

Opportunities & Challenges in Fintech

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Opportunities in Fintech

1. Financial services is a very large market (\$25 trillion annually globally) - technology is deeply embedded in the industry, making the industry comfortable with deploying technology. However, that technology is, for the most part, antiquated and is ripe for disruption.
2. Digital age - the digitalization of financial products removes the physical constraints associated with historical financial institutions. Therefore, financial products can be designed today with modern technologies that allow them to be more convenient and portable globally.
3. Hybrid business models – given the portability of digital financial products, finding new optimized, cross-industry / hybrid business models open up new frontiers for remixing people skills, institutional distribution channels, and proprietary customer sets. The result being entirely new markets for financial products.
4. Democratization of technologies – access to technologies (mobile, cloud, networks, analytics) is rapidly making financial products and services more available to all consumers and businesses.
5. Deal flow – the number of new fintech businesses being created is at an all-time high.
6. Strong industry - the need and demand for financial services and products is as robust as ever. It is a critical industry that provides a core function in the lives of every consumer and business in the world.
7. Market volatility – with the recent market turbulence the “Unicorn” mania is beginning to subside and valuation expectations of entrepreneurs have shifted down substantially.
8. Dynamic regulatory environment – while this is also a challenge, the ever shifting (and increasing) regulatory environment has increased the pressure on incumbents.
9. Willing incumbents - the major participants in financial services are actively seeking new technology solutions to remain relevant and gain competitive advantages. Their willingness to adopt new technology provides tailwinds to start-ups looking to engage the industry.

Challenges in Fintech

1. Everyone loves fintech now – there are more investors interested in the opportunity than ever before. Many new investors, even within established VC / PE firms lack an understanding of how the industry works. Their actions are creating noise and interference in the marketplace.

2. Regulation – governments at all levels have taken an increasing interest in the financial services industry post the global financial crisis. Old and new policies will have a significant effect on the success and failure of new companies.

3. Cannibalization – the financial services industry is largely automated on old technologies. New technologies present the opportunity to have superior products and services, but it can be challenging to get industry participants (banks, merchants, and consumers) to give up old and dated solutions. It is important to understand this dynamic when rolling out a new product and make sure there is a plan in place to address it. This is a blind spot for many of the new fintech investors.

4. Business cycles can take a long time – Often fintech companies try and build revenue streams on a “per use” basis. As they wait for concentric circles of buyers and seller to overlap creating transactions they can be paid on, many do not survive.