

FinTech, an impending revolution?

Are Fintech companies becoming the new Eldorado? Or gold – virtual gold? Having anything to do with them, or talking about them, amounts to turning IT development into gold. When you're dining out in the city, be “smart” and talk about “Fintech”. You may, however, wonder what lurks behind these two words run together. Does it represent a threat or an opportunity? Perhaps both. For corporates, there is no doubt – enormous opportunities. For banks, enormous threats unless they get their act together. Might we say it is a break with the past and a new paradigm – one step further in bank disintermediation? The banks will never be the same again.

“Fintech? What do you mean by that?”

This newly minted word puts this alliance between finance and information technology in a nutshell. This name also implies that the solutions available will result in you no longer being forced to use traditional banks for all types of financial transaction. Banks will no longer be the essential one-stop shop and unavoidable channel that they were in the past. We see new disruptors in finance daily, aiming to completely overturn the way we operate. Their leitmotiv is that nothing is impossible, nothing should be off-limits or limited to certain players, and finally that everything we took for granted in the past is there to be questioned, even if it kills it. KANTOX plans to shake up foreign exchange hedging, for instance. And if start-ups cannot find funding, "crowdfunding" is there to come to their rescue. Governments are falling over each other to attract them, as in London, Luxembourg and others. Fintech companies are perhaps today's Eldorado. It is the quest for virtual gold – it will enable banks to assure their future, and enable creators to create value by shaking up established practices and ways of working.



A revolution in the making?

There is no doubt about it, if respected firms such as McKinsey are to be believed. They think that in 2025 (we think a lot earlier) banks will have lost 40% to 60% of the profits deriving from consumer credit, 35% of profits from payments, 30% from SME lending, 30% in private bank

management and up to 20% in real estate lending. Surely, that's enough to make any staid banker freak out? The banks then decided to react by buying Fintech companies rather than passively watch them gobbling up chunks of their business. BBVA, JPMorgan, and Goldman Sachs, for example, have been very active in this sector to guard against an implacable risk. Thinking that banking regulations, which are currently very burdensome, will stop big market players like Amazon, Google, Facebook or Apple, is very naive. They will cherry pick the sectors in which they want to operate but they will be in their, that's for sure. Furthermore, the banks, although they are sitting on a huge pile of data, are very bad at using this big data.

The world of Fintech companies is a little like the Wild West, where it is difficult to sort the wheat from the chaff and to spot the best prospects, since there is so much out there for the taking. Bank infrastructure and scale have slowed down certain developments. If we draw the comparison with the progress of mobile money in Kenya using M-Pesa for example, the penetration of mobile money is due to the poor bank network and infrastructure in Africa.



You may not like the new technologies, but you can't ignore them

It is difficult to find your way amongst the profusion of new services and new solutions, and to decide which ones will succeed and which will not. This is a train that is about to leave and you know full well you have to catch it, even though you may not know where it will take you. Doing nothing and staying on the sidelines would be the biggest mistake a bank could make. A bank cannot stand on the sidelines and suffer, it must be proactive and put itself in a position to gain a competitive advantage over the competition, or just to survive.

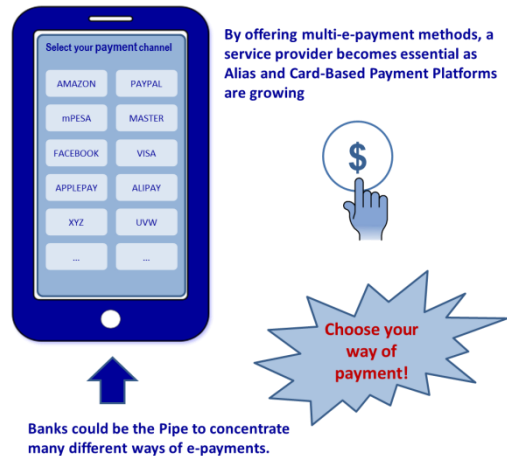
People talk about Fintech today more than ever before, but some of these technologies have been around for many years, particularly the companies that produce TMS systems or mini ERPs such as REVAL, Sunguard, Kyriba, WallStreetSystem, SAP and others. The crisis, the development of technologies, the legal niches left open and creativity have allowed all these new technological gems to spring up.

How can banks differentiate themselves while at the same time making themselves indispensable?

