Fancy Fintech or Pragmatic Operational Efficiency?

The benefits of technology applied to existing processes making them more efficient or effective should be very practical. However, it’s easy to get lost in over hyped terms such as ‘fintech’, ‘peer-to-peer markets’, ‘crowdfunding’ and forget what the practical benefit is.

In this post let’s open up a few scenarios and walk through them step by step, to examine the applications of new technology in existing operations value chains and delve into the practical implications and value at different stages.

To set the context, let’s imagine a private market lender with interests in setting up a digitalization strategy for the longer term and position their bank as a leader in the modern financial services market. To achieve this, the lender plans to open a sector specific marketplace where they will originate and lead deals, and invite other institutions with an interest to maintain a regulatory compliant profile, gain access to deal room to diligence and follow deals, with the option to participate in the syndication of these deals as a co-investor. Ultimately bring down the cost of capital, increase distribution and elevate the lenders corporate profile:

- Opening Access for Capital Deployers
- Decreased Cost of Syndication and Deal Making
- Distribution Unlocks New Avenues for Growth
- Cost of Capital – Funding on Private and Capital Markets

We’ve delved into a few different areas of impact that digital platforms can have in a digitalization strategy when employed by an institutional client, such as an asset manager or private market lender. The applications and impacts of digitalization strategies can be very tangible, and we encourage our clients and partners to discuss them and how they can benefit their organizations, rather than the general trends of fintech.

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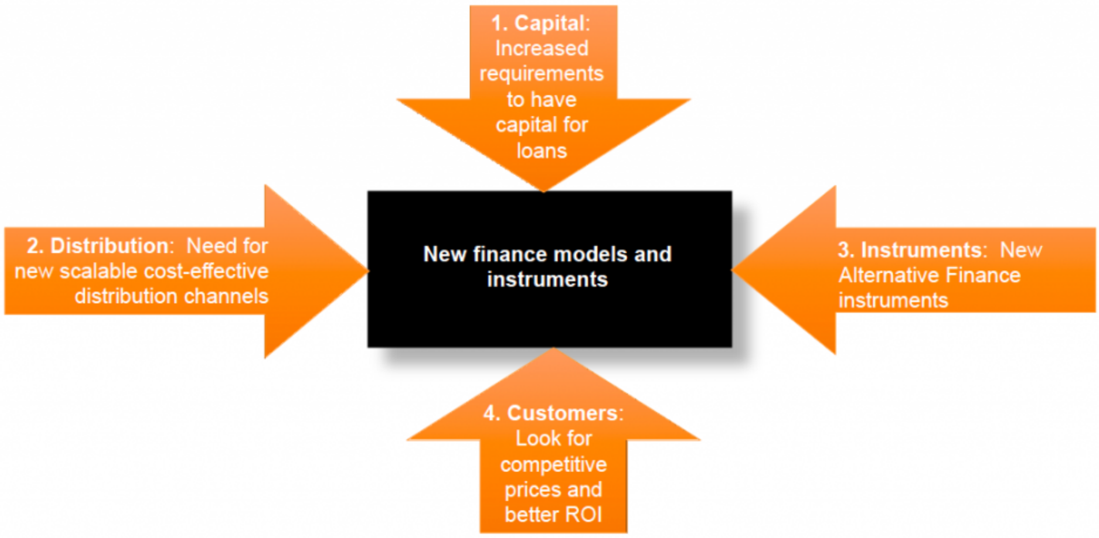


How Consumer Sentiment Has Changed the Dynamic of Financial Disruption

"In the U.S., 33 percent of millennials (ages 15-34) believe that within next five years they will not even need a bank". – McKinsey & Company. Global Payments 2015: A Healthy Industry Confronts Disruption.

It is difficult to conceive a reality where banks stand redundant and, while the probability of such a happening is highly unlikely, a large number of individuals globally are adopting a new set of expectations for the infrastructure that supports their pecuniary activities on a p2p, p2b level, e-commerce, or for cross border transactions.

While the efficiency of different complementary services may not be uniform across all sectors of banking and monetary transactions, with expectations having been established by more modernized sectors such as the payments sector [35% of fintech companies are active in payments sector (McKinsey)], consumers are increasingly putting pressure on banks and other financial institutions to put in place infrastructure that meets these expectations across the board for services like retail banking, availability of information, transparency, fraud detection and compliance (ID verification, KYC, Credit Review).

