FinTech Trends in 2016, So Far

The surge in financial technology, encompassing every sector of financial services, shows no signs of stopping, despite some highly publicized problems. A recent Accenture survey, for instance, puts global investment growth at $5.3 billion, a 67% increase over last year, with total investment at just over $22 billion.

FinTech is a shorthand for technologies, ranging from mobile banking to digital securities clearing, that are bringing about the digital transformation of banking and finance. As financial services and banking converge with internetworked, mobile, and massively databased systems, FinTech has become a wildly explosive area in financial services. The tools developed by innovative FinTech firms are empowering individuals to gain greater control over their financial destinies and enabling smaller, incumbent financial institutions to compete with large global institutions and technology firms.

Payments and lending startups lead in both funding and consumer acceptance. Proof-of-concepts for cryptofinance projects are receiving attention from global financial institutions and attention from financial media. They are also receiving the highest levels of venture funding.

As money continues to move into FinTech startups from venture firms and newly formed innovation organizations at established financial institutions, regulators are starting to take notice. At the same time, the need for collaboration between banks and FinTech firms has become a focus of an increasing number of articles and presentations this year.

In January, I participated as a mentor when London-based Startup Bootcamp held its FinTech day in Chicago at CME Venture's Center for Innovation. The experience of watching startup pitches and giving feedback confirmed a number of my beliefs about FinTech, namely that:

B2B firms

focused on making back-office functions are likely to succeed first and fastest,

Consumer-focused startups

that embody the FinTech ideal have a tough row to hoe to achieve adoption at any sort of scale, and

Pure cryptofinance firms

targeted to small-businesses or consumers at any scale is neigh impossible for the market to understand and buy at this point in time.

Here are the FinTech market trends I'm tracking for 2016, with some notes on progress so far:

Bank Cooperation

From good idea to emerging trend. Banks increasingly are partnering with startups. Banks seek new technologies while startups need customers and data to scale. Large banks are investing in startups and forming accelerator programs. Smaller banks are offering services from startups and providing them with access to the banking system.

Partnerships between traditional financial services organizations and FinTech firms was the most mentioned trend among the 100 global financial services influencers surveyed by Jim Marous, publisher of the Digital Bank Report. "The reason for this paradigm shift is because new Fintech start-ups lack the scale, capitalization, reputation of security, ability to navigate complex regulations and the product scope of traditional financial firms. Alternatively, traditional banking organizations are hindered by legacy operating systems, capacity to innovate, agility and technology expertise," Marous tells Accenture.

Market Development

From VC investment to consumer use cases. Retail FinTech focuses on the consumer while Business FinTech focuses on back-office systems. Retail products are gaining consumer attention in lending and wealth management (robo advisors) while businesses are showing interest financing solutions and cryptofinance applications.

The early FinTech adopters are typically young, high income population right now, but soon such acceptance of FinTech is expected to grow across multiple demographics, according to the EY FinTech Adoption Index (PDF) shows. Payments, including account transfers and international payments, lead in adoption. Wealth management, personal financial management, and lending apps follow closely.

Payments

Mobile adoption, “faster” development. Mobile payments increasingly are gaining traction as applications become easier to use and more prevalent. Starbucks remains the leader with its rewards program. Apple Pay shows increasing adoption by new consumers but repeat use remains stagnant. Meanwhile, The Federal Reserve is guiding development of a “faster payments” system in the United States.

Consumers ultimately want the balance they see when making or receiving payments to be the money they have available to spend and invest. That experience will wait until the U.S. builds a realtime payments system. Initiatives sponsored by the Federal Reserve are moving forward while a number of FinTech startups are working on completely new payments systems.

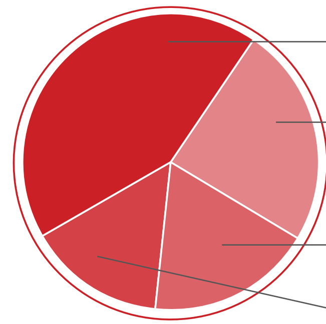
Cryptofinance

From bitcoin to blockchain to smart contracts. Tests of distributed ledger technologies, which track transactions in a public and secure ledger, have been announced by nearly all global financial institutions, with the backing of large technology firms. In addition to these widely published blockchain projects, new technologies that create automated contracts are gaining interest.

As funding for blockchain technology continues to grow, blockchain companies have turned their attention to banks as customers for their financial services offerings, ranging from moving cash and securities to lending. Even major financial players like JPMorgan Chase and Goldman Sachs have begun testing the software. The growing interest explains why investment in the sector has already reached $150 million in the first quarter of 2016, according to Quartz.

