ease and convenience," he explains. "Rather than trying to counter these challengers, incumbent banks should learn from them and adopt the same 'build fast, fail fast' mentality, while opening themselves up to collaboration."

Underscoring this sentiment, Barclays in August 2018 announced it was partnering with MarketFinance, a business finance lender founded in 2011, giving the high street bank's small and medium-sized enterprise (SME) clients access to MarketFinance's lending facilities.

> **A culture of collaboration will pave the way for traditional banks and fintechs to deliver truly game-changing innovation**

Barclays' corporate bank had already been offering invoice financing to large businesses, but the new deal extended the proposition to SME clients. SMEs account for three fifths of the employment and around half of turnover in the UK private sector, according to the Federation of Small Businesses, equating to a lucrative client base.

Anil Stocker, founder and chief executive of MarketFinance, says he and his team have encountered both challenges and opportunities since announcing the tie-up.

"MarketFinance has 140 employees in two offices, London and Manchester. Barclays has more than ten times our workforce spread all over the UK," he says. "It was imperative that we had direct contact with the business relationship managers in supporting their SMEs. It wasn't enough to do video calls or email newsletters; we quickly learnt that we had to spend time with each other to ensure the success of the partnership."

On the flipside, the advantages have been substantial. Mr Stocker adds: "We have had the opportunity to benefit from the knowledge and footprint of a 325-year-old British banking institution. Our credit risk model is eight years old and well tested, but it can only be enhanced from learning how Barclays has thrived over three centuries."

Other big banks have also managed to capitalise on the rapid growth of new service providers, either through simple investments or mutually beneficial partnerships.

London-based consumer lending platform Lendable secured a £200-million funding line this July from Goldman Sachs Private Capital, and Wells Fargo and J.P. Morgan recently invested in digital bank Greenlight.

In fact, according to market intelligence provider CBInsights, large US banks backed a total of 45 equity deals with fintech startups in 2018, representing a 180 per cent increase from 2017, and 2019 is on track to be yet another record year.

Perhaps the most important reason for large traditional banks to consider partnering fintech collaboration is customer satisfaction.

The *World Retail Banking Report 2019*, published by consulting group Capgemini in conjunction with the European Financial Management and Marketing Association, found that the top three reasons customers say they turn to non-traditional players are lower costs, ease of use and faster service. The report also found that fewer than a third of all customers believe their current bank offers a variety of useful financial apps or timely and relevant product recommendations.

And while it's evident that traditional banks are generally able to deliver a positive experience for customers in channels that are considered "mature", such as the branch and website, the report showed they must do a much better job at delivering a smooth customer experience when it comes to increasingly popular digital channels like mobile, chatbots and voice assistants.

In the survey, almost 72 per cent of Generation Y customers, born between 1980 and 1994, say they consider mobile apps to be an important banking channel, but fewer than a third report a positive experience in this channel.

"In an era of rising consumer expectations, banks are challenged to offer their customers a consistent engaging experience across all channels of branch, web and mobile," according to Anirban Bose, chief executive of Capgemini's financial services strategic business unit. "Banks that identify their top capabilities and then seek partnerships with fintechs and other business sectors to enhance their offerings in other areas will be the most successful."

To be sure, there are risks to partnering, the most obvious of which might be cultural clashes. Incumbents are often large and complex in structure, with consent from many stakeholders required before an acquisition or investment can be signed off and executed.

Some startups will also be hesitant to yield even a small amount of autonomy to a large corporation, fearful that a big business might wrest control from the leadership or founders and compromise culture.

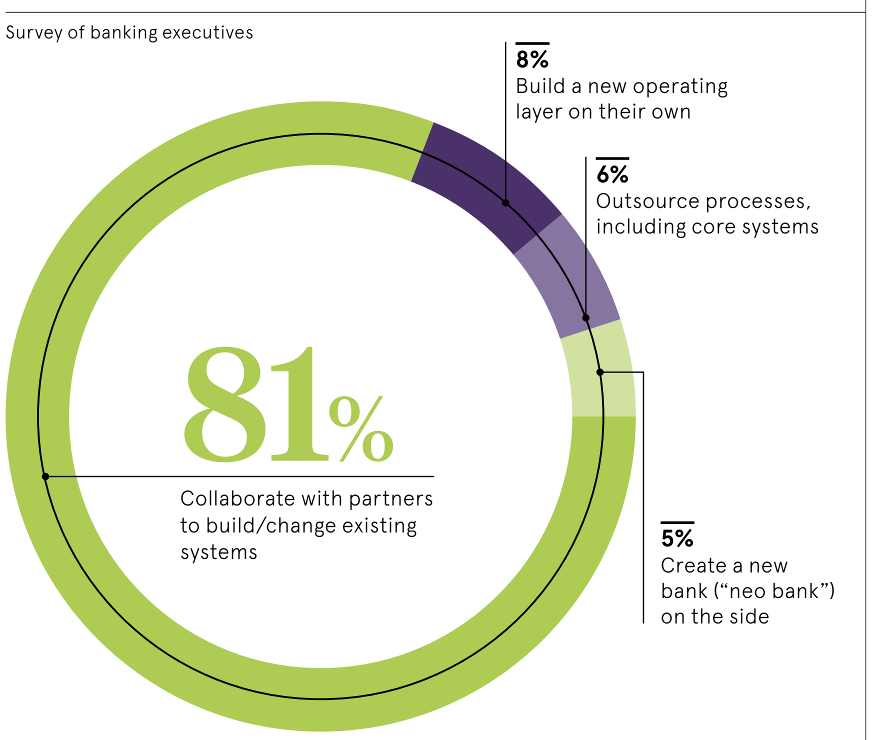
MarketFinance's Mr Stocker says the best way of ensuring success is to ensure senior management on both sides of any given deal are "aligned on processes and outcomes".

"This is imperative, especially when it comes to getting the message out across the organisations, importantly to the grassroots," he says.

Mr Healey at MuleSoft agrees. He concludes: "A culture of collaboration will pave the way for traditional banks and fintechs to deliver truly game-changing innovation."

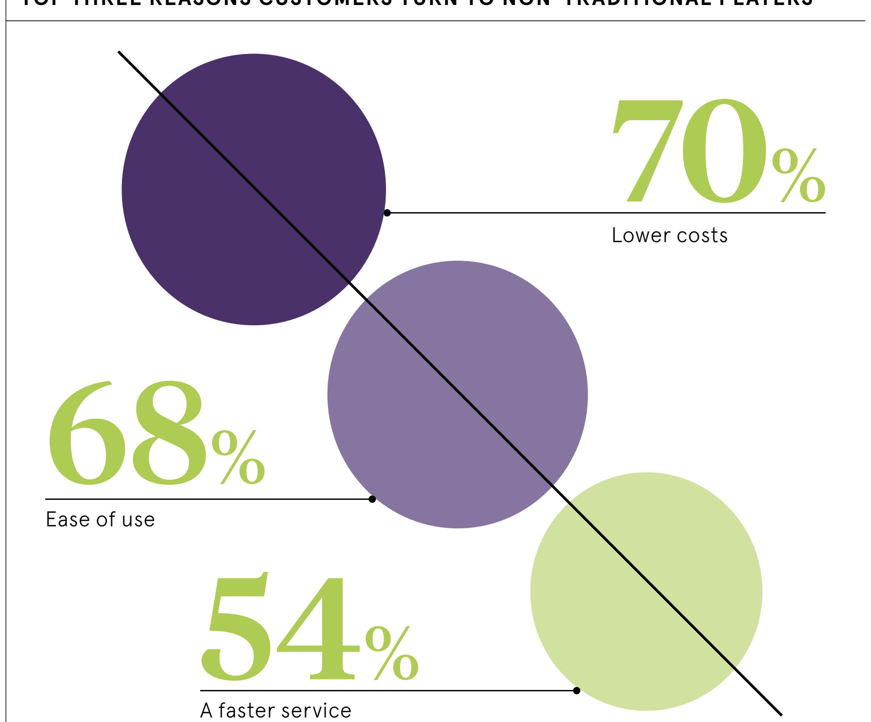
MOST EFFECTIVE WAYS FOR BANKS TO DIGITALLY TRANSFORM

Survey of banking executives



Finextra 2019

TOP THREE REASONS CUSTOMERS TURN TO NON-TRADITIONAL PLAYERS



Capgemini/Efma 2019

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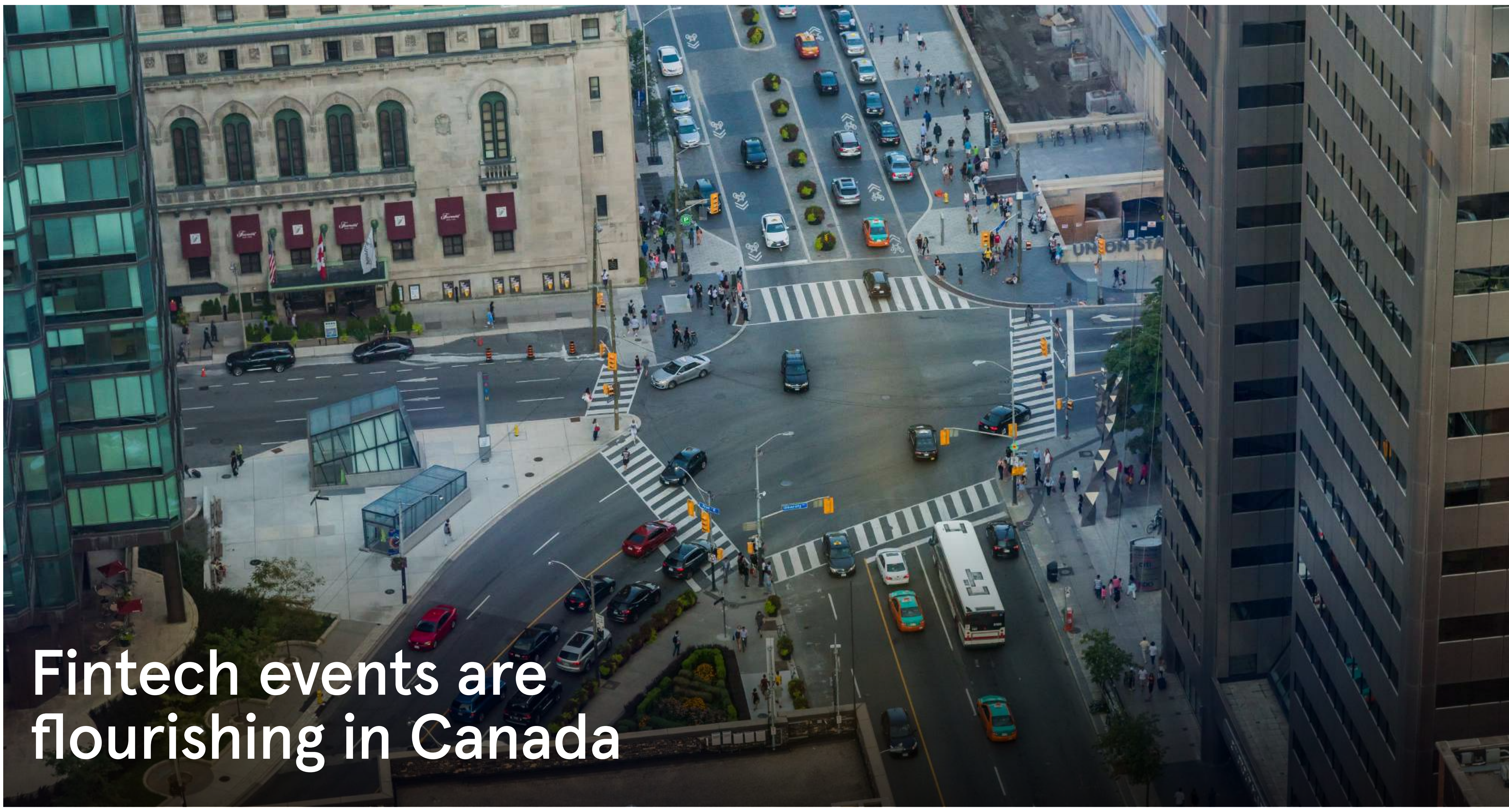


Fintech events are flourishing in Canada

Canada has undergone something of a fintech revolution, and has both the talent and ecosystems to generate exciting growth

Across Canada, the development of sector ecosystems has merged pre-existing, renowned expertise in both software development and financial services. And now that the resultant fintech industry has begun to flourish, the way has been paved for a proliferation of business events to capitalise on this considerable opportunity.

The result may well be Canada's positioning as one of the world's premier destinations for fintech growth in the years to come.

That's certainly the hope of Destination Canada's Business Events team, the government-owned organisation tasked with enriching the events sector in a range of industries, but in particular fintech, given the country's affinity with both sides of the digital coin.

"At Destination Canada's Business Events team, we have undergone a huge change over the past few years in our efforts to try and attract international events," says Chantal Sturk-Nadeau, executive director, Destination Canada's Business Events team. "We started off by being a business-to-business (B2B) sales agency targeting meeting planners or through the traditional hospitality industry via trade shows and the like.

"Now, however, we really consider ourselves as a fully integrated marketing agency focused on delivering opportunities for our partners."

These partners are, significantly, the prospective host destinations across vast Canada. The combined aim is to change the perception of Canada to the global audience across a range of sectors, with fintech one of the key focuses among the wider economic sector strategy.

Filling in the gaps

In addition, rapid proliferation of fintech ecosystems in Canada, which now comprises close to 1,000 companies, according to the Fintech Growth Syndicate, Destination Canada's Business Events is keeping on top of micro-trends to tailor prospective events and partnerships.

At present, these include attraction to the payments space, as evidenced by more than a quarter of fintech companies veering that way, enhancement of B2B solutions from financial institutions and the evolution of lending.

"Ultimately, fintech is redefining the customer experience and innovations are having to put customers right at the centre of their relationships and activities," says Ms Sturk-Nadeau. "From a products and services perspective, this has led to a lot of financial products evolving to adopt that consumer-based, small business mentality.

"However, to truly keep ahead of the curve, we are trying to serve as facilitators of a win-win scenario. This means event organisers need to find out what the main trends are in each host destination. In doing so, they're more likely to attract key traders and panel discussions to their events. A spotlight will then be shone on their own fintech ecosystem needs, and ultimately that can serve as a catalyst for improved trade investment and talent attraction in the long run."

Complete regional economic development is the phrase used to best sum up this process and the more that Destination Canada's Business Events understands different host destination needs, the better the organisation will be at attracting appropriate international events.

The importance of partnerships has never been greater to achieve this and "fill in the gaps", says Virginie De Visscher, the organisation's senior director of business development for economic sectors.

"The best way to approach and address trends like fintech – to keep ahead of the curve and translate it into tangible events – is through leveraging events and associations," she says. "This is the only way to know where the knowledge gaps are to make sure the overall picture of the sector is covered, but also to prevent conflicts, competition or repetition among those events."

Virginie De Visscher
Senior director of business development for economic sectors

These partners consist of economic development agencies throughout Canada, as well as traditional destination marketing organisations, federal government departments and Canadian industry associations.

Collision: a sign of Toronto's global status

The subsequent goal is to understand fully each respective tech ecosystem in the country. The reason for taking this regional approach is due to the nuances of each destination. From fintech startups to legacy tech companies providing fintech solutions, or even global platforms expanding into financial services, Canada's appeal is clustered around a number of provinces.

Quebec and British Columbia have proved especially prevalent in the space during recent years, but none have been as prosperous as Ontario, more specifically, its provincial capital Toronto.

One such event heading back to the city next year after a successful first foray in May 2019 is North America's fastest-growing tech conference Collision. Sunil Sharma is the co-host of the event, complementing his primary role as managing director of Techstars, the largest technology investment accelerator in the world.

Having recruited a number of international fintech companies over the past two-and-a-half years and with Collision 2020 on the horizon, he is well placed to analyse Toronto's role in elevating Canada's business events scene in the fintech domain.

"For Collision, the overall objective is to bring enterprises, startups and corporate investors to one place," Mr Sharma explains. "For the next two years, the event is happening in Toronto, but that doesn't mean it's a Canadian event. More significantly, it's a sign of Toronto's status in the global fintech space."

The Techstars boss pinpoints a perfect blend of finance and tech that exists in the city, which startups can learn from and investors can capitalise on through events like Collision.

"My hope is more startup companies from around the world will visit Toronto and discover the city is unique, with a rare combination of tech and finance acumen across the full spectrum of services," says Mr Sharma.

"We have all types of large finance companies based in Toronto and when you combine that with the software engineering output of the city, and all the universities and colleges here, then you end up with a concentrated downtown of a large city already blessed with, and consistently on the lookout for, top talent."

