The Fintech Times

BANKS {love} FINTECHS?

NEWS:

NEW MAYOR MANIFESTO

Taking Tech to the NEXT LEVEL

London can become a world-leading tech hub – as Mayor I'll work to remove the barriers to growth in London tech, and take advantage of the innovative work happening in our city to improve governance.

I will:

- Establish a tech talent pipeline, through the Skills for Londoners taskforce, following the model developed by Bill de Blasio in New York, with more young people enabled and encouraged to gain key digital skills, and more apprenticeships in the sector. In particular I will ensure more girls are supported to develop tech skills, so that we can turn around the under-representation of women in tech jobs.
- Improve our connectivity, making it a priority to tackle London's 'notspots', ensuring better access to public-sector property for digital infrastructure, and treating digital infrastructure with the same status as other key public utilities.
- Broker a deal between providers and local authorities to provide better access to public property and land for the installation of broadband infrastructure.
- Appoint a Chief Digital Officer to oversee growth in the sector as well as taking responsibility for increasing digital inclusion across our city and leading on cyber-security.
- Put an open data strategy at the heart of London government, with a new London data office working to bring data from across London's boroughs and public agencies together, and opening it up to enable quicker decision making, better services, more efficient government, and greater transparency.
- Support innovative tech solutions which enable Londoners to access and use public services and information more easily and efficiently.

sadiq.london/business_prosperity_and_opportunity

EclecticIQ raises €5.5 million

EclecticIQ, one of the 200+ Level39 member and cyber-intelligence technology provider, has secured €5.5 million in Series A funding from INKEF Capital and KPN Ventures.

This mega investment brings EclecticIQ's total to €6.5m ($7.3m). The Level39 member has explained that they will be using the cash to expand into new geographic markets and industry sectors. Enterprise Chief Information Security Officers around the world are ramping up their efforts to protect against cyber threats – which is why EclecticIQ are expanding their efforts globally.

UKBAA Angel Investment Awards 2016 announced

The UKBAA Angel Investment Awards are a celebration of the innovation and global ambitions of disruptive early stage businesses in the UK. The Awards reveal the amazing unsung heroes behind growth-stage businesses and the angel investors supporting them with not only valuable risk capital but also with deep business expertise – enabling them to be the global success stories of the future.

The Awards are open to high growth companies that have received early stage finance in the past 18 months, angel investors and groups, early stage venture capital and crowdfunding platforms, as well as key players in the Angel ecosystem. Nominations on behalf of portfolio companies are encouraged. Entrants can either self-nominate or nominate another organisation or individual. Both the nominator and nominee are referenced in the Award PR.

Entries will close 7 June, and the UK Angel Investment Awards Gala Dinner 2016 will take place on 5 July 2016 at The Royal Exchange, London. Winners will be announced by Kiki Loizou, Small Business Editor of the Sunday Times.

myInvenio turns DATA ANALYSIS into PROCESS INTELLIGENCE

With its first product, myInvenio, launched in early 2015, Cognitive Technology brings the blessings of big-data visualisation to the banking industry.myInvenio analyses the structured and unstructured data that financial institutions already have in their logs to help managers uncover inefficiencies and discover roadblocks. Leveraging Cognitive Technology's talents in process intelligence, big data analytics, and data mining, myInvenio enables CIOs to analyse, monitor, and optimise banking processes. "With myInvenio you can analyse the past, the present, and you can predict the future of your processes, providing the banking organisation with a perfect solution for the process and operations governance," says Massimiliano Delsante, myInvenio's CEO. "Imagine how much time you would spend to get this kind of information using a traditional business-process-analysis approach."

Managers can take advantage of the cloud-based, responsive technology to track process performance remotely via iPad, as well. The Performance View allows users to run an animation that follows a timeline of the various processes. KPIs, waiting times, waiting queues, resource allocation, and more.

Fiona Tee nominated

new Currency Cloud's CFO

Formerly CFO of fellow Finovate alum Intelligent Environments, Fiona Tee will bring more than 20 years of experience as a senior finance professional to the London-based global payments processor.

At Currency Cloud, Tee will lead international development of the company's finance, human resources, compliance, and operations. She will also be involved with helping Currency Cloud forge partnerships in pursuit of expansion in the U.S. and Asia.

Currency Cloud CEO Mike Laven praised Tee's "deep understanding of the payments industry", which he credited to the diversity of her executive background. Prior to Intelligent Environments, Tee worked as CFO at Omnico Group, and has held executive positions at MasterCard, Anite, and Mondex International. She is a graduate of the Imperial College London and has an ACA certification from the Institute of Chartered Accountants England and Wales.

Geodesic Capital Launches a $335 Million Fund

for Growth Stage Venture Capital to Bridge Silicon Valley, Japan, and Asia

Geodesic Capital, an independent growth stage venture capital firm investing in U.S. based consumer and enterprise technology companies, announced the close of its first fund, Geodesic Capital Fund I, totalling $335 million.

Geodesic Capital announced the opening of Geodesic Japan GK, led by Marcus Otsuji, who was most recently a senior executive at Apple Japan. Geodesic Japan GK will provide Japan market entry and growth support for Geodesic Capital portfolio companies in Japan. In addition, Mitsubishi Corporation will assist Geodesic Japan GK in supporting portfolio companies entering the Japanese market.

Next edition of The Fintech Times

BREXIT for business: yes/no/maybe?

Submit your response/comment **by 6th of June**
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COVER STORY

TIME FOR THE BANKS TO CHOOSE THEIR STRATEGIC PARTNERS OR GET LEFT BEHIND?

BIRD LOVEGOD

COLOR KEY:
Partnerships PSD2/APIs Disruption

Every action has risk, and banks are traditionally averse to risk, and therefore have been relatively slow to adopt new technologies, new practices, and new markets. This risk averse / change resistant position is the entire reason why fintech has emerged as a distinct sector, and why fintech challengers have been able to take major slices out of the banks' core services. Money transfer, business lending, factoring, already heavily targeted by fintechs, next in line are mortgages, insurance services, and inevitably, consumer lending, already nibbled at by P2P systems.

The most imminent risk for banks isn't the replacement of their brands by challenger banks, that is some way off, if it happens at all. The most pressing and immediate risk is the erosion of their customers satisfaction by the banks failure to service their own customer base with credit products.

When a bank declines their customer for a loan, forcing that customer to go elsewhere, they don't just lose revenue; they lose good will. Multiply that by millions of refused loans a year, and it becomes clear the banks are not just wasting the opportunity to provide profitable services; they are sowing the seeds of their own long-term obsolescence.

The mechanics of change within banks is a major obstacle, in terms of tech especially, which is why the simpler and fundamentally more common sense approach is to partner with fintech companies that have proven themselves to be of an equal or better reputational standing.

Santander recently announced a UK partnership with Kabbage, and have been in strategic partnership with Funding Circle for several years. Both of these are US based and focused operations.

US based Regions Bank, a component of Regions Financial Corporation, with $126B in assets; last month announced an agreement with Avant. This may be particularly significant, being the first of its kind in the unsecured personal loan space, and it could open the door, if not the flood gates, to high profile matches that provide win win win scenarios. The third win being the actual customers.

The advantages for both parties in these kind of partnerships are clear, one provides the customers, the other provides the product / service experience, and they either share the risk and revenue or work out the details accordingly. It also opens up some interesting joint marketing opportunities, if they are able to let go of brand singularity and see it from the customers' perspective that is. Collaborative marketing campaigns between banks and fintechs would spread costs and create additional consumer notice and interest, a true signifier that things have changed. Brand preciousness will have to be overcome first of course, and banks would have to be publically open about the benefits of the partnerships, which is actually a huge opportunity, rather than a failure on their behalf, once the nettle is grasped.

The delay in partnerships of this nature has been understandable; banks were never going to expose themselves to reputational risk by partnering with 'upstart fintechs', no matter how efficiently they were seemingly able to deliver. This is only slightly ironic, given that the fintechs could easily claim to risk brand reputation against the less than spotless UK banks, which have, lest we forget, successfully racked up fines in excess of £50billion since the last financial crisis they were at least partly responsible for creating. Not many fintechs could claim that dubious honour. Nor have many fintechs been under criminal investigation from the US department of Justice, or been involved in massive and systematic rate rigging. Reputation wise, the banks have got away rather lightly considering the borderline criminal actions perpetrated under some of their brands.

When a bank declines their customer for a loan, they don't just lose revenue; they lose good will. Multiply that by millions and it becomes clear the banks are not just wasting the opportunity to make profit; they are sowing the seeds of their own long-term obsolescence.

The truth is, the likes of Avant and Funding Circle are not 'fintech upstarts', they are actually major companies in their own right, with proven track records in both finance raising and client facing services. And given that they are now turning their attention to the UK market, one can only assume the next strategic bank partnerships will be the ones that turn millions of 'computer says no' loan applications into millions of satisfied shared customers. Of course some of the banks are frozen to the spot, not quite being sure of which way to turn, a situation which affords them a few more years of grazing before the challengers give up on collaboration and go straight in for the kill, which will inevitably occur sometime around the time the banks are required to open their APIs and therefor lose one of their key strengths.

Is a happy shared customer better than a dissatisfied exclusive one?

With the direction of the market clearly visible, the banks response to this simple question may be the differentiator and perhaps the determining factor for their longevity and survival. Inevitably some will move with the times, and some will wait and see what happens. The ones that don't move from their position are sooner rather than later going to run out of grass. That's pretty obvious, and when they finally raise their bovine heads to look for a partner, all they'll see is rather smug looking lions.

Let's see what they have to say.

COVER STORY
Banks love Fintechs?

COLOR KEY:
Partnerships | PSD2/APIs | Disruption

MarketInvoice responds

Per Polland, Head of Strategy:

Many Fintech zealots would have you think the banks' days are numbered. That a new age of financial services is on the horizon, soon to eclipse the high-street giants that have ruled the industry for centuries.

This is naïve. If the banks are smart, they won't be going anywhere. They know that consumers don't want to use 30 different providers to cover each niche of their financial lives. Just like always, they want a one-stop shop. But consumers are getting fed up with the products banks are stocking. With better offerings available elsewhere, banks are in danger of leaking customers. Today's tech unicorns and financial disruptors could be converted into mere add-ons and plug-ins. This is the app store bank.

Your average bank provides many services. Current accounts, savings, loans, business loans, overdrafts, factoring, foreign exchange, to name a few. But for each offering, there's now a new player that does it better. The Fintech space has grown so saturated, that there's often multiple providers 'disrupting' a single product line. It's an attack on all fronts.

