MANAGED ACCOUNT

PERSPECTIVES

ONWARDS AND UPWARDS

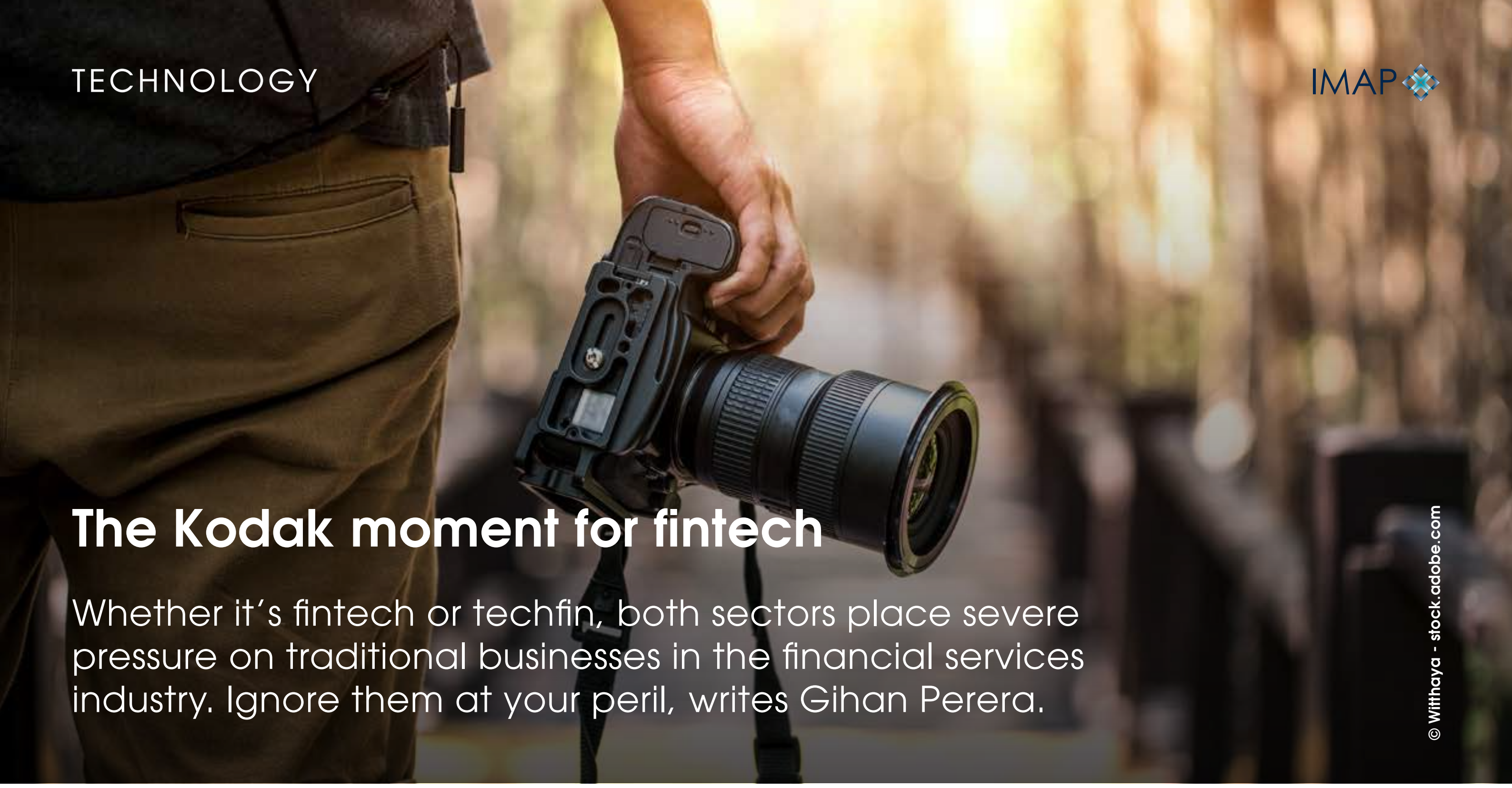
KELLY POWER AND THE FUTURE OF ADVICE

ALSO: ROYAL COMMISSION REVIEW / ADVISER ROADSHOW 2019 / MARKET RISKS / MARKETING MANAGED ACCOUNTS / FINTECH AND YOUR BUSINESS

IMAP

Institute of Managed Account Professionals

VOLUME 3 ISSUE 1 AUTUMN 2019



© Withaya - stock.adobe.com

The Kodak moment for fintech

Whether it's fintech or techfin, both sectors place severe pressure on traditional businesses in the financial services industry. Ignore them at your peril, writes Gihan Perera.

Gihan Perera

When inventor George Eastman registered the trademark 'Kodak' in 1888, he had no idea his small company would dominate photography for more than 100 years. A century later, at its peak, Kodak employed over 145,000 workers, had over two-thirds of global market share, and was the fifth-most valuable brand in the world.

Despite this success, Kodak fell spectacularly from its peak in 1996 to file for bankruptcy in 2012. It is often held up as the archetypal poster child for a company that was disrupted by the digital revolution.

There are many variations of the story, giving various reasons for Kodak's demise: it had too much invested in film; it had grown so big it had stopped innovating; the organisational structure couldn't cope with a digital world, and so on. There's even a dramatic story that the Kodak employee who invented the first digital camera was told by senior management to hide his invention because it would destroy Kodak's market.