FinTech Connect: recognising talent crossover

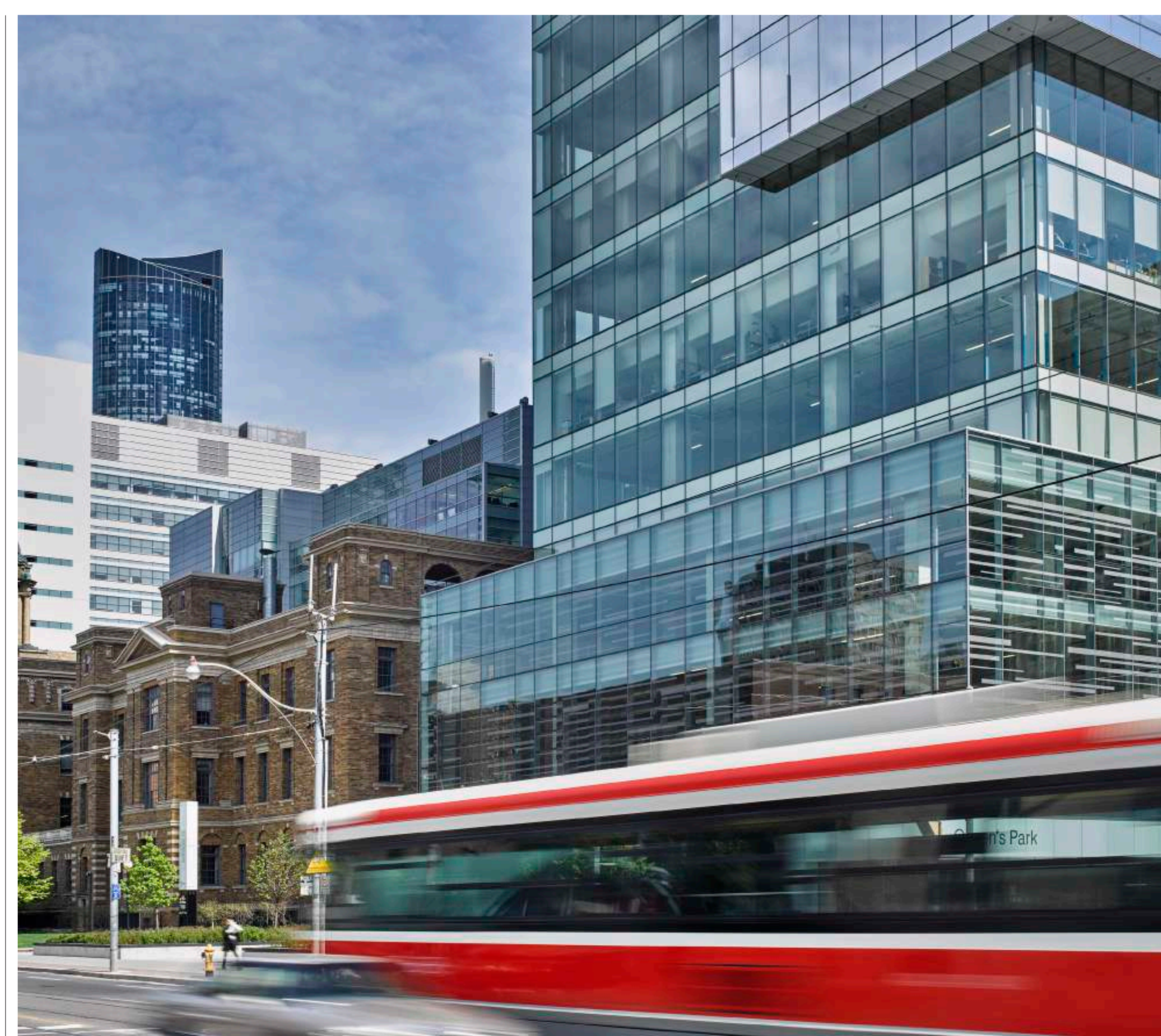
The unique extent of quality talent crossover that exists in Toronto is indicative of the wider national trend that Destination Canada's Business Events is looking to tap into.

And while the association is quite new, there is an evident, proverbial goldmine of talent, experience and enthusiasm to tap.

Development of sector brochures and knowledge-mapping materials signify nascent progression from within, but it's events like Collision which are set to accelerate the agenda more concertedly.

Excitingly, in 2020, this event will be joined by FinTech Connect for the first time, as another tangible signal of what's to come.

> We have one of the fastest-growing pools of financial services talent globally and also one of the fastest-growing technology job markets



Choosing Toronto for the event's first visit to North America, founder and managing director Steve Clarke says: "FinTech Connect is where large teams from global financial institutions go to assess the latest innovations that will underpin their next phase of transformation. It is where fintechs come to accelerate dialogues with digital buyers with responsibility across digital transformation, artificial intelligence (AI), open banking, cybersecurity, regtech, payments and blockchain.

"The exciting plans to launch our second international trade show, FinTech Connect Toronto, to shine a spotlight on best-in-class Canadian and North American financial technology to our global network and community, derives from the city being the second-largest financial centre in North America and the birthplace of AI."

FinTech Connect's partnership with Destination Canada's Business Events reflects Mr Sharma's analysis of a wider country that is also considered a market leader in the fields of blockchain, cybersecurity and payment technology.

Mr Clarke adds: "Canada has a proud heritage of producing amazing fintechs, including the likes of Koho, a top challenger bank, Purefacts, the innovative wealthtech specialist, and Borrowell, an alternative consumer financing service.

"However, when it comes to B2B applications of financial technology, the local market is more concentrated than others, due to the banking oligopoly of a select few players. This is probably why alternative finance providers have been especially well received and why events like this are important to promote further diversification and input.

> My hope is more startup companies from around the world will visit Toronto and discover the city is unique, with a rare combination of tech and finance acumen

"Canada is still establishing its market-wide approach to open banking, which is currently in a pre-legislative consultation phase, and the team behind FinTech Connect Toronto hope to press this agenda by bringing together global policymakers and practitioners who can advise on best practice implementation."

Smart as well as beautiful

Moving forward, the emphasis for Destination Canada's Business Events is to find a balance between showing off its own pioneers to the rest of the world via domestic events and encouraging international expertise to Canada to expand and inform the industry further.

"Sometimes we'll be reactive to organisations coming to us with the intention to host an event in Canada and sometimes we'll be proactive to go after associations that fill in the gaps," says Ms De Visscher. "To facilitate both methods, we're investing heavily in our economic sector strategy, adding new members to our team who will focus on our key strength of fintech among other priority sectors.

"Additionally, our knowledge map of the fintech ecosystem across Canada, compiled off the back of data and research that is expanding all the time, will ensure we have a better value proposition to associations and international corporations in the future."

Enhanced opportunities in regard to talent attraction, industry expansion, investment and trade are all earmarked as positive consequences of the strategy.

"Our role is, therefore, to be a facilitator, to attract business events which will then be a catalyst to more than just tourism benefits," says Ms De Visscher. "Moreover, especially pertinent given the size of our country, by filling in the knowledge gaps and facilitating this sector growth, we'll also be contributing to the interconnection of the country's fintech ecosystems.

"By joining epicentres, we'll be connecting the conversation and presenting Canada as a united country for fintech growth."

Ms De Visscher points out that Canada is a smart tech place, as well as a beautiful place to visit. And when it comes to fintech, the country is smarter than most.

She concludes: "We have one of the fastest-growing pools of financial services talent globally and also one of the fastest-growing technology job markets.

"What we need now is the events industry to mirror that growth. We have the talent and the ecosystems. Now we need to attract the rest of the global industry to realise this opportunity with us and push the sector forward from here."

For further information please visit www.businesseventscanada.ca

Gemma Young, founder of DiversiTech Hub

Graham Young Photography

CULTURE

More work needed to tackle institutional bias

Finance and technology are plagued by poor cultural and diversity records. So is institutional bias to blame for fintech's lack of diversity?

Rachael Revesz

This summer Gemma Young pitched a business to investors. Among other things, DiversiTech Hub organises coding and speed mentoring events for children from low-income backgrounds, and funds workshops on diversity and inclusive fintech.

Ms Young had worked in IT banking for 17 years. She was tired of being seen by employers as a "ticking time bomb" about to ask for more maternity leave or flexible hours.

She thought that by getting to work with fintech startups early on, they could grow in a more inclusive manner and benefit future generations. But she has not yet secured funding.

"As a mum of four kids, people said to me, 'You're not investable. Don't you want to be with your kids?'" says Ms Young. "Everyone likes to talk the talk, but in terms of what's getting the next generation through, not much is going on, especially in terms of socio-economic diversity."

Her experience is hardly unique. A study from the British Business Bank found that for every £1 awarded by venture capital firms, less than 1p goes to all-female teams.

But in a world of so-called disruptive technology, Ms Young claims that fintech investors are not realising the potential of the biggest and most advantageous disrupter of all: diversity. They might be missing a trick, as research from KPMG shows that fintechs with a female founder or co-founder typically deliver higher average returns of 133 per cent.

It is no surprise that this lack of investment in women fintech entrepreneurs leads to a lack of women in the sector overall. KPMG found that only 10 per cent of the 91 UK fintech companies in their study had a female founder or co-founder.

One example of a male-founded fintech that has raised funding is tickr, an app that enables people to invest in companies in the business of climate, equality and disruptive tech.

Tom McGillicuddy, tickr's co-founder, has raised more than £2.3 million since launching in 2018. He says his route to fundraising was "fairly typical", working out of his flat, not earning money and instead attending hundreds of meetings, with 19 out of 20 ending in rejection.

"It wasn't easy [to get funding], but what made it easier was our careers," the 29-year-old says. Mr McGillicuddy is a chartered financial analyst, attended Oxford University's Saïd Business School and worked for Wellington Management, while his co-founder Matt Latham has an MBA and worked for Barclays.

Part of the reason there is a lack of women is the recruitment process, says Clea Bourne, author of *Trust, Power and Public Relations in Financial Markets*, who claims fintech employers, just like traditional financial services, are focused on a select group of universities, degree courses and internships.

"It really is a scandal that financial services are not more egalitarian at universities and what about those who don't go through the university route?" she says. "Diversity would have to take place in many different ways. It can't just be an institution or industry saying let's run a diversity campaign. The problem of bias is an institutional one."

> As a mum of four kids, people said to me, 'You're not investable. Don't you want to be with your kids?'

There are two more barriers to promoting inclusive fintech. One is the long working hours. Fintech startups often need to work all hours to scale up their business quickly to deliver returns to investors.

"We're hyper-aware of the lack of diversity. But unlike big organisations, we don't have the time and resources to dedicate to it yet," says Mr McGillicuddy, adding that venture capitalists are exclusively looking for exits of at least £1 billion.

Another barrier for women is the lower pay in startup culture, as Mr McGillicuddy discovered when trying to hire more women.

"We've had to grow the team very quickly, predominantly with a team of [tech] engineers and we've only had two females apply for a job," he says. "We offered it to one of them and she turned it down and went to a bigger, 'safer' job with a higher salary which we can't compete with at the moment."

Competition is rife, which could be a positive force. According to Innovate Finance, there are 1,600 fintechs in the UK and more people working in London in the sector than in New York or Silicon Valley.

"With that amount of growth, companies have to think not just about attracting talent, but retaining it too," says Ms Young. "That war on talent is promoting diversity and inclusion."

There are many examples of this, including more than 20 per cent of Monzo's 700 staff identifying as LGBQA. In addition, Ms Young says there is a fintech trend of holding work events at lunchtime, instead of in the evening, allowing flexible and remote working, and increased paid parental leave. Online betting firm Smarkets even offers an emergency nanny service for employees with children.

But is this trend exclusive to fintech or is it part of a more general working culture? For example, the London Stock Exchange is considering shortening its market opening hours to promote work-life balance and diversity among its traders. And asset managers Baillie Gifford, founded in 1908, now offers 52 weeks' paid parental leave to female and male employees.

Female chief executives in fintech help determine the workplace culture. One example is Anna Tsyupko, chief executive of Paybase, who tries to maintain a 50-50 gender split in the senior management team, which "trickles down into each department".

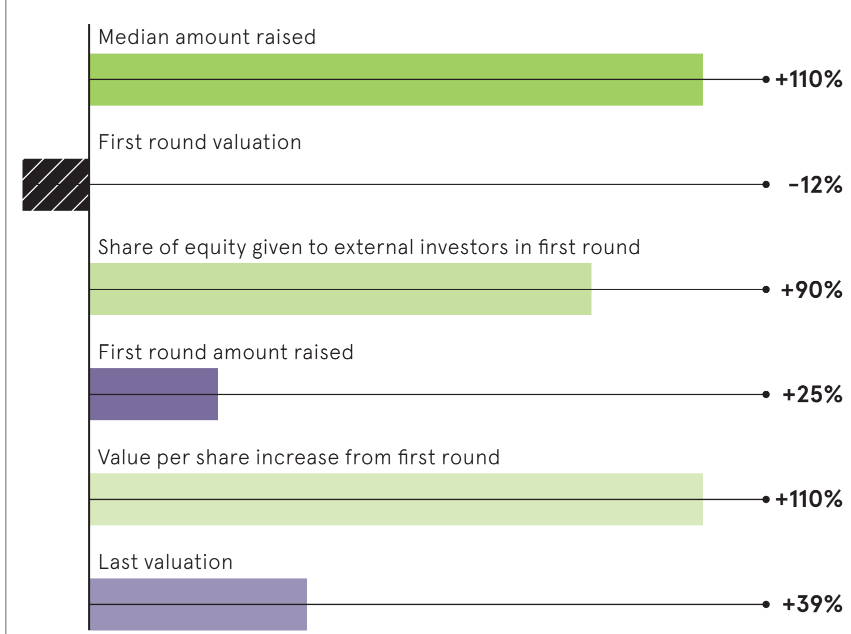
"In our tech team especially, we're proud that this strategy has attracted so many female engineers, a relative rarity in the tech space," she says. "By championing diversity at every opportunity, our culture has been built on the basis of equal opportunity."

An inclusive and gender-equal fintech firm can lead to long-term financial success, as evidenced by Croydon-based Automated Payment Transfer (APT). Kanchan Kamdar became chief executive in 2004, moved to a cloud-hosted solution in 2015 and now her firm oversees more than £40 billion worth of payments every year. Half her team has always been women. But interestingly, she's never received any buy-out offers.

"When I first started working at APT, the previous owner was a single mum with one customer," she says. "I got confidence by watching and learning from her, and then I took the risk and did a management buy-out. Thirteen years on, it was the best decision I ever made."

FEMALE-FOUNDED FINTECHS

How funding differs for female-founded fintechs; sample of 91 UK fintech companies were analysed



KPMG 2019

Alessandro Bianchi/Unsplash

INVESTMENT

Person or product?

Is a fintech entrepreneur or an innovative product more important to potential investors?

Jenny Turton

The emergence of fintechs has transformed the way people conduct their finances, from day-to-day banking to investing large sums of money. But the question for the many fintech executives seeking funding is, what is driving the venture capitalists (VCs), product innovation or an edgy entrepreneur?

MiddleGame Ventures recently completed the first VC fund dedicated to early-stage fintech investments in Europe and North America, offering close on £128 million. Co-founder Pascal Bouvier believes the recipe for attracting VC attention is relatively simple: they are seeking opportunities which are game-changing in their respective sectors, but these also have to be scalable.

"We focus on three things in order: markets, people and product," he says. "First, we look at the market. We need to be convinced about the market's potential. We look at the market structure, current solutions, clients and providers, concentration, the general level of satisfaction with the current status, growth opportunities, size and other factors."

Mr Bouvier says that once they are convinced about a market, they then take a closer look at the team, particularly the credentials of the founder and the current leadership. "We ask whether they are exceptional and experienced, and whether we can work with them," he explains. "Once convinced by the team, we finally look at the product."

With any fintech company worthy of an investment, but especially with early-stage startups, there are many factors a VC must consider.

The UK Fintech Revolution report, from Robert Walters and Vacancy Soft, found that the location of the business plays a big part in a fintech investment. According to the study, London remains at the heart of VC investing within the fintech space, with 39 per cent of funding in the UK's capital city during 2018. This was followed by Berlin at 21 per cent and Paris at 18 per cent.

However, the one element that resonates with all VCs is the desired outcome of making money, according to Nik Whitfield, chief executive of UK cyber-company Panaseer.

"The earlier stage the investment, the fewer proof points exist – revenue, market traction, product and so on – and so VCs invest on softer factors, typically the team's calibre and track record, passion, experience of the problem they're solving, potential market size and the innovation in technology or business model," he says. "The more mature the startup, the more VCs will look at the financial performance of the company, customer traction and trajectory."

Mr Whitfield argues that the increasing interest of VCs in fintech is being driven by the need for disruption in banking and finance. "Like any large company, banks can find it hard to innovate," he says.

Venture-backed fintech companies raised $39.6 billion in 2018, up 120 per cent from the previous year, according to CB Insights.

Anton Inshutin, managing partner at RTP Global, attributes this to the adoption of the European Union's revised Payments Services Directive in 2018. "It essentially opened up the floodgate of new business opportunities in fintech that leverage the existing banking infrastructure to provide a range of new financial services to customers," he says.

"The role of an entrepreneur is to have a vision for the product or service, set the goals and to motivate the team. Charismatic entrepreneurs typically deal with these issues better."

Mr Inshutin believes that a good founder can usually tweak the product to make sure it fits market requirements. "We are typically looking for a combination of a strong founding team, an innovative product and a large addressable market," he says.

While innovation appears to win over an edgy persona, it isn't the be all and end all.

Eyal Nachum, executive at Brüe + Bond, formerly Moneta International, sums up the VC approach nicely when he says: "Great ideas are cheap. But only a few people are strong, creative and talented enough to implement these ideas and make them happen, to take them to the next level. Persona matters, but being an 'edgy' entrepreneur can be a problem. VCs are looking for stability, not hype."

120%

increase in the amount raised by venture-backed fintech companies in 2018 to $39.6bn

CB Insights 2019

OPINION

'Companies need to include more developers of different ages, nationalities and backgrounds to ensure more diversity'

Technology dominates our everyday lives. In fact, the world of finance has advanced to such an extent that the future of the sector is inextricably linked to that of tech.

