The Financial Services Forum

Copylab

Asset Managers: Big Gainers?

Event Report: A Fintech World, Thursday 2 March 2017
Hosted by Henderson Global Investors
By Vered Zimmerman, Investment Writer, Copylab

Fintech chatter often assumes new technology will result in smaller, agile companies winning over business from the large incumbents. But nearly a decade into the first wave of fintech innovation, this wisdom is being challenged.

At a recent FSF event held at the offices of Henderson Global Investors, a radical proposition was discussed: Could it be that it's the large asset managers and banks who stand to gain the most from fintech?

The three start-up founders on the panel were finance industry insiders – all have previously worked with investment banks and asset managers, and each of their companies provides targeted solutions for large financial institutions:

Door is a fund due-diligence (DD) start-up that seeks to save time and hassle for both asset managers and investors. The company has already signed up 18 asset managers (including Pictet Asset Management, Aberdeen Asset Management, Schroders and Franklin Templeton) and 26 distributors (including HSBC, All Funds, Santander and Deutsche Bank). Co-founder Rob Sanders was previously global head of marketing at Aberdeen Asset Management.

Apply Financial is a global provider of payment-validation tools for banks, non-banking financial institutions and corporates, including HSBC and Towers Watson. Its clients typically deal with a high volume of large, contract-settling payments – industry-wide, one in ten of these payments falls through due to incomplete or erroneous data, and it's this problem the company seeks to address. Its founder, Mark Bradbury, has 30 years' experience in starting, working in and running financial solutions providers.

BoldMind is a cloud-based engine using data generated by sensors, buildings and the urban environment to aid and automate decision-making in retail. The company took part in Canary Wharf's smart city accelerator, and has been awarded a contract to develop further solutions within the area's smart city hub. Co-founder and CEO Dagmara Lacka has worked extensively with large media firms.

Is Fintech disruption a myth?

Panel moderator Bird Lovegod, the co-founder and publisher of The Fintech Times, asked participants whether they thought the fintech cycle initially begins with innovation and disruption, but ultimately concludes with co-operation and collaboration with incumbents.

The panel had little doubt this was the case. "Several years ago, everyone was worried about online retail banks," said Sanders, "except now the incumbents are becoming online banks. And because they have deep pockets they can keep at it even if this line of business is not yet profitable." Lacka agreed, pointing out that video-on-demand was supposed to disrupt the TV business but ended up being funded by the large media companies. She added, "There's lots of talk of disruption, but I personally don't believe that as a model, disruption works."

Bradbury pressed further the issue of profitability: using the example of the forex market and in particular Transferwise, a very popular low-cost peer-to-peer money transfer service, he said many fintech start-ups offer services at wafer-thin margins. "Though they invest their funds to gain a large user base, they may never reach the point where the service becomes profitable. Instead, they aim to be bought within say five years by a much larger company."

But large financial firms are also adjusting by deploying resources in-house. As an example, Bradbury mentioned that big banks are now developing artificial intelligence bots to both guide and learn from customer activity on their websites. Lacka added that company managers are increasingly required to consider what low-cost solutions

could replace their existing businesses in the near future, and that this type of thinking motivates innovation from within. Sanders responded by saying that regardless of whether fintech innovation is brought from outside or developed in-house, it's important for large banks and asset managers to champion it from within, including at the board level.

Who bears the cost of compliance?

Lovegod observed that when tech giants like Google, Uber or Amazon enter a market, they don't so much abide by law, as shape the laws applying to them. With financial industries, it's the other way around, as fintech is required to meet all existing legal requirements. So perhaps one reason it's difficult to square agility and disruption with financial services is the burden of compliance. But these heavy regulatory demands also imply hefty requirements for both staff and systems. In this environment, are innovation costs partially passed onto the large clients who maintain the compliance infrastructure?

Sanders suggested that for most fintechs, the solution on offer boils down to streamlining a business process. As an example he cited Door, whose proposition is to save time for fund investors and asset managers – one side is burdened by repetitive requests for DD information and the other spends too long organising and collecting the very same information. "On both sides work volumes are growing and team sizes are flat," he says "and the point is not to interfere with the process in a way that requires a change to compliance, but to provide a time-saving solution to the specific problem of sourcing and providing information."

Bradbury added that his experience has taught him that large clients much prefer that innovation is implemented quickly even if the solution is incomplete or flawed. Working on a tailored payments system for a financial client, he was asked to integrate the product operationally even before it was fully tested. "Yes, it was full of bugs. It had 3 million lines of code; of course there'll be bugs. Microsoft products are full of bugs and yet the company doesn't withhold deploying them. The client didn't want it to be perfect before it rolled out. They just wanted innovation to be made available".

Are we innovating ourselves out of a job?

Many of the innovations discussed involve work that is presently performed by people. So will repeated waves of innovation render all human roles within a financial organisation obsolete?

Lacka believes that any element of work that is repetitive and data-driven is bound to be taken over by robotic processes, and Bradbury concurred: "if you look at regulatory compliance work, much of it is practically made for automation. This is why the hot areas in fintech now are things like insurance tech and legal tech". The silver lining is that in automating certain segments of business operations, the human touch becomes a key differentiator.

Sanders quoted a former colleague at Aberdeen Asset Management who headed one of the equities desks: "He said that as long as companies are run by people, it'll take a person to understand which companies are run well and which aren't".

Freeing up resources may also lead to new forms of innovation. Bradbury said that he views fintech as a misnomer, because financial technology innovation has been around since at least the 1970s, with the proliferation of credit cards, ATMs, and more recently, contactless payments. "The difference, as far as I can see, is that this time the push for innovation is led by what the customer wants, rather than innovations coming from within the industry.

What the customer wants right now is for fees to go down. But that is not to say that financial innovation will continue this way". He held his smartphone to illustrate: "We didn't know we needed these until they came, and now people are glued to them."

The Financial Services Forum would like to thank Vered Zimmerman for her summary of the event. For additional events, discussions, reports, white papers and presentations, please visit The Forum's Knowledge Centre: https://www.thefsforum.co.uk/knowledge-centre/

The Financial Services Forum
www.thefsforum.co.uk
0207 449 9000

Copylab
www.copylab.co.uk
0131 247 6781