Banks have many options of response. The first would be to build their own version of the disrupted service, either in-house, or through tech accelerators. This is a gamble, and to date, hasn't worked. The second option would be good old fashioned acquisition – make the competition a (likely expensive) offer they cannot refuse. We've yet to see a fully-fledged, high-profile buyout in the fintech space, but don't rule it out. However, acquisition has a tendency to dull that innovative edge that makes a business special.

The third option, which is already happening, is partnership. The best example of this would be OnDeck's deal with JPMorgan. This is the golden balance between aggression and conservatism, and is in the mutual interest of all parties. Everyone's a winner.

Fintech companies usually have better UX, better pricing, VC-backing and a cool image – almost everything you need for a successful service. Almost. The banks still have the most important component of all – millions of customers. Without an active base of paying customers, fintech startups are dead in the water. A bank can provide a near-limitless pool of devoted customers, whilst simultaneously legitimizing whatever exotic Fintech service the average consumer doesn't quite trust yet.

Partnership then makes perfect sense. Both parties benefit, fintech companies provide the product, banks provide the customers. When this starts happening on mass, the app store bank will emerge. Need foreign exchange? Here's Transferwise. Embedded API, co-branded design – you think you're still on the bank's site, but you've actually been transferred to a fintech platform run by a team of young devs in Estonia.

Imagine if the iPhone was a bank. Yes, Apple provide their own native apps. But they also want their users to be able to access third party apps. If they didn't, we'd all be using Android.

WhatsApp is arguably the best messaging service on the market, and Apple choose to house it on their system – despite having their own messaging app. Why? Because it's mutually beneficial for Apple, WhatsApp and the customer. This app store model is perfectly suited to financial services. It's a logical progression for banking.

There is a major problem here though. Under this model banks' revenue per customer would drop significantly. The reality might be that banks are stuck between a rock and a hard place - less revenue per customer or no customers at all. The highest margin providers will be targeted first.

Of course, there are variables to the app store scenario. Will the fintechs keep their brand? Or will they be absorbed and anonymized, assimilated into the banking machine and forgotten forever? Car manufactures have been doing this for decades. It looks like an Audi, but really it's Volkswagen under the hood. There's also the delicate matter of exclusives.

A phrase that gets used a lot in Fintech is the 'unbundling of banks'. If this has already happening, then the app store model is phase 2 - the re-assembly of banks.

AVANT responds

Raj Singh, UK Managing Director:

Incumbent banks recognise that to retain their large customer base they need to innovate, and likewise challenger banks inherently believe they need to be substantively different to grow market share. Having a nice front end user experience will get you so far but ultimately if you don't offer an intelligent back end and a well thought out customer journey you won't succeed.

This is where the right fintech solution can add real value. Banks need to ask themselves 'which of my products are comparatively weak in terms of customer value proposition and which represent the greatest growth opportunity if I had a trusted and capable partner'?

Now is the time for consolidating positions. The challenger and disruptive fintechs are consolidating market presence. Establishing themselves, stabilizing growth, and moving towards mainstream. The incumbents, specifically banks, are in a window of opportunity. The new fintech companies emerging are, generally speaking, not attempting to disrupt them, they're attempting to enable them in some way.

If they don't take the opportunity now, in the next wave of disruption, banks will be disadvantaged not just by new fintechs, but established fintechs, new fully licensed challenger banks, and also the established banks that took the opportunity to partner and made themselves more competitive. Therefore it's realistic to say that any of the major consumer facing banks that don't take this window of opportunity to find service delivery partners will start to fall behind year on year.

Fintech Week responds

Luis Carranza, founder:

All banks at this stage should consider themselves challenger banks if they want to remain ahead of the curve.

Banks usually deal with numbers, data and value, often times at the expense of service. As more services go mobile, user experience and micro context (taking into account time, location and other activity) are vital in designing a please customer experience (CX). Banks should be paying attending to start-ups that create simple intuitive interfaces that simplify things such as remittances, banking, mortgages, etc... Complacency is the opposite of innovation. Banks don't need to innovate as much as they need to be less complacent.

COVER STORY

Mondo responds

Tom Blomfield, CEO:

At Mondo, we've written before how we believe that the bank of the future will be a marketplace (https://getmondo.co.uk/blog/2016/02/04/marketplace-banking/), where customers have freedom to choose across a range of products and services.

However, I don't believe that any of the existing banks will be able to make the transition to this new paradigm.

At the heart of the problem is a culture of "customer ownership" and cross-selling. Typically, banks aim to attract young customers with loss-making introductory offers like interest-free overdrafts, student railcards or a cash lump-sum for switching. Banks then feel like they "own" the customer, and proceed to cross-sell higher-profit products like credit cards, mortgages and loans.

While the headline opinion piece talks about some early bank-fintech partnerships, these have generally been revenue-additive. That is to say, banks will refer customers who are outside their risk appetite to other fintech providers, in return for some share of profit. If Santander's risk models won't let them lend to a small business, they can earn revenue by send that business to Funding Circle. As you say, a win-win-win.

But this highlights a problem; what if the partnership opportunity is revenue-destructive? Banks could have implemented a Transferwise competitor years ago, but they would have reduced their foreign-exchange revenues by up to 90%. Instead, they rely on customer inertia to cross-sell uncompetitive products.

The banks have spent the last 50 years building up a cost-base that relies on a certain level of revenue. Thousands of branches and tens of thousands of staff aren't cheap to maintain. Ancient IT systems are costing each of the major UK banks more than £1bn per year.

Meanwhile, the shift to marketplace banking will lead to lower revenues, at least in the short-term, as consumers benefit from the increase in transparency and competition. That's why I don't believe that any major bank will successfully make the transition; they can't stomach a 50%+ decline in revenues, and they they can't cut costs quickly enough.

In many ways, starting from scratch is an easier approach. Designing systems and processes so that everything just works means that Mondo can operate with far fewer staff. The fact that everything is delivered through a single "channel" - a smartphone - reduces cost and complexity. The same goes with focussing on one product - the current account. As a result, the operating model is dramatically simpler and cheaper to run. And the benefit to consumers is enormous. If you have some money left over at the end of the month, imagine being able to move it into a P2P lending platform with one click. Or being able to choose a loan from any one of a number of providers based on your previous spending habits and income. If you want to transfer money abroad, you should be able to choose which provider to use based on your own priorities, and then move money with a couple of clicks.

Integrating with innovative financial services and technology providers is an obvious step to giving customers control over their money.

Instead of thinking we "own the customer", Mondo users will have the power to choose, based on price, convenience and customer-service.

Just Loans Group responds

John Davies, CEO:

In 2012, it was clear that traditional banks were under pressure to rebuild capital buffers and were either unwilling or unable to provide SMEs with the finance they needed. Additionally, a move towards centralisation and continuing dependence on clunky legacy systems meant they weren't best placed to serve this market. A range of alternative lenders moved into this space and the smart ones started using new financial technologies to make more informed lending decisions and offer the seamless access to finance SMEs needed to invest and grow.

For example, our proprietary scoring system is a major competitive advantage as it drives a comprehensive underwriting module providing a wide variety of current and historical data points, many of which are not used by traditional banks or other lenders. This provides extensive insight into the propensity for both the Directors and businesses to be successful in the future.

Traditional banks are well aware of these types of initiatives and innovations but it will be customers calling the tune. They will demand faster and on demand services and won't be prepared for the all the friction that comes with waiting weeks for appointments and often even longer for decisions.

Banks will either get left behind, partner or acquire.

Kabbage responds

Pete Steger,
Head of Business Development:

There's a significant transformation happening in financial services today that is changing the interaction between financial technology companies and banks.
At Kabbage, we're focused on collaborating with the forward-thinking banks to provide them with the technology, data expertise and automated customer experience they need to better serve SMB customers and consumers. In early 2015, Kabbage began licensing its platform technology directly to financial institutions – including ING in Spain, Kikka Capital in Australia, and now Santander UK - to accelerate lending to their SMB and consumer segments, while providing a data-driven end-to-end customer experience.
I think opportunities for both fintechs and banks to partner are massive, and we are going to see more and more partnerships in the coming years. It is my opinion that banks aren't going anywhere, but their ability to adopt new technology will start to dictate the future of the financial services sector. We may see banks more as brands and an infrastructure through which technology and third party products are adopted and configured to that bank's particular goals for its customers.

COVER STORY

Banks love Fintechs?

COLOR KEY:

Partnerships | PSD2/APIs | Disruption

Consumer Finance Association

Russell Hamblin-Boone,

CEO:

Genie is out of the bottle...

Technology has radically reshaped how we consume information and this revolution is being felt in the banking sector.

Bank branches all over the country are closing, as people choose to bank online and through apps that fit their lifestyles. The traditional visit to a branch is becoming a thing of the past. The growth of mobile banking has been dramatic, but it would not have been possible without fintech companies taking up the challenge in the first place.

Short-term lending was one of the first sectors to pioneer the democratisation of access to finance, which was part of a move away from the mainstream banks that accelerated post-credit crunch. In the past you would typically only get a loan or save in a bank you held an account with. But emergence of the FinTech sector means anyone can now get a loan or deposit savings from a wide range of sources, from short-term loans to P2P. Atom, the first digital-only bank is attempting to replicate in high street banking what Amazon did to high street retail outlets. It is early days and banking is a different concept, but changes have begun and the genie is out of the bottle.

The mainstream banks were initially slow to enter the FinTech market and are now running to catch-up on technological developments. For example, in the short-term high cost sector, firms have pioneered digital analytics to help make lending decisions, which ensure credit is affordable beyond a basic income and expenditure calculation. Short-term lenders are driving innovation in credit reference agencies, including the use of real time customer credit information. Lenders are now able to profile their creditors and anticipate future behaviour using advanced technology. These companies have also been instrumental in using social media to directly engage with their customers at times convenient with them.

Huxley Banking & Financial Services responds

Daniel Woodgate,

Principal Recruitment Consultant:

Fintechs are motivated to collaborate with banks from a very early stage in order to generate revenue, such as trading systems and big data centric businesses. Likewise, banks are offering fintechs invaluable springboards through accelerator programmes and incubators, such as Fintech Innovation Labs or Level 39 to leverage the banks' market expertise, networks, and infrastructure and also funding and mentoring as many sole fintechs operate with a great idea and little business experience. Of course, banks are utilising fintech services and platforms to enhance their own capabilities, or investing through venture capital avenues.

On the other hand, some fintechs may not always want to fully collaborate with banks as there are intending to disrupt and gain market share. Many payments and personal finance fintechs, digital banks and lenders are looking to tap into the individual consumer base, offering an improved consumer service, cost-savings, and improving functionality at a much quicker rate than many of the banks can match.