The challenge we now face is ensuring we understand and address the issues surrounding the speed of adoption of innovative technology, some of which are already beginning to come to the fore, including challenges around data bias.

There is a common misconception that algorithms using computational logic are free from bias. This is simply not the case. They are built on datasets that specify an end-result or outcome and the algorithm subsequently learns how to apply these to different people or objects to predict the correct end-result. If the base dataset used contains flaws, these are replicated repeatedly, potentially having an extremely detrimental impact on the target users.

Recent headlines have given us pause for thought with stories such as Google ads displaying higher-earning and executive-level job ads to men rather than women or recruitment questions assessing candidates based on traditionally masculine traits. These cautionary tales about embedded unconscious bias have now filtered through into the world of financial services, most recently illustrated by outcry over the apparent gender bias with the new Apple Card.

To ensure fintech remains free from bias, we need to attract a diverse workforce when it comes to designing and building the technology that sits behind the many new products and services. Ensuring there is diversity within the developer teams that create algorithms will help avoid the discriminatory effects of artificial intelligence on certain groups of people. Companies need to include more developers of different ages, nationalities and backgrounds to ensure more diversity.

Doing so will increase the likelihood of picking up biases in data which influence key decision-making and also dilutes the dominance of any individual social group, for example white, middle-class men. The challenge is this is easier said than done. UK fintech has long struggled with gender diversity; women make up only 17 per cent of senior executives in the sector.

Policies need to be reviewed and developed to ensure there is a breadth of talent available for fintech to grow. This includes measures that will encourage a more diverse spectrum of people to enter more technical roles.

Action also needs to be taken to encourage a wider range of people to take up STEM subjects (science, technology, engineering and maths) at school and university, and continue to work towards breaking down the stereotype that only white men are able to work in fintech. This is not easy to achieve and we need to continue to give everybody not only the skills, but also confidence to take a seat at the table if this is something they wish to do.

At Innovate Finance, we have schemes to catalyse action. Our diversity programme shines a spotlight on women in fintech and provides a common ground for them to connect and exchange ideas. We enable girls to think about pursuing a career within the sector through our FinTech for Schools programme and participation in schemes such as Workfinder and Founders4Schools. If fintech companies begin to encourage gender equality among their workers, they will reap the benefits of attracting and retaining a diverse high-calibre level of staff.

Make no mistake, this isn't just about gender diversity, but genuine plurality, which also includes ethnicity, age and social background. For fintech to prosper, it's fundamental we build products around inclusive datasets that people from all walks of life can trust.

Charlotte Crosswell
Chief executive, Innovate Finance

Commercial feature

Putting the F in fintech

Women make up just under a third of the UK's total fintech workforce and only 3 per cent of the $1.7 billion invested in UK fintechs last year went to female founders, according to Innovate Finance. Raconteur hosted a roundtable last month with six leading figures from the world of fintech to discuss some of the challenges and opportunities the industry faces in boosting the number of women in the sector

Elena Novokreshchenova
Vice president of international at Remitly

Jennifer Morris
FinTech lead at Accenture

Marieke Flament
Chief executive of Mettle

Christine Bamford
Chief executive and co-founder of Women's Coin

Bryony Widdup
Partner at DLA Piper

Brittany Atkins
Business development strategist at Hotwire, founder of The F in Fintech

Q Why are there so few women in fintech?

A EN: I think there were around 10,000 students that studied A-level computing in 2019 and only around one thousand of them are female. So that just limits the pool. Sometimes we sit there trying to hire [women] but we just don't get any applications.

JM: It's hard because fintech bridges financial services and technology – and neither are diverse industries.

MF: And if there are no role models when a candidate comes through and they can't talk to someone who is like them, then guess what? They're going to feel like it's a bunch of guys in hoodies and feel like that's not a place for me.

Q How can fintech attract more female recruits given the lack of women studying STEM subjects?

A CB: Fintech is about innovation and it's about serving our population. There are a lot of people out there who don't trust the banks, and who are looking for a more human face [to finance]. That's the angle I think we should be going for. The whole range of emerging new technologies and innovation is very suited to young women.

EN: I would fully agree. I think impact and that social angle. I think for women that's a very big attraction.

JM: Telling stories about the positive things that fintech is doing could be one option. For example, so many fintechs are coming out with products and services that encourage people to take better care of their financial health by saving more and providing tools and advice to better their finances. It's these types of stories that can help attract more diversity candidates into the industry.

Q Can some skills, like coding, be taught on the job?

A MF: I think training internally is super important. In my team, a lot of people code, but a lot of people don't. The team now get together for training every week and they talk about JavaScript for one hour and that gives them the confidence to say "OK now I understand the basics". So yes, coding and tech skills can be taught and should be taught. Also, the world is moving so fast that the skills taught today are probably not going to be valid in five or ten years.

EN: Absolutely. We often hire for the right attitude and the ability to learn and get the skill set, rather than just hiring someone who knows the field, but is not very motivated.

> **"Remember how hard it was to get to where you are and to help make that journey a little easier for others**

Q How important is sponsorship and mentoring?

A BW: There's a real value for me in sponsorship. There are points in one's career where somebody more senior is going to have to put their reputation and potentially some element of their financial performance on the line for you. And the fact is that often needs to come from a man. Just based on the numbers.

CB: Role models to set the pace for others who are going to follow. For us women, who are leaders, do pull up the people behind you, do take time to mentor, and remember how hard it was to get to where you are and to help make that journey a little easier for others.

Q What can fintech organisations do to increase their gender diversity?

A BA: Diversity has to be a value that has been baked into the business right from the beginning, and you've got to keep communicating that internally and externally all the time. If I was looking at a company that I might want to apply to and I have already seen that it's a boys' club because I've heard about the company through my network, or I've seen how they post on social media, then I'm not going to apply.

JM: Perhaps it's about trying to change the mindset within organisations by encouraging people to think about things from other people's perspectives. Really challenging ourselves to think, "What's it like to be a woman in this industry? What is it like to be different to myself?" I think that's really powerful and will spur action where previously people may have done nothing.

MF: When we write job descriptions, there can be biased words in that. So step number one is to screen your job descriptions with free tools like Textio to remove those words, because otherwise, guess what? Women don't apply. I've also been to interviews where there were no women [interviewers] and I was like, "I can't join this company. It doesn't feel right".

Q Why do there seem to be so few female-led fintechs?

A BW: Up until the Seventies, women in the UK were still routinely refused mortgages in their own right. If you think about from then to now, in one sense it's very positive how far things have come. But also, you are coming from so far behind when you think about the social and cultural view of women managing money. I think there is a deep cultural overhang. There is an underlying lack of social confidence in women's ability to manage capital and credit and to deliver performance. And that's a real issue.

Q Only 3 per cent of the $1.7 billion of venture capital fintech investment in the UK goes to firms with a female founder. Why?

A EN: A lot of VC fundraising is about networking and knowing the right investors. When I first moved into fintech, one of my senior team members told me, "Forget your evenings, you have to go out and network". But not all of us have the time. Women have families, kids to look after. So it poses challenges.

> **"There is an underlying lack of social confidence in women's ability to manage capital and credit**

BA: Something that gets in the way of my networking is that it's often after-work events in a bar with a room full of guys. Am I necessarily going to feel safe there? Am I going to turn up and feel like I'm in like a date scenario? That is something we've got to try to change. I try to make morning networking events because I'm really conscious that [evening events] are not necessarily somewhere that a woman is going to feel not only welcome, but safe.

Q Women make up 30 per cent of the VC labour market, according to Innovate Finance. Is that the issue?

A BA: The VCs have a similar problem to the fintechs in that they don't have many female decision-makers. It's the exact same problem. Female founders shouldn't be trying to adapt who they are to get VCs to listen. VCs have got to change.

BW: But I wouldn't want to put the VC firms down too much because there are female-led VCs now doing good work in this space. There are also VCs with policies that require certain levels of female involvement or diversity in the projects they invest in.

EN: The fact is that the general tech space is quite aggressive. For example, pitch battles. The general setup of how you succeed in tech is that you have to battle and go on stage and be aggressive. There are women who are happy to take the stage and be aggressive, but not all of them are.

Q How do you get away from traditional pitching? What might that look like?

A BW: Pitching – I know from a personal perspective – it can be very battle like. I'm not saying get rid of that entirely, but we should encourage different styles of pitching, different set ups that play into different types of mindset and personality.

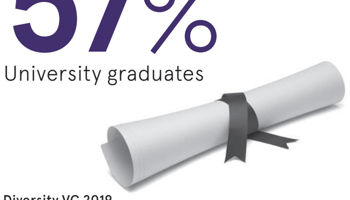
JM: I think it's about investors rethinking how they engage with fintechs and trying to change the narrative and approach to investment. You could have a VC do a 'day in the life' with a female founder, where founders take a VC round with them and just say, "This is what we're trying to achieve. This is what I do every day. This is my team. And here's why you should invest."

CB: I'd say you do not have to go into a venture capitalist pitch. There are other ways to raise money. Don't play the game. Change the paradigm. If the VCs are all male and have a certain mindset, don't go there. There are family firms, there is crowdsourcing. There are other ways to do it.

Female representation dwindles in finance and tech

Percentage of women in the following groups

57% University graduates



47% Working professionals

37% Executive management

30% Venture capital

29% Private equity

22% Tech directors

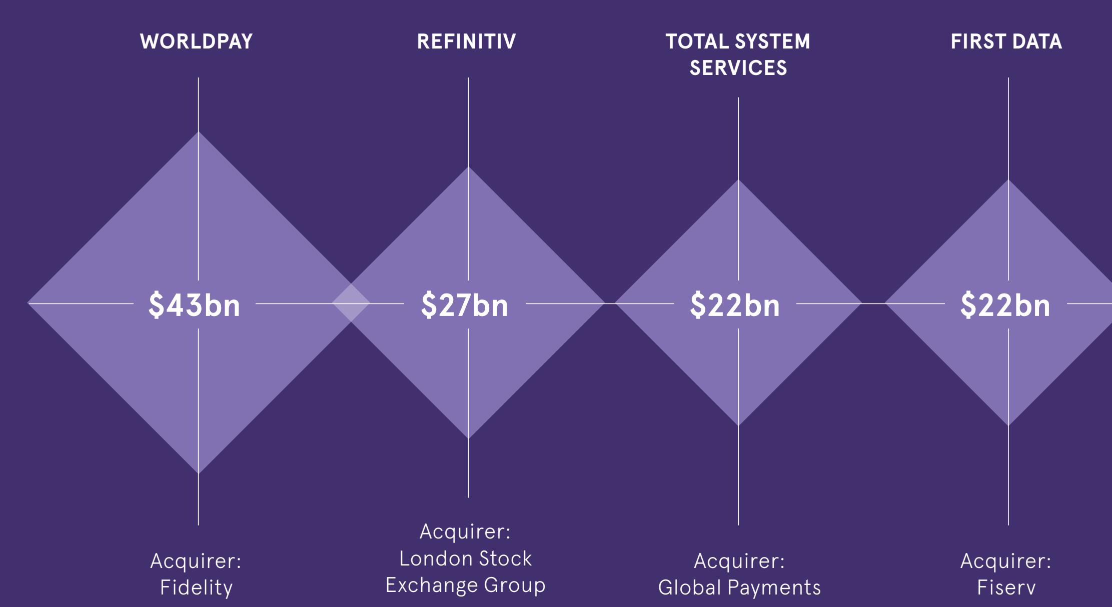
Diversity VC 2019

THE WORLD OF FINTECH

Awareness, adoption and investment in the global fintech scene have all exploded over the past five years. This infographic explores the changing dynamics of the sector to highlight new opportunities, areas of growth and emerging challenges facing the industry

2019 HAS BEEN A YEAR OF MEGA-DEALS

Biggest announced fintech M&A deals in 2019



of global financial services institutions say they have a fintech product or service available for customers, 22 per cent say they are at pilot stage, and 40 per cent are at either research or development stage

PwC 2019

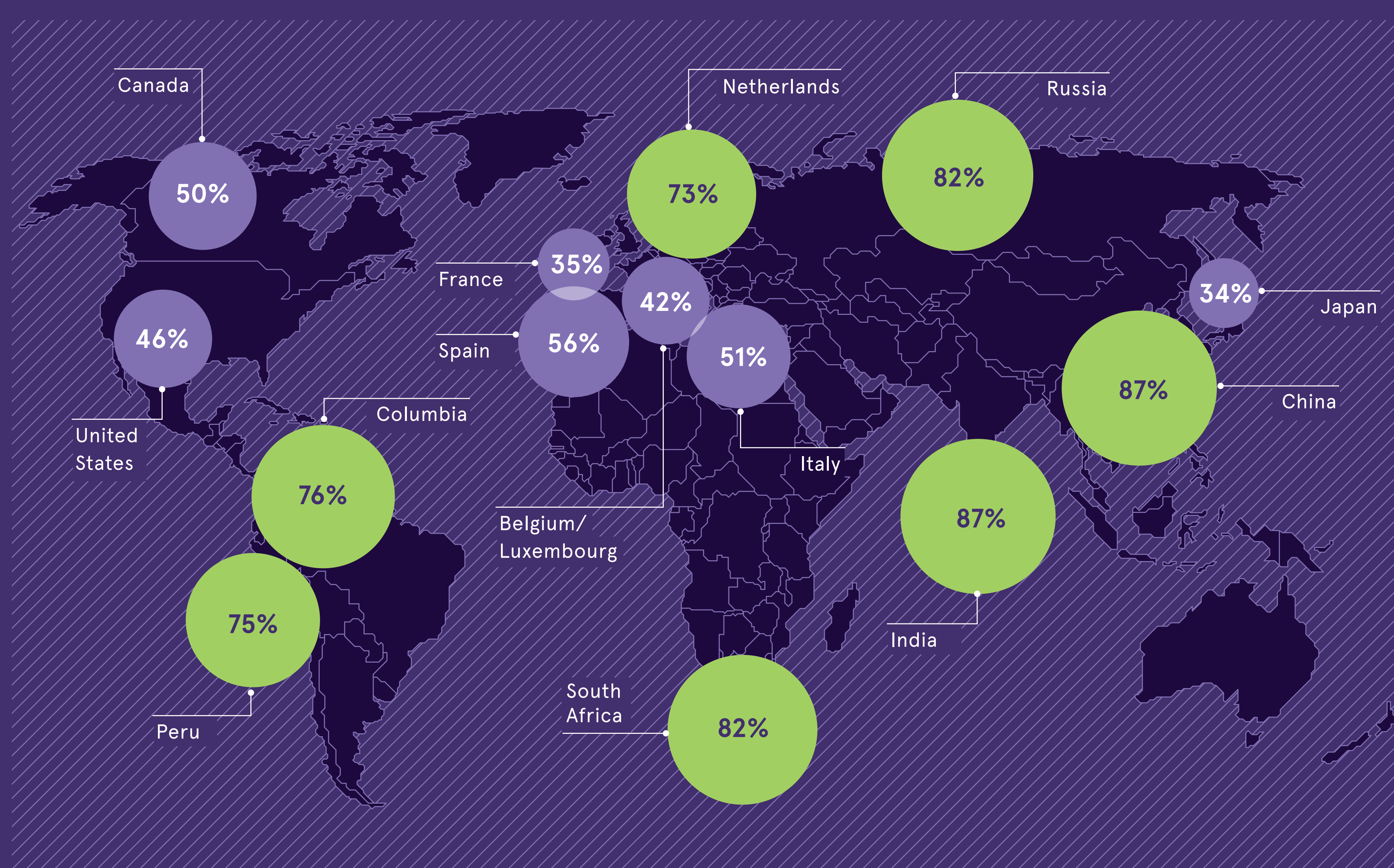
$73.5bn

cumulative global investment in fintech companies in the first three quarters of 2019, combining venture capital, private equity and M&A

PitchBook 2019

CHINA AND INDIA LEAD THE WAY IN FINTECH ADOPTION

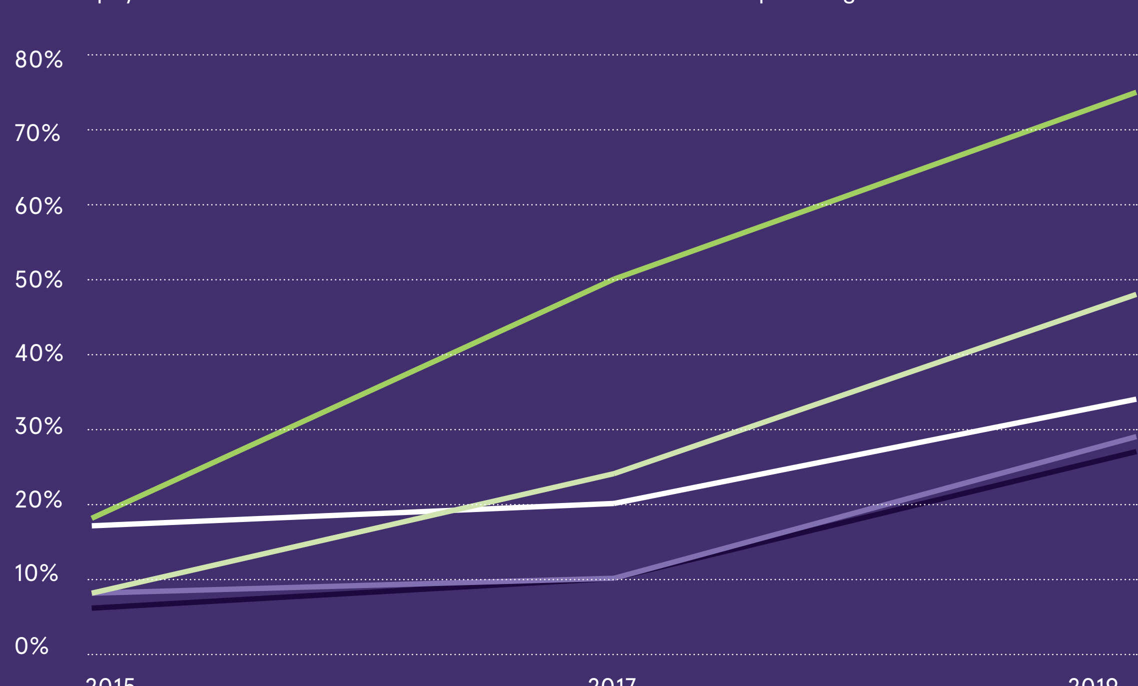
Survey of 27,000 consumers in 27 markets; percentage who had used at least one fintech service



