# 'Financial tech' will disrupt business models globally

Tuesday, May 27 2014

The financial services sector starting to experience the redefinition of its traditional business models as the proliferation of internet-enabled smartphones and other new technology platforms in online payments, money transfer, asset management and 'crowdfunding' emerge in global markets. A decline is occurring in the use of high street outlets in developed countries as consumers demand more convenient and easier ways to manage their financial service requirements. In emerging economies, where banking networks often do not exist, the mobile wallet (M-Pesa) has already become a banking substitute.

### What next

These new financial services platforms are being developed primarily by companies outside the financial services sector -- including internet giants and a number of new technology start-ups. The platform battle that is now unfolding for the global 15 trillion dollar retail transaction market guarantees high rewards for any company that can establish a mobile payments standard. The winners will harness billions in transaction fees, vast swathes of customer data and subsequent control of targeted advertising.

### Impact

- Mobile payments will exceed 720 billion dollars by 2017, up from 235 billion dollars in 2013.
- New technology platforms will lead to a new type of financial service sector involving non-traditional financial firms.
- Regulation and consumer habits are key obstacles to any new financial service business model.

### Analysis

New financial technology is likely to have a highly disruptive impact on the sector in four key areas:

### Global money transfer

A duopoly consisting of Western Union and MoneyGram dominates the traditional international money transfer market. Wire services and banks often charge high fees to send and receive money, involving long processing times, while transparency relating to foreign exchange rates is sometimes poor. Using a branch is inconvenient (or impossible in some emerging markets), while agents in small shops do not always carry out reliable identity checks. Therefore, use of mobile technology and social networks to transfer money is now usually cheaper, faster, more convenient and more secure:

- In parts of Africa and India M-Pesa has already been highly successful.
- In the United Kingdom, Transferwise, a three-year old app and website based tech firm, allows people and small businesses to transfer money between international accounts more cheaply than through banks.
- Facebook is about to move into e-money using migrant remittances as a strategy to increase its presence in emerging markets. India is Facebook's largest international market (100 million members) so remittances are a gateway to financial inclusion and a larger customer base.
- In China, Alibaba and Tencent have also turned their internet sites into mobile payment platforms.

### Payments

The global payments market is worth 15 trillion dollars and in the United States several companies are vying to develop and control this new digital ecosystem:

- PayPal, which already dominates internet payments, is now moving into face-to-face transactions by licensing its payments software for use in more than 1 million physical retailers.
- Apple is proposing to convert its 600 million iTunes customers to use online payments using thumb print readers on its iphone 5s.
- Amazon is developing a Kindle-based payment system to allow 230 million customers to send money to each other and to check out in stores.
- Google has also released a wallet product for its 1 billion Android users and brokered a deal with Mastercard to gain access to millions of retailers.
- Square has built a platform from scratch that could become a mobile payment standard. The company has struck nationwide deals with Starbucks and Whole Foods in the United States and processed 20 billion dollars worth of transactions last year.
- Visa has now adopted a PayPal clone called V.me but is tied to the banks unlike its other rivals.

In the United Kingdom, traditional firms such as the banks and telecommunications companies are fighting back with their own digital and mobile services. Two new services called Pingit and Paym allow customers from any UK bank to send money using a smartphone app and a telephone number. Eighteen million account holders with five UK banks will also be able to undertake financial transactions using a smartphone app called Zapp. Initially, the payment system will only work for online purchases but by 2015, in-store transactions will be possible. The telecoms companies Vodafone, EE and Telefonica have also formed an alliance called Weve, which is a payments and marketing platform based on telephone numbers similar to the banks.

Banks and telecommunications companies are fighting back with their own digital and mobile services

**Asset Management**

Personal finance and asset management platforms are now evolving:

- In China, the e-commerce giant, Alibaba, has set up Yu'ebao (meaning 'hidden treasure'), which is a money market fund that has attracted more than 81 billion dollars in its first nine months of trading.
- Social networking platform Tencent offers a similar money market fund called Licaitong, as does the search-engine Baidu through its Baidu Wealth Management fund.
- In the United Kingdom, Nutmeg, a two-year old UK start-up allows consumers to set-up online investment portfolios. It currently has 25,000 users with portfolios ranging from 1,000 pounds (1,682 dollars) to millions of pounds.

Nutmeg charges a 1.0% fee, which drops to 0.3% for portfolios valued at more than 500,000 pounds. The service is five times cheaper than using traditional asset managers because it does not involve lengthy face-to-face meetings and telephone conversations. Other new technology players include Rplan and Blue Speck financials

**'Crowdfunding'**

Crowdfunding has now established itself as a serious alternative to bank finance and provides cash-starved businesses with much-needed credit. Funding Circle, Seedrs and Zopa have all developed robust ecosystems, while US crowdfunding pioneer, Kickstarter, recently passed 1 billion dollars in loans pledged to customers. There is an added benefit of lending to customers online in terms of the increased ease and accuracy of undertaking credit checks. As more accounting data is uploaded into the 'cloud', key financial information can be downloaded from a borrowers' books and analysis of data using algorithms further reduces time and costs (see INTERNATIONAL: 'Cloud' use to rise despite concerns - July 5, 2013). Data from company and an individual's online marketing sites can also be incorporated to build up a richer picture of the borrower's credit worthiness.

Crowdfunding has established itself as a serious alternative to bank finance

**Outlook**

Several obstacles still stand in the way of any new financial service business model:

- Regulation is a key issue with an intense focus on security
- Consumer habits may take time to change.

However, as internet speeds and coverage increase and generational change occurs, these new technology platforms are likely seriously to erode existing financial service models, ultimately resulting in a new type of financial service sector incorporating non-traditional financial firms (see INTERNATIONAL: 'Next internet' shifts corporate plans - October 3, 2013).