The problem with these stories is that they aren't true.

The Kodak management weren't afraid that digital cameras would cannibalise their existing products, and they didn't deliberately try to kill off a threat.

The first digital camera was as big as a toaster, took 20 seconds to take a picture, and the resolution was much lower than a print. Kodak's management assessed it, but ignored it because they thought it would never be good enough to compete with film cameras. They didn't account for exponential growth, which meant technology improved much faster than they expected.

The same is happening with fintech.

There's nobody that understands exponential growth (as in, compound interest) as well as the financial services industry. Even so, many financial advice businesses underestimate its impact - especially when it comes to fintech.

According to EY (in its 2018 report, *The future of FinTech and financial services*), global fintech funding has grown at a compound annual growth rate of 34 per cent from 2013 to 2017.

In Asia, which started from a smaller base, the growth over the same period has been even more dramatic: about 85 per cent annually. China represents the lion's share of this growth with 80 per cent of fintech investments, followed by India with 12 per cent. That leaves just 8 per cent for everybody else, but even that isn't an insignificant amount.

In Australia, there's no doubt fintech companies already have a strong foothold in Australia. One of the most dramatic illustrations of this is KPMG's 2018 infographic, *The Australian Fintech Landscape*, showing the myriad fintech companies

> Unlike fintech companies, which start small and hope to strike it big, techfin companies are already highly successful, and have deep pockets to invest in any new venture.

CONTINUES >>

jostling with each other to displace established businesses in the industry. KPMG shows fintech disruptors in lending, crowdfunding, back-office, data and analytics, insurance, personal finance, and more.

As impressive as this is, it's only the beginning. And if it grows exponentially, it's the beginning of a steep growth curve.

But will it really grow that fast?

History is littered with predictions of projected exponential growth that fizzled, but four factors give us reasons to be bullish about the growth of fintech in Australia.

1. Fallout from the Royal Commission

Publicity from the Hayne Royal Commission has eroded consumer trust in traditional players in the industry. The *Deloitte Trust Index – Banking 2018* reports only one-third of banking customers think banks are always looking to provide better customer services. Even fewer (one in five) think banks have customer interests at heart. For businesses, tighter lending rules might make finance more difficult to obtain.

Whether these are perceptions or reality, this fallout means consumers and businesses will explore alternatives – including fintech options – for their financial services.

2. Big Data and Artificial Intelligence

Our digitalised, highly-connected world – facilitated by the relationship people have with their smartphones – gives organisations more data than ever before about their customers. At the same time, artificial intelligence software is now powerful enough to turn this vast amount of data into useful predictions about individuals' behaviour.

Traditional financial services organisations have been slow to adapt, and often adopt this technology only as add-ons to existing services (such as AI for detecting suspicious credit card activity). But it's part of the DNA of fintech companies, that build their entire business model around data and software, which means they can exploit its exponential growth.

3. New generations of customers

Younger consumers, particularly Gen Y and Gen Z, tend to be more open to new technologies and less concerned about sharing personal data. It's easy to dismiss them as young, naive and irrelevant, but they make up a significant portion of the population.

Gen Y is already the largest group in the Australian workforce, and are already established in leadership, management, and decision-making positions. Their younger cohort, Gen Z, is already the largest group in the population, and will make up 25 per cent of the workforce by 2025.

These customers aren't well-served by the business models and operations of traditional financial services, which were designed to serve their parents. They want cashless, digital, real-time, app-based, decentralised, mobile and accessible services. In other words, everything that fintech companies offer.

4. Techfin

Not all of the competition for financial services will come from small, smart, savvy, start-up fintech companies trying to grab a tiny sliver of market share. Some of it will come from the big end of town – the *really* big end: tech companies.

Businesses like the 'FAGA' companies – Facebook, Amazon, Google and Apple – started providing technology products and services, but have such a strong presence in their customers' lives that they can now spin off other services, including lucrative financial services. Jack Ma, the founder of Alibaba – the world's largest e-commerce company – coined the term 'techfin' to refer to these companies: tech companies now offering financial services.

Unlike fintech companies, which start small and hope to strike it big, techfin companies are already highly successful, and have deep pockets to invest in any new venture. Whether it's fintech or techfin, both sectors place severe pressure on traditional businesses in the financial services industry.

This is the Kodak moment for fintech in Australia

It's easy to look back now and criticise Kodak for its lack of foresight in assessing digital photography. But it's difficult to really grasp the impact of exponential growth, even for people who work with compound interest every day.

As an analogy, consider the old puzzle about the lily pond: The number of lilies on a pond doubles every day, and it takes 30 days to completely fill the pond. When is it half-full?

The layperson's answer is 15, but the correct answer (which is obvious if you understand compound interest or exponential growth) is, of course, 29 days. But also consider this: Just three days earlier, the pond was just one-sixteenth covered. That means 95 per cent of the growth happened in the final four days.

That's where we are with fintech now. It has taken only a few years for it to establish a foothold, but even that is an eternity compared to how quickly it will continue to grow.

Ignore it at your peril! See you in the future.

Gihan Perera is a futurist, conference speaker, author and consultant who gives business leaders a glimpse into what's ahead – and how they can become fit for the future.