This collaboration would stem from the reality that fintechs are typically more agile to evolve their capabilities and services to meet consumer expectations. Banks are less able to do so due to their size and speed to adopt new technologies; they instead may look to buy the capability to stay competitive, generating a win-win scenario.

What's exciting for the industry is that this collaboration is driving and supporting the financial services domain to evolve. From a staffing perspective, it's helping to battle the well-documented 'brain drain' of technologists out of the banking and finance domain seen in recent years across the globe. Fintech businesses are able to boast the best of both worlds, the culture and technology focus of startup and tech worlds and also offer access and exposure to collaborate with some of the most successful banking companies in the world - a very attractive proposition for many entering, working or considering leaving the industry.

State Street Global Exchange responds

JR Lowry, EMEA Head:

We are in a high-change period within the industry, fueled by technology innovations, new regulations, disruptive business models, and changing consumer expectations. These shifts have sparked a vibrant FinTech environment feels reminiscent of the Dot Com era of the late 1990s. So it's no surprise that many members of the financial industry – including ourselves – are embracing innovative fintech start-ups, through acquisitions, investments, partnerships, and involvement in industry accelerators like London's Level 39. We view the FinTech start-ups as a font of fresh insights and talent, as well as a credible source of innovations to help bring new and enhanced services to our clients.

Kontomatic responds

Konstantin Rabin,

Head of Marketing:

How can third parties facilitate the growth of banking?

Everyone is talking about banks losing their positions in a decade from now. This might be true and I do feel that banks aren't going the right way. However, it does not necessarily mean that banks are going to be overtaken by fintechs. Perhaps, there is a way for fintech and banks to co-exist and to actually improve each other's services. Let's see how this can become a reality.

Look at operating systems

Let's draw a parallel between a bank and, say, Windows OS. Microsoft supplies various hardware vendors with software that gets pre-installed on laptops. However, this is not Windows that makes the laptop useful, but the software you can install over it and numerous websites you can access. Even though Microsoft develop many other applications and programmes apart from the operating system, they still cannot satisfy customer needs in every single aspect. This is where third party developers come handy with their products.

Now let's look at banking. Banks can certainly supply some powerful basis for the customers. They can perform initial KYC, accept cash deposits, execute cross-border transactions and so on. However, can they design outstanding PFMs? Can they provide competitive conditions for financial trading? Banks cannot overperform in everything. Hence, a fintech startup that is focused on a certain niche is more likely to offer superior services.

The problem is that currently fintech companies and banks are not interconnected. This creates a Lose-Lose situation. Fintech companies don't get a larger client base, while banks cannot offer an added value and certain services to its clients.

API is the answer

The main issue with banking is that financial data is held under the lock and key. The good news is that this is about to change due to Payment Services Directive 2. In just three and a half years from now (at most!) there should be an open banking API standard. What does that mean? It means that any legitimate fintech startup will be able to access banking data and use it. Also with an API, banks can integrate various third party applications much faster and easier.

Just imagine you are able to customise your online banking experience in the same way you are able to customise your Android device. Isn't that awesome?

The future is here

Even though an open banking API standard is scheduled to come soon, there are various commercial banking API vendors on the market already. As it happens with software, commercial vendors often overperform open source solutions. One of such solutions is Kontomatik banking API. Integrating a banking API to a financial organisation makes it possible to perform KYC online, get a precise profile of a new client and design new products.

COVER STORY

SpareBank 1 responds

Christoffer Hernaes,
Vice President of Strategy and Innovation:

Can banks and fintechs collaborate in a mutually beneficial way?

Now fintech has become one of the hottest subjects in business, incumbents have started seeing fintech as an opportunity rather than a threat. As a result, the fintech startups are now approaching the incumbents they were once set out to disrupt as potential partners.
The opportunities are there. Fintechs are agile and innovative while banks have consumer trust, familiar brands, large distribution networks and a well-equipped war chest. Collaboration between banks and fintechs should therefore be a win-win, improving the incumbent's capacity for innovation and giving fintechs scale and route to market.

As a result we see weekly announcements of banks collaborating with fintechs. However, there is no one-size-fits-all recipe for collaboration.

Accelerators and incubators have proven to be a popular way for banks to engage with the fintech community. Banks are hosting their own accelerator programs such as Barclays Accelerator powered by Techstars, or collaborating with mentors from accelerators such as Level39. This requires no further commitment, and can function as an early stage listening post for banks curious of what's going on in fintech.

Corporate venturing reminds us of the early 200s when everyone had to have their own corporate venture division. Fortunately, we have moved past that, and banks such as Commerzbank and Santander are hosting their own fintech funds, while BBVA allocated $250 million in Propel Venture Partners, shutting down their venture fund in the process. Other banks and financial institutions are also considering investing in fintech venture funds such as Orange Growth Capital and NFT Ventures.

Acquisition. For a more strategic investment approach, acquisitions or direct investments are a viable solution. BBVA has demonstrated this by going on a spending spree with the acquisition of Simple and Holvi in addition to investing in challenger bank, Atom.
Collaboration challenges

When it comes to non-structural collaboration, one of the common challenges is to decide whose brand will be facing customers, and who will be responsible for middle office and back-end systems. This is where things start to get difficult. It is therefore important to agree on at an early stage to avoid wasting time on never-ending discussions later on. Who will maintain the customer relationship? Who will have ownership of customer data? Who will be responsible for compliance? Who will receive origination fees, who will fatten up their balance sheet? These are just a few of many questions that will arise, and need to be treated individually.

For CBW Bank it makes sense to provide the pipes and plumbing for Moven in the US, while Moven takes on the white label position in other markets. Marketplace lender Lending Club have Webbank in Utah as a partner for issuing loans, providing a national deal flow to a mid-sized regional bank, again proving that there is no single defined recipe for collaboration.

Open APIs and banking as a platform is the future, it's needed to industrialise the collaborative environment and create a digital ecosystem. To understand the new world of open platform banking, these days many banks are checking the waters by hosting hackathons on their platforms. Still barely scratching the surface of the opportunities for banking as a platform, banks like Capital One are already opening their APIs to third parties. For European banks PSD2 is approaching rapidly, creating the situation where banks may either stay ahead of the curve and open up to new business opportunities voluntary, or regulators will eventually drag them there kicking and screaming.

Regardless of type of collaboration there needs to be a common ground to make it mutually beneficial, clearly defined roles, and well-aligned end goals. No matter how you put it, there is still a clash of cultures when fintech entrepreneurs start working together with the pinstriped-suits wearing bankers to challenge the established truths. Needless to say these relationship are not going to be smooth, since fintechs are born with a mission to change and disrupt, and incumbents are inherently reluctant to change. After all, banks have built their business (and their name) on reducing risks and creating predictability for hundreds of years.

INFORMATION

Payment Services Directive 2 (PSD2)

Albert Morales,
Product Manager, Strand

The FinTech world is buzzing about PSD2. Should banks be worried?
European banks are finally realising the magnitude of the revised Directive on Payment Services (PSD2), which will force them to provide account information to third parties via Application Programming Interfaces (APIs) that cut out transaction intermediaries.

PSD2 aims to:
- standardise and make interoperable card, online and mobile payments
- reduce entry barriers for card & online payments
- align charging and steering practices across the EU
- regulate emerging payment services

With this revised directive, existing (forward-thinking) banking players and newcomers will suddenly be able to gather account information from multiple banks in a single app. The reason why this is a big deal is because banks could potentially degenerate into mere "dumb pipes" unless they leverage their brands, client bases and compliance experience to become the aggregators of choice.

What impacts will PSD2 have on the competitive dynamics of retail banking?
PSD2 will open the banks' doors to new competitors - both FIs and non-FIs. This will put much more pressure on existing banks to keep the ownership of their existing customers via their digital channels, both online and mobile.
By letting any authorised Third Party Provider (TPP) access customer banking data and payment services, competition from non-FIs is practically assured and the use of existing digital channels won't be the only way to bank anymore.

Are the banks reacting appropriately? Could widespread uptake of account aggregation undermine customer loyalty?
Basically the banks have to decide: "Are we going to eat or be eaten?"
PSD2 represents a lucrative opportunity for new entrants to capture banks' existing customers. If the user experience within these newcomers' digital channels is even slightly better than that of the bank, users will only rely on a bank based on the API services they can provide to the user's preferred mobile banking app (which has probably already been built by a TPP).

How would you advise retail banks to communicate the security of account aggregation?
Since banks will be the owners of the APIs which need to be built under PSD2 standards even for the provision of minimum required services, security is unlikely to be the issue of highest concern for banks, given the fact that they must follow and comply with the high security standards and they are used to anyway. Compliance and security is where banks have the upper hand when it comes to PSD2. For FinTechs it's a different story.

Does PSD2 pose any risks for FinTech providers?
In the rush to anticipate this updated directive, FinTech companies might overlook the security issues that are a mandatory requirement for banks under PSD2 as I just mentioned. Badly managed, the API economy could result in security gaps, and a consequent consumer backlash against FinTechs.

To sum up about PSD2, banks should see APIs as an opportunity to differentiate their value-added services against competitors. If Bank X is able to offer more value through an open API, they position themselves as the preferred banking partner for all these new non-Fis (FinTech) competitors that will arise. Banks will no longer be the only provider of financial customer experiences, so they need to make sure others can offer all their banking services in an efficient and secure way.

COMPLIANCE

How Apply Financial Help Fintechs Not Get Fined For Having Fat Fingers.

By The Fintech Times

According to official stats, nearly 30 percent of cross border payments initiated through payment gateways have some sort of error in them or are incomplete, and may not get to the destination bank account. This is a major source of friction for companies actioning hundreds, thousands, or even hundreds of thousands of payments a day and for the payment institutions who are fulfilling these payments.

The causes of payment failure or delay can be human input error, aka fat fingers, the moving landscape of international payment rules and regulations, compliance legislation and individual banks internal compliance requirements and global banking reference data which changes every day.

Apply Financials Validate solution solves these problems and is implemented by its clients as a SaaS solution in a highly secure private cloud both using a REST API and with an intuitive browser. Put simply its an autocorrect for single payments or payment files, although Mark Bradbury, CEO, is quick to point out the service identifies errors and enrichment needs, and suggests the correct information, but for compliance reasons, doesn't automatically make the changes. It just tells the user/operative what changes to make, crucially, before they actually press send and will not let a payment go through a gateway until it is correctly entered.

Validate is a highly sophisticated solution but delivered in a simple to deploy API and Browser combination, if a business was to try to do this themselves, they would need data from more than 200 countries, they would have to manage this data on a daily basis and every quarter they'd have to be aware of the changes the tens of thousands of banks, hundreds of central banks and the single and economic group countries make to their rules for payments to be compliant. On top of this Validate comes with a comprehensive reporting suite of tools to monitor where failures occur by individual, country and country in realtime and then calculates the money saved by not making those erroneous payments.