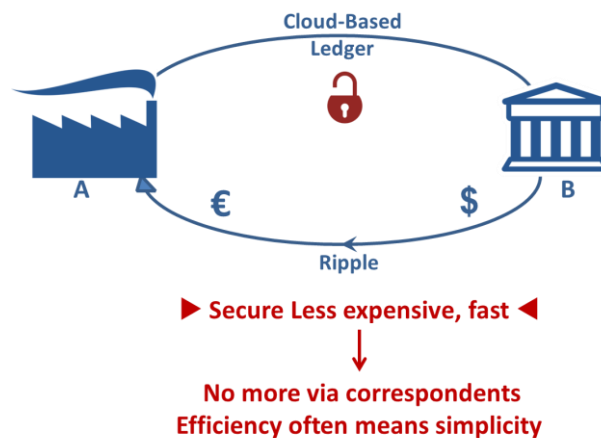
Solutions must involve a multi-counterparty and multi-product approach that allows customers to pick and choose, and one that is as comprehensive as possible. An approach that provides

the solidity and assurance of a bank while providing a choice of solutions is becoming absolutely crucial.

ePayment Channeling Portability



Blockchain Crypto-Processing



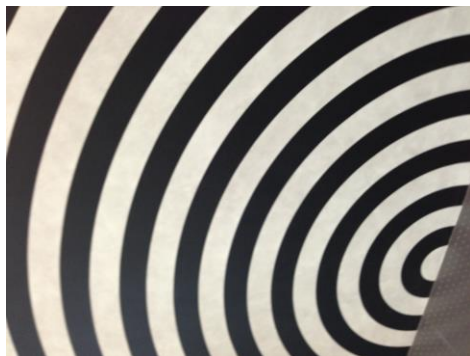
Why not make things easier and change what you always done. Perhaps using four different banks to make a payment in foreign currency (excluding local clearing) is not the only or best solution? This system has had its day and needs to be revisited.

The digital breach with the past will transform the banking industry profoundly.

So, you have a simple choice: either you do as the taxi drivers and try to block the inevitable or instead you go down the road of an alliance or take on the *Über* drivers on their own ground. But one thing is for sure: doing nothing is to sentence yourself to death in the short term.

Fintech companies are becoming invisible, efficient, practical and better value, while at the same time becoming an integral part of the everyday life of individuals. By contrast, one response by the banks will probably involve industry consolidation. Unfortunately this is only a partial answer to this *Uberisation* of the finance industry. These Fintech companies may well prod the banks into action.

Some studies, of course, tend to show that people are unwilling to leave their banks for independent online services alone. Things are moving so fast that this supposed retail customer loyalty will not last a long. Banks could play a role if, like Bank of America ML and JPMorgan, they try to offer a variety of payment methods. They could provide the security of a bank alongside the option of choosing your third-party counterparty, for example PayPal, Amazon, Alipay or Visa. When you look at the number of young people who go for opening an ING online bank account, for example, you might think that the banks have stuck their heads in the sand, and that they have ignored the emergence of the new generation, which operates differently and is looking for other ways of working. The banks are seeing their customers age without seeking to capture the new customers of the future. Anthony Jenkins, the former CEO of Barclays claims that 50% of bank employees will lose their jobs within ten years. A sign of things to come? A grumpy prediction by a financial oracle put out to grass? We shall see! But giving these financial start-ups the cold shoulder, as the record industry did with the first digital pieces, would be a fatal error.



The upsurge in Fintech companies

Fintech companies are not new, but the upsurge in them is recent. Everything to do with these financial start-ups seems to turn to gold. IT technology is constantly evolving by leaps and bounds, explaining the current expansion and excitement. Block chain (1) technology is certainly the invention that, like the internet, can and should revolutionise our lives as treasurers. Block chains will be to treasury what the invention of the steam engine was to the development of industry: a true revolution. Whether the banks manage to band together with initiatives such as *R3 CEV* and create their own protocol, making their in-house systems interoperable, is a crucial and valid question. We shall see whether they manage to agree amongst themselves to survive. We may well think that this technology, amongst other things, would act as a catalyst for innovation and change. In the payments and foreign-exchange

transactions industry in particular, between counterparties, this technology will profoundly change the traditional systems and conventional arrangements that we know today. We are seeing bank disintermediation combined with a sidelining of intermediaries who will no longer be needed. Clearing houses and systems, and other correspondent banks will surely disappear. For these companies the trick will be to transform to ensure that there is still a real reason for their existence and to maintain a key role in the new landscape. The paradox lies in the fact that block chains provide decentralisation, open access and transparency by the very nature of the underlying technology and through the instant checking and identification of the transaction, with no risk of fraud and with great security. The things that banks were supposed to provide, and that cost them a huge amount of money, are now becoming accessible at lower cost through others. This may cause the banks to lose their privileged position of control. If the banks manage to organise themselves, reduce their costs and avoid low value-added work, then they will emerge from this digital revolution as winners. But this is very far from a given and very far from being easy. The economic environment, tight financial regulations, technology and the need for security are fostering the development of this ecosystem based on Fintech companies, which everyone is acclaiming and planning to promote.

