FINANCIAL LITERACY
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Creation of Value in Financial Sector

Fintech, in reference to companies that utilize technology to aid financial services in becoming more viable and productive, has ignited the worldwide banking outlook over the course of the last three to four years. Ten years after the global financial crisis, the banking industry has de facto recovered its condition and the bankers have become more cheerful and optimistic. While numerous markets and media commentary have accentuated the risk to established banking models, opportunities for incumbent organizations to form new partnerships are expanding in the aspects of: (1) better cost control, (2) better capital allocation, and (3) improved customer acquisition. With more touchpoints for application than other banks in the industry, Fintech can boost their competencies to a considerably higher level. The present financial service industry is focused on client-solution and information-driven services that also offers a variety of services. There are significant new business opportunities accessible to those banks as they take actions to add value to the capital market environment.

There is an assessment that an ample majority — nearly three-fourths — of Fintech centres around retail banking, lending, wealth management, and payment systems for SMEs. For instance, loan disbursement can be refined by mobile and internet banking, crowd lending and the utilization of virtual currencies. Through cloud computing and business monitoring applications, loan portfolios of customers won't be too arduous to keep track of and manage. In many of these areas, start-ups have honed in on the end customer through the shortest route, avoiding conventional banks since start-ups have the benefit of being free from rigid rules and regulations that restrict the digital progressions of established financial service companies. This shows that they are breaking into a sector, ripe for innovation.

Nevertheless, a current analysis conveys that the structure of the Fintech business is transforming and that a new force of collaboration between Fintech and existing banks is occurring. This reassures that new digital technologies are giving the banking and financial services environment a fresh, profound meaning. To stay ahead, Fintech and worldwide banks must work in tandem to assist one another. As a matter of fact, funding is progressing from being VC-controlled, towards more prevailing investments. The funding of FinTech start-ups has hiked up at a compound yearly growth rate (CAGR) of 41% with over US$40 billion in total investment in the course of the most recent four years. Although start-ups are often perceived as the primary competitors for financial institutions, the report also indicates that numerous start-ups have moved to business-to-business models, providing platforms for them.

The tendency towards business-to-business is mostly articulated in corporate and investment banking, which represents for 15% of all Fintech initiatives across markets. Plainly at present, investment banking firms are searching for the brisk win by exploiting the efficiency savings provided by few, more mature Fintech as they look forward to seeing what these exceptionally promising technologies can offer. About 66% of corporate and investment banking Fintech are offering business-to-business products and services. Only 21% of Fintech are trying to disintermediate the client relationship. For instance, by directly providing services to corporate-banking customers, less than 12% of Fintech are attempting to interrupt existing business models with their blockchain transactions technology.

It's expected that among the corporate and investment banks, the interactions between banks and Fintech should be more collaborative than cut-throat since this segment of the banking industry, all things considered, is carefully controlled by rules and regulations. For corporate and investment banks to wind up stable and safe enough to get through the following 20 years, a proper regulation is vital. Besides, clients are commonly knowledgeable and demanding, while the businesses are either relationship-based, capital-intensive or require highly specialized knowledge. This applies to M&A, debt, or equity investment banking, fixed-income trading as well as structured finance or complex derivatives. Without this sophisticated expertise and resources, it's little surprise that most of Fintech centres around the retail and SME segments, while those that go for corporate and investment banks enter into collaboration that offers specific services with big players in the sector that possess the infrastructure and client relationships.

These Fintech devoted to enhancing one or more components of the banking value chain have additionally been capturing a large portion of the funding. The network security related Fintech has obtained the largest amount of funding with a total of US$4.2bn to date. Overall, Fintech de facto represented 69% of all capital raised by corporate and investment banking-centred Fintech over the previous decade.

However, this does not imply that corporate and investment banks can simply be incognizant. For example, a new sector of Fintech is emerging, with multi-dealer applications targeting sell-side businesses with more affordable expenses. A similar case would be Estimize, an investing app, assembling stock-performance opinions from experts and individual investors to make valuations that would imitate the market response, without depending on sell-side analysts. Additionally, Fintech are making invasions into Clearing, Settlement & Custody and transaction banking. Traditional payments, clearing, and settlement services operating on decades-old infrastructure have been adapting steadily to changes in technology, escalating end-user expectations for speed and satisfaction. These start-ups are offering simplicity and transparency to end customers, akin to the way price-comparison search engines function in online shopping. The existing banks could collaborate with these start-ups, though the nature of such services would likely prompt lower revenues and profits.

When all is said and done, the banks that are willing to modify themselves may obtain a scope of new advantages. From lower costs and more appropriate capital allocation, to a much broader revenue base, Fintech can augment all of them in numerous parts of their operations. Despite the risk to the business models still being significant, the main consideration should be to pick the right Fintech partners. There are a wide variety of Fintech, and thus collaborating can be complicated and expensive when corporate and investment banks test new ideas and align their technical capacities with the services offered by outsiders. Overall, successful financial service firms should think about numerous choices, comprising acquisitions, partnerships, or joint ventures.

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