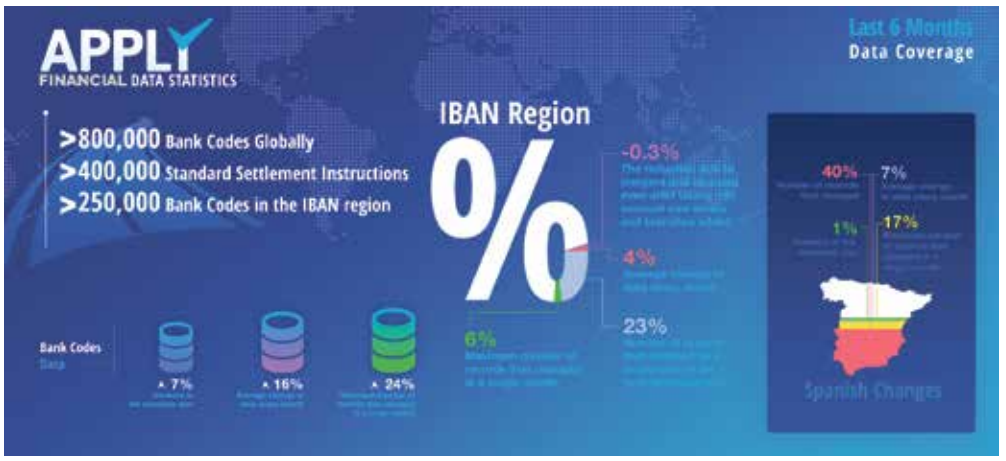
But why does it even matter? Mark explains.

"The margins the payment institutions make on handling a payment are getting thinner, the regulations thicker, and every failed payment is an inefficiency they can live without. Add to this the frustration for the sender and the inconvenience for the recipient not getting money on time or at all."

For every failed payment, the sender is charged £25. They then also need to manage those failed payments, individually and manually. So they pay to make the payment, pay the exchange rate, pay for the failure of the payment, pay to fix the error, then start the process again, paying to make the payment... it's as painful as it sounds, and when a single change in a banks processes can cause a couple of hundred failed payments in one go, it's a massive waste of time, effort, and resources. Coupled with that, the recipient gets paid late, causing customer service problems. Typically the cost of fixing a failed payment is £50 and in many cases can be much higher. Multiply that by a few thousand payment errors a year, and it's unsurprising that the list of clients and service partners for the solution is extensive and ever increasing, including AMEX, CNA Insurance, Cigna, HSBC, Bottomline and even Facebook, although that's delivered through a third party. Whilst many of the clients are enterprise level, the service is accessible for even the smallest user who does less than 1,000 payments a year.

It's Compliance as a Service, very simple to access, saves time and money and reduces friction. One of those invisible behind the scenes success stories. Who knew.

Typically the cost of fixing a failed payment is £50 and in many cases can be much higher. Multiply that by a few thousand payment errors a year...



FINANCIAL INCLUSION

Fintech for Financial Inclusion

Olivia Belletty,
Senior Consultant at Capco Digital

With the right digital partner, banks can boost financial inclusion using financial literacy tools, innovative credit scoring and biometrics

Even today, millions of UK citizens cannot access mainstream financial services. Meanwhile, financial institutions are missing out on a corresponding number of opportunities to rebuild trust and confidence in the market, refresh and grow their customer base, create prolific new markets, and develop sustainable demand for a new generation of products and services. Digital technologies are playing a fundamental role in addressing financial inclusion. They improve the accessibility, affordability and attractiveness of financial products and services. For traditional financial organisations collaboration is key. They should look to partner with new entrants and fintech companies to unlock the opportunities offered by digital.

MAJOR AREAS FOR BANK/FINTECH COLLABORATION ARE MOBILE, DATA, BLOCKCHAIN AND ARTIFICIAL INTELLIGENCE.

Here are some examples of fintech solutions banks could adopt to boost financial inclusion.

Online financial literacy tools
Cost-effective, efficient and easy to use tools that manage money.

EXAMPLE: Meniga's personal financial management tools, allow users to see detailed breakdown of their spending across a range of categories, set spending targets per category, and compare their cash flow to similar customer groups.

'Thin-file' credit scoring
Credit decisioning for the unbanked or those with 'thin' credit files, through the use of innovative data, such as mobile phone payment history and social media.

EXAMPLE: AdviceRobo's artificial intelligence platform combines data from structured and social sources with behavioural analytics, reporting and gamification elements.

Biometrics
Alternative methods of user identification and authentication, such as finger printing, retina imprints and selfies, bypassing the need for multiple passwords and traditional forms of ID.

EXAMPLE: BehavioSec, a behavioural biometrics provider, uses machine learning to authenticate users based on how they naturally interact with their device, i.e. the way they type or touch their phone screen.

Through successful collaboration banks will be able to deliver differentiated and engaging customer-led experiences, at speed and at scale.

INSIGHT

How can b2B companies properly understand their clients?

By The Fintech Times

b2B (small business to big business) companies, including fintechs, often find it a challenge to get to grips with the realities faced by their differently scaled clients. As ever in these matches, communication is key, but how can a team, or even an entire company, engage with a major client in such a way as to really get to understand not just what they do, but how and why they do it?

This was the question faced by Freddie Talberg, CEO of Pie Mapping, developers of sophisticated logistics software to enterprise level clients. His response to the question?

HIRE A BUS, BOOK A HOTEL, AND TAKE THE ENTIRE COMPANY OVER TO DPD FOR A WEEK LONG IMMERSIVE.

"We spent a week at their offices, we literally paid for hotels and hired a coach to get there. It was really enlightening and really helpful, to get under the skin of the customer. All the team got involved, even to the degree of travelling around with the truck drivers and experiencing the reality of their jobs. When you're creating solutions, it's all about getting clearer understanding of the problems. And the team have really started to appreciate what it means to deliver for a corporate client. It's easy to sit remotely thinking they're a big corporation, but they are all individual human beings, and it's been enlightening to meet them and experience where the opportunities for system improvements are. As for the client, they really appreciated it, and it's definitely strengthened our relationship with that client, having a team of 30, 35 people who all 'get it'.
Now when we talk about a particular feature as a team we understand it in the same way from the same experience. And as we're building a lot of platforms, around 5 different systems to come together, communicating across teams could be so tricky, but this process has really helped. Our challenge now is what resources do we need to expand into five EU countries."
A company tour of Europe, perhaps?

INSURANCE

Why disrupting insurance is hard and too few entrepreneurs are addressing the real problem

Dylan Bourguignon,
CEO & Founder of so-sure (wearesosure.com)

The insurance industry has been ripe for disruption for years and yet a quick walk around Leadenhall market where brokers bustle about with paper files under their arms reveals nothing has changed in decades.

Why is this?

From one perspective it's very simple to answer: every player in the insurance market has been enjoying 10-20% net margins for over a century, so why would they want that to change? Lloyds of London tried bringing into their organisation technology innovation with Kinnect in 2002 but after £70m investment and 5 years, it was shut down. Hence, until the rise of fintech, insurance companies felt very comfortable with business 'as usual', since the Kinnect episode had made it very clear that no one was prepared to change how things were done. However, things have begun to change. Over the past few years, the insurance sector has seen more innovative tech-led businesses. However, a great proportion of these are making the existing industry more efficient rather than disrupting the incumbents. Why is that? Are people happy with the status quo?

Why is disruption needed?

Everyone hates insurance.

The most revealing survey was the Edelman global survey in 2013, which showed that 47% of adults trusted insurance versus 52% for banks, pretty shocking given that the banks are blamed for the financial crisis. This lack of trust is arguably driven from the general feeling that insurance is too expensive and when you claim, the insurers, through small print and painful claim processes, find ways to avoid paying out. Hence, until these two issues are addressed, entrepreneurs are only serving an industry which focuses on selling their (insurance) products rather than providing consumers with what they need. With insurance companies recently expressing their desire to change and embrace technology, one could wonder whether they have recognised this and are actually addressing the issue. However, the customer experience remains poor - the FCA report on mobile phone insurance in December 2015 revealed that a third of firms investigated paid out less than 60% of claims - and insurers are focusing on 'big data' analytics which arguably is not in the general public's interest. Indeed "big data" is used to price individual risks at granular level. While this means that in the short term, it provides insurers a pricing advantage over their competitors, over time, if we take this to its natural conclusion, we will end up paying for our own exact risk. Notwithstanding, we would lose the benefit of pooling the risk - which is whole point of insurance – if insurance becomes payment for our exact risk, then it is a payment plan. Who would pay for a payment plan, where the majority of your money supports the industry rather than our risk? So, I would argue, serious disruption is required.

Why have there been few disruptors?

Because it's hard! Insurance is an opaque, regulated market, where industry players only do business with people they know. Moreover, getting funding is not easy within the insurance space.

a) Opacity

I spent over a decade investigating industries across sectors. When I started looking into the insurance sector, I found it one of the most convoluted and complex sectors to understand. There is little public data available and the industry has its own language, processes and accounting formats. It is as if everything was done to make it harder to understand what is going on for people on the outside. This therefore makes it extremely challenging for non-industry people to create disruption.

b) Regulation

Insurance regulation is even tougher than banks. In the lending market, there was a regulatory loophole with simple loans (i.e. not asset-backed) which were not regulated as parent-child loans existed before the banks did. This loophole led to the emergence of peer-to-peer lending platforms, as an alternative to bank loans. In insurance, there was no such thing as 'simple insurance' before Edward Lloyds coffee shop in 1680s, so every insurance product sold in the UK is regulated. While it is required (as it protects the consumers), this regulation is such that if one tries to save money by-passing segments of the traditional value chain, the costs are such that they 'kill' the economics. So entrepreneurs have to work with the industry unless they recreate the whole value chain.

c) Connections and siloes

The insurance industry is like an old boys club. People do business with people they know and trust, so newcomers have great difficulty in engaging existing players to work with them. It is also an industry of siloes where individuals find their specialism (underwriting, broking, claim handling, etc.) and tend to stay there for their entire careers. This lack of mobility makes it harder for people to understand the whole value chain and therefore figuring out how to disrupt the industry.

d) Investment

As a result of the above, it is really difficult for new entrants to create something entirely new, unless they have a LOT of capital behind them to build the whole value chain from scratch. However, and understandably, investors have become more attuned to Minimal Viable Product (MVP)-based lean startups. Sadly, in insurance, if a founder decided to launch an MVP without regulatory approvals, not only it is costly and time consuming - they risk jail. Moreover, the EIS/SEIS tax break rules in the UK are not applicable to balance sheet type businesses, thus further reducing the appetite for investors to back new insurance businesses.