EY 2019

MONEY TRANSFER AND PAYMENTS ARE BY FAR THE MOST USED SERVICES

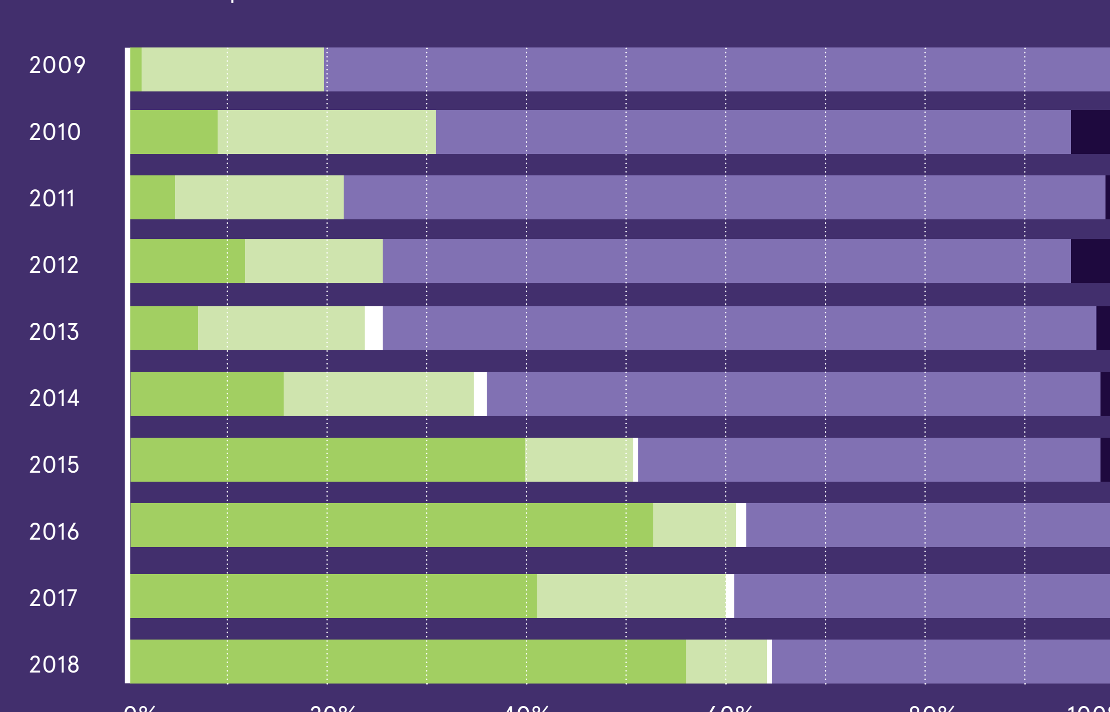
Global average adoption by fintech service



EY 2019

FINTECH STARTUPS INCREASINGLY ATTRACTING ASIAN INTEREST

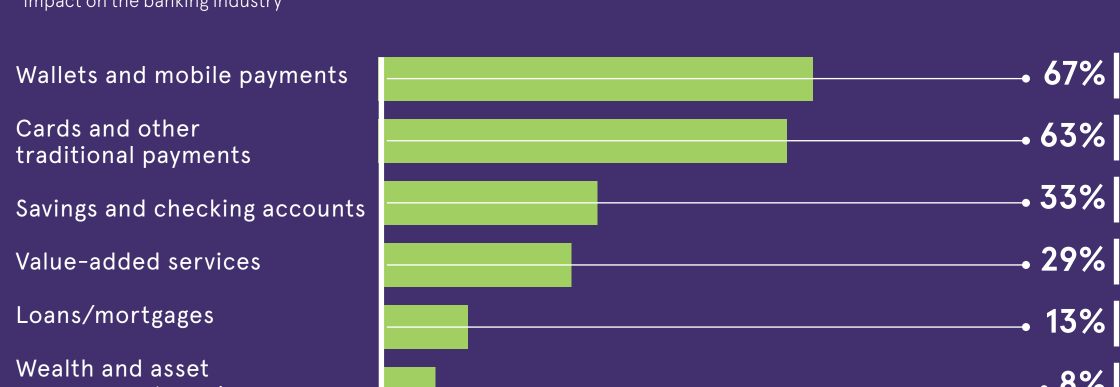
Venture capital fintech deal activity by region; share of all deals in terms of value



KPMG 2019

MOST IMPACTFUL FINTECH SERVICES

Percentage of banking executives who say the following offerings from non-traditional financial firms are having a large impact on the banking industry



Capgemini 2019

TRUST IN INCUMBENT ORGANISATIONS IS STILL HIGH

33%

of global consumers would consider a new financial organisation when considering a new service

22%

of non-adopters revealed that their decision to remain with their traditional financial provider was due to trusting it more than fintechs

EY 2019

TRADE FINANCE

Streamlining trade could unlock trillions

Widespread commercialisation of blockchain could transform global trade finance and unlock trillions through cost-savings and more efficient processes

Nick Easen

There will come a time in the not-too-distant future when bankers around the world will look back and see this moment as a turning point in trade finance.

Hardly a day goes by when there isn't a fresh example of blockchain, or distributed ledger technology, used on a new deal, whether it's transporting iron or soybeans, trading in yuan or dollars, moving goods from China or Argentina. A full proposition, a commercially acceptable model, is tantalisingly close.

The aim of this bit of fintech is to disrupt an archaic paper-based and bureaucratic business. The fact is, cross-border settlements and financing transactions are based on an inefficient and clunky model, which has changed little in decades. And the prize is of untold riches: a slice of the $16-trillion market for global trade.

"Pilots have shown the value a blockchain platform can deliver to the entire ecosystem. We know the technology works well and we're extremely keen to see a shift from industry pilots to widespread commercialisation next year," says Vinay Mendonca, global head of trade products and propositions at HSBC.

The focus is on reducing friction and cost, boosting speed and increasing the transparency of cross-border trade with digitised accounts on a distributed ledger. The technology, also called DLT, can now be used to settle a letter of credit in a few hours compared with ten days via the old system.

If used effectively, the tech could unlock what the International Chamber of Commerce (ICC) has identified as a potential $1.5-trillion opportunity gap in global trade finance. This is where deals, which don't get funded because of a lack of trust, transparency, funding or opportunity, start to flow.

"Increasing numbers of banks and global corporates have grasped the fact that digitalising bills of lading, letters of credit and bank guarantees gives them huge efficiencies and greater security. This is especially true in South Asia and the Far East," explains Andrew Raymond, chief executive of Bolero.

"Consignments will not sit in ports incurring huge penalties because of delays in updating and transferring bills of lading to confirm rightful ownership. Sellers will get paid much faster, transforming their use of working capital. Opportunities for fraud will hugely reduce, while back-office automation in drafting documents will slash overheads."

It sounds like a global trading utopia, created with a wave of the magical blockchain wand. Yet industry has yet to see a real breakthrough moment that makes everyone scramble to get on board. There are barriers to widespread adoption within trade finance. If it was so easy to unseat this stubbornly paper-based system, it would have happened by now. A shift in mindset and the status quo is sorely needed.

"Blockchain scalability levels are increasing, but it hasn't reached mass adoption. When it comes to DLT, many firms aren't ready to invest, according to a survey we conducted," says Ed Thurman, head of global transaction banking at Lloyds Bank Commercial Banking.

Regulation is another challenging area. Legislation is generally slower to adapt to a changing landscape in age-old industries; supply chain finance is no different. In addition, there's a need for global business standards when it comes to data structures and agreed digital documents, which the ICC is looking into.

"Part of the issue is also building sound internal business cases to implement this technology. Many trade finance and trade credit functions within an organisation are not necessarily the highest priority right now," says Saleem Khan, global leader of data innovation at Dun & Bradstreet.

Yet there's a huge number of consortia, banks, and blockchain and tech companies getting in on the act, with rallying calls for there to be a more unified approach. Global trade partners, whether they're financial institutions, shipping companies, large corporations or logistics firms, will all need to talk the same digital language if they're to succeed. Tech interoperability is a key phrase, otherwise there will be no efficiencies.

"There cannot be too many platforms, as the main constraint we face is the network effect. You need to be able to reach a very large number of banks and corporates for the platform to be useful," Baptiste Audren, head of fintech at Komgo, points out.

There are also security and privacy concerns. "Even if digital certificates for each transaction are anonymised, in a small network of users it can be easy to identify participants by analysing the transaction flow," says Kuangyi Wei, executive director of growth and strategy at Parker Fitzgerald.

"Technological solutions are possible, although they could also reduce the benefit of using DLT by slowing the clearing of transactions or reducing the ability to confirm the veracity of information on the ledger."

Despite any hiccups, there's a lot of optimism among financial services providers that blockchain will eventually conquer trade finance and usher in a new digitally driven era of decentralised records. It's not a matter of if, but when.

"The next step is to ensure low barriers of entry for clients and banks with access to tech interfaces or APIs [application programming interfaces] that allow customers and banks to easily connect to blockchain platforms. Additionally, low fees and on-boarding charges for the use of such platforms will accelerate adoption," says Mr Mendonca at HSBC, the world's biggest player in trade finance.

"The next step is for clients to move their ongoing flows on to the platform. We're working with many to normalise that process and expect to see an increased flow from them in 2020. In parallel, we continue to see an increasing rate of first-time adopters."

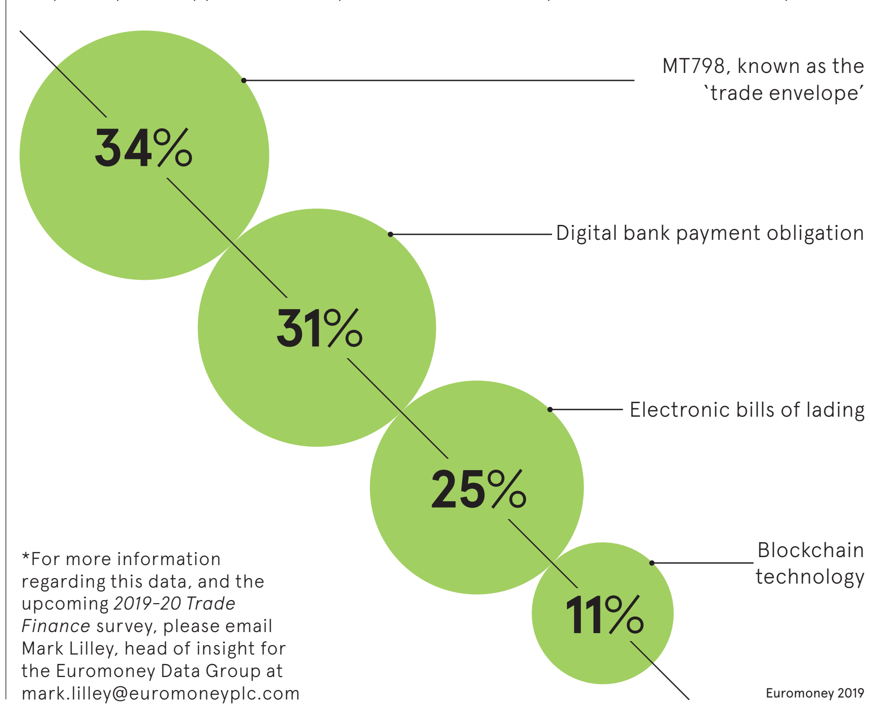
Faster, cheaper, less opaque trading aren't the only benefits, as digital ledgers will give an immutable source of truth on all trade deals. This has huge implications for creating more sustainable and low-carbon supply chains in the midst of the climate crisis.

"Thanks to big data, we now have access to a generous source of information on environmental, social and governance items that, if leveraged correctly, could help meet sustainable development goals. The opportunities are incredible and endless," Charley Cooper, managing director at blockchain firm R3, concludes.

> Opportunities for fraud will hugely reduce, while back-office automation in drafting documents will slash overheads

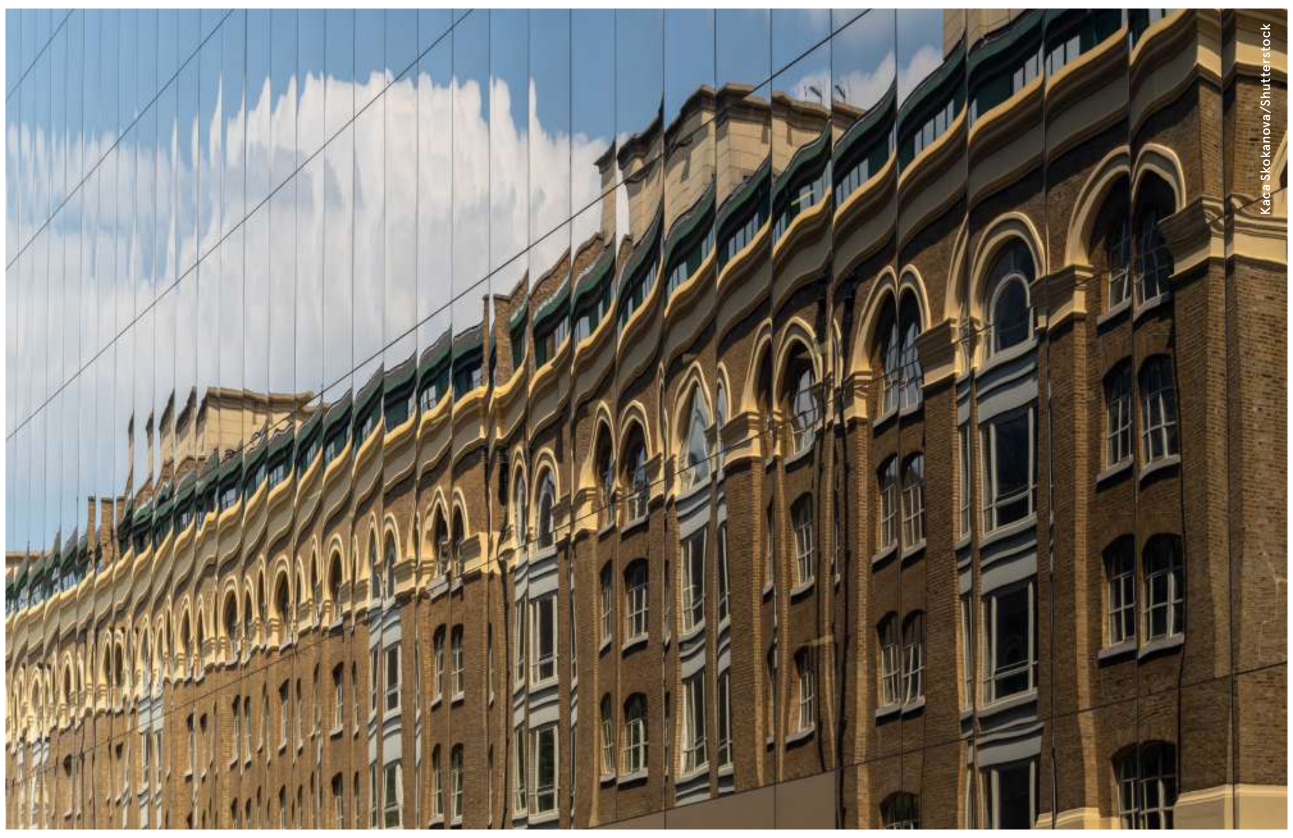
ADOPTION OF DIGITAL TRADE FINANCE

Adoption by treasury professionals, questioned in Euromoney's *2018-19 Trade Finance* report*



*For more information regarding this data, and the upcoming *2019-20 Trade Finance* survey, please email Mark Lilley, head of insight for the Euromoney Data Group at mark.lilley@euromoneyplc.com

Euromoney 2019



LEGACY TECH

Fintechs, banks and the digital divide

Fintechs have the technology and expertise to transform core banking systems for incumbent institutions, so why aren't banks taking advantage?

Jenny Turton

We've heard it all before: incumbent banks need to transform their legacy systems, whether to meet the shifting regulatory landscape or purely just to remain competitive.

But while many fintech firms have developed the software and solutions to help, they have felt pushed aside until relatively recently, begging the question whether they are trusted by the legacy players.

Fahd Rachidy, founder and chief executive of digital retirement solutions fintech ABAKA, says both fintechs and traditional banking groups need to work harder on collaboration if the pace of innovation is to continue to increase.

Mr Rachidy says fintechs are guilty of developing impressive innovations, but without giving due consideration to the systems with which they need to dovetail.