Consumers are also becoming noticeably more independent when it comes to their financial decisions. Even in terms of advice from financial services firms, they don’t want to talk face to face with an advisor but they want to feel special & have the ability to switch seamlessly between personal and hands-off options. These are no meager demands to place on a traditional bank whose entire infrastructure requires significant investment in data and analytics capabilities (McKinsey) to support these demands. As Eli Broverman, Co-Founder and CEO of Betterment explained “In some cases, investors want to self serve, but they want to self serve in a different way than they have traditionally self served. They want that advice in a digital format.”

To succeed, financial institutions will need to dramatically increase their customer insights and understanding allowing for a tailored and unique experience for each customer interaction. As customers grow accustomed to faster and more convenient payments on the retail side, they will soon demand similar conveniences and service levels in transaction banking as well (McKinsey). As consumers grow accustomed to the benefits of using technology in their daily lives, their expectations also grow. Nonbank digital entrants have used superior design and user interface to build solutions that often surpass consumer and merchant expectations in terms of end-to-end customer experience. By integrating payments into commerce, nonbank attackers have created more seamless, personalized and interactive experiences, contributing to increased conversion rates (McKinsey).

The one aspect that the traditional banks have in their favor is the vast amounts of data being collected and stored, which banks can use to develop insights on consumer behavior and maybe even get ahead of the curve. As of now though, it's a catch up game; Banks' core platforms will need to be updatable in real time, fraud platforms and processes will need to be very near real time, and clearing systems must be capable of handling exchange of information, posting of transactions to the customer and funds availability all in real time. Or face being left behind in this new form of disruption the industry is facing.

Read the whole article on Crowd Valley News.

Photo: Wikipedia.

Financial Technology in Latin America

According to the World Bank’s Global Financial Inclusion Database, only 51% of the population in Latin America and the Caribbean has a bank account. This figure varies greatly between countries, with more than 80% of the adult population remaining ‘unbanked’ in Nicaragua for less than 35% in Brazil and Costa Rica.

Furthermore, it means that millions of people have to use cash for each transaction across the continent. With for instance, 96% of the population paying its utility bills in cash – which is more than 3 times the level than can be observed in the United States or the Euro Area.

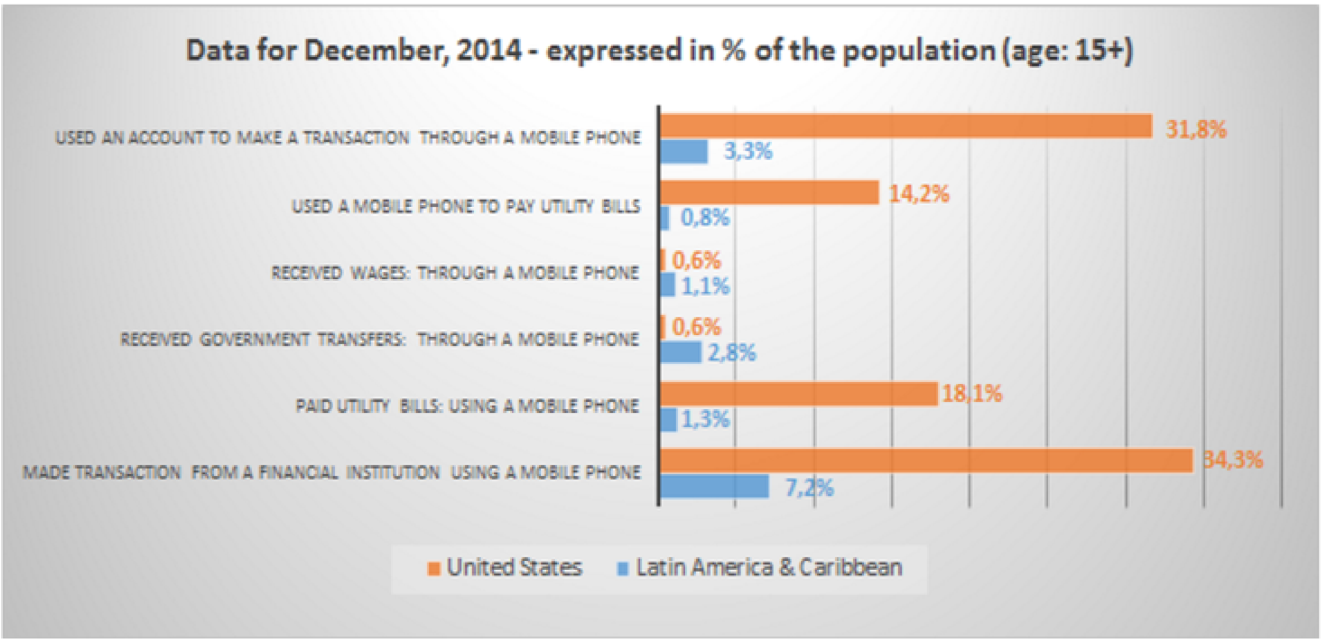
Likewise, half of the population receive its wages in cash and overall, almost 40% of all wages are withdrawn right away. Far from what can be observed in the West: only 10% of the wages are received in cash, and between 4% and 7% of all wages are withdrawn right away.

