

The Top Trends that shaped FinTech in 2017

BLOCKCHAIN BEGINS TO PROVE ITS WORTH

BLOCKCHAIN

Blockchain's recognition as a viable underlying technology grew significantly in 2017 as its application to different areas of financial services was further explored (such as cross-border payments, derivatives trading, trade finance, payment clearing and settlement). Trials and proof-of-concept initiatives moved beyond the experimental phase as a series of market-ready commercial solutions were rolled out (e.g. Amex & Santander using Ripple's technology for cross-border B2B payments and the launch of the Australian Stock Exchange's settlement and clearing system).



FINTECH INVESTMENT STAGNATES

INVESTMENT

Following a significant dip in 2016, global FinTech investment recovered well in 2017. The US continued to attract the most capital (close to two thirds of all funds), Europe improved on a weak 2016, while Asia's ascendancy of previous lost some of its momentum. Despite the uncertainty around Brexit, the UK remained amongst the most attractive markets for Fintech investors.



REGULATION POSES CHALLENGES & OPPORTUNITIES

REGULATION

The UK government's decision for a "hard Brexit" (i.e. leaving the EU Single Market) prompted financial services firms, including FinTechs, to re-evaluate their UK presence. In the US, regulators argued over the potential introduction of national bank charters for FinTechs. Some countries relaxed their FinTech regulations (e.g. Australia) in order to foster innovation in the industry, while others saw the rise of FinTech as a threat to the existing infrastructure (e.g. Indonesia) and strengthened the sector's supervision.



DIGITAL CURRENCIES CAUSE A STORM

CRYPTOCURRENCY

With the sector's overall market value skyrocketing in 2017, discussions on digital currencies moved away from technology blogs to mainstream media. On the other hand, the applicability of different cryptocurrencies in the real economy and their place in the financial services ecosystem remained a grey area. Governments responded to the volatility of the market and concerns over security in opposing ways – from banning digital currencies (e.g. China, South Korea) to launching their own (e.g. Russia, Venezuela).



FINTECHS DIVERSIFY FUNDING SOURCES

FUNDING

As competition for more traditional investment sources (such as bank loans, venture capital and private equity) intensified, 2017 saw FinTechs look to alternative forms of funding. Some more popular, consumer-facing FinTechs managed to mobilise their customer base, resulting in hugely successful crowdfunding rounds (e.g. Monzo, Revolut). Other start-ups turned to Initial Coin Offerings (ICOs) as the newest way of securing funding.



GROWING COMPETITION AMONGST HUBS

FINTECH HUBS

2017 saw the emergence of new FinTech centres (e.g. Hong Kong, Abu Dhabi, Toronto, Shanghai) aiming to position themselves as credible hubs and attract international FinTechs away from more established centres such as New York, Silicon Valley, Singapore and London. Competition amongst European hubs (such as Frankfurt, Paris, Dublin, Amsterdam) intensified as they look to lure EU-focused start-ups away from a post-Brexit London. On the other hand, FinTech regulators increasingly used bilateral cooperation to foster innovation in the respective jurisdictions (20+ FinTech bridges established in 2017).



FROM DISRUPTORS TO COLLABORATORS

COLLABORATION

Incumbent financial institutions increasingly recognised the value in partnering with FinTechs, as they attempt to improve their value proposition in light of rapidly changing customer needs. A growing number of incumbents chose to collaborate rather than compete with emerging FinTechs, including by providing funds (Visa & Klarna), acting as a channel (Capital One & Bill.com), utilizing their technology (e.g. Hyperledger & SWIFT) or co-developing solutions (e.g. PayPal & Xero).



MOBILE PAYMENTS CATCH ON

MOBILE PAYMENTS

2017 saw significant growth in the use of mobile payments in different areas and geographies. Customers in the US increasingly turned to mobile apps (such as Zelle and Venmo) for peer-to-peer transactions. China, on the other hand, saw mobile going mainstream in retail payments (WeChat Pay & Alipay recruited hundreds of millions of customers, with millions of Chinese merchants accepting both forms of payment). In the meantime, India's demonetisation efforts made the country into the fastest growing mobile payments market (with Paytm amongst the most popular solutions).



REGTECH AUTOMATES COMPLIANCE PROCESSES

REGTECH

The changing regulatory environment in Europe (e.g. PSD2, MiFID II and GDPR) prompted banks to automate their processes and ensure compliance with new KYC, AML and data privacy requirements. While some banks turned to RegTech start-ups (e.g. Onfido, DueDil), others chose to develop their own solutions in house.



FINTECHS & BANKS PREPARE FOR OPEN BANKING

OPEN BANKING

With PSD2 coming into force in 2018, FinTechs launched solutions designed to connect banks and their customers in the new open banking environment (e.g. Bud's financial services aggregator platform). Some incumbents (e.g. Deutsche Bank, HSBC) also recognised the new ecosystem as an opportunity and launched open banking platforms of their own to stay ahead of the game in a market which is likely to see a significant increase in competition in the coming years.



INSURTECHS FUEL INNOVATION

INSURTECH

While incumbents had a largely quiet year in terms of innovation, start-ups successfully applied emerging technologies (AI, IoT, robotics, Blockchain) to develop disruptive insurance products. New innovative solutions appeared in areas such as car insurance (Cuvva), home insurance (Lemonade, Neos), health insurance (Gryphon) and AI-driven robo-advisory (Brolly). This has not only improved customer experience but extended access to insurance products to previously underserved segments.



FINTECHS BRANCH OUT

DIVERSIFICATION

Some more mature FinTechs looked to move beyond their initial niche segment and extend their offering to include adjacent services. Several payments start-ups obtained banking licenses (Square in the US, Klarna in the EU) as they gear up to challenge incumbents on multiple fronts.