User needs are changing

For instance, for cross-border payments, the correspondent banking system now looks obsolete. There are obvious inefficiencies, for example day +2 transactions, clearing and settlement. This is by no means ideal for the small amounts that the digital economy requires. Traceability is difficult because of the many different correspondents used. There are too many levels of fees and charges. And finally, local regulatory requirements are complex. With increased and faster payment frequency, micro-amounts and greater volumes, the market has new requirements: more retail orientated, more functionalities, mobile wallets, the required traceability, real-time, the inclusion of additional information in transactions, easier reconciliation, and more.

Over time, "alias-based payments" will become much more common. You will no longer need an account number but instead an email address or a cell phone number. There will be many more payment methods, such as debit cards, credit cards, prepaid cards, mobile payments, apps and others. We might also think of *TransferWise*, a money transfer application that on the face of it is nine times cheaper than Western Union, or *Number26*, which lets you set up an account using a smartphone. There is a long list of new names, some of which will become very well known in the short term.

Time has become a crucial element, and the speed required is no longer compatible with the traditional bank payment system. The market will impose new systems and force companies to adapt. As yet unknown names such as Ripple, Earthport, and Alipay, for instance, will gain traction.

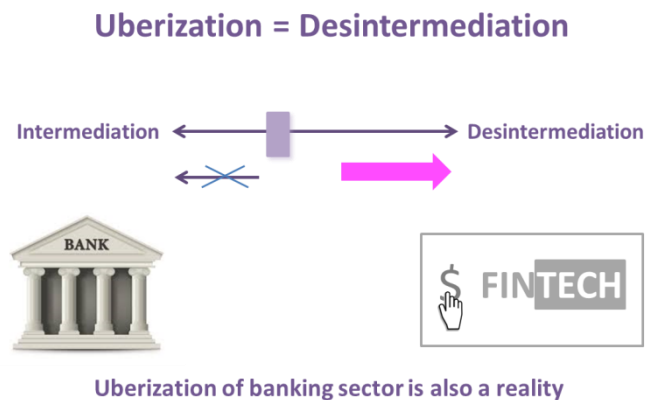
We may imagine a world, unthinkable though it may seem today, without SWIFT. Payment factories will then use message transmission methods different to the traditional "MT" format. Nothing is impossible, and everything may undergo a complete transformation.

Breaking with the past

Technology is going to break with the past when it comes to trade finance, too. This last bastion of paper-based procedures seems likely to disappear as well. Trade finance is still relatively manual in its workings, unlike transaction banking, for reasons that relate to the large number of people with a stake in this specific environment. As a recent example of the application of distributed ledger technology, we could quote the case of Standard Chartered, DBS & Infocomm Singapore (IDA), which has finalised an application dedicated to trade finance to improve security of invoicing. The idea is to avoid having different banks duplicate the funding of the same invoice.

The best is still to come!

The challenge for banks is not knowing whether they should go down that road, but how to do it and how far to go. The problem is that in their structure and workings, the banks are not made for innovation and change, so when that happens it takes a certain amount of time because of their intrinsic inertia. Technology is going to revolutionise the world of banking and speed up disintermediation even further.



Traditional banking is in the process of complete transformation to adapt to its technological and regulatory environment, to avoid disappearing in the medium term. Treasurers can take advantage of the opportunities that are going to open up to them, benefitting from more competitive costs while at the same time making their transactions more secure.

The question is therefore not whether or not the digital banking revolution will happen, but when it will happen. In a matter of a few years from now, we will all be able to make

instantaneous transfers using a new technology, forgetting that in the past this technology once created a sharp break with the past in the world of finance.

François Masquelier, Chairman of ATEL

(1) *Block chain is the technology behind the crypto currency Bitcoin. Block chain is a decentralized distributed ledger which records and stores the details of every transaction transparently on a shared network.*