With so much cash circulating, issues of safety inevitably arise, and without a bank account it becomes harder to invest or save for retirement. Something even more problematic in countries known for the fluctuations of their respective currencies.

Beyond the way Fintech disrupts existing models in Latin America, it is also becoming a way to achieve financial inclusion in the region. Mobile money services, credit ratings based on alternative data, new ways of financing SMEs, personal lending…if different in nature, innovative financial technology services are ways to bypass regional issues, and ultimately grant people and businesses an access to appropriate financial products and services.

At Crowd Valley, we are already actively working in the region and look forward to partnering with both established organizations and new innovators to provide more services and value to the end users as the financial services market continues its modernization in Latin America.

Read the whole article on Crowd Valley News.



Liquidity, Aggregators and the Secondary Market

The adoption of equity and debt crowdfunding has left most if not all policy makers and regulatory bodies challenged to find the right framework to properly regulate the array of platforms launching into the market. These platforms have given accredited and retail investors alike access to alternative investments they would not otherwise have. One area overlooked by most investors and now being addressed by regulatory bodies is investment liquidity.

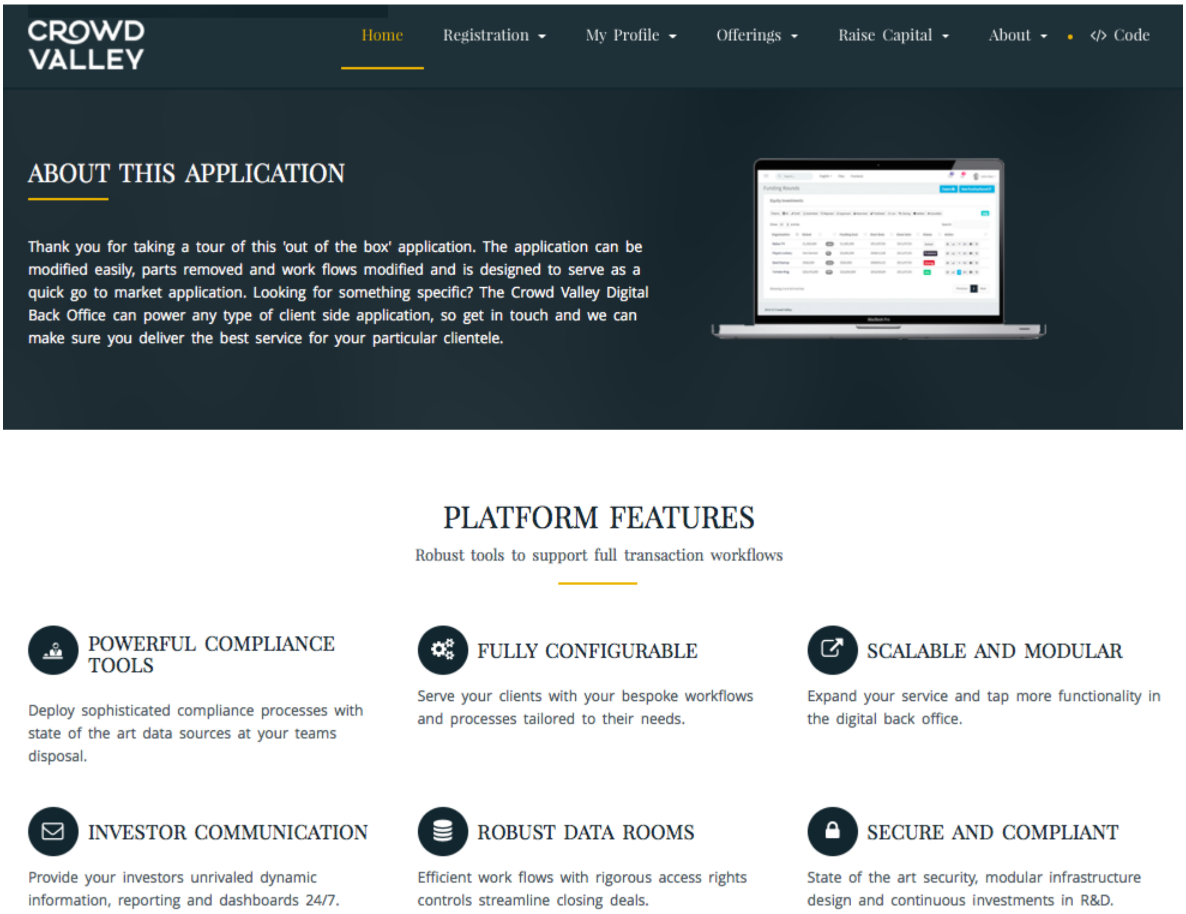
The first regulatory commission to have an open sandbox discussion is the UK's FCA. In the most recent "Call for Input", liquidity was referenced a number of times within the review of lending based crowdfunding. Liquidity in equity crowdfunding has been a hot topic earlier in the year. This open conversation and eventual drafting of regulation will no doubt mirror how other countries solve this issue.

