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Fintech – Dot-com bubble 2.0 or game changer in the financial industry?

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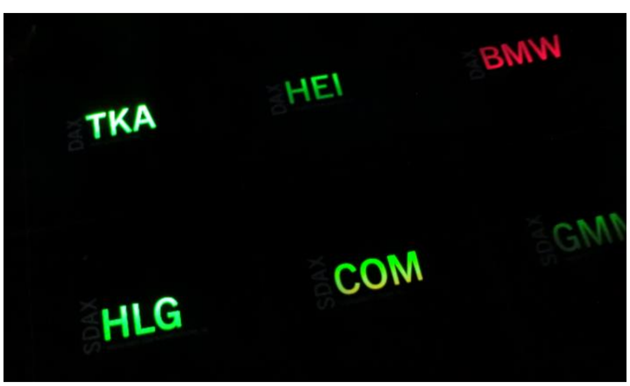
Anyone reading the financial press in a developed country increasingly comes across the word "Fintech". Fintech stands for financial services and technology or - to put it another way - for young startup companies believing that they can provide their clients with better and more innovative services than the traditional financial institutions.

Fintech =

Financial Services & **Tech**nology

Like for many Internet companies, the Fintech idea started in Silicon Valley, but then moved to leading financial centers and is now arriving in emerging economies. We have seen incredible growth in the Fintech industry. Fintech investments have increased tenfold in the last six years to more than USD 12 billion globally in 2014[1], which reminds us of the dot-com area at the end of the last century. The vast majority of investments (almost USD 10 billion in 2014) still take place in the US, but Europe and in particular Asia are catching up quickly.

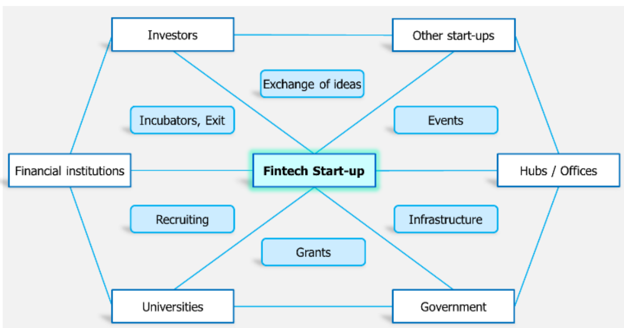
Fintech companies benefit from the lack of trust in banks and other traditional financial institutions after the Financial Crisis in 2008 and also from the rapid developments in mobile computing such as smartphones and apps.
Also the enormous layoffs after the Financial Crisis were helpful, providing a pool of financial specialists looking for new opportunities beyond traditional finance.



Similar to the dot-com area we will probably see many failures, but also a few successful survivors of the natural selection process. A few of them like Paypal or Alipay have already become visible, but a lot of hidden champions are still working on significantly changing the way we deal with payments, investments and other financial services. And the ones with a B2B focus instead of B2C will improve how businesses deal with finance. In many cases this will take place in close partnership with traditional banks instead of in competition with them.

[1] Source: Accenture and CB Insights, 2015

Unlike the Internet companies at the end of the dot-com bubble, most of the Fintech companies are still small and only a few have already tapped the capital market to become accessible by a broader investor base. Most of the Fintech companies rely on venture capital and their own sources of financing, given that banks are rather reluctant to provide much to them. Banks do not as a rule understand Fintech business models. So there is no imminent risk of a stock market bubble yet.



Financial centers worldwide compete in building up Fintech hubs, i.e. attractive ecosystems for Fintech startups. Those ecosystems should provide easy access to capital, young entrepreneurial graduates, bright minds in finance and IT, sound infrastructure, ideas and last but not least prudent regulation.

Of course, regulation needs to protect the clients of Fintech companies just as it protects clients of traditional financial institutions. But it should also provide Fintech startups with some space to develop innovative services. Regulatory authorities should not consider Fintech companies as potential offenders by default, but should help them to design their service offering within the rules of law.

Some cities had a head start as centers for Fintech startups on basis of a vibrant startup scene or a strong backing of the local government, financial institutions and/or leading corporates. They have already generated tens of thousands of jobs in hundreds of young Fintech companies competing for the ultimate solutions to personal finance, mobile payments, investments or insurance. Others will catch up and try to create a strong foundation for future multibillion dollar businesses in Fintech.

Like in many other industries, the end game for Fintech companies will most likely be to provide seamless innovative services across different jurisdictions and continents. By doing so, they can generate the scale and scope which will be necessary to become global players.

Financial centers can support this development by fostering interactions with other Fintech hubs and thus decreasing efforts for Fintech companies that want to expand their businesses internationally. Besides short track access to office space, subsidies and foreign staff in particular, mutual recognition of regulatory standards would help in that respect. So financial centers should convince their national regulators to discuss standards bilaterally or within international organizations like IOSCO early enough to reduce regulatory hurdles for exporting proven business models.

Our ambition is to support financial centers in improving their Fintech cluster and in interacting with other financial centers for the benefit of a steadily growing Fintech industry. We work together with leading financial centers in benchmarking them as well as developing and implementing their Fintech strategy.

About Biedermann International Consulting:

We are a consulting firm specialized on stock exchanges and financial centers headquartered in Germany.

Stock exchanges being central facilities for equity capital raising as well as regulated marketplaces are essential for modern economies. We support them in becoming more attractive for investors: by enhancing their visibility, by increasing the liquidity of their markets, by expanding their product range and by improving their services for the different groups of investors.

Financial centers are clusters of financial service providers serving the domestic real economy as well as local and international investors. Financial centers are marketplaces and a prospering financial center is an important factor in generating economic growth and ultimately wealth for the population. We help them to compete globally in attracting investment flows and to connect them with our financial centers for the same purpose.

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