FINTECH TRENDS

Biggest Impediments to Adoption in 2016

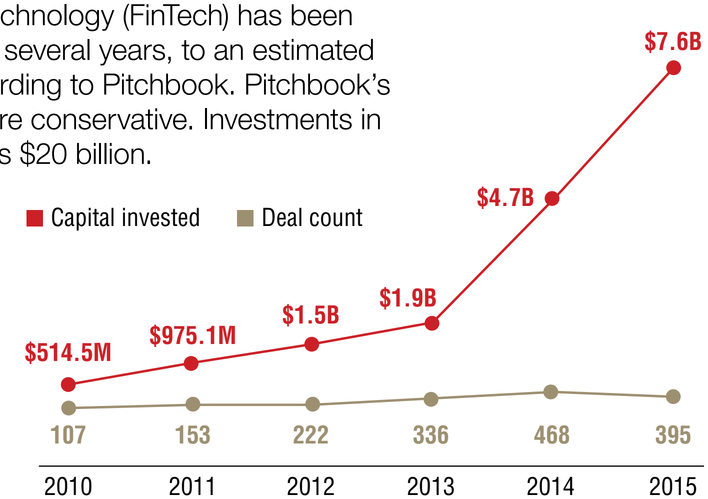


Survey of 101 financial technology founders and investors conducted on November 3, 2015 at Silicon Valley Bank’s Fintech Mashup event

FinTech Investment Trends

Investment in financial technology (FinTech) has been accelerating for the past several years, to an estimated $7.6 billion in 2015, according to Pitchbook. Pitchbook’s estimates tend to be more conservative. Investments in 2015 been put as high as $20 billion.

Total FinTech Investment 2010-15



Q1 Capital invested: **$1.5B**
Deal Count :**116**

Q2 Capital invested: **$1.9B**
Deal Count :**116**

Q3 Capital invested: **$3.5B**
Deal Count :**112**

Q4 Capital invested: **$80.6B**
Deal Count :**51**

FinTech Rising

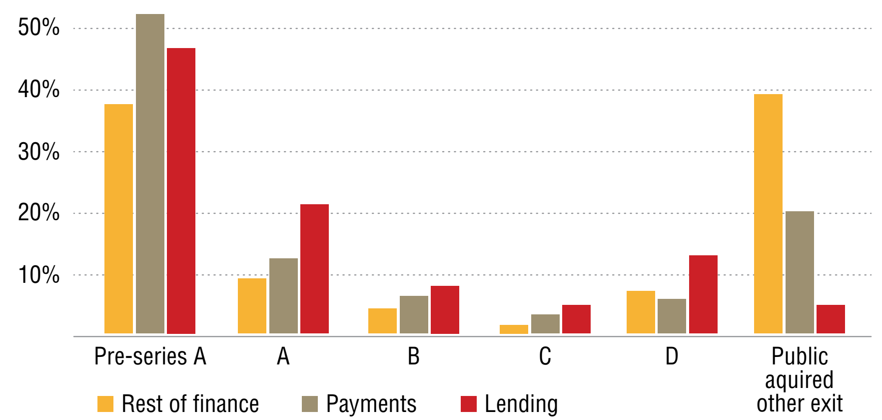
Customer Segments and Products of Leading FinTech Firms

CUSTOMER SEGMENTS	Lending and financing	Payments	Financial assets and capital markets
Retail	14	25	13
Commercial	9	12	4
Large Corporate	1	6	2

PRODUCTS/CAPABILITIES: Lending and financing; Payments; Financial assets and capital markets

< 5%
5% – 7.5%
7.5% – 10%
>10%

Early Stage FinTech Investment



McKinsey & Company now tracks 2,000 FinTech startups, up from 800 in April 2015. The firm's recent FinTech report shows that top three FinTech sectors, as a percentage of global banking revenues, are:

1. Payments

2. Lending

3. Financial Assets/Capital Markets

Additional sectors expected to gain momentum in 2016 include:

Security/Risk

Trading/Investment Banking

Insurance

Early-stage investors are putting their money into payments and lending startups, write Matthew and Hannah Granade in "The FinTech party's just getting started."

A slow-down in investment may occur after recent and highly publicized allegations of misconduct at peer-to-peer lender Lending Club, based in San Francisco, and the failure of mobile payments startup Powa Technologies, London. Yet "serious investors don't view fintech as one homogenous field." The inevitable transition of financial services and money itself to the internet, and the emerging cooperation between banks and startups indicate a strong future for FinTech.

Regulation

The Empire strikes. Federal regulators in the U.S., U.K., and Australia in particular began in the first quarter of 2016 to develop regulatory frameworks for the largely unregulated FinTech businesses. From hindering exploration of blockchain technology to determining which regulations for traditional financial institutions apply to FinTech startups, regulatory ambiguity weighs heavily on the minds of FinTech leaders.

In April, Amy Friend, chief counsel with the Office of the Comptroller of the Currency, explained that rather than "saying 'no' right off the bat" regulators will be more receptive in exploring FinTech regulatory issues and understanding the emerging models. The OCC released its "Responsible Innovation" white paper this week, a move applauded by the American Bankers Association.

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