

A WHOLE NEW LANDSCAPE

The growth in fintech will present more opportunities than challenges for the financial services sector in the long run, says Niamh Meenan of Grant Thornton

The application of modern technology to traditional financial services is having far-reaching effects on the way businesses operate and the way people live their daily lives, as well as leading to the creation of a whole new industry sector.

Thanks to the rapid development of fintech, businesses are now trading and getting paid online and bypassing the credit card companies by using services like PayPal or Stripe; they are transferring money around the world at low cost using services like Transfer Mate; and individuals are using companies like Currency Fair to obtain foreign exchange at a lower price than the banks and other operators can offer.

Ireland's vibrant fintech sector is characterised by a culture of entrepreneurship and innovation, which has seen the establishment of globally successful firms such as Stripe and Realex. The latest generation of Irish fintech firms like Currencyfair and TransferMate are bringing new and innovative solutions to currency exchange and international payments and these are having a major impact on the traditional banks while others like FundRecs and Fenargo are providing solutions which help established financial services players become more efficient and profitable.

According to Niamh Meenan of Grant Thornton, Ireland's success in this nascent industry is due to a number of factors, including the presence of major global financial players here thanks to the IFSC, along with the more recent arrival of born-on-the-internet giants such as Google, Facebook and Paypal.

She believes this will create both challenges and opportunities with non-banking lenders such as LinkedFinance disrupting traditional institutions with other fintech players helping make existing business more efficient.

"The advent of fintech is challenging the traditional financial services players and

making them rethink how they are going to do business in future," she says. "The industry is reimagining how a transaction can take place in terms of how people live. People are making purchases very differently now. They don't necessarily want a traditional bank or insurance broker any more. They want to be able to do their banking and insurance transactions on their mobiles whenever they feel like it. If the banks look at how they provide customers with services at the moment they can see what technologies are important and utilise them to provide the services customers are demanding."

The fact that the new technologies are emerging in the wake of the global financial crisis only adds to their impact. "The crisis almost broke the model for banks," Meenan explains. "People saw that there were different ways to get loans and sources of alternative funding now account for a considerable share of the market. The lesson for the large banks is that if you don't innovate you die – that's the kind of transformative impact fintech is having."

And the banks are responding by bringing innovation in-house by acquiring some of the new start-ups in the space or by hiring in the talent. "They have embraced a lot of change in recent years. They have moved from being manager-led organisations with large branch networks to online banking with increasingly centralised loan and credit decisions. There are some very interesting things happening in the area. Take the AIB Lab in Dundrum for example; it's a very different model whatever way you look at it.

These challenges and market shifts are bringing about opportunities for Ireland, she believes. "We have people with a strong technology background and we have the people with the financial services skills and knowledge. "This is the ideal mix for building fintech companies here. Ireland really is a natural home for this industry."



NIAMH MEENAN
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FINTECH: MORE THAN JUST A MARRIAGE OF FINANCE AND TECHNOLOGY

Fintech Ireland founder **Peter Oakes** outlines the evolution of fintech here and its future prospects



Fintech Ireland is part of an international fintech network and promotion group which includes Fintech UK and Fintech Oz. The primary activity is Fintech Ireland for the time being. Founded by former Central Bank of Ireland director Peter Oakes in response to difficulties technology firms were experiencing with the previous Central Bank's licensing process, Fintech Ireland provides guidance and advice to fintech start-ups and established financial institutions which want to enhance their offerings to increasingly tech-savvy customers.

"We run seminars and meet-ups to help cultivate the digital innovation happening in Ireland," Oakes adds. "Having worked as a central banker and board director of Bank of America's European payments business, I am very much aware of the impact, challenges and benefits from the cumulative impact of technology, the internet, big data, and future regulation in areas such as cyber security, banking, payments, and MiFID on business and consumers. Importantly, through our network of international angel investors, venture capitalists, private equity funds, innovation hubs and technology accelerators we can help match start-up tech firms with investors."

Looking at future trends in the sector he says that fintech is a broad church and there are many components to it. "It is

more than just the marriage of finance and technology," he says. "Simply selling a mortgage online or enabling a customer to see their account balance on their smartphone is not fintech. Fintech is about disrupting, through innovation, existing banking, payments, investment, and insurance services. Equally it is about identifying new services."

Looking beyond the standard payments area, which tends to command most attention, he notes some other critical infrastructure changes. "In banking there is the instantaneous opening of retail and business bank accounts delivered by challenger banks, such as the UK's Monese, Mondo, Atom, and Starling Bank. Further innovation is being driven by new banking platforms such as Cogni in Ireland and Holvi in Sweden which take advantage of recent EU open bank initiatives to bank data and customer geographic locations in order to offer each customer tailored and unique business and personal banking experiences. We are seeing the traditional bank model coming to an end as they morph into utility companies. Although the traditional banking model may come to an end, it is just the start of a new banking service paradigm."

He also points to the investments and pensions area where companies like Roboadvisers, Nutmeg in the UK, Robin Hood

Peter Oakes: 'Although the traditional banking model may come to an end, it is just the start of a new banking service paradigm'.

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in the US, and Rubico in Ireland are providing a range of services online and through apps. In the loans and peer-to-peer or crowd-funded personal and business lending space fintech companies Think Funding Circle in the UK, OnDeck in the US, and Grid Finance in Ireland are bringing innovative new services.

The emerging area of insurtech is bringing about some potentially hugely disruptive concepts such as peer-to-peer car, personal or business insurance. "Similar to peer-to-peer lending, peer-to-peer insurance sees a number of policyholders pool together," Oakes explains.

"When the insurable risk happens, the policyholders support each other financially. If there is no claim, the insurance premiums are reduced. Effectively we are seeing all the benefits of the co-operative insurance, or lending, model being accelerated

by the efficiencies and speed of the internet and technology. Examples of this include FriendSurance in Germany and Guevara in the UK. There are also a number of innovative insurance people in Ireland looking at entering the market."

He believes regtech, or regulatory technology, will be an area of significant growth. "As more and more regulation and law comes into effect, the organisations subject to those laws such as banks, insurers, investment houses and other financial providers and those that administer the laws and regulations including central banks and regulators will need to adopt technology to analyse the huge amounts of data about the stability of systemically important institutions and important compliance obligations," he contends.

"These processes cannot be performed manually. Technology is critical. Without technology there is no way a central bank or a bank can be confident that they have the sufficient capital required to insulate them from the economic risks they undertake on a daily basis. Technology is being deployed in the fight against financial crime and financing terrorism. Without technology it would simply be impossible to analyse trading and payments patterns to identify fraud, criminal behaviour, and stifle the flow of money which terrorists use to attack society."