

MIAMI TODAY

October 18, 2018

Financial Technology: The Continuing Evolution of a Revolution

Jerry Haar

What is fintech? In simple terms: financial technology. We experience it, we live it when we send money via Pay Pal, swipe our Starbucks card to purchase a latte, deposit a check via the photo app on our smartphone, or use a ride-sharing service like Uber or Lyft. Fintech is a true disruptor and will continue to be so. According to a recent PwC report, investment in fintech grew from \$5.6 billion in 2014 to \$12.2 billion in 2015. For the first half of 2018, the global fintech sector raised nearly \$42 billion.

Fortunately for our community--always strong in financial services---fintech is rapidly gaining prominence. Along with Art Basel and eMerge Americas, Fintech Americas (now entering its sixth year) can claim to be a magnet, gathering place, and deal-making space in the dynamic arena of financial technology.

Just how are banks harnessing fintech in their operations? Lloyd's, one of the UK's biggest banking firms, will spend over \$4 billion on new technologies and digitization over the next three years to boost the customer experience and make its business more efficient. The bank is also increasing employee training time by 50% from current levels. However, the transformation driven by fintech is more than a series of one-offs. During the last twenty years these new technologies have permeated the investment banking space, as well. As Armin Rosen, writing in a Columbia Business School blog notes, they have "democratized" investment banking by spurring robo-advisors that use algorithm-based computer programming to generate automated investment guidance. An example is Betterment, founded in 2008, with \$5 billion in assets under management, using proprietary algorithms to assess where to invest clients' money.

Other technological tools and applications include blockchain and distributed ledger, artificial intelligence, cybersecurity, regtech, and insurtech. For the most part, however, banks focus largely on fintech for payments. But more and more are beginning to look to the entire value chain, from gamification and compliance training to surveillance software and as well as artificial intelligence to improve customer service and spur greater workforce productivity. Skuchain is a good example. As reported by Ernst & Young, it is a blockchain-based startup aimed at supply chain management. For trade financing, they provide smart contracts that govern all aspects of trade agreements. Skuchain plans to eliminate the use of

paper-based letters of credit and are working with banks to shift towards electronic letters of credit that will sit on top of the blockchain. The goal is to increase transparency into trade visibility and eliminate the time spent on exchanging documents for verification.

So what does the near-term future look like? Looking at predictions for the rest of the year and beginning of next, one can envision and acceleration of AI and regtech as well as next generation digital lending, insurtech innovations, and financial services incumbents building their own digital banks.

For banks to ensure that their employees have the aptitude to deliver success in tomorrow's world--recognizing that millennials will comprise nearly three-fourths of the global workforce--a major report by Ernst & Young ascertains that they will have to evaluate technology's sweeping disruption of the banking labor force, get in tune with a younger generation of bankers, promote diversity of thought and possible solutions to challenges in the banking world, and foster and empower a collaborative workforce.

The speed and thoroughness with which banks embrace financial technologies and mobilize a top drawer workforce of talented young bankers to employ fintech in bank operations will be major determinants of banking competitiveness in the future. For a community with a long history of global financial services and the emergence during the last decade as a technology hub, as well, Miami is well positioned to capitalize on the intersection of both, to the benefit of all.

Jerry Haar is a professor and executive director of Executive & Professional Education in the College of Business at Florida International University.