A glimpse into the future of the fintech industry

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THE FINANCIAL TECHNOLOGY (FINTECH) industry is causing the biggest disruption within the financial services industry since the latter's inception. The fintech industry saw a huge boom in 2016 as it developed new banking technologies that perpetuated an industry wide change. The industry saw an investment of US$9.4bn to the second quarter of 2016. Funding for the fintech industry has increased globally and the future seems even more promising.

Trends within the financial services industry. The way payments are made is likely to change with advancements in the fintech industry. Credit and debit cards will start becoming obsolete and the preferred mode of payment will be through mobile wallets. Carrying your mobile phone will become essential for all sorts of transactions. Payment through mobile phones will be incentivised, similar to the benefits and point systems for spending on credit cards.

Consumers are looking for convenience and improved assistance from banking institutions for a seamless user experience. As banking is fast becoming an all-digital experience, significant efforts and investments are being made into AI-powered banking technology. Advancements in Artificial Intelligence (AI) provide banking customers the ability to access their financial information via mobile messaging platforms or virtual assistants available 24/7.

2016 saw the rise of chatbots used by traditional banking institutions. In 2017, chatbots and other virtual assistant technologies are likely to become more sophisticated and rapidly evolving technologies such as voice-activated devices and cloud services will integrate banking into our everyday lives.

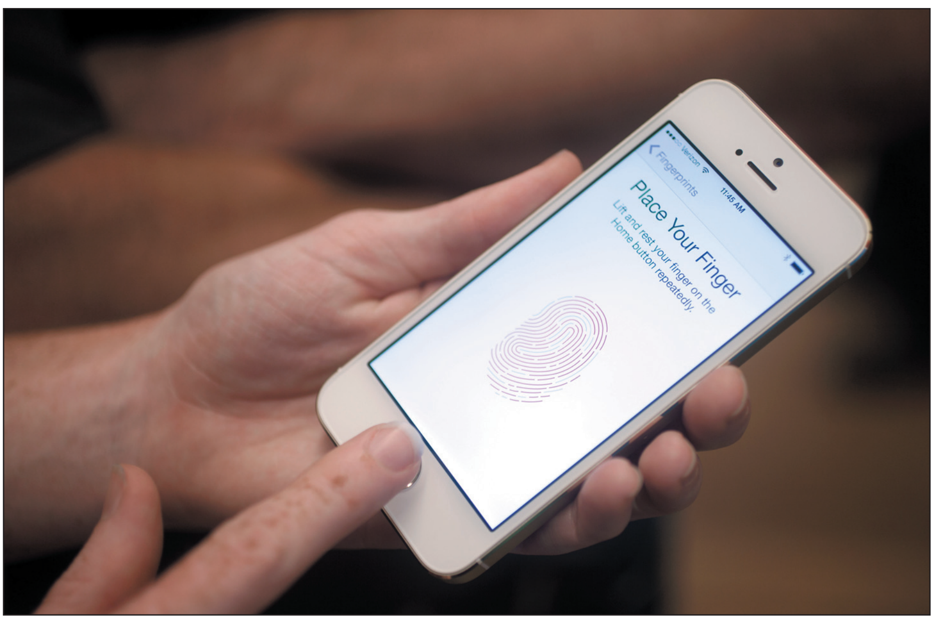
According to Dennis Gada, Sales Head of Financial Services at Infosys, "*AI (Artificial Intelligence) will make an entrance: In making decisions, banks need to look at and analyse large sets of data, both structured and unstructured quickly. Here Artificial Intelligence, is being used to offer more intuitive user interfaces, better assisted customer interactions, robo-advice, etc.*"

Robo-advice for financial portfolio management or investment is on the rise. These robo-advisors help in avoiding extra financial fees, taxes and help you diversify your financial portfolio.

Startups such as Wealthfront, Betterment and Future Advisor are some of the front runners in this arena already handling large sums of financial portfolios and dispensing useful advice through their financial tools and robo-advisors to many novice investors.

These services are particularly attractive for the millennials as they are already used to making decisions and carrying out actions online rather than through interpersonal interaction. Perhaps advice dispensed through automated calculations by robots is more convincing for the new generation than a banker or broker trying to convince them on certain investment opportunities as they might be based on personal biases.

Fintech companies vs. traditional banks. Major banking and financial crises over the past decades have shaken the trust of people in traditional financial institutions, paving the way for Fintech companies to win over customers. By offering a more convenient and comprehensive digital experience, new emerging players are looking to take away business from traditional financial



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service providers. Bank branches are dwindling in numbers due to this shift to digital or mobile banking and further advancements in financial technology. According to Javelin Strategy and Research, in 2015 more people did banking on their mobile phones as opposed to visiting their bank branches.

However, traditional banking institutions still have the advantage of established infrastructures and a large customer base. Fintech companies are still struggling to remain profitable. In 2017, mergers of legacy banks with upcoming or established fintech companies are a likely outcome in order to increase efficiency, improve customer experience and increase return on investment.

Privacy. Privacy is also an issue when it comes to digitising the entire banking process. Although biometric verification through smartphones is likely to solve the security problem, presently, the possibility of hacking is still an impediment in the way of fintech companies.

Payment security and privacy of data will be improved as mobile payments become the common mode of payment. Fingerprint or retina scanners on mobile phones will make security measures tighter. As compared to credit card theft, it will be much harder to crack through mobile phones' fingerprint scanners and code protected mobile phone programs.