"Their products have not been capable of integrating seamlessly with complex legacy technologies or adapting to the varied business requirements of companies in this sector," he says.

"Core applications have also not been strategically aligned with banks' future marketing and business initiatives. Fintechs might have bright ideas, but ultimately they lack focus on delivering practical products and processes that can be manufactured affordably and integrated with ease."

Kanika Hope, global strategic business development director at Temenos, acknowledges it has been hard for a bank to come across a fintech that fits exactly with its business model or exacting compliance standards. But she says this is simply a stumbling block and the focus is now on acquiring or incorporating the capability fintechs bring.

"One model by which banks are embracing fintechs is to buy the technology from the fintechs via digital marketplaces or pay-as-you-go open application programming interface-based technology platform models which are on the rise, especially in Europe," says Ms Hope.

"Another model is the building of fintech capability from scratch in-house, ring-fenced from the mothership, but wholly owned by the bank."

Ms Hope cites Bank Leumi of Israel as an interesting example of an incumbent bank with legacy technology that has chosen to build a brand-new digital-only bank to try and get around some of the issues.

"This build-and-renovate approach is a more transformative approach than the comparatively light-touch partnerships between fintechs as it opens up the option of migrating the parent bank's existing business in the future," she says.

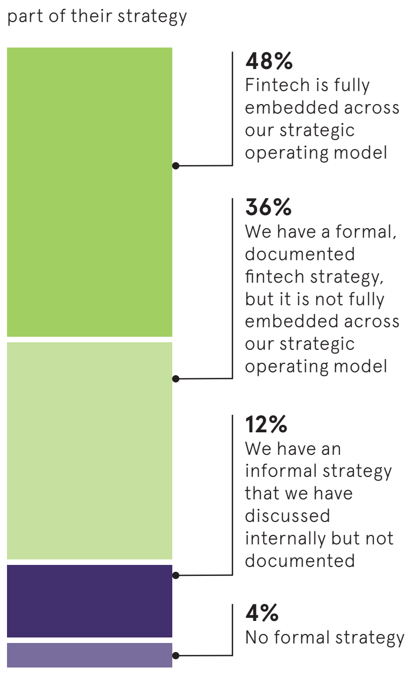
In spite of the products and services on offer from fintech firms, banks have so far favoured the business models of major companies. For Mitesh Soni, chief evangelist at global fintech firm Finastra, this boils down to risk appetite and culture.

"Traditional firms are very risk averse and for heavily regulated industries like banking, companies are reluctant to take a chance on new technologies. As the adage goes, nobody ever got fired for choosing IBM," says Mr Soni.

> **Traditional firms are very risk averse and for heavily regulated, companies are reluctant to take a chance on new technologies**

FINTECH AND ORGANISATIONAL STRATEGY

Financial services organisations were questioned about the extent to which fintech is part of their strategy



PwC 2019

Companies such as IBM employ a large team of highly skilled people, giving off the impression to its customer base that should something go wrong or need attention, they have the manpower and expertise to solve it swiftly.

Gareth Malna, associate solicitor in the fintech team at Burges Salmon, explains: "The bank either wants full control or to know that it is dealing with a reputable provider. Even fintechs that have great products can be bad businesses and unknown fintechs provide both reputation and business-continuity risks.

"This partly explains why banks choose to take over fintech businesses; it gives the bank that level of control over the whole of the business which wouldn't otherwise exist."

But Remonda Kirketerp-Møller, founder and chief executive of regulatory technology firm muinmos, argues it is a misconception that the larger technology providers offer more protection to financial institutions.

"That's simply not the case," she says. "These large technology providers have very strict limitation of liability clauses to secure themselves against IT failures and similar, and in return, limiting any compensation they will pay out to those financial institutions relying on them.

Ms Kirketerp-Møller says fellow regtech innovators have identified huge opportunities to work with financial services firms, clients and regulators, and have found ways to navigate the corporate risk of mis-selling through strict governance and great service.

While it is clear the large, well-established businesses have a strong foothold among financial institutions when it comes to the transformation of their core banking solutions, fintechs that can prove their worth and longevity can break the mould.

"This is simply a product of time and credentials," says Mr Malna. "The time it takes to build those credentials is often in stark contrast to the speed at which the fintech is working internally and that mismatch can create frustration."

The relationship also works both ways and as financial institutions begin to open their doors, albeit slowly, to the idea of innovative technology offered by fintechs, so too must the fintech firms embrace the core of the banking sector, most notably compliance.

"Fintechs need to embrace compliance with relish," argues Flux co-founder and chief operating officer Veronique Merriam Barbosa. "It shows that you're capable of doing what you say and can be trusted. It's independent, immoveable and can be the keys that allow fintechs into the core banking system to improve it for the better.

"Compliance shows clearly your ability to not only make something interesting, but something which genuinely works with an existing industry, demonstrating validity to a specific audience, and that it could be used at scale to improve financial services for everyone."

Leading by example

Founded by former Santander and Atom Bank executives, B-North recently announced it is working with both Mambu and nCino to build its core banking systems.

The firm is currently in the process of applying for its banking licence, which it hopes is being looked upon favourably by the regulator. It will be able to turn around loan applications of £500,000 to £5 million within ten working days, as opposed to the four months it currently takes high street banks.

Ewan Hutton, chief technology officer of B-North, explains that banking systems need to take their lead from advances already being made in other industries. "Consider that your utility account, your Amazon account, your broadband and mobile account; they all have transactions and balances," he says.

"They all have various products and services to sell, and they all need levels of security and to be 'always on'. So why don't those industries rush out to buy the latest core banking technology?"

Mr Hutton explains that the term "core banking" actually has its origins from the networking of branch systems in the 1980s. In the decades that followed and at the turn of the millennium, more and more demands for business and customer functionality were bolted on or new applications wired in. The resulting tech systems at legacy players look puzzling to say the least.

"What this means is a lot of these systems have become a dog's breakfast and in need of a complete rewrite; the problem was not always solved even with the rewrite," he says.

"A number of the rewrites have tried to take the same concept, but re-engineer it again. These may be cloud-native in terms of technical engineering, but they have not reconsidered what is actually needed for the future of banking."

Commercial feature

Opportunities for growth in the regtech revolution

Changing regulations have transformed the contract for difference industry and fuelled the rise of regtech as reputable brokers seek opportunities in a complex legislative landscape

The introduction in January 2018 of MiFID II, a legislative framework designed to standardise practices across the European Union and improve protection for investors, and the subsequent intervention measures placed by the European Securities and Markets Authority that August, have had their intended effect of increasing transparency in the contract for difference (CFD) industry.

Responses to the complex regulation among brokers have varied, however. Some have sought loopholes, such as classifying retail traders as professional clients to circumvent the new measures. Some have complied and watched their trading volume and overall profit levels plummet. Others have taken this complicated situation and identified areas for growth, by reimagining their strategy and business models to provide a better service to their customers. One such broker is Exness.

The new rules aimed not only to enhance transparency, but also to protect investors via measures such as restricted leverage, new margin close-out rules and negative balance protection, which means investors will never end up owing more than they invested.

"Exness offered negative balance protection to its clients long before legislation made it compulsory," says Andrey Shamne, head of product at Exness. "Furthermore, in all the jurisdictions in which we are licensed and operate, European and other, our clients' funds are segregated and kept entirely separate from the company's funds, ensuring they will not be affected in the unlikely event of a liquidation."

Insofar as investor protection goes, therefore, the new legislation was completely embraced and fitted in perfectly with the existing policies of reputable brokers such as Exness.

Regarding Europe specifically, the Exness Group recently decided and announced to its clients that in the New Year, its CY and UK entities will move towards a pure business-to-business direction, through the offering of a white label product and liquidity provision. By doing so, it hopes to tap into new markets and gain new partners to drive its business into the future.

"Our expansion strategy is multifaceted in that it does not only lie in retail. In fact, our retail client base in Europe has never been central to our business, so the regulatory measures of 2018 catalysed the arrival of two realisations this year. One, that the restrictions imposed for our European entities had little impact on business. And two, that if our retail business in Europe was never key to the company's operations, perhaps it was time for a change," says Mr Shamne.

The changes caused by tightening regulatory requirements have also driven a revolution in regtech (regulatory technology), as stringent compliance and anti-money laundering (AML) measures increasingly influence the CFD industry. Those that do not adhere to compliance standards cannot sustain a brokerage business in such times.

If we take a look at the greater world of finance and banking, regtech has indeed become a rising movement and a key component in battling common challenges faced by financial institutions. The CFD industry is no exception. Reputable brokers are investing in regtech tools to automate know-your-customer (KYC) and AML processes, leveraging faster and more effective solutions that leave an automatic trail and don't allow for human error. Falling foul of compliance standards is not an option in today's industry, where all measures must be taken to reduce risk and prevent fraud.

Exness has recently partnered with automated KYC and AML solution Sumsub for fraud protection assistance and globally inclusive AML compliance. The new EU AML5 Directive, Financial Action Task Force guidelines and the generally growing AML requirements governing the financial sector have made it more important than ever to establish near-flawless identity verification strategies that allow for zero error. As Exness's global expansion advances alongside increasingly strict rules aimed at protecting both client and broker, the firm is keen to ensure nothing is compromised.

Implementing an automated KYC solution is crucial in an era when it is imperative to adhere to regulatory compliance and battle increasing identity fraud. The Sumsub solution automates identity verification and anti-fraud, providing compliance to relevant regulations and KYC/AML screening. The Sumsub dashboard allows Exness to choose its workflow out of fully automated, semi-automated and agent-assisted verifications. It's also possible to manage and control bulks of applicants, their status, history and reasons for being approved or declined. The solution documents each decision's history and produces reports following market practices used in AML and combating the financing of terrorism frameworks worldwide.

The regulatory landscape will continue to have a strong impact on the industry's evolution, especially when it comes to regtech. It is the job of brokers to adapt and evolve in harmony with all regulatory changes and turn any situation they face into a constructive one that benefits investors.

"Regtech has often been called the future of compliance and a skyrocketing industry," says Mr Shamne. "With the growing needs that financial institutions must meet, the precautions they must take in terms of risk exposure and fraud, and the need to work faster and more efficiently to keep up with technology while onboarding clients, regtech will no longer be a novel term, but an absolute must for any respectable financial institution.

"We see ourselves at the forefront of this movement, firstly because we have always identified as a fintech company, offering services in line with the latest technological advancements, and secondly because the compliance demands in the financial industry are certain to increase even more in the coming years, and we intend to do our due diligence every step of the way."

$780bn
financial institutions' annual compliance spending

$3.7bn
regtech investment in 2018 – more than triple that of 2017

$76bn
forecast regtech spending by 2022 – up from $10.6bn in 2017

34%
regtech's predicted share of all regulatory spending by 2022 (4.8 per cent in 2017)

KPMG 2019

For more information please visit www.exness.com

exness

ENTREPRENEURSHIP

Finance: why innovation comes from within

If tech is often seen as an industry that fosters innovation and creativity, why do so many fintech entrepeneurs still originate from the traditional end of finance?

Shutterstock

Marianne Curphey

They're the trailblazing entrepreneurs who are changing the way we bank, borrow, budget and buy our homes. They are also a breed apart.

One of the striking attributes of fintech founders is that the majority come from a banking or finance background, rather than a grounding in pure tech.

Why should this be? The answer lies in the complexity of the products they have developed. Unlike a traditional entrepreneur, a founder of fintech has a unique set of skills and insights, which enables him or her to work in an industry that is very demanding, specialised and highly regulated.

"You have to really understand financial services to understand how to deliver it better," says Tom McGillycuddy, co-founder of impact investment app tickr, which enables people to invest via a smartphone app.

"You need a grounding in whatever it is you want to disrupt. That's why the majority of fintech entrepreneurs already understand financial services."

Having the insight to see how services could be delivered in a more efficient or customer-focused way tends to come from hands-on experience.

"Most fintech founders come from the more traditional end of the finance industry," says Adam Tavener, founder and chairman of Alternative Business Funding, and one of the original forces behind the government's Bank Referral Scheme, which is designed to help improve access for small and medium-sized enterprises (SMEs) to finance and competition in the SME lending market.

"The bigger players were either ignoring the benefits that this developing technology would bring or hoping to adapt their existing, almost universally antiquated systems to try and replicate what the new entrants could achieve with a clean slate."

As true entrepreneurs, they also felt constrained by the bureaucracy of a large organisation. Tram Abramov, co-founder and chief executive of TaxScouts, agrees.

14x

more first-round funding was obtained by experienced founders than inexperienced founders

KPMG 2019

He says the first wave of fintechs, particularly in the UK, came in the wake of the financial crisis. Before starting TaxScouts, he was head of product at Intuit UK, worked at TransferWise and led the Skype for Business product team at Skype.

"Budgets and workforces were being cut and there was general disillusionment with the industry," he says. "You had a lot of very smart people with very relevant experience on the market looking for genuine problems to solve."

The other reason fintech is dominated by finance experts is that it's a challenging environment in which to launch a new product.

"To first test a product in fintech you need already to be regulated," says Mr McGillycuddy. "You have to understand what you are allowed to do and what regulation you need before you even begin. Unlike Uber, Facebook or Airbnb, which are lightly regulated, it takes a long time to get a business started."

Virraj Jatania, co-founder and chief executive of Pockit, the financial inclusion fintech startup, says financial services is a complex industry with very little margin for error.

"If you come from a tech business, you do not always have the appreciation for this complexity," he says. "A good example is the struggle Facebook has had with libra [cryptocurrency] and convincing regulators around the world they can manage this side of the business effectively; it is a very different world running a social media network vis-à-vis a global financial services business."

Remonda Kirketerp-Møller, founder and chief executive of muinmos, which simplifies regulatory compliance for financial institutions, is a finance industry expert who identified an opportunity to use tech to improve systems. She founded muinmos in 2012, having been unable to find a product that did the job she needed.

"Many fintech founders worked in financial institutions where they spotted an issue they wanted to fix," she says. "Often they tried to find an external technology provider to address this issue and discovered the product they required didn't exist. This was certainly the situation in my case."

Sezer Sherif, founder and chief executive of Vanguard Capital, a hedge fund, has more than 19 years' financial markets experience at both senior and director level, but says he doesn't have a tech background and is not a coding expert. Instead, he recruits graduates with specialist skills.

"As a leader of a fintech business, I am not going to understand everything on the technical side," he says, "but I know where the market is going."

Mr Sherif now interviews engineers, physicists and computer coders, rather than maths graduates. "I run an algo fund. I understand financial markets and my new hires are younger recruits, who don't understand trading, but do know how to hack and to code."

With experience and connections in the industry already, does this mean it is easier for fintech founders to raise funds? Not necessarily, says Ms Kirketerp-Møller.

"Investors need to see the experience of the founders. They like to see that you have been successful in another startup in addition to having been employed by a credible financial institution," she says.

Mr McGillycuddy of tickr adds: "I understood how to pitch for money, I knew the language, but it was still tough. For every ten meetings last summer, I had nine rejections."

According to Mr Sherif: "It is easier than it used to be, but still difficult because there is no physical product to show venture capitalists."

Steve Wardlaw, chairman of Emerald Life, says he raised most of his initial capital from friends and family. "How you source money really depends on the amount you require," he says. "We were offered much bigger sums by venture capital houses, but they wanted more control of the business."

Can you actually teach fintech?

Universities are now offering fintech courses. Remonda Kirketerp-Møller, head of muinmos, says that while you can't teach someone how to have market vision, you can teach how fintech can add value.

"Fintech courses combined with business and finance, for example a combined degree involving law, data science and economics, could make the graduate very employable," she says.

Sezer Sherif at Vanguard Capital is less sure. "It's too young an industry to be taught properly as it is moving so fast," he says. "You could teach some of the skills, but to succeed in fintech you need to be a visionary, have imagination and build a team with complementary skills."

Virraj Jatania, boss of of Pockit, argues that fintech cannot be taught. "Fintech is about using technology to improve the financial services sector; there is not much to teach about that," he says. "The important thing is to take advantage of technology and bring the mindset of leading technology companies into the financial services sector, which has traditionally been very archaic."

Sometimes, not being part of the financial services industry can be an advantage. Robert Flowers, founder of DivideBuy, is unusual because he didn't come from a fintech background.

"Coming from outside means the solutions you bring are not institutionalised," he says. "We are able to get better results and truly disrupt the space."

Commercial feature

Payments become more customer centric in era of Open Banking

Following decades of little change, the payments ecosystem and purchasing experience are now being transformed by innovative tech-driven "non-banks"

Nicki Bisgaard
Chief executive, EedenBull

New regulations, technologies and market entrants are forever changing the way consumers and businesses think about payments. Traditional payment providers, particularly banks, must not only ensure they do what they have always done better than before, but also evolve in the new digital landscape. To survive and thrive, they need to leverage the opportunities while mitigating the threats they face.

Payments are becoming increasingly integrated and automated. The influence of "Uberisation" has stretched to this space, whereby goods and services are being paid for seamlessly following a purchase. Real-time, account-to-account payments are also on the rise, allowing funds to be transferred instantly both domestically and across borders. Consumers are adopting new trends at a rapid pace, embracing contactless, smartphones, wearables and integrated tools to enhance their buying experience.

Commercial payments, meanwhile, have historically been focused on key client requirements seen from the business perspective. Most companies seek solutions that provide process efficiencies, policy compliance and control of spend. However, commercial payments are now likely to catch up as they are increasingly driven by expectations from employees based on what they are experiencing as consumers.