Hence, most entrepreneurs in the insurance space have been focused on using technology to serve the incumbent players. This allows them to operate as non-regulated, B2B businesses serving a market that desperately needs innovation and doesn't require them to take on the regulatory or capital burdens of insurance.

The innovation

We often turn to America for technology-led innovation. American entrepreneurs have been lording the 'disruption' of insurance through their new comparison websites, such as Coverhound, which reduces the cost of insurance. The UK has had price comparison websites for nearly 20 years and we now know – as reported by the FCA in July 2014 report - that they do not address the consumers' needs. Indeed, similar to Google rankings, insurers need to be in the top five. To do so, the insurers have to change (or rather 'reduce') their product quality to make their economics work - so customers buying the cheaper products may have a nasty surprise when they claim.

As with many industries, Internet of Things (IoT), Blockchain and Artificial Intelligence (AI) are powerful tools to improve the consumer experience. EverLedger.io appears to be leading the way for blockchain in diamond insurance which could really benefit the customer's claim experience.

Meanwhile, so far, it appears that AI or IoT have mostly been applied to serve the insurers with some marginal benefits for consumers. AI is being used to help detect fraud and provide insurers with cheaper distribution model with robot-advisors. IoT has been applied to the service of the insurance companies' "big data" drive: fit bits in health insurance (eg VitalityHealth) and telematics to car insurance (too many adopters in the UK to mention). These applications leave the "good risk" with slightly cheaper insurance and the "bad risk" with unaffordable insurance. I trust that entrepreneurs will soon develop applications of these great technological advances to serve the customer rather than the insurers.

In my view, there have been two real innovations that address insurance from the consumer's needs perspective, rather than the insurance company's.

These innovations have been driven by the rethinking of the insurance product and rethinking of the insurance model:

1) Rethinking the insurance product

I believe people want the peace of mind that if something unforeseen happens to them, their possessions or their loved ones, they are covered. Who really wants an insurance product for every item they possess (household, car, bike, etc)? Few because it is too much work to identify and take out the appropriate policy for each item. While some are making forays in the one life, one policy concept, there has been interesting rethinking of the duration of the insurance cover, such as Cuvva's pay as you go model.

2) Rethinking the insurance model

The real innovation in insurance has been in the peer-to-peer models. The theory behind these is that peer-to-peer reduces the moral hazard of insurance and therefore reduces the cost of insurance. As long as the savings are passed back to consumers, the consumer needs are finally addressed.

Friendsurance was the first peer-to-peer player with a model where the excess was mutualised. While the savings offered to their customers vary from 10-40% when nobody claims, they leave the customer's claim experience to the traditional insurance companies. Guevara then came along with a more integrated online mutual model (mutual is how consumer insurance started in 17th century), which offers up to 50% savings when nobody claims.

In the coming weeks, we are launching so-sure (wearesosure.com), which takes peer-to-peer insurance to a new level, with our 'Social Insurance' model. Focused on addressing customers' needs, Social Insurance ensures that customers have a great experience from purchase to claim. Moreover customers can get up to 80% money back, every year, if they and their friends don't claim. Created to serve its customers rather than insurers, we are starting with mobile phones, as these are expensive devices, which we would struggle to live without.

In the UK, we are fortunate to have the most advanced insurance value chain and distribution channel system in the world. We also have some of the world's best creative and technological talent. We are therefore in an ideal place to test truly disruptive models and these are desperately needed. While I remain confident that new insurance models will emerge using innovative technologies, I sincerely hope that the entrepreneurs will have the courage and persistence to focus on serving the consumers' needs, rather than those of the insurers. It's not easy, but nobody said it would be.

INSURANCE

REIMAGINING INSURANCE

Oliver Haenlein

Innovative Fintech companies are disrupting the value chain, and creating whole new ways of buying, assessing, recommending and using insurance. Felix Anthonj, CEO of insurance communications platform flexperto, says: "The new entrants have noticed that the insurance industry has slept for the past decade and basically no innovation has happened. The insurance companies haven't reacted to the changing customer needs, they have lost the connection to them, acting too greedily and as if they're immune to disruption. They neglected the underlying principal of a business:

"MAKE SOMETHING THAT CUSTOMERS WANT".

BEYOND BLACK BOXES

Insurance is becoming increasingly tied to specific behaviours, and Telematics is a clear area in which this is being exhibited. Black boxes can be fitted to cars to assess how they are being driven, and consequently the appropriate cover can be tailored to the driver. However even this is becoming old hat as companies like TrueMotion introduce smartphone technology into the equation.

CEO Vance Loiselle tells The Fintech Times: "There's a broader impact, which is ultimately the roads are safer. You start to improve your driving by minimising hard breaking, not speeding as much, not being as aggressive, and minimising distracted driving. All of those tie in to getting better insurance and improving the roads."

GETTING CONNECTED

With around 30 billions connected 'things' set to be in use by 2020, it's no surprise that the insurance industry is becoming part of this growing IoT ecosystem.

Nikolaus Sühr, CEO of InsurTech specialists KASKO, tells us: "As every device is becoming connected, they will gain the capability to connect directly via APIs to services like ours. Imagine a world where when you first turn on your new phone or washing machine or car and it asks you if you want to automatically insure it with one click."

Next generation insurance could use sensors and smart devices in your home to tailor appropriate cover to you, reward you for certain behaviours, or even keep you safe. If your pipes burst, your smart home would be able to turn off the water and notify your insurer, which would in turn contact the appropriate plumber to come and fix the problem before your place is flooded. Lower payout, better service, win win.

ON THE PULSE

Wearable devices will allow your lifestyle and physical condition to be communicated directly to your insurer. Activity trackers like Fitbit can already provide data to insurance companies, and the likes of John Hancock, in partnership with Vitality, are offering customers a discount if they consent to the business gaining access to the information on your sports wristband. Providers will be able to use your heart rate, breathing, steps or miles covered to decide on your premium.

MOBILE, MICRO, AND ON-DEMAND

A demand for increased flexibility has seen the birth of a number of innovations that allow users to pay for insurance as and when requiured. As TrueMotion's Vance Loiselle explains, people no longer want to insure their skis for the entire year if they're only going to ski a few times. Fintech companies like Trov are available to allow you pay for insurance on demand.

Mobile technology and social media is being leveraged to make insurance attractive and accessible to Millenials. Insurgram allows users to communicate with insurance experts through the likes of Facebook and Twitter, then commit to cover via a simple mobile-based system. AI chatbots are being developed to provide the majority of the advice at Insurgram, although humans are available to step in when questions cannot be answered adequately by the bots.

PROTECTING EACH OTHER

It could be argued that another innovation, P2P insurance, is a move back to the way things worked when the concept of insurance was initially conceived.

Digital P2P company Guevera says: "Whether it was merchant ships in ancient China or health care in Welsh mining villages, people pooled their resources to protect one another from hardship.

"Guevara works on exactly the same principle. We provide a digital platform for people to team up, pool their resources and protect each other. You still get the fully regulated insurance the law demands, and the comprehensive cover you expect. But, by cutting out the middleman, you take control of your insurance and only pay for what gets used. It's a system that's worked for centuries. We've brought it to the digital age."

JUST A MATTER OF TIME

Insurgram co-founder Antonia Ermacora reiterates that insurance has been lagging behind technologically, and that it was only a matter of time before it saw transformation.

"We want to be charged fairly (Telematics), we hate long contracts (Pay as you go), we love tech (Wearables, IoT) and we like new concepts which are based on trust (P2P). I´m convinced that mobile is a big game changer for insurance too.

Insurance products will be user-centric and integrate into the lives of people, speaking their language, supporting their usual ways of communication and acting in real-time."

GROWTH

Organic Growth of a Fintech Venture: is this possible?

The London tech sector continues to attract an unprecedented level of investment from venture capital firms. According to London & Partners, the Mayor of London's promotional company, 2015 saw a record $3.6 billion in technology firms.
Notably, the Fintech sector accounted for a quarter of all investments raised by London based technology companies.

The rate of investment has led to a sharp growth in the valuation of several high profile firms that have reached Unicorn (start-up firms valued at over $1 billion) status, namely, Transfer Wise and Funding Circle. However, is this trend likely to continue?

Black Clouds Gather on the Horizon?

According to the Financial Times article (3 April 2016), many fund managers that previously piled into technology firms were forced to write down their investments in start-ups in the final three months of 2015. There is concern of a tech bubble emerging and that may lead to so-called unicorpses – unicorns that die.
In the United States, the Securities & Exchange Commission (SEC) have also expressed concerns about eye-popping valuations of some of these tech unicorns. According to a recent KPMG and CB Insights report, investment activity in Fintech may have peaked, even in the UK. Investor caution is likely to be the trend over the coming months, although Fintech still remain an attractive proposition for these investors.
So for high growth Fintech firms, raising funding may not come as easily as it has in 2014/2015, however investors are still out there – just more cautious.
As a Fintech pioneer, however, you may prefer to grow your business organically. After all, it has many benefits to offer.

Organic Growth is Attractive

The maturing Fintech market is attracting more sophisticated and well-funded entrepreneurs who are able to sustain the capital demands and strains of the start-up phase. These entrepreneurs are less reliant on external funding to grow their business in the early days. There are many advantages this brings:

1. You as the entrepreneur have complete freedom to manage and grow your business in any way you choose;
2. You have complete control over the day to day running of your business;
3. The founders retain all the benefit arising from entrepreneurial risk taking – imagine the big payoff on exit – you get to keep it all; and
4. You avoid the time and effort required to prepare for fund raising – at least 6 months of dedicated effort that takes your focus away from revenue generating activity.

But can the Business Scale Up?

Whilst organic growth is attractive, especially for technology based financial services companies, I would argue that high and sustainable growth is impossible without external funding at the right point in the business cycle. Rather than growing linearly, most businesses in this space grow in spurts, requiring investment in financial and human resource to reach the next level of performance. Let's take a closer look at the need for funding at various stages of the business.

Start-up Phase

Unlike many other technologies based industry, Fintech firms operating in a highly regulated market. Many will need regulatory authorization before they can even start to trade. Licensing is a complex and long winded process, requiring an investment of time, effort and cash. Firms have to demonstrate to their regulator that they are in a position to start trading when they submit their application for authorisation.
This regulatory process can take anywhere between 6 to 12 months in the UK, so initial investment to set up the business will only start to yield returns after this period. Bootstrapping the business may compromise standards and won't get you through the regulatory process. By way of example, you will need to invest in developing the technology and document systems and processes, and spend on having lawyers draft Terms and Conditions way before you start to trade.
Depending on the nature of your business, the regulator will also want to see robust compliance, governance and a strong Board. This is something that only medium sized businesses start to consider when they are big enough, yet for financial services firms, this is an investment required very early in the life of the business.
Often, the entrepreneur will need to fund this phase of the business and this investment requires aggressive selling to reach break-even point. Founders run out of cash to invest in the business and the business has generated revenue to sustain itself.
Lack of funding will often trap founders doing everything in the business because they can't employ staff. A business totally reliant on the founders can't scale to the next level.

