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Beyond Fintech

Disruptive innovation in equity crowdfunding

Background

2017 report from Deloitte and the World Economic Forum, *"Beyond Fintech: A pragmatic assessment of disruptive potential in financial services,"* examines disruptive innovation in financial services.

The report identifies **8** key forces impacting all aspects of financial services:

Cost Commoditization: Financial institutions will accelerate the commoditization of their cost bases, removing them as points of competition and creating new grounds for differentiation

Experience Ownership: Power will transfer to the owner of the customer interface; pure manufacturers must therefore become hyper-scaled or hyper-focused

Data Monetization: Data will become increasingly important for differentiation, but static data sets will be enriched by flows of data from multiple sources combined and used in real time

Systemically Important Techs: Financial institutions increasingly resemble, and are dependent on, large tech firms to acquire critical infrastructure and differentiating technologies

Profit Redistribution: Technology and new partnerships will enable organizations to bypass traditional value chains, thereby redistributing profit pools

Platforms Rising: Platforms that offer the ability to engage with different financial institutions from a single channel will become the dominant model for the delivery of financial services

Bionic Workforce: As the ability of machines to replicate the behaviors of humans continues to evolve, financial institutions will need to manage labor and capital as a single set of capabilities

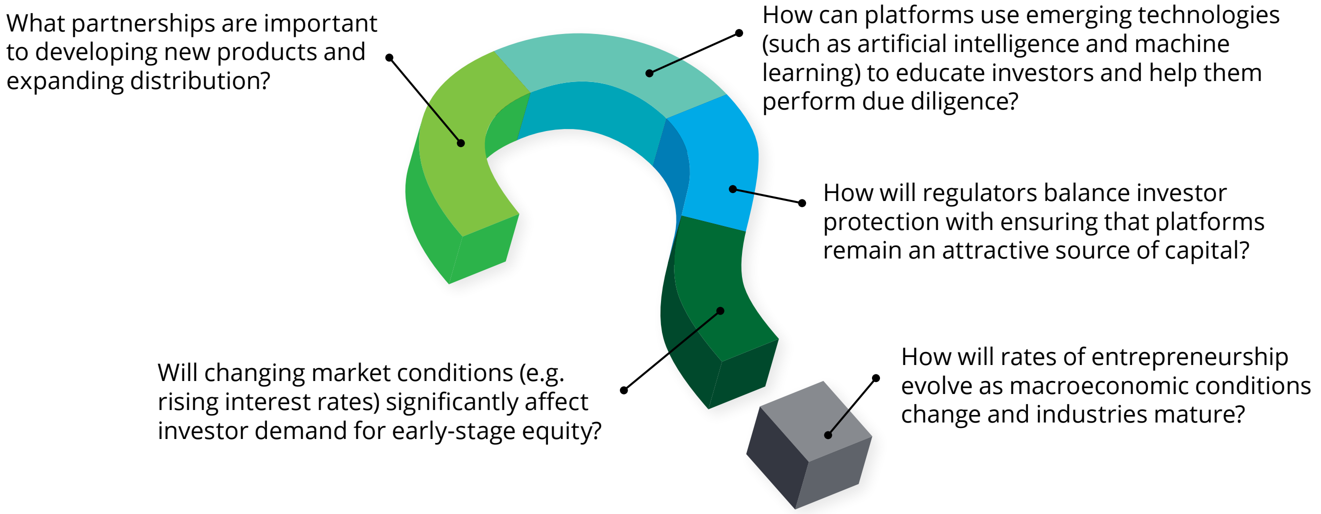
Financial Regionalization: Diverging regulatory priorities and customer needs will lead financial services in different regions of the world down distinct paths

To learn more, visit www.deloitte.com/beyondfintech. Here are some of the key findings for the equity crowdfunding segment.

Trends

Where disruption has occurred	Crowdfunding platforms have grown rapidly, driven by strong demand from both investors and entrepreneurs.
	The quality of regulation has been a defining factor in the success of equity crowdfunding.
Where it hasn't	The crowd has proven less wise than expected, highlighting the need for further education and commercial due diligence tools to assist investors.
	Equity crowdfunding remains disconnected from the broader financial system, limiting its long-term scalability.

Open questions



Possible futures

Social driver	Platforms fizzle in profit-oriented industries, but catch on as vehicles for social impact.	Social enterprises will gain stature and attract more funding as the ecosystem develops.
International expansion	Regulators converge to allow cross-border investment and crowdfunding platform growth.	Crowdfunding platforms will go international, leveling access to venture capital across geographies.
Shooting star	Crowdfunding platforms forge partnerships and become big enough to lead the late-stage offerings that venture capital firms traditionally manage.	Crowdfunding will become more important for seed stage funding, but individual investors will participate only through their wealth managers.

Key takeaways

Improved liquidity at seed stage: Leading crowdfunding platforms will increase the amount of seed-stage funding available to entrepreneurs, filling a valuable niche, especially in parts of the world with less venture capital investment.

Regulator balance: Whatever direction equity crowdfunding takes – direct to consumers or as a partner to incumbents – regulators will strongly influence the industry. As such, regulators must weigh their encouragement of crowdfunding against a responsibility to provide for adequate due diligence.

Integration with broader financial ecosystem: To be sustainable, equity crowdfunding platforms will need to broaden their funding by working with other parts of the financial system (such as by tying into wealth management platforms). They also will need to establish secondary markets with sufficient liquidity.