Until a couple of years ago, little had changed in the way payment mechanisms were developed for more than two decades. Yet over the same period, both technology and customer expectations advanced drastically, shaped by internet-based services and communications.

That all changed in 2018 when the European Union's revised Payment Services Directive came into force. Enablement of third-party access to data from banks led to the rise of Open Banking, allowing tech-driven non-banking firms to build new and exciting payments services.

One such company is EedenBull. Launched in 2018 by a group of senior banking professionals and experts in digital payments, EedenBull's mission is to create payment services that enable its partner banks and their customers to secure long-term competitive advantages and customer satisfaction. While many fintech firms are trying to disrupt traditional banks, Eadenbull is working with them to provide the innovation and tools they require to provide more customer-centric payments solutions.

"Some payment solutions are customer centric, but many are not," says Nicki Bisgaard, chief executive at EedenBull. "That's why so many banks turn to us. We're not only looking to embrace change, but also actively drive it. We think of ourselves as a different fintech as we are in equal parts finance and technology. We're payments experts utilising technology to create truly customer-centric solutions. We challenge the existing, we aggressively look for weaknesses and we constantly seek to improve and change.

"Many banks realise they don't have the expertise, bandwidth, scale or even the technological platforms to innovate and excel in this highly competitive space. We understand their pain points and their challenges, while also appreciating the value of the trust they enjoy in the market, their expertise, distribution power and customer base.

"Our partner banks enjoy first-mover advantage, publicity and a new competitive edge. They also get access to specialist payments expertise and the opportunity to shape forward developments and features."

EedenBull's first programme is Q Business, which provides simplicity and control of spend for small and medium-sized enterprises, larger companies, not-for-profit organisations and the public sector. It is also adding a solution called Q VAT that automates the return of cross-border VAT incurred when employees are traveling abroad, an integration tool named Q Integrator enabling clients to automate accounting and finally Q iPay which allows clients to upload invoices and pay them by card.

Q Business is now being made available to customers through 65 banks in the Nordics and EedenBull has already onboarded more than 9,000 companies on to the platform, one new customer, on average, every four minutes. It is seeking new partner banks in Europe and recently launched a tech hub in Edinburgh to develop new technologies and platforms that tap into opportunities in business-to-business payments.

"The world of payments is changing and much faster than you might think," says Mr Bisgaard. "New players will continue to enter the marketplace and challenge the more traditional financial institutions with new and exciting payment products. Transactional data is where the true value will be going forward, allowing the prediction of future customer behaviour and the creation of more customer-centric innovation in payments."

Commercial feature

Mortgages 2.0: the final fintech frontier

Perceived by many as one of the most traditional and least dynamic segments of the financial markets, huge change is finally afoot in the world of property investment

Thanks to advances in tech and bold new industry players, now is the time to reassess how you think about mortgages. In the last few years alone, there's been a quiet yet significant shift in the international and domestic mortgage markets.

Since launching in 2015, fully online US lender Rocket Mortgages has grown rapidly, propelling parent company Quicken Loans to America's number-one spot. Down Under, award-winning fintech Tic-Toc mortgages has reduced the start-to-finish mortgage application process to just 22 minutes.

There's indisputable evidence worldwide that the consumer market is hungry for change, even when it means stepping away from traditional lending. And here in the UK, we're on the cusp of our very own digital mortgage revolution.

Developments in proptech, big data and the keen adoption of Open Banking in the UK have created fertile ground for the growth of new full-service, fully digital, straight-to-consumer lenders.

Where traditional lenders have adopted some digital elements into their offerings, most are restricted by red tape and ingrained processes. In contrast, new fintech players are able to design and mould their models as fully digital, user-friendly propositions from the off.

Bypassing obsolete practices and paper-based processes, these new models provide tech-savvy, time-poor customers with a simple, secure, transparent user journey, near-instantaneous decisioning and low rates.

Behind the scenes, data science and the emergence of big data has enabled reliable, fast assessment of borrowers. Access to credit bureau data, Open Banking and advances in biometric borrower identification, driven by application programming interfaces, or APIs, are revolutionising the execution of affordability and credit assessment.

Property valuation, conveyancing and legal models are also being disrupted for the better by tech. The Land Registry now accepts digital signatures on mortgage deeds and the Financial Conduct Authority is actively supporting the development and adoption of tech to make systems more accurate, efficient and consistent.

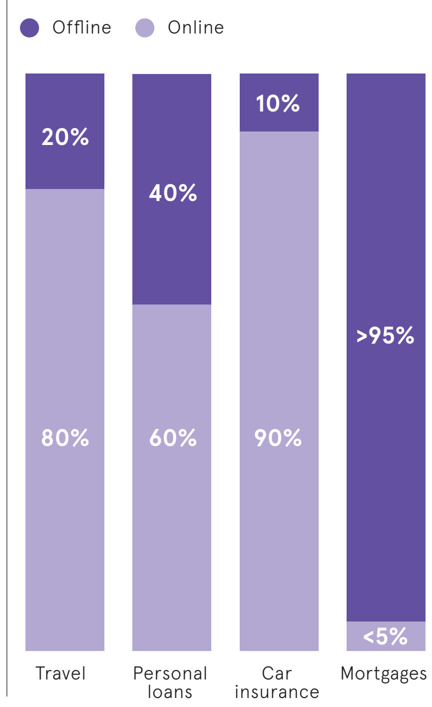
The time of lengthy, manual processing is making way for real-time data validation and instant decisioning. No physical meetings necessary.

With many forces at work, it's hard to predict exactly how the mortgage space will develop. However, it's almost certain that intelligent automation of the value chain and fully digital lending will see a sharp uptake in an industry and consumer marketplace demanding change.

Greater transparency across the board with lower costs for both customer and lender will undoubtedly create a healthier and happier mortgage lending environment. Customers will have greater clarity, experience less stress and be able to act quickly to secure their desired property.

At Molo we're proud to be leading the charge as the UK's first fully digital mortgage lender, leveraging a proprietary tech platform to deliver fully online, paperless decisioning, with our 15-minute mortgage and residential offering on the near-horizon. Most exciting of all, this is only the very beginning. Welcome to the digital mortgage revolution.

CURRENT MARKET SPLITS



> **There's indisputable evidence worldwide that the consumer market is hungry for change, even when it means stepping away from traditional lending**

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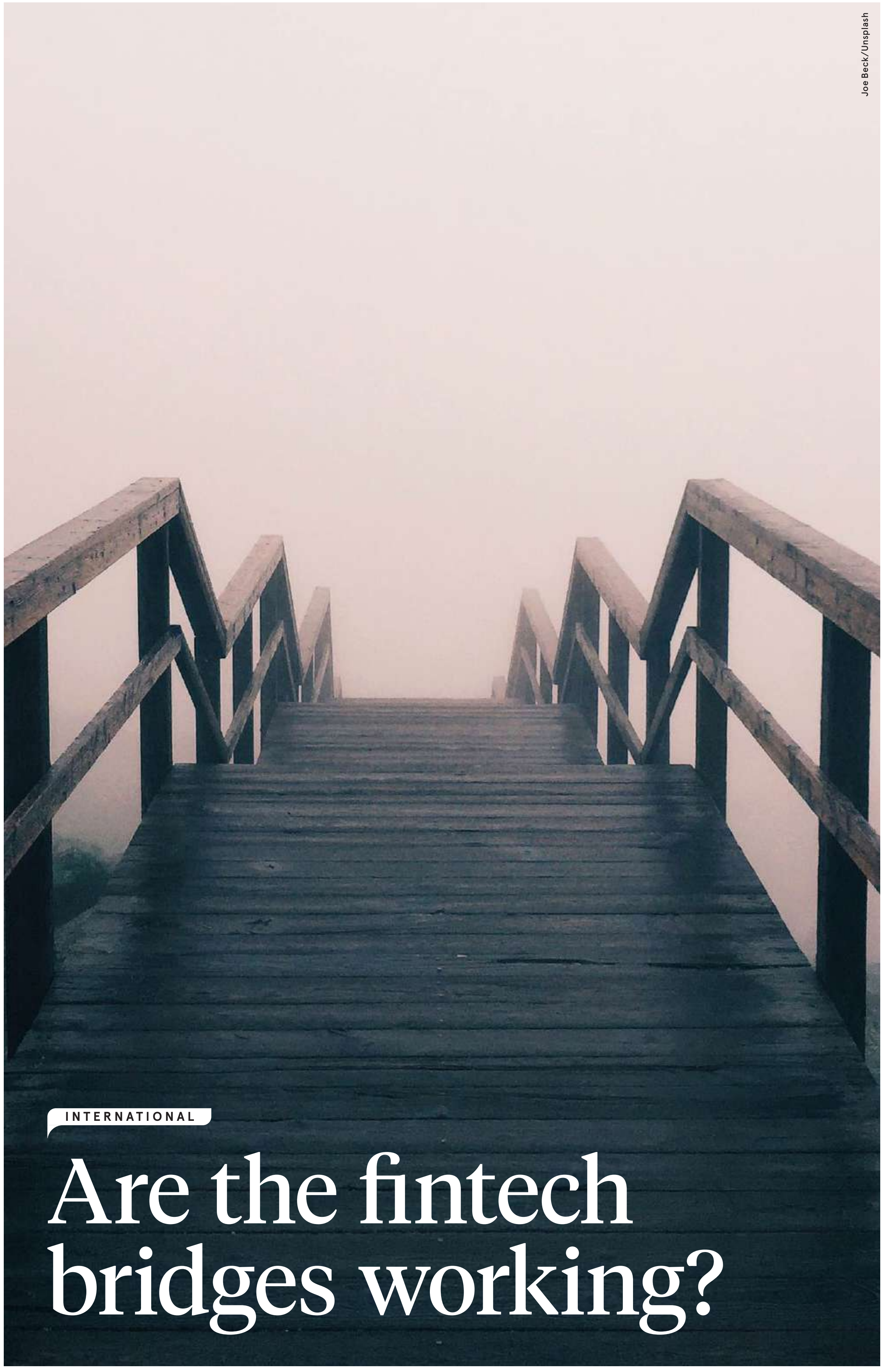

INTERNATIONAL

Are the fintech bridges working?

Following the launch of the UK's first international partnerships aimed at kickstarting fintech growth, industry leaders question whether they have lived up to expectations

Christine Horton

When the UK government announced a series of so-called fintech bridge agreements, it hoped to help firms do business in other international financial technology hubs. Three years later and bridges have been established with Australia, China, Hong Kong, Singapore and South Korea.

The bilateral agreements, drafted by the Department for International Trade (DIT) and HM Treasury, focus on overcoming some of the barriers to entry faced by UK firms expanding into new markets and supporting international expansion in a post-Brexit world.

According to the DIT's State of the Nation report, published in April: "Each bridge enables firms licensed by the Financial Conduct Authority to be referred directly to regulators in bridge markets, easing the process of obtaining a licence and smoothing access to priority international markets."

Charlotte Crosswell, chief executive of Innovate Finance, an independent membership association which represents the UK's global fintech community, says: "Fintech is by nature an international sector, with companies that have global aspirations. Shining a spotlight on our ecosystems will allow respective investors to understand the opportunities and put these companies on their radar at an earlier stage of growth."

But following the initial agreements, how successful have these partnerships been in the development of the UK fintech scene? There is a feeling among fintech players that while the bridges could be a great asset to UK companies, currently the potential isn't being fully realised.

According to Australian senator Jane Hume, the country's present agreement with the UK is probably underutilised, particularly in exporting Australian fintech to the UK.

Russ Shaw, founder of UK-based grassroots tech community Global Tech Advocates, agrees. "They are not delivering value to British fintech firms and they aren't encouraging sufficient levels of collaboration and investment," he says, adding the exception is the Singapore fintech bridge, which has brought several fintech entrepreneurs to London.

"But even that is only working in one direction. I suspect London's fintech community isn't even aware the other fintech bridges exist."

Eyal Nachum, executive at global business banking platform Brüc + Bond, which is opening offices in Singapore, agrees the pacts currently don't go far enough and lack practical steps to ease market entry.

"Imagine if the UK-Singapore agreement involved a stimulus package for every business that invests, with tax benefits for companies purchasing local services, beneficial terms for direct investment, deeper regulatory alignment, licence passporting and maybe even some regulatory lenience. Measures like this could really drive bi-directional investment," he says.

Some question whether the agreements offer reciprocal benefits or if international partners have more to gain as they look to reap the benefits of the UK's global position as a fintech leader.

Mr Nachum believes the benefits from these agreements are mutual, but they're not symmetrical. "The UK is Europe's fintech powerhouse. It's hard to compete with this kind of force," he says.

> **They are not delivering value to British fintech firms and they aren't encouraging sufficient levels of collaboration**

"Britain has a numerical advantage here, but Singapore has a speed advantage. The UK could overwhelm the local market in Singapore with direct investment but, playing catch-up, Singapore is much nimbler. Britain has many such opportunities and for Singapore this is the big one. Singapore has a lot to benefit both from British fintech and entry to the UK market; they have a lot of room to grow there."

So what effect, if any, have the agreements had on international competition and, ultimately, the consumer?

While it's still early days for the burgeoning fintech scene in Australia, 50 per cent of the 526 fintech firms operating there intend to expand their operations in overseas markets in the coming year, with the UK identified as the most popular market.

Similarly, South Korea is slowly easing its financial regulations and the bridge agreement plays into this. "The benefits to the UK lie largely in the way it will allow us to shape international regulatory standards to benefit UK commercial interests. The benefit to South Korea, which is much less advanced in this area, lies in how it allows the country to learn from UK best practices," says Jonathan Cleave, managing director of Intralink's South Korean operation, a UK-based business development consultancy that helps Western companies expand into East Asia.

David Peacock, one of Intralink's China fintech specialists, agrees that the market potential is huge. "China is the world's fastest-growing fintech market and the UK is Europe's largest, so collaboration between the two makes sense," he says.

Despite concerns the agreements don't currently do enough to help companies push into new markets, those involved openly recognise the major potential benefits on offer.

Mr Shaw of Global Tech Advocates, who in October led a delegation of European startups and investors to China to help build a corridor between these markets, says meeting local tech entrepreneurs in Singapore, Tokyo and Shanghai has highlighted the UK as a high priority for some of the world's largest tech centres.

"The opportunity for London fintech companies is to use these fintech bridges to access the growth capital and sizeable markets in countries like Japan and Australia," he says.

"If fintech bridges can be used to attract investment and allow UK fintech companies to expand internationally in a way that accelerates their growth trajectory, this is good news for British fintech."

One fintech firm currently reaping the benefits of the agreements is Welsh white-label private asset platform provider Delio, which has leveraged them to expand into Australia and Singapore. Chief executive Gareth Lewis says the bridge agreements have been hugely valuable in supporting the company's global growth ambitions.

"With Brexit uncertainty still on the horizon, it is essential to build international relationships and keep our position secure across the rest of the world," he says. "By collaborating with international partners, we believe a co-operative sector will be created that encourages fintechs, regardless of size, to grow and scale."

Looking to the future, Innovate Finance's Ms Crosswell agrees there is no doubt that more can be done to develop the current fintech bridges. "But the foundations are strong and now is the opportunity to build on these to develop more tangible outcomes, help companies across the bridge and highlight our respective ecosystems for future collaboration," she concludes.

Commercial feature

Q&A

Virtual card technology drives consumerisation of corporate payments

As corporate organisations seek to catch up with the consumer payment experience, **Simon Barker**, co-founder and chief executive of travel fintech Conferma Pay, reveals how virtual card numbers are transforming the way employees spend company money

Q How has the nature of money changed amid advances in technology and changes in consumer attitudes?

A Consumers, particularly newer generations of corporate travellers, want ease of use, a seamless experience and control of their spending. Cash doesn't give you this and bank transfers are just clunky and difficult to manage in real time. So consumers are turning to mobile wallets and contactless payments. Meanwhile, the new leaders on the supplier side of the payments industry, the likes of Uber and Amazon, have been successful because they've made payments invisible and seamless. It's just so easy to buy through them and that's why consumers love them. The only way you can do this is to make sure you have really granular control, visibility and accountability of each payment. If people don't trust Amazon, they're not going to use it. Companies like Amazon have created a one-to-one match between all the data from the product you want to buy and then from your profile and payment method.

Q Have these changes been reflected in the corporate payments space?

A Corporates have been well behind the consumer space in tems of making payments seamless and easy. It's almost like if you work in a corporate, you've had to get used to the fact that payments are difficult. However, millennials don't see the reason for this because of what they've been accustomed to in their consumer life. When they go to work for a corporate and there are all sorts of processes around spending money, getting authorisation, reconciling and expensing, they just don't get it. So the corporates are having to respond. Often the cost of buying a cup of coffee for somebody and then expensing it is not worth it. It costs £5 for the coffees and £30 to expense them in a corporate enterprise resource planning system. Mobile payments, which millennials already use through the likes of Apple Pay and Google Pay, streamline that process. The challenge for corporates is facilitating this within their existing banking network.

Q How are you helping corporates consumerise their payment systems?

A Conferma Pay originated as a way for corporates to control their spend, especially in the world of T&E (travel and expenses). The way travel is paid for in corporates is antiquated. It's very difficult to get a handle on where your spend is and the data flow in travel is very poor. Our business started because we realised if we created a unique payment vehicle for every single transaction, we'd have a one-to-one match between the payment vehicle and what you pay for. It's what later became known as a tokenisation, but we call them virtual card numbers, whereby we're able to create a unique number for every single thing you want to buy. We've essentially learnt how to bring what Amazon and Uber are doing to the T&E world. You can pay for your flights and hotels and all your ancillary spend while you're out on business travel and seamlessly integrate it into your corporate payment and expense platform.