Growth Phase

Whilst a disruptive business model and innovative technology helps the Fintech firm power through the start-up phase, they are forced to spend more and more on continuously improving both to ward of competitors who are now attracted to a seemly lucrative market segment.

During the growth phase, the firm needs investment to develop management layers, and to instill a culture that is conducive to high growth firms – i.e. everyone aspiring to a common vision and living the values set by the firm. Developing such a culture requires investment in being able to recruit the best and brightest, and providing classroom, online and on the job training.
To scale, the high growth Fintech firm will need to invest in developing more products (so its not a "one trick pony") and a product ecosystem to attract and retain customers, ensuring there is a product of every stage of their clients' lifecycle and clients become repeat buyers.
The products will require new and innovative channels to market. These channels only open up if the Fintech firm is seen to be a highly visible player in the market space. To become a known entity, requires an investment in developing the firm's market positioning and building the brand.
Finally, high growth requires the pursuit of new markets both locally and internationally. Without substantial investment, this is a challenging task for less well funded Fintech players.

In conclusion, as much as Fintech entrepreneurs would prefer treading their own path of freedom, to scale, they will have to be open to external investors. In the next issue, we will focus on how to attract cautious investors in a way where they are chasing you because of the opportunity you present, rather than the other way around.

JAY TIKAM

Jay Tikam is the Managing Director of Vedanvi, a professional services firm exclusively helping Fintech firms to start and rapidly take their business to the next level. Contact Jay if you want to learn more about how Vedanvi can help prepare your business for high growth.

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EDUCATION

Study entrepreneurship in Canary Wharf

Stanford Ignite, the 11-week global innovation and entrepreneurship program, returns to Canary Wharf in September, but the time to apply is now. We quiz Yossi Feinberg, Faculty Director, in anticipation.

Yossi, could you tell us briefly about the program, who it's aimed at firstly?

"It's intended for anyone who wants to create a new business. It doesn't matter if you're an entrepreneur, or if you're within an existing firm. We are looking for people who want to create an impact. And we give them the tools to do that."

The program runs in New York City, São Paulo, Bangalore, Beijing, Paris and Santiago. And of course London. How does the experience compare across campuses?

"We're running a large number of programs all over the world, and we see the basic principles in creating a new business apply anywhere. But you need to implement and execute them differently to win in a different ecosystem, country, and market. Our curriculum focuses on execution and translating the general principles into the particular project you're working on. We teach all the fundamentals, Accounting, Finance, Marketing, Economics, then we have mentors, professors, coaches and specialists from the local community to guide the team through their specific project. The learning is tailored and specific not only to the location, but to the particular industry and particular project. It's very practical and very relevant."

So does everyone come up with the new venture by the end of the program?

"We get people in different stages of where they are in creating new ventures, and the objective of the program is not for everybody to come out with a particular business plan. We don't select and incubate ventures. We select and incubate people. Some come in with an idea in their mind. Some come with the venture that they have already started to create. Some come just wanting to do something big. By the end of the program we want them to have the skill set not only to generate new ventures, but to really understand what it will take to make that venture successful, to have all the skills to create their own business, or to be able to study someone else's business plan and understand it."

In what practical ways does Stanford Ignite equip its participants to tackle uncertainty for their own businesses or innovative products?

"Every new venture has to deal with uncertainty, ambiguity and unawareness. We teach to deal with these three dimensions: how to execute in the face of uncertainty, how to de-risk a new venture. Dealing with ambiguity is hugely important. We provide the learning that helps to address unawareness. You need to understand the market, the industry, the competition. Figuring out all the uncertainties in front of you is what this education process tries to achieve."

What are your favorite student success stories so far?

"I had an email from a founder from Bangalore. She told me her new venture was acquired, and how grateful she was. Emails like that make my day. You can look up it up on our website, big successes and big exits. But the best measure of success is about how impactful the individual becomes, whether they return back to their organisation or start their own company."

YOSSI FEINBERG is Professor of Economics at Stanford Graduate School of Business (GSB) and Faculty Director of Stanford Ignite.

APPLICATION DEADLINES:

Round 1
02 Jun 2016

Round 2
16 Jun 2016

Applicants must apply by the Round 1 deadline to be considered for a 50% scholarship.

www.stanfordignitelondon.com

IOT

The Internet of Things – Behind the hype is it just devices creating more data that will be underutilised?

Richard Carter
Chief Executive, Nostrum

With massive investments and staggering predictions about the Internet of Things "IoT" (Experts estimate that the IoT will consist of almost 50 billion objects by 2020), loan management software provider, Nostrum Group has looked at what the IoT is (and what it isn't) and some of its applications.

The major growth in the wearables market or the evolution of smart homes is now shining a spotlight on the IoT with sensors becoming smaller and cheaper. Consider the potential of a washing machine that monitors its own performance and can transmit that data back to the manufacturer or can set the most efficient washing cycle based on the contents. Mass adoption is on its way and the number of devices compatible with the IoT is already growing, but it might take a little more time to fully see any of the benefits.

One question often debated is – 'Is a smartphone an IoT device?' Most people's first response is YES! It is a connected object housing upwards of 20 sensors that can store and transmit data. Many argue that smartphones do not count simply because they do communicate in a common language i.e. many apps do not communicate with one another and the devices use different operating systems, therefore don't meet the basic requirements for IoT. For the true benefits of the IoT to be recognised there will need to be a universal standard adopted.

The applications for devices connected to the IoT are so large that it would be impossible to try and cover everything. We have picked out some use cases that caught our interest:

Smart cities and transport

Traffic and parking – there are already examples of this in action with sensors placed on parking spaces which would allow you to navigate to an area near your destination with a high number of free spaces. Factor in weather monitors and traffic monitors and you could actively ease congestion and pollution in a city by avoiding accidents or traffic hot spots and providing the quickest route. Consider cars, with the number of sensors housed in cars increasing and connectivity being added all the time, your cars manufacturer could monitor the condition of key elements of your car and proactively offer better support. Your car could monitor your driving style and distances in order to adjust standard ride settings to increase efficiency or improve comfort.

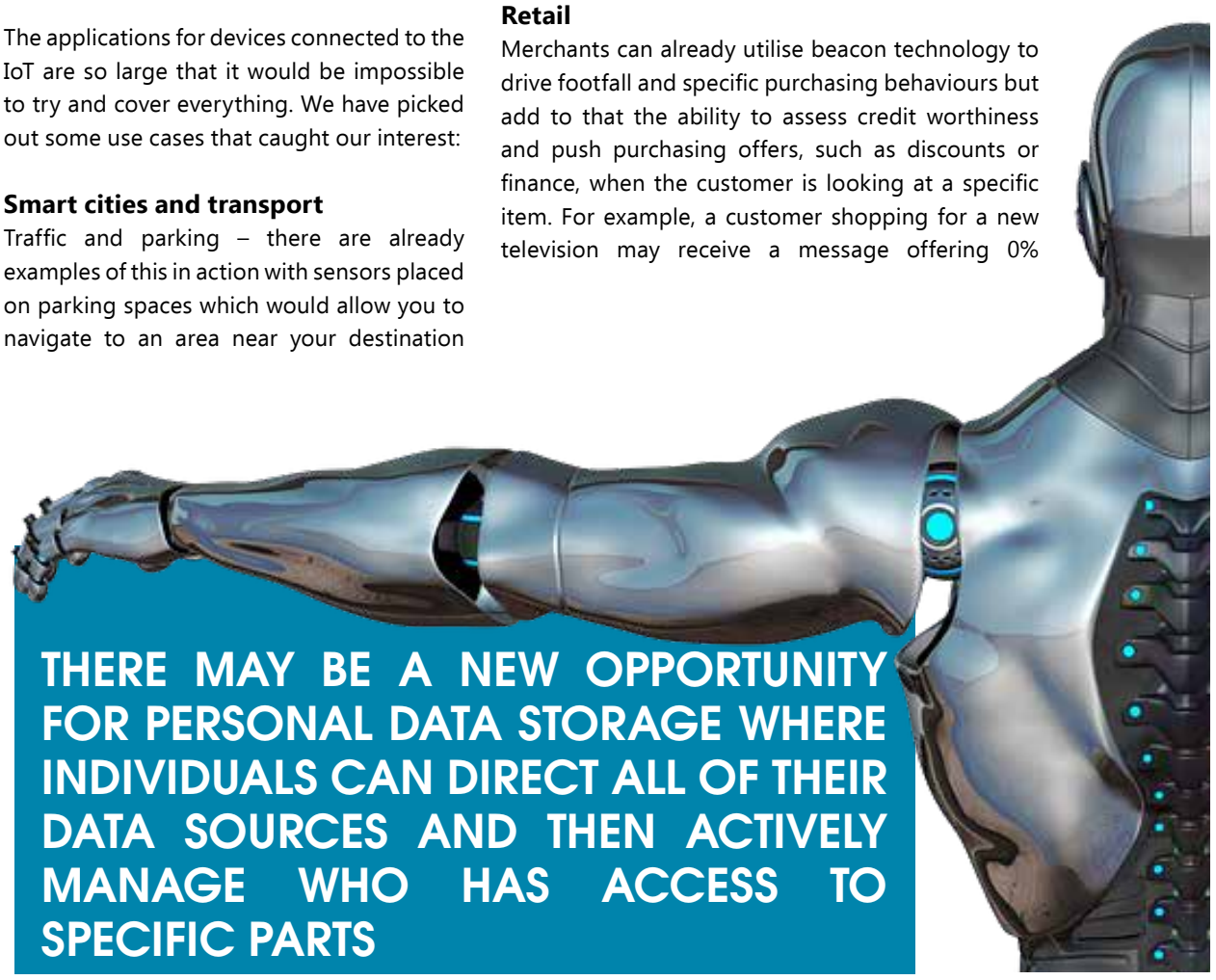
Take it step further though and the connected car could pay for your parking automatically on entry and exit of the car park, for congestion charges, at fuel stations and, potentially, dynamically for road usage rather than the current vehicle tax approach.