Crowd Valley's close cooperation with the FCA and UK crowdfunding market already sees its clients utilizing the secondary market API developed in anticipation of the markets needs and potential regulatory policy. Other crowdfunding pioneers like Crowdcube have recently committed to providing increased liquidity and access to a secondary markets for their investors. We anticipate other countries like the US, Singapore, Malaysia, Japan and Canada to adopt similar framework in the near future.

This also opens up the opportunity for tertiary digital finance businesses to pair with existing platforms to aggregate their secondary market opportunities. There are already examples of data aggregators such as Deal Index in the market. With the personal view of great future opportunities in primary and secondary market deal aggregation being facilitated by the "API economy".

If you are looking to capitalise on collaboration within the fintech space, get in touch with us at Crowd Valley to leverage our full offering and industry leading Digital Back Office that bridge the gap into fintech.

Read the whole article on Crowd Valley News.



Crowd Valley demo application

Bank of Thailand Weighs Fintech Regulations

Bank of Thailand (BoT) Governor Veerathai Santiprabhob at the C asean Forum’s “Positioning Thailand’s Fintech Ecosystem” event announced more regulation for the growing fintech sector in order to protect consumers, prevent systemic risk and help the development of the market. Following the path of Governments and regulators of the UK, France, Australia and Singapore the intention is to create a regulatory sandbox that can be used as a testing ground for fintech companies.

“Fintech is a new thing for the central bank and we have limited knowledge in this area. Therefore, having the regulatory sandbox will open opportunities for product experimentation and for the companies to ramp up their scale,” said BoT Governor Veerathai Santiprabhob.

This model is tested in other countries as well, with the intention of limiting the risk for consumer and the stability of the financial system, with a framework that should not be too stringent in order to let innovation flourish. The first step in building this sandbox should be for fintech firms to register with the central bank.

But that’s not all. An amendment of the the law governing the National Credit Bureau (NCB), which is now waiting for the approval from Finance Ministry of Thailand, will allow P2P lenders to become members of the agency, giving them access to consumers’ credit data for loan risk assessment as part of longer term viability of the market.

Considering the whole picture, the increased interest of governments and financial regulators is definitely positive for the financial technology industry, as it is still in its infancy and requires a good infrastructure in order to continue the significant growth seen in recent times. With Singapore and Malaysia pushing hard toward the growth of the sector, and with Thailand now quickly catching up, the outlook for fintech in Southeast Asia looks promising.

Read the whole article on Crowd Valley News.


Photo: Wikipedia.