Q How are you different to other fintechs?

A Unlike a lot of fintechs, we don't deal direct with the consumer or corporate. We enable the existing established treasury banks around the world to offer fintech payment technology and bundle it into all the other things they do for their corporate customers. Large corporate organisations don't really want to deal with fintechs unless they can't get this type of agility and technology from their existing banking relationships. We've been able to build up a network of banks wanting to deliver fintech-type technology to corporates that want to buy it from their banks.

Q In what ways are virtual payments improving the payments experience for corporates and their employees?

A In the typical world of corporate payments, employees are issued with a corporate credit card which poses a challenge because it has to be somebody's liability. If the corporate takes the liability, it's huge because they have thousands of employees with credit cards. If the liability is delegated to the individuals, they have thousands of liabilities running around on their behalf. The only other alternative has been to not give employees credit cards and have them claim everything back, which is even worse. By incorporating the much more dynamic method of putting a payment vehicle in your employees' e-wallets with automated reconciliation, the liabilities are removed alongside the huge inefficiencies involved in claiming expenses. We also capture all the data around each token, so when one is issued you can follow the transaction from beginning to end. Whereas in the past, corporates have been trying to find rich data elsewhere, ultimately the richest source of data lays in their payments.

> **"Consumers, particularly newer generations of corporate travellers, want ease of use, a seamless experience and control of their spending**

Q Does this enable more secure transactions, reducing fraud?

A With the backbone of virtual card technology enabling an e-wallet, you're able dynamically to assign a card spending limit, a time the card can be used and a merchant category code so it can only be used where you want it to be used. Physical corporate cards have to be generalists open to different use-cases and different amounts. With a virtual card, because it's created on the fly for the exact circumstances required, you can control it and put those parameters around it to do with the merchant, time and amount. It's an extremely controllable device and that's very valuable in terms of protection and fraud reduction. With a token, you have the security of not having card numbers in the wallets of employees. You just have a token in their wallet. If the token is stolen, there's nothing the thief can do with it. If it's lost, it can be replaced instantly.

For more information please visit confermapay.com

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CRYPTOCURRENCIES

Has Libra changed the crypto outlook?

Despite crypto volatility and the controversy around Facebook's Libra, digital coins are increasingly on the radar of wealth managers

Simon Brooke

Reinvent money. Transform the global economy. So people everywhere can live better lives. Facebook's description of Libra has all of the high-minded self-confidence and overarching ambition you'd expect of the social media behemoth as it offers its own particular cryptocurrency outlook.

In October, politicians on Capitol Hill grilled Mark Zuckerberg about issues including the handling by Facebook of Libra users' data and the siting of the Libra Association, the organisation that oversees the project, in Switzerland rather than the United States.

These criticisms are set against a background of longstanding concerns about Facebook's privacy policies and advertising practices. Meanwhile, a number of founding members of the Libra project, including eBay and Mastercard, have deserted it.

Criticism of Libra, Facebook's first foray into cryptocurrencies, has been intense, but it has increased interest in this rapidly developing financial instrument and put the spotlight on its potential as an asset class. According to Azoth Analytics, a business research and analytics company, the cryptocurrency market was worth $856.36 billion last year.

"The market valuation since then has fallen by over 75 per cent to a current level of $195 billion, during which time many coins or tokens have proved worthless or been removed from exchanges," says Nick Cawley, crypto-expert at financial market news portal *DailyFX*.

"Indeed, many exchanges have also been shuttered due to poor management, hacks or illegal activity and the lack of trading volume to make the business economically viable."

However, this brutal adjustment and purge has led to a maturing of the market and a calming of recent volatility is prompting a more positive, if cautious, cryptocurrency outlook in the markets. As a result, more wealth managers are being encouraged to recommend cryptos to their clients.

Events such as China's possible launch of its own state-backed cryptocurrency and President Xi Jinping's U-turn on the importance of blockchain have affected investor sentiment. "But the important trend is the long-term view and here the most significant development is a growing institutional appetite for cryptocurrencies," says Kiran Raj, chief executive of trading platform Bittrex Global.

He points to a survey by Fidelity of US institutional investors earlier this year, which revealed that 22 per cent already have digital asset exposure and 47 per cent think cryptos have a place in their portfolios. "As in any asset class, flows of institutional capital will ultimately determine growth and stability," says Mr Raj. "On that front, the sentiment is certainly headed in a positive direction."

However, Robert Courtneidge, chief executive of international payments business Moorwand, is wary about the long-term cryptocurrency outlook and he remains sceptical about the benefits of cryptos as an asset class. The launch of Libra offers the possibility of cryptocurrencies finally moving from a niche to a mainstream investment. "But, if anything, it raised more questions than it answered. First, could a global and trusted stablecoin become an alternative to the US dollar? And second, who should run such an operation. Banks? 'FAANGs'? Governments?" he asks.

> **"Could a global and trusted stablecoin become an alternative to the US dollar? And who should run such an operation?**

"Cryptocurrency presents an opportunity for wealth managers to diversify their portfolio and, due to its volatility, there's money to be made for those investing and capitalising on arbitrage opportunities," says Mr Courtneidge. "But the question remains, why would you invest in an asset-backed stablecoin instead of the asset itself?"

Regulators and the industry have work to do, argues Mathieu Saint-Cyr, managing director and head of asset management at Geneva Management Group. "For the view on financial assets to shift, co-operation between regulators, cryptocurrency builders and other players must be encouraged and fostered," he says.

Mr Saint-Cyr emphasises that there is a significant difference between the various fintech products currently available. "The focus on cryptocurrencies has a tendency to overshadow tectonic shifting and innovation made by the likes of, say, blockchain technology or tokens," he says. "Asset-backed tokens are seeing increasing growth and adoption, and I would say this is where wealth managers can potentially add value for their client."

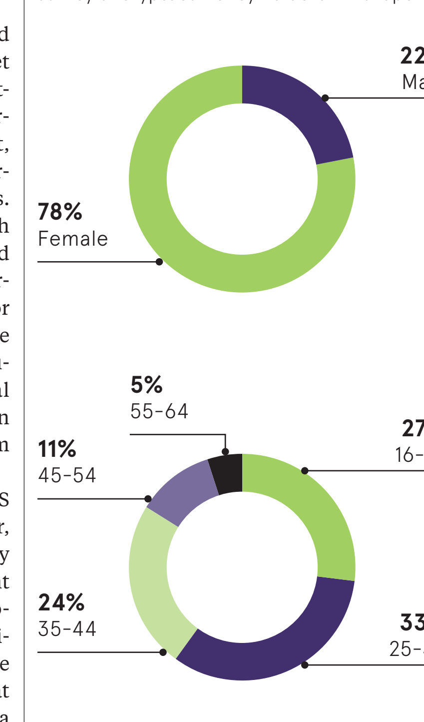
Wealth managers are usually more sceptical than their clients about crypto-funds, says Sean Sanders, co-founder of cryptocurrency investment platform Revix. The managers will ask about cybersecurity and licensing. "This makes sense as they have a responsibility to their clients to do their due diligence," he says. "On the other hand, clients of wealth managers are more inquisitive and excited about the future potential of crypto as an asset class. They're interested in the use-cases, developments and user number growth of cryptocurrencies and their underlying protocols."

Dr Tony Wang, lecturer in business economics at the University of Edinburgh Business School, is sceptical about claims that cryptocurrencies offer solutions such as providing the currently unbanked with access to finance. However, he says: "On a more positive note, regulators and big financial institutions have noticed cryptos, and started investing resources in investigating and better understanding this market.

"More and more policies and regulations will lead to these financial products being discussed and developed. Therefore, we can expect to have a clearer vision of the cryptocurrency outlook imminently."

DEMOGRAPHICS OF CRYPTOCURRENCY HOLDERS

Survey of cryptocurrency holders in Europe



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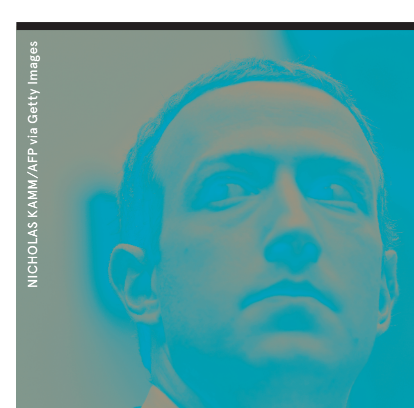


NICHOLAS KAMM/AFP via Getty Images

Outlook for libra

Much of the scepticism and hostility aimed at libra was probably because, at the time of its launch, Facebook was being criticised for its conduct over privacy.

Congresswoman Maxine Waters told Facebook boss Mark Zuckerberg at the US House Committee on Financial Services in Washington this October: "I have come to the conclusion that it would be beneficial for all if Facebook concentrates on addressing its many existing deficiencies and failures before proceeding any further on the libra project."

According to Kiran Raj, head of trading platform Bittrex Global, the libra coin might have had a difficult birth, but the cryptocurrency outlook is generally positive. "Although some see governmental scrutiny as problematic in the short term, ultimately this scrutiny may have positive effects as it could help move blockchain and cryptocurrencies to become a well-regulated, well-recognised asset class that capital will flow towards at scale."

Dr Nathalie Janson, economist and associate professor of finance at NEOMA Business School, in France, believes that the controversy surrounding libra could actually be a positive sign. "Governments feel threatened about what they believe is their prerogative," she says. "Libra appears as a competitor to sovereign currencies since, contrary to bitcoin or other cryptocurrencies, it starts with a high number of potential users given the size of the Facebook network.

"Designed as a stablecoin, fully backed by sovereign currencies, it could appeal to consumers, in particular those living in countries with unstable monetary conditions. If it succeeds, it could become the ecommerce money."

DISRUPTION

Peak fintech and market saturation

As the fintech market becomes saturated, and there is less and less differentiating brands in the same sector, the industry is entering a new era

Nick Easen

You could fill a few decent sized football stadiums with the number of people now working in the global fintech market. The cacophony of supporters has reached fever pitch. There are more than 10,000 startups chanting the cause, scrambling for the goal of cash and customers. Some in the industry say it's overheated, if not overcrowded. This raises the question: are we reaching peak fintech?

In the first half of this year, $38 billion was invested in fintech globally, more than the GDP of Tunisia, according to KPMG. A lot more investment is expected, but the mad frenzy of early-day, first-mover advantage and easy cash from a hyped-up, frothy investment cycle may be waning.

"Venture capital (VC) is now getting tighter, which is raising the level of rigour necessary for a company to get financed. This is a good thing because it'll help select the more viable ideas and platforms," explains David Shrier, director of the Oxford fintech programme at Saïd Business School.

"We're entering a healthy, and necessary, maturation in the funding cycle. It's a highly predictable and often-repeated function we've seen in over 50 years of professional VC funding; it's sinusoidal. This is only partially coupled to the innovation opportunity for fintech."

The fintech market is experiencing a shake-up, an evolution and a refining, and as startups fall away, others are being snapped up or incubated by big banks. "Consolidation has been a repetitive pattern in other digitally disrupted sectors and the time for this to happen in finance is on its way," says Nathalie Oestmann, chief operating officer at Curve.

What we may be reaching is peak money for the many, which could soon be funnelled into the few. "Right now, we need more scaled fintechs, rather than miniature startups. Once the maturity of the fintech market improves, there'll be space for new players again to build on existing propositions," says Anton Ruddenklau, head of digital and innovation for financial services at KPMG.

The market is now waking up to the reality that "fintechs aren't going to take over the world", in the words of a top HSBC figure recently. However, all eyes are scrutinising firms that have strong revenue models, those gobbling up customers and how fintech unicorns are faring.

"Finally, we're seeing a shift in fintechs becoming profitable. A number of challengers have 'grown up'. Fundraising is moving to support them as they grow. This will cause friction in some rounds as we get to the end of the cycle where investors look for returns based on a sustainable bottom line, rather than another buyer," explains Tom Graham, managing director at Accenture's Fintech Innovation Lab.

"Our data suggests there's not a tailing off of new fintech companies. The trend over the past few years has been a number of big players achieving scale and many smaller players taking a specific segment of the market and doing it well. There's still demand for investment. As long as interest rates remain low, there's a global glut of money searching for returns."

Yet the VC world is looking for high growth, robust returns and exit strategies. The next phase of the fintech market is likely to be different, requiring patient capital and patient investors. Attracting customers organically and profitably, scaling businesses and complying with regulation requires deep pockets and staying power.

"We're obsessed with unicorns, that's why a lot of fintech firms clamour to be valued as one. Yet, being a unicorn isn't in most companies' DNA. Most companies don't want the intense pressure it brings; hypergrowth just isn't the main goal," says Zoe Adamovicz, chief executive of Neufund.

"Instead, many are 'zebra' companies providing steady profitability, but at a slightly slower and lower rate. However, such returns on investment don't fit the VC investment model."

There are other factors affecting the fintech market. Firstly, the leviathans of financial services, the big banks with their oligopolies, are finally awake. They have the potential to skew any market, globally, dampen or channel investment. They're increasingly engaged in digital disruption of their own. Secondly, Open Banking is also driving fresh investment.

"The 'old world' banks are getting back into innovation, either through their own, direct efforts or through partnerships with fintechs," says Jane Turner, chief strategy and marketing officer at Centtrip. "The big banks have the advantage of their vast customer base and their capitalisation."

> "Big players are achieving scale and many smaller players are taking a specific segment of the market and doing it well

Then you have a whole new dynamic with big tech. This is the other elephant in the room. Most big banks now have a cloud deal with one of the big providers, whether it's Google, Amazon or Microsoft. Facebook is also getting into banking, not to mention Alibaba and Tencent; expect more.

"The main challenge that fintech firms face is the possibility of large-scale investments in financial services by big tech – read data – firms," says Daniel Ferreira, professor of finance at the London School of Economics.

Big tech companies don't have strong desires to be banks themselves, they don't want the balance sheet or the risk; what they're interested in is banking data. "These giants have unparalleled data analytics capabilities, which is something that neither traditional banks nor fintechs have," says Rahul Singh, president of financial services at HCL Technologies.

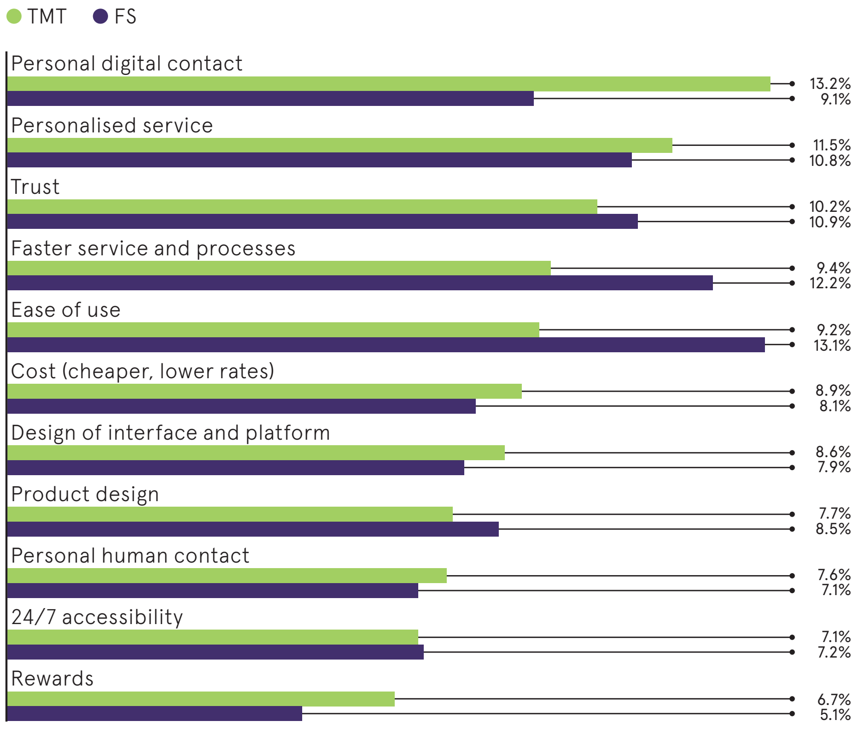
"Equipped with the right data, they'll be able to offer more sophisticated, highly personalised financial products and services to customers than big banks ever could."

Will vast tranches of money still find their way into fintech? Undoubtedly, as long as there are billions of unbanked people and small businesses around the world, as long as the banking experience remains pitifully below what consumers have come to expect in other parts of their digital lives.

Peak fintech is probably far off because much still needs to change. There's still a lot to digitalise in every facet of the industry. "When you look at the life of, say, a corporate treasurer in even the largest organisations, it's shocking to see how much of their daily life is manual and mundane. Data-driven automation will change that, eventually," Centtrip's Ms Turner concludes.

