



## Five fintech trends: What's happening now, and the promise ahead

**Customers have embraced the idea of on-demand finance, thanks to mobile and cloud computing. Fintech trends show that people are more comfortable managing their money and business online, and they're less willing to put up with the sometimes glacial pace and bureaucracy of certain traditional financial services. Overall, the financial technology sector is red-hot, with traditional financial institutions increasing their fintech investments and competing with startups to offer financial services products faster and more efficiently.**

It's estimated that startups could capture up to \$4.7 trillion in annual revenue and \$470 billion in profit from established financial services companies, according to a March 2015 Goldman Sachs equity research report. But don't discount traditional financial firms just yet. Financial services are poised for transformative change, Mega-corporations and startups alike are pouring money into fintech investments. They're embracing the agility and flexibility promised by fintech solutions to develop innovative financial products that help people manage their money in new ways. While incorporating new financial technology creates risk, proactive executives can find a wealth of opportunity to use risk to create value.

As noted by Dilip Krishna, managing director and head of innovation for Deloitte & Touche LLP's financial services businesses; Prakash Santhana, managing director in Deloitte Transactions and Business Analytics LLP; and Vikram Bhat, a principal in Deloitte & Touche LLP's Cyber Risk Services practice, technology is a driving factor in how mega-corporations and small upstarts will continue to provide customers with control over their finances without running afoul of regulators. Here are some of their insights on the present and future of fintech:

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**Trend 1: Financial firms are jumping into the fintech game.**

“A large number of our clients are taking aggressive action to determine how they can use these technologies within their ecosystems,” says Krishna. “They’re acting as venture capitalists and investing in their internal projects to see what specific problems these technologies can solve. Some are joining different consortiums—you see this a lot with blockchain—to partner and work with the industry. Others are watching and seeing what happens next. There’s been a tremendous response within the industry.”

**Trend 2: The scope of potential blockchain benefits continues to grow.**

“Let’s talk more about blockchain technology, and its enablement of peer-to-peer transactions,” says Santhana, naming blockchain as a fintech trend.

“Blockchain actually eliminates the need of a central intermediary to do asset transfers. And asset transfers aren’t limited to money. They could be titles, vehicles, home sales, etc. Blockchain also creates efficiency. Payment transactions typically go through a central intermediary that uses several steps to authenticate and authorize the person who’s allowed

to send that value, the transfer of the transaction details, and the actual settlement. Settlements can take two or three days. Blockchain compresses the steps into one step that can be done within a few seconds or minutes.

“A third benefit is the creation of an audit trail. Blockchain relies on a distributed database. All the information is duplicated on each copy of the database, and all the data is public. You can go into the blockchain ledger and, because it’s immutable, prove the transaction occurred and be assured the record hasn’t been modified or corrupted as long as it

lives on the distributed ledger. As a result, there are many financial services industry sectors that can drive performance by using this technology to increase transaction speed and transparency,” Santhana says.

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Managing Director, Deloitte Advisory  
Deloitte & Touche LLP

**Trend 3: Across the globe, regulators are showing interest in fintech.**

"There's been progress to help regulators keep pace with and even foster blockchain innovation," says Krishna. "In places such as Singapore, Australia, and the UK, regulators are actively looking to set up sandboxes to test scenarios and identify how the technology can be leveraged to solve problems. Many regulators are determining ways they can be a part of and enable the process, instead of just responding to it."

"In the US, there's a lot of interest in blockchain and what can be done with it," says Bhat. "There are different bodies in the US approaching this area from a regulatory viewpoint."

"US regulators are actively watching but giving space for the players to figure things out. The challenge is balancing innovation with risk and controls. We're in the initial observer phase. There's no formal guidance, yet, in this space," says Santhana..

**Trend 4: Executives are beginning to understand the potential implementation challenges.**

"Fintech and other emerging disruptive technologies generate excitement, but with the disruption comes changes to existing architecture and the creation of new implementation and deployment challenges," Krishna says. "There's broad recognition that the technologies can be used to solve certain problems, but financial operations and services are complex. Also, these solutions aren't point-and-click. We're currently in the realist phase of 'This is what these technologies can do. Now how do we incorporate them?'"

Continues Krishna: "While there's great enthusiasm about how transformative these technologies can and will be, the reality of implementation leads to operational challenges, such as 'Which issues do you solve first?' and 'How do

you solve them without impacting other business?'. Financial executives now have to figure out how to incorporate and apply new technologies, as well as the short- and long-term impacts on existing processes and systems. It's always harder than you think, but with strategically taken risks can come significant rewards."



**Trend 5: The industry is realizing this is a marathon, not a sprint.**

“There’s been a tremendous amount of hype in this space and a lot of venture capital activity,” says Krishna. “There’s both anticipation and worry around what these technologies can do related to the financial services industry. Many of the conversations we’re having with clients have an ‘end of the beginning’ vibe, as there’s some fatigue and disillusionment settling in about keeping up with information regarding all the new companies and technologies.”

There are several questions to consider, such as:

- Will these new services replace existing architecture or be offered in parallel?

- Does the benefit promised by the new technology actually improve existing product, or is it just adding features and complexity no one is really seeking?
- What kind of architectural or process changes need to be included in strategic planning?
- To which business areas should fintech investments go?

Says Bhat: “A lot of these technologies aren’t fully developed. Also, it’s not entirely clear how they will align with how financial services actually work. These are all questions to address.”

## Where do we go from here?

The thing about disruptive technologies, is, well, they’re disruptive. And in a highly regulated space like financial services, there’s potential danger in going all-in on something that hasn’t withstood the test of time or passed regulatory scrutiny. So what should you do?

Executives should be looking at fintech trends and thinking in terms of experiments and pilot programs, giving incentives to customers to try out new offerings with the understanding that it’s for a specified time or with limited features. Blockchain, as Santhana noted, is a good example of how financial services organizations can create targeted applications and products to test out new approaches in a controlled environment.

Startups have a little regulatory leeway, but there’s only so far they can go, solo, with their own platforms. Forming partnerships and industry alliances is one fintech trend that can help bring new technologies to broader adoption and work out implementation kinks. Reaching out to other companies and finding areas to work on together can improve customer relationships and user experience. It can also help the technology become more mature. As Krishna noted, organizations have to figure out implementation gaps and understand customer needs, and one of the best ways is to work together to find those answers. There has been a lot of hype, but we think partnerships will help translate those airy promises into concrete progress.

## Contacts

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