Policies and regulations. In 2017, financial regulations, especially in the US after the installation of the new US administration, are likely to be more relaxed, paving the way for new opportunities for fintech companies to compete or collaborate with traditional banking institutions.

In order to encourage innovation and competition in the financial industry, the US Office of the Comptroller of Currency recently ruled that fintech companies can seek bank charters. This regulation, expected to go into effect in 2018, will allow fintech companies to collaborate with existing banking institutions more easily and have their own charter to allow them to provide financial services similar to traditional banks. Not only will this increase the ease of collaborative operations between fintech companies and traditional banks, but it will allow fintech companies to operate more effectively on an independent level.

Invoice automation. Automation in invoicing will also see a new hype, as individual invoicing for thousands of customers is not only tiresome, but truly disruptive to operations related to payments. Companies want to get paid accurately and collect the money owed to them promptly which is only possible with new automated invoicing methods. New quicker and easier methods of invoicing are likely to change the landscape of money collection and record keeping.

Furthermore, the innovations in e-invoicing will make invoicing data retrievable from anywhere in the world. Not only will this make invoice outsourcing a bigger industry, but it will reduce the costs associated with invoicing.

Blockchain technology. Blockchain technology, on which the cryptocurrency bitcoin is based, will become extremely significant in 2017. Blockchain simply, is a state-of-the-art ledger that tracks the movement of assets. It is likely to revolutionise the way asset lifecycle is tracked and will increase transparency at every movement of an asset. The technology is gaining attention from the logistics, real estate, manufacturing and financial industry.

Buying and selling of assets is likely to become more efficient, eliminating the hefty procedures involved in transfer of assets. Toyota Financial Services joined the R3's CEV blockchain consortium in 2016 to explore possible application of the shared ledger in case of auto financing. Chris Ballinger, Toyota Financial Services, CFO and Global Chief Officer of Strategic Innovation, commented that blockchain will make the entire auto financing process more transparent, efficient and will lower costs.

According to Danny Williams, Chief Innovation Officer at IBM UK, the entire process of auto buying will become more transparent through the use of a single shared ledger which cannot be tampered with. By the use of a single ledger, discrepancies in records will be eliminated, time will be saved and ultimately costs will be reduced by cutting out intermediaries as the record of the car will automatically be updated at each stage of its lifecycle through blockchain.

Omni-channel ecosystem. A frictionless banking experience from start to end is another major demand of the new tech savvy customer. Those banking institutions or fintech companies that do not comply with the needs of the time and provide a seamless omni-channel experience will lose their market shares. From digital account creation to multiple payment platforms, the new ecosystem will set a new benchmark for customer services in traditional and non-traditional banking.

Online loan services. Seeking loans or credit is to become a lot more convenient and easier with the growth of online loan service providers. This phenomenon is especially trending in the auto finance market, where customers can get loan pre-approvals and online credit ratings before purchasing a vehicle.

In China, internet giants such as Ali Baba and Tencent are entering this market where vehicle finance is arranged on low down payments and flexible low interest rates online. These alternative online financing solutions are likely to give consumers more flexible financial products with greater ease of payment.

Big data. Big data, which has created a lot of buzz in the recent past, is expected to have a big impact on the fintech industry. For this to take place, vast amounts of data created from customers' choices and information needs to be analysed in-depth. Merely gauging preferences from data sets is not enough as consumers are looking for digital Personal Financial Management (PFM).

AI is to play a huge part in this, as vast amounts of data generated needs to be processed and analysed in order to match banking products to customer needs. Reporting basic account data is just not enough for today's consumer as they are looking for complete financial portfolio management. AI will be needed to process account data and carry out predictive modelling in order to make customised PFM tools that would empower clients to make informed decisions. In-depth analysis of big data can lead to individual customisation of financial services and products.

Insurtech. Insurtech is a term inspired by fintech and signifies the amalgamation of insurance with new technology. Insurance is one of the oldest businesses, and in the US, annual revenue surpasses US$1.2 trillion. However, the industry is in dire need of technological innovation, thus making the situation ripe for fintech companies to step in.

Customers are highly dissatisfied with their insurance coverage, thus leaving a big gap in the industry, which fintech companies are looking to fill by providing more personalised insurance packages that do not exploit clients financially. According to a report published by PwC, 90% of insurance agents fear business being taken away from them by fintech start-ups specialising in insurance.

Fintech companies have already begun to disrupt the insurance industry. Start-ups such as Oscar, which provides health insurance and Metromile that offers car insurance per mile, are examples of success of the industry. After nearly two years of its launch, Oscar, the health insurance fintech, was estimated at US$1.5bn. The success factor of both these insurtechs lay in their more transparent procedures and mobile friendly interfaces as compared to traditional insurance agencies. Both these attributes are particularly attractive for the millennial generation.

Fintech companies, when it comes to insurance, are to make a big impact in the coming years. From insurance pricing to underwriting and finally sales, all the procedures involved in insurance are likely to become more efficient and transparent. The much needed technology driven change in the insurance industry is here to stay and likely to grow exponentially in the form of insurtechs.

Conclusion. All things considered, 2017 will definitely see an upsurge in the fintech industry. Traditional banking will have to meet the changing needs of customers, which are highly inclined towards digitisation of the entire banking process. The demand for convenience and superior customer services will have to be met with the help of start-ups and mature fintech companies.

A seamless omni-channel financial services experience with greater transparency is what users, especially millennials, are looking for and what fintech companies are aiming to provide. Greater collaboration between traditional banking systems and fintech companies due to relaxations in laws and regulations is also on the horizon.

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