WHAT FINTECH CUSTOMERS WANT

Global survey of tech, media and telecoms (TMT) firms, and financial services (FS) institutions



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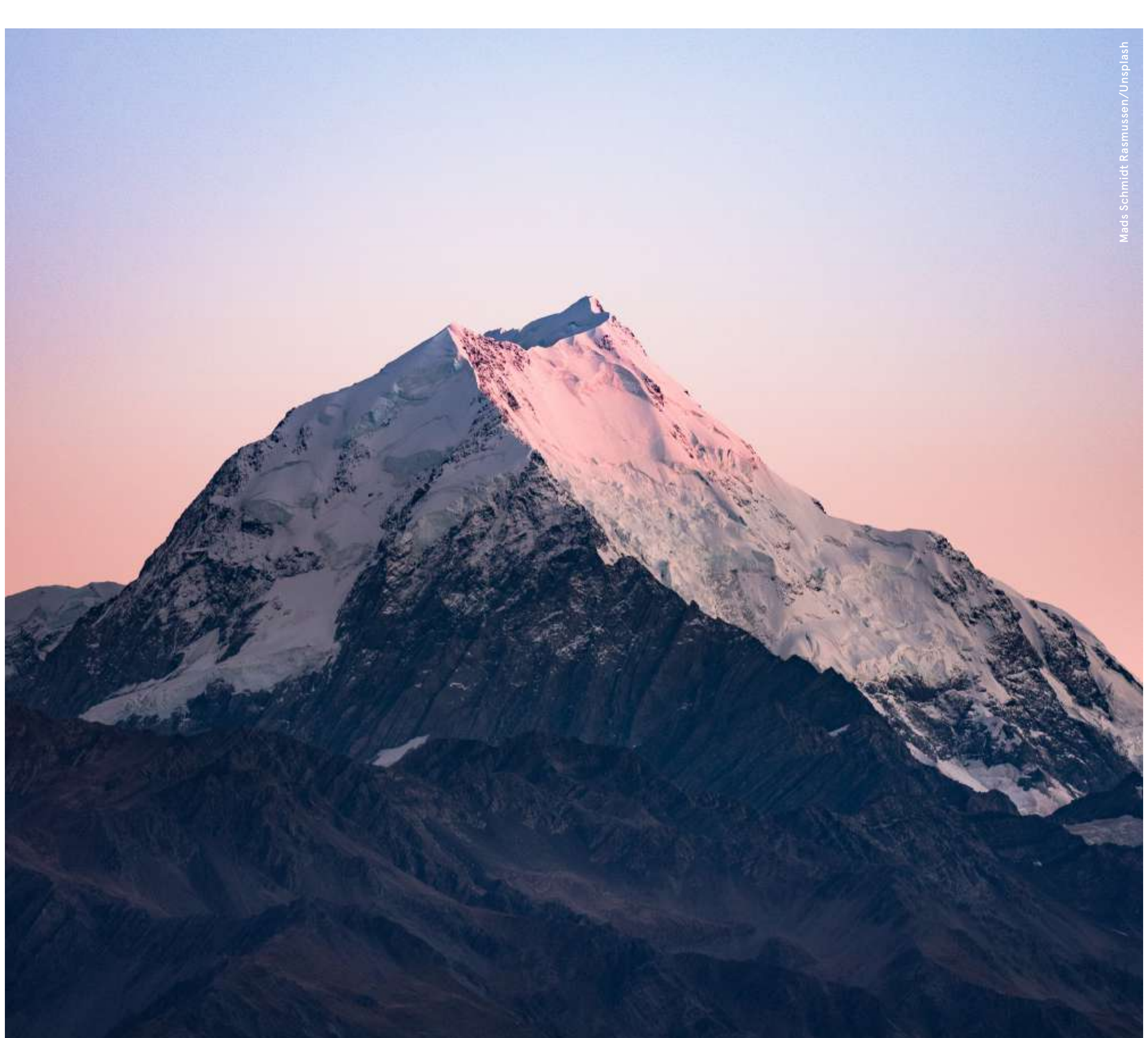

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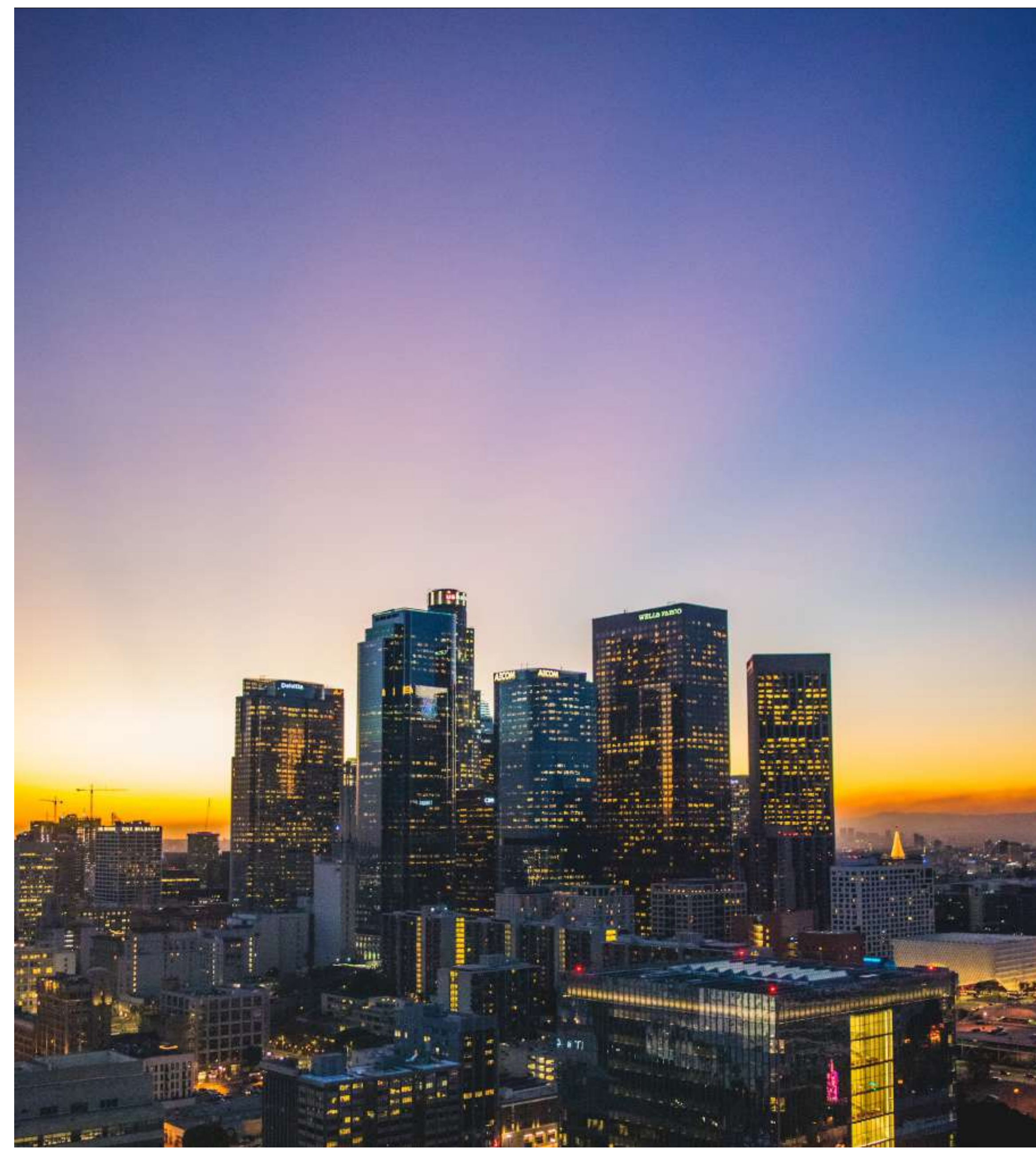
Commercial feature



BPaaS and SaaS: the future of banking and wealth management

Digital transformation of the financial services industry and a move towards fully digital operating models by banks and wealth managers have already begun to reshape the global sector

The next decade is likely to be a period of profound change in financial services and an unparalleled era of tech-driven innovation with new business opportunities, as well as greater competitive threats and the rapid decline of once-accepted business models and propositions.

Given these dynamics shaping the sector, the market is likely to be owned by banks and wealth managers that fully embrace the powerful benefits and the inherent agility which only cloud-based digital operating models such as software as a service (SaaS) and/or business process as a service (BPaaS) solutions can deliver. The winners will not just be the banks themselves, but their clients and customers. They will have a far better range of products and services delivered more efficiently and through true multichannel capabilities.

One significant example is what Avaloq calls the democratisation of wealth management products. The sheer power of digital processes and data analytics is allowing financial institutions to open up previously high-end products and services to a much wider customer base. Consumers are getting access to dedicated, sophisticated products more commonly available only to affluent and private banking clients. The goal is to deliver personalised products and this is only possible through cloud-based BPaaS and SaaS solutions.

Multitude of challenges for banks and wealth managers

In an exceptionally fast-paced, increasingly digital business world, which more and more is also being shaped by new regulations and compliance demands, the need to respond to changing market conditions and offerings quickly has created a multitude of challenges for banks and wealth managers.

Regulations such as the Second Payment Services Directive (PSD2), for instance, and new processes including distributed ledger technologies (DLTs) are requiring financial institutions to completely re-engineer their underlying infrastructures. This is compounded by growing levels of customer engagement over channels such as WhatsApp and Twitter, the need to embed environmental, social and governance principles into operating models, the rise of artificial intelligence and machine-learning, and the drive to deliver ever-greater levels of personalised services to all customers across the value chain.

Open Banking and PSD2, as well as regulations such as the General Data Protection Regulation and Markets in Financial Instruments Directive II have come into play at a difficult time for established institutions across Europe, with many facing reduced revenues in the wake of the financial crisis. PSD2, which allows regulated third-party providers to access a client's bank account information and/or request payments, has attracted a host of new providers and technology companies into the financial services space.

Customers, particularly younger demographics who are far more digitally savvy, are embracing these new opportunities and engagement channels, and are navigating towards service providers that offer the most open, easy-to-use and interactive platforms.

In this environment, underlying IT platforms not only need to be able to scale depending on workload, they also must be able to integrate with third-party applications seamlessly through multiple application programming interfaces, or APIs. If banks and wealth managers do not offer high levels of integration, then there is a real risk they will lose customers and market share.

> "Institutions are already delivering compelling improvements in efficiencies and a much richer customer experience

In addition to new regulations, the rise of the crypto asset class and the DLTs that underpin them also represent a challenge for financial institutions either looking to offer relevant products and services such as bitcoin to their clients and/or those looking to capitalise on DLT-based business processes. This will develop even faster in the coming years, Avaloq believes, leading to faster and cheaper transactions, reduced credit risk and, consequently, an increase in the number of assets and their liquidity.

On top of this, Avaloq foresees an explosion of asset classes and the tokenisation of alternative assets. Entities that are currently non-bankable will be tokenised and made tradable. This will move the industry to a pure, end-to-end digital experience with all types of assets.

Managing this increasing complexity and cost of a best-in-class IT infrastructure is a distraction for financial institutions that would like to focus on their clients, service offering and remaining as competitive as they can.

Transformation of front, middle and back-offices

As the financial services sector undergoes a near-constant stream of innovation and new ideas and new competitors, many players have moved to SaaS and BPaaS solutions that allow them to transform and digitise their front, middle and back-offices.

In doing so, they are not only future-proofing their businesses against the changes impacting the sector, but also capitalising on them by integrating with third parties and developing an even richer relationship with their clients. Customers in turn are responding very positively to these changes, with greater levels of client retention and customer loyalty.

In this highly dynamic environment, it is vital that financial institutions work with a trusted partner to understand an institution's particular needs, while also having detailed understanding on IT landscape management and financial industry application domain knowledge.

Avaloq is a market leader in BPaaS and SaaS solutions for the global financial services industry. Around 160 banks and wealth managers, with more than CHF4,500 billion in assets managed worldwide, trust Avaloq, its products and extensive experience. In November, the firm was recognised as a leader in the 2019 NelsonHall NEAT vendor evaluation for wealth and asset management services, one of the most comprehensive such assessments globally.

This was the second major award given to Avaloq in the past few months for its wealth management capabilities. In September, it was named overall winner in the *2019 XCelent European Wealth Management Technology Vendors* awards report, Europe's most influential market accolade and further testament to the market-leading capabilities of the Avaloq banking suite.

With the pressures mounting on margins and client retention, many banks and wealth managers are not just digitally transforming their core banking platforms, they are getting their platform providers such as Avaloq to manage both the IT and back-office operations using their own software delivered as SaaS, a model referred to as BPaaS. The result is institutions are already achieving straight-through processing rates that are near 100 per cent, with automation dramatically reducing the risks of human error, and delivering compelling improvements in efficiencies and a much richer customer experience.

Guillermo Legaria/Getty Images

Many Bolivares Fuertes banknotes are no longer in circulation due to hyperinflation

CRYPTOCURRENCY

Can crypto save Venezuela?

Bitcoin and other digital currencies are providing a lifeline to many people in the troubled South American country of Venezuela, but critics say the technology is still not inclusive enough

65,374%
rate of inflation in Venezuela in 2018

200,000%
expected rate of inflation in 2019

500,000%
expected rate of inflation in 2020

International Monetary Fund 2019

Felipe Araujo

Every once in a while, in certain countries and cultures, new words are added to the lexicon: Brexit, fake news, crypto. In Venezuela, hyper-inflation and bitcoin are perhaps two of the most mentioned words in daily conversation. The country's economy has been nose-diving since President Nicolás Maduro came to power in 2013, but it has now reached unprecedented lows.

The International Monetary Fund says inflation of the Venezuelan bolivar is expected to hit a startling 200,000 per cent this year. A cup of coffee that cost 150 bolivars in November 2018 now costs 18,000 bolivars. A university professor earning 2.5 million bolivars a month makes just enough to buy about one kilo of meat or a dozen eggs with each paycheck.

Christopher Sabatini, senior research fellow for Latin America at Chatham House, describes the situation as "the worst economic and humanitarian crisis in the world, in which there has never been a war".

Throughout history, people in certain places have undergone a process which economists like to call the "discovery of advantages of backwardness". They take techniques that have worked well in more advanced parts of the world and apply them in less developed regions. The changes they introduce make those techniques work so well that a region, which was once the periphery, becomes a centre in its own right. In Venezuela, fintech, and more specifically cryptocurrency, is increasingly popular.

Unlike traditional money, cryptocurrencies such as bitcoin are built on a decentralised electronic ledger called blockchain. The ledger isn't controlled by a central bank or finance ministry, but by multiple users around the globe running "nodes", or copies of the entire ledger, on their computers, which can't be cut off or censored.

More than the economic and political crisis, a feeling of distrust has permeated every level of Venezuelan society. People are looking for ways to operate outside the system. There are stories of employees leaving their office jobs to stand in line under the hot sun in supermarket queues, so they can buy produce to be sold on the black market, where they can make more money than having a regular nine to five. Choosing cryptocurrency over the bolivar is just another survival strategy.

"There is a lot of cryptocurrency going on, but it's not very open, like you would have in the United States and other countries," says Steven Malca, president of the South America Initiative, a US-based NGO providing humanitarian aid. "The [Venezuelan] government hasn't outlawed cryptocurrency per se, but they prefer people to use something they call the petro."

Venezuela's petro national cryptocurrency was launched by President Maduro in October 2018 as an alternative to the ever-declining bolivar. It is supposed to be backed by Venezuela's rich oil reserves, but as with anything backed by the government in Caracas, the petro has failed to take off. Critics say it is another government ruse to circumvent international sanctions. More importantly, the average Venezuelan, more concerned about where their next meal is coming from, just doesn't know enough about it.

> People's reserve of confidence has evaporated and it's going to take another government to restore that

"You have to educate people," says Mr Malca. "In the United States and Europe, we are able to sit down and research about these things. In Venezuela, the average internet connection is a quarter of a megabyte or one megabyte at the most. People still don't have access to this type of information and they are afraid to use something that is not tangible."

And yet, amid the chaos and lack of information, there is evidence cryptocurrency is making some sort of difference.

"When we give people crypto, we also set up stores which accept payments in crypto and have cash-out partners so they can exchange crypto for cash," says Joe Waltman, executive director of GiveCrypto, a non-profit that distributes cryptocurrency to people in poverty. "When we track a number of impact metrics, such as food security and the psychological wellbeing of the people we give crypto to, we see significant statistical improvement in both of those areas; they are eating more and feeling much less stressed when receiving our aid."

Even cryptocurrency isn't immune to market volatility, however. Two years ago there was a sort of bitcoin frenzy, triggering wild price fluctuations throughout the market. Cryptocurrencies are an attractive censor-proof tool for remittances, but volatility can make crypto tokens a dangerous medium for transfers and savings. In a country where people's daily lives are dictated by the value of their currency, the last thing needed is another element of uncertainty.

On one hand, cryptocurrency has allowed some Venezuelans with access to computers, knowhow and blockchain technology to receive money from their family and friends abroad. On the other hand, the system is still far from inclusive.

"At times, it can be highly discriminatory," says Dr Sabatini. "The very poor don't have access to online accounts or relatives living abroad. So while crypto is helpful it is not a magic bullet."

Historically, successful economies have always been propped up by two pillars: confidence and trust. When things go as they should, people feel confident to invest and buy things. When times get tough, there is still trust that institutions will be up to the challenge.

At the most fundamental level, the problem in Venezuela is one of credibility. All over the world, people living under oppressive regimes have found ways to get on with life, in many cases with the help of technology. In Venezuela, crypto in the form of bitcoins and other cryptocurrencies might provide a beacon of hope, but they won't be the solution.

"The linchpin of monetary stability is confidence," says Dr Sabatini. "At every turn, Maduro's government has demonstrated its partisanship, its corruption, its lack of transparency and its willingness to manipulate fiscal, currency and monetary policy. People's reserve of confidence has evaporated and it's going to take another government to restore that, regardless of developments in the fintech industry."