Fintech - A Revolution or a Fad

Jamie Dimon, CEO of JP Morgan, has said about fintech, "A lot of things they do, we can do; a lot of things they do, we don't want to do." Yet $17.4 billion venture capital poured into the sector globally in 2016, with 650 deals in US alone. Naturally, more and more people have begun to ask the question, whether fintech is a revolution or a fad.

A big argument against fintech is that it is merely a regulatory arbitrage - small companies and upstarts do not get the same scrutiny from regulators as the traditional banks or other financial institutions. This leads to an unfair competitive advantage for fintech startups. However, as these fintech companies scale, the attention will come. If not for their size, then because they will make the very mistakes that these regulations are designed to prevent. LinkedIn debacle of 2015 is a great example. And once the compliance costs incur, the differentiation will be lost.

There are a few uniquely fintech business models that are differentiated, but the list of their names is not too long. Others, it is argued, are mere regulatory arbitrages, or are waiting to be made irrelevant by financial institutions.

Mr. Dimon's statement has another argument. Traditional financial institutions have one thing that matters the most - customers' trust. As some of the innovative models start to become successful, the old guard can easily adopt those models, capitalize on customers' trust and can crowd out the new, relatively unknown fintech companies. We have written about this before. Startups like Wealthfront and Betterment were very hot and were expected to overshadow large banks, till Charles Schwab launched its own robotic adviser product. Charles Schwab's Assets Under Management overtook that of Wealthfront and Betterment within months.

There surely are differentiated, sustainable models like Square, which is creating whole new markets for stalwarts like Visa and JP Morgan Chase, the company Mr. Dimon runs. This list is not very long, though.

The right way to think about fintech may be as technology applied to financial enterprises as it is to enterprises in other sectors.

May be the right way to think about fintech is to think of it as a technology for enterprises that happen to be in the financial sector. There are so many applications, right from robotic process automation, big data analytics to cognitive computing. Consider the following:

- Technology is already being used for targeting customers and merchants using metadata. Now with natural language processing even the call transcripts and other unstructured data can be input for such analytics.
- Technology has begun to create delightful, personalized and interactive experiences for customers. Such user flows have the potential to answer queries, automate common tasks as well as onboard customers. The chatbot craze is a natural extension of this theme.
- Technology has always been used to model different things. In this case, for instance,

consider credit worthiness. With the advent of AI and cognitive analytics, the signals used, the data ingested and the spread of predicted outcomes is only getting more comprehensive.

Technology used in these use cases, like tactical cognitive computing, is not necessarily specific to finance, but is surely called fintech. If you think of fintech in this way, this is surely a revolution, and as we have written before, this revolution is only beginning.

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