@PwCFinTech

Q&A

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What is FinTech?

Financial technology—FinTech for short—describes the evolving intersection of financial services and technology.

The term can refer to startups, technology companies, or even legacy providers. The lines are blurring, and it's getting harder to know where technology ends and financial services begin.

The term FinTech is often tossed around in the media and in casual conversation. And while many use the term, its specific meaning often gets lost somewhere along the way.

Startups use technology to offer existing financial services at lower costs, and to offer new tech-driven solutions. Incumbent financial firms look to acquire or work with startups to drive innovation. Technology companies provide payment tools. These can all be seen as FinTech.

Look beyond the name and you'll see some of the most exciting industry developments in a generation. We caught up with Haskell Garfinkel and Dean Nicolacakis, PwC's US FinTech Practice co-leads, to better understand the FinTech ecosystem.

Questions and answers

Q. Who's doing this? What does a typical FinTech company look like?

A. When people think of FinTech, they often focus on startups, breaking into areas that banks and other legacy financial institutions have dominated. But we think about all the players in a larger FinTech ecosystem, which we refer to as the As, Bs, Cs, and Ds:

- As are *large, well-established financial institutions* such as Bank of America, Chase, Wells Fargo, and Allstate. We sometimes refer to these as "incumbents."
- Bs are *big tech companies* that are active in the financial services space but not exclusively so, such as Apple, Google, Facebook, and Twitter.
- Cs are *companies that provide infrastructure or technology that facilitates financial services transactions*. This broad group includes companies like MasterCard, Fiserv, First Data, various financial market utilities, and exchanges such as NASDAQ.
- Ds are *disruptors: fast-moving companies, often startups, focused on a particular innovative technology or process*. Companies include Stripe (mobile payments), Betterment (automated investing), Prosper (peer-to-peer lending), Moven (retail banking), and Lemonade (insurance).

Q. In a recent presentation, Haskell referred to "FinTech as a verb." What exactly did he mean by that?

A. FinTech isn't static. We see it as the evolving intersection of financial services and technology. When we talk about the As, Bs, Cs, and Ds, we think of them as sectors in motion, all moving toward each other over time.

For example, financial institutions are becoming more technology focused. At the same time, big tech companies are offering peer-to-peer payment solutions over social networks and email. Meanwhile, disruptors are providing financial services that, until recently, you could get only from banks or financial advisors.

Q. Where have you seen the most disruption in financial services so far?

A. FinTech disruptors started by offering products and services in payments and peer-to-peer lending. Because of this, these have been the most disrupted areas to date. We can think of this as "FinTech 1.0," in which new market entrants have focused largely in the business-to-consumer (B2C) space.[1]

[1] Of the many inaugural FinTech "unicorns" (the term that refers to companies with valuations of US $1 billion or more), most had core businesses focused on B2C lending and payments.

Q. What do you see unfolding over the next 12 months?

A. Looking forward, we expect FinTech disruptors to continue to expand into other areas within financial services. There's a lot of interest in areas like marketplace lending, credit underwriting, digital cash, treasury functions, deposits, and bill payments. We also anticipate a lot of activity in the robo-advice and wealth management space over the next year.

Perhaps more importantly, we predict a lot of FinTech innovation in the next 12 months in the business-to-business (B2B) space. You can think of this as "FinTech 2.0." Here, expect tech innovations like blockchain to come on line. As they do, they'll start to radically alter business processes and drive down costs. We're already witnessing a lot of firms exploring how they can apply these breakthrough technologies. Done right, there are some real efficiency gains to be had.[2]

Q. What should incumbents do about all this? Do they need a FinTech strategy?

A. We see incumbent banks, asset managers, and insurance companies looking for ways to play defense and offense at the same time. And that's reasonable. You have to know how a disruptive FinTech development could hurt your business, even as you're looking for ways to take advantage of the technology.

The disruptors themselves take different approaches. Some target specific niche areas of the industry. Others are using new technologies, such as blockchain, in ways that will cross a lot of boundaries.

For incumbent financial institutions to succeed, they'll have to do three things well:

- Continuously scan the environment to identify new threats and opportunities.
- Quickly understand the effect that emerging trends and technologies could have on their business.[3]
- Come up with solid strategies to react—from acquiring or working with FinTech startups to building their own innovative solutions.

Q. Do you have any recommendations for the longer term?

A. Everyone needs to recognize that this isn't going away. It's the "new normal." Over the long-term, financial institutions are going to have to make some fundamental changes. They'll need to:

- **Become more agile.** Incumbents tend to have long planning and delivery cycles. They'll need to change this as they incorporate emerging technology into their businesses and partner more with disruptors.
- **Manage the business from the "inside out" instead of from the "outside in."** FinTech offers amazing potential, but that can actually be a distraction. Institutions have to start with their own needs in mind, rather than working backwards to figure out how to use the latest technology.
- **Change the way they approach innovation.** Most incumbents still struggle with finding and implementing innovative ideas. There are ways to do it well, though. In fact, they can learn from disruptors. Once you've figured out how to test-and-learn, a lot of other things fall into place.

[2] For more information on blockchain, see PwC Financial Services Institute, "Making sense of bitcoin, cryptocurrency, and blockchain" PwC, Feb 2016.

[3] For more information on our new platform focused on the impact of FinTech innovation on financial services, visit http://www.strategyand.pwc.com/denovo.

www.pwc.com/fsi

Additional information

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