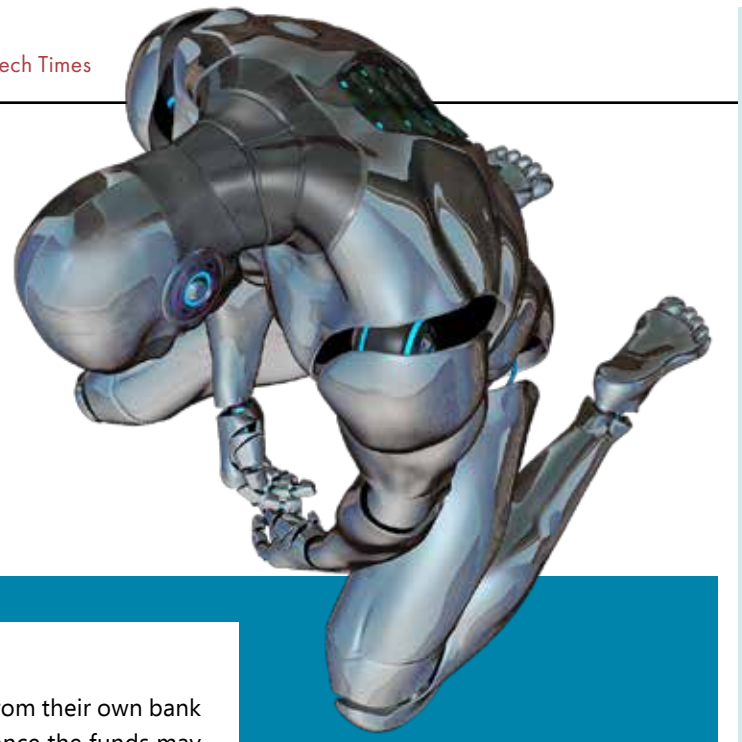
Health

We have all seen the growth of fitness and health monitoring devices, from tracking and heart rate monitors to sleep pattern analytics. This information could be shared directly with a health organisation to enable ongoing monitoring of a condition, allowing people to leave primary care facilities whilst continuing to be monitored. This sounds like a scenario that benefits the individual, but imagine that data being made available to an insurance provider; your activity may increase or decrease your premium, or even worse, mean that you're not covered.

Retail

Merchants can already utilise beacon technology to drive footfall and specific purchasing behaviours but add to that the ability to assess credit worthiness and push purchasing offers, such as discounts or finance, when the customer is looking at a specific item. For example, a customer shopping for a new television may receive a message offering 0%





finance on the purchase from their own bank and with a simple acceptance the funds may be transferred into a designated account and speeding up the purchase. Is it intrusive to remind a customer that they have an available balance on a credit card whilst they're shopping in an electrical store, or is that a good user experience that removes friction? As with all push messaging, it needs to be handled sensitively and in a proportionate manner otherwise consumers will switch off.

PEOPLE ARE MUCH MORE CONSCIOUS ABOUT HOW THEIR DATA IS USED AND SHARED NOW

Security

The biggest risks surrounding the IoT are data protection and data ownership. Who owns the data? Is it the manufacturer of the washing machine or the owner? Will the customer feel their privacy is being invaded if they are pushed health messages from wellbeing organisations or pushed finance offers encouraging them to take out a loan when a product is due for replacement. There seems to be conflicting thoughts on what is benefiting the customer and what is intrusive.

People are much more conscious about how their data is used and shared now, even if it feels like we are sometimes forced to give more than we'd like, there are benefits to giving a little to take the rewards. Using the health insurance example previously, would a customer allow access to their fitness tracker to receive a reduction in premium? Would an insurer look at geo-location to see frequent visits to extreme sports venues and increase the premium?

Data privacy and ownership is already a concern for consumers so when that data collection and transmission is unseen and constant there will surely be nervousness and anger the first time a negative action impacts them. You also have consumers that will fear unscrupulous individuals will be able to hack their homes to determine when the occupants are out and take control of their security systems to delete the record of their burglary.

So the IoT is a network of connected objects, which contain sensors, and can transmit data. It is an enabler, an underlying architecture that allows devices to create, store and share data. The real end game will be how the data is used, which looking from a financial services background isn't a new challenge. If anything, many companies don't capitalise on the data they already hold, so will adding more data help?

It feels obligatory to mention User Experience in the current climate, but that is essentially what the IoT will bring into focus, whether it's how you move around a city or your shopping habits. Companies will have more opportunities to interact with customers or potential customers and the challenge will be how to maximise those connections. The personalised marketing ideal will become an even more realistic target, but the amount of data processing and storage will be huge. There are clearly many other applications that enterprise will use, like stock management or maintenance of assets that doesn't impact on individuals data but will impact user experience and operational performance.

IoT technology aside, this will be another Big Data project that sits on top of mining the extensive data that already exists. There may be a new opportunity for personal data storage where individuals can direct all of their data sources and then actively manage who has access to specific parts e.g. my wearable data can be viewed by a health organisation but not an insurance provider or my spending behaviour can be monitored by my bank but not by retailers.

IoT is all about technology enabling more data and better user experience. Is it any different to Fintech initiatives or health organisation programmes of work? We don't believe it is; it's another technology advancement to be added to the list of things to watch and embrace as they develop.

Fintech companies – over valued? MAYBE NOT.

There's always a conversation to be had around company valuations, either they're too high, or there's not enough of them, or someone just made Unicorn status, or Unicorpse status, it's a background chatter. But fintechs are different. And here's why. Nowadays, the valuation of fintech companies isn't so much dependent on their economic valuation, revenue or profitability. Their valuation is based on the probability of future higher valuations and ultimately liquidity for the investors. A quick reminder of where the exit doors are located.

Management Buyout: Probability – Zero to very low.
IPO: Probability – Low.
Further Rounds of VC Investment: Probability – High. Private Equity firms and late stage VCs are now considering qualified fintechs as potential opportunities.
Bank / Institutional Acquisition: Probability – High. Tier 1 banks are the more natural buyers of these new type of ventures.
Acquisition by competitors in a concentrating market: Probability – High. (but not for a few years).
Focusing on Bank Acquisitions: Fintechs are a distinct type of startup. They are born with a clear exit visible. If they are a fintech that facilitates bank operations in some way, the value isn't how much will a bank pay for a service, the value is how much will a bank pay for the company. If the fintech could save a bank £10M a year in operating costs, how much is that worth to the bank? What is that opportunity worth? That's the valuation of the company.

Other fintechs, a minority now, are directly competing with the banks.
Does this fintech present a real competitive concern? If so, how much does it cost to remove this threat, and convert it into an asset? One reason the banks aren't worried about fintechs is they have an underlying attitude of 'if they do become a serious threat, we'll just buy them anyway'. This is their final option, and it's a bit of a no lose situation for the banks. If they're a genuine concern, they end up owning them. Good for investors. The stick in the mud for banks would be an emergence of a competitor that had no intention of selling, the banking equivalent of Facebook or Uber, someone going for market takeover. Bad for banks, ultimately a very big win for investors.

Focusing on acquisition by a competitor: Another possibility is iquidity through market acquisition. There's a glut of money transfer companies. Sooner or later, the biggest will raise capital to acquire the lesser ones, acquiring market share and benefitting from the economies of scale and efficiencies. Good news for investors.

In conclusion, a good company may make healthy profit, but have little chance of being sold. A good investment may have zero revenue, but be a great acquisition opportunity for a tier 1 bank.

When considered in these terms, high fintech valuations make sense, they are at least a rational, rather than a hype based response to the risk and rewards of the market.

Antoine Baschiera

Founder of Early Metrics

Early Metrics is the first rating agency that aims to detect and rate innovative startups, providing the analysis results to its clients which are global corporations, investment funds and banks.
Rating is free of charge for startups and based on the three extra-financial pillars: the management, project and the market.

INTERNATIONAL

Asian Ambitions

Earlier this month I met three new exciting payment startups at the flying fintech circus Money 20/20 Europe in Copenhagen: Android Pay, Samsung Pay and Alipay who all announced their expansion into Europe and their expected launch in the UK later this year.

Android Pay is actually an updated version of a Google Wallet, which was not very successful. The director of Google's Emerging Platforms, Spencer Spinnell, disguised the value that his new payment system will bring to Europe with a lot of technical shoptalk and corporate blabla.

Next in line was Elle Kim, Vice President of Samsung Pay, obviously proud of the new payment service from her company: "6 months ago we were a hardware company and now we have 5 million users and have processed 500 million dollars". To be honest: I'm not exactly blown away by the mobile giant yet, but I may eventually be because Samsung that controls the hardware and builds security into the phone, is planning to conquer the World and Europe – and they have been quite successful so far.

After the two presentations, I still didn't fully appreciate the burning need for yet two more gigantic players in the payment industry, and it was as if Sabrina Peng, president of Alipay International, had read my thoughts: "Europe's merchants don't need more payment solutions, she said. They need more customers and Alipay will bring these customers to Europe!

"LAST YEAR 117 MILLION CHINESE TRAVELLED THE WORLD AND THEY SPENT 165 BILLION DOLLARS; MOST OF THESE PEOPLE PREFER TO PAY WITH ALIPAY"

said Ms. Peng whose company processes 175 million payments per day and has more than 450 million active users on the mainland. "If the European merchants will accept Alipay we will provide them with new affluent customers".

I don't think many hotels restaurants and luxury shops would object Sabrina Peng. She speaks no fintech jargon and her message gets across. In February, Uber announced that its one million drivers soon will accept Alipay despite the fact that Alipay has its own competing car-hailing service and has invested in Uber's toughest competitor Lyft. With a view to almost half a billion customers who bothers to put on airs?

Forecasts indicate that the Chinese wanderlust will inflict 234 million people by 2020 and as the leading payment solution Alipay is key to future revenues from Chinese travellers around the world. Alipay is not just another payment solution it's a lifestyle app, and as we know if your shop is not on the mobile screen Chinese customers will ignore you.

Taking 117 million Chinese on tour is like moving an entire country, which is what inspired Alipay to their new global dream. They wanted to bring their platform to the world, not just China, and according to Shanghai Daily Alipay has even higher aspirations with a "vision of targeting 2 billion people within the next five to ten years, not only in China but other countries too."

That has to involve me and the readers of this column as well. I like people with a vision and a dream and after Ms. Peng's presentation I interviewed Alipay's business development director Alice Zhan to ask what she was dreaming about. "Do you mean me, personally? Hmm, I dream about seeing the whole world with Alipay! And it's funny you are asking, because our founder of Alibaba, Jack Ma, says its important that we all have a dream. Everyone should have one because what if it is realised?"

Ms. Zhan gives me her business card and I see that Alipay resides in Canary Wharf on One Canada Square on Level 28. "8 is a lucky number for the Chinese", she says, "and 28 means double luck. I have actually moved to another address in London where the street number 128; that's just as lucky, she laughs, "but that's a coincidence".

Ah, you can't fool me, Alice. The Olympics in Beijing started on 08.08.08 at precisely 08:08.08 PM and Jack Ma's roadshow before going on the New York Stock Exchange started on the 8th of September. Eight is pronounced "ba" in Chinese and Alibaba's ticker on NYSE is (BABA) read: 8 8. Veeery lucky. I like the Chinese. They bring a breath of fresh air to Europe and remind us to re-invent ourselves and not take anything for granted. But don't make any mistakes. They are not here to give anything away. Right now Alipay keeps its half a billion customers with an iron grip – even when they are away from China. And with a dream of 2 billion customers I'm quite sure they are out to get our money as well when they are well established outside the mainland.

So I think, even small European financial institutions should join the Chinese on the international scene with our own bright and bold dreams and work just as hard to get luck on our side. What if our new dreams are suddenly realised?

by NILS ELMARK

Consulting futurist, BankingLab.london

Finding the right balance between HIGH TECH and HIGH TOUCH in wealth and asset management

With billions of dollars invested in FinTech startups, there is a plethora of companies providing high tech solutions for almost every aspect in Wealth and Asset management. Some global banks have been quick in establishing fintech teams in their institutions and are implementing different fintech solutions including setting up virtual banks, and have been successful in attracting clients with little or no human interaction.

However, for private bankers and wealth managers, the personal client relationship or "high touch" relationship is a key factor for growth of their business. Does this mean that they don't need fintech solutions to grow or survive? The main clue comes from customer behavior and attitudes. Most independent customer research, including amongst millennials, indicates that investing is considered different from buying other goods and services digitally and that many investors value personal advice, albeit may not always be keen to pay much for it.

At the WealthTech Practice at Fintech Circle Innovate we believe that fintech solutions have an important role to play both for servicing existing clients and equally for addressing segments that are currently underserved. Maintaining the high touch client relationship while enhancing the high tech wealth and asset management platform can enhance performance.

Wealth and asset management firms have to review their internal processes and communication with clients and decide where tools provided by the fintech industry can be applied to enhance their proposition and operations. Such tools can be client facing - for example providing more accessible information in digital formats, - timely prompts and nudges, or portfolio management tools that enhance performance while giving relationship manager more time to spend with clients.

Implementing Fintech solutions will change wealth and asset managers' activities not only by allowing them to spend more time with their clients but equally using tools such as robo-advisers to recommend investments. However, they will have to understand the analytics behind the robo-advisor's results to ensure they really do meet a client's needs. This requires the wealth and asset management firm to find the right fintech solution to grow their bottom line and allow their relationship managers to provide the best services to their clients.

Finding the right balance between high tech and high touch will continue to be a key factor in providing higher performance for wealth and asset management firms in this evolving digitised world.

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After 20 years in banking and 8 years in consulting worldwide, Mike has joined Fintech Circle Innovate to build and manager their WealthTech Practice.

INDUSTRY NEWS

Law firm Penningtons Manches helps RocketSpace UK landing

RocketSpace, the San Francisco technology campus that has been the home to tech startups including Uber, Blippar, and Spotify, is expanding to the UK.

A Penningtons Manches multidisciplinary team led by the firm's San Francisco partners, James Klein and Hamish Corner, advised RocketSpace on its deal with the campus' development partner, the Royal Bank of Scotland, to open and operate a large tech campus in the Regents House in Angel, London.

London is San Francisco-based RocketSpace's first location outside the US and the UK campus will initially house up to 1,500 people at its opening in early 2017. Since its founding five years ago,

ROCKETSPACE HAS SUPPORTED MORE THAN 750 HIGH-GROWTH TECH STARTUPS.

Commenting on the deal, James Klein said: "RocketSpace is a great example of the type of inward investment into the UK that will genuinely help London to sustain its attractiveness as a global tech hub for fast-growth tech and innovative businesses. As a firm with offices in San Francisco and the Golden Triangle of London, Cambridge and Oxford, we had the multidisciplinary corporate, commercial, real estate and tax expertise needed to complete the deal for RocketSpace."

In the company's announcement, Duncan Logan, Founder and CEO of RocketSpace said, "London's tech community continues to rapidly expand and drive innovation. Creating a physical presence here is critical to our expansion strategy and mission to build an ecosystem for innovation to thrive, across a global network of campuses. We are very excited about working with London's tech entrepreneurs, who are creating some of the most disruptive technologies of the future."

In regards to RocketSpace's engagement with Penningtons Manches, Logan added: "We are delighted to have worked closely with the inward investment team at Penningtons Manches who provided us with vital legal support for this major business transaction."

About Penningtons Manches

Penningtons Manches LLP is a leading UK law firm with offices in the City of London, Basingstoke, Cambridge, Guildford, Oxford, Reading and San Francisco. It is the founder member of the European Law Group, an association of European law firms, and a member of Multilaw, an association of 73 firms in 60 countries worldwide.

Penningtons Manches' legal services cover a range of specialist areas including corporate and commercial, corporate tax, banking and finance, dispute resolution, professional regulation, real estate, residential property, wills, trusts and probate, UK and offshore tax planning, family, intellectual property, technology, employment, immigration, life sciences, travel law, clinical negligence and personal injury matters.

FINTECH BUZZ AT BUZZACOTT

Buzzacott, the UK's largest single office accountancy practice, just hosted a particularly engaging event which saw a wide spread of attendees and debated topics. The conversation included the origins of fintech, the variations between the US and the UK fintech sectors, (surprisingly little crossover), the practical applications of blockchain, and the legalities of it, (still very much unformalised). Other sub sectors of the all-embracing fintech label that got buzzed about were proptech, insure tech, equity crowdfunding, robo advisory services, the Chinese, and the probable future crash of at least one p2p platform and the implications of it when it happens. The final word before time was called was the DAO. Not heard of the DAO? Distributed Autonomous Organisation. What's that? A new kind of decentralised entity, a leaderless organisation, a 'company' structure that exists only as code. The DAO is an Ethereum blockchain brain-child, predictably, no one knows exactly who created it or where it came from. Blockchain loves esoterics, DAO is of course how one pronounces TAO, the Chinese philosophical/spiritual 'non-system' that translates as The Way. The way to what? The rise of Robo CEOs?
We'll leave you with that comforting thought.

maycockb@buzzacott.co.uk

buzzacott.co.uk/specialist-teams/media-technology

Important events 2016:

Digital Transformation in Insurance
London
25-26 May
arena-international.com/verdictinsurance/

Blockchain Conference
Dublin
7 June

Insurance IoT Europe Summit
London
7-8 June
fc-bi.com/insuranceiot

Harnessing Fintech Innovation in Retail Banking
London
8-9 June
arena-international.com/verdictfintech

Blockchain Conference
Amsterdam
9 June

Retail Banking Analytics Europe
London
20-21 June
fc-bi.com/retailbanking

Cannes Lions Innovation
Cannes
20-21 June
canneslions.com/lions_innovation

Fincoder
London
23 June

Viva Technology 2016
Paris
30 June - 2 July
vivatechnologyparis.com

The UK Angel Investment Awards Dinner 2016
London
5 July
ukbusinessangelsassociation.org.uk

Legal rights and challenges of startups and their investors
London
8 July

Fintech Week
London
15-22 July
fintechweek.com

2nd Annual Design Thinking for Banking & Financial Services
New York
13-15 September
marcusevans-conferences-northamerican.com

Global expansion Summit
London
17-18 October
www.gxpsummit.com

Web Summit 2016
Lisbon
7-10 November
websummit.net

BIG PICTURE
Mondo

There's Something About Mondo

NAME:
TOM **BLOMFIELD**

Occupation:
Banker to be

Born: Hong Kong, August 1985

Education: Grammar school, Oxford Law

CAREER

Four Startups, three as founder:
Boso
GoCardless
Groupa
Mondo

I was a management consultant for about two years, which I don't like to talk about.

FAVORITE

Books:
Elon Musk's Biography
The Hard thing About Hard Things
Zero to One
Films:
I really like romantic comedies. Notting hill, Four Weddings, and historical costume dramas. I loved War and Peace.

Hobbies: Squash, cycle, skiing, learning to kite board, secret StarCraft player

Business philosophy:
It's the YCombinator bible, the YCombinator mantras, write code and talk to users, launch early, make something people want.

Tom leads me into his office. It's a cupboard with a plastic table, and a chair patched with green ducting tape. The contents of the office, in terms of desks, furniture, fittings, is worth less than nothing. This is not a typical bank. In fact, Mondo is not yet a bank, but it soon will be. If there's a real challenger, I'm sitting on a plastic chair in its office.

Why did you decide to create a bank?
"Because I hate my bank." I ask which one, he says that's not the point, they're all as bad as each other. This helps explain why people don't change banks. It's not because they're all super satisfied, it's because there's no real difference between them.
"In a World where you can pull out your mobile phone and order a taxi in a click, or buy something from Amazon and have it on your desk an hour later, banking is so far behind. We started Mondo in an attempt to bring that kind of consumer experience."
Tom anecdotes about travelling abroad and having his card blocked every time, even telling his bank in advance won't prevent this. Another anecdote, going overdrawn, not being told for two weeks, accumulating charges, then being sent a letter in the post, pre notifying charges. "Why doesn't a bank see you're going overdrawn, and send you a text message or a push notification? It would reduce their profits, that's why." Everyone knows this.

There's something about Mondo. There's something about Tom. A contagious enthusiasm, a drive. I'm trying not to use the word "passion", especially as they are backed by Passion Capital, but it's like he's seen the light, he's seen how shit banking is, and how to do it brilliantly is obvious. The pre-paid card version of their account is, already, for some reason, awesome. It's hard to write about Mondo without sounding like a fan boy. I first heard of them when I went to one of their alpha group presentations, and signed up for a card, salmon pink. As soon as I started using it, I loved it. It's just so.... Satisfying. Like Uber with the little cars driving round the screen. It's just ... right.

There's something about Mondo. An X factor, a charisma, I show people the app, look at this, isn't it cool. Maybe it's the 'Kerching' noise when you buy something. Maybe it's the seamless app / card dynamic, maybe it's just the attitude of the company, somehow coming through.

Personally I bank with co-op. I have done for decades, even though they don't have a contactless card, and the fact that if I forget my pin it'll take a week, a couple of phone calls, and a letter in the post to get a new one. But when Mondo are a fully licensed bank, I'll switch.

When they launched the pre-paid card, back in Nov 2015, it was, according to Tom, 'buggy as hell', "we put the app out, and it really was a case of launching before you're comfortable with it", as they say in YCombinator, birthplace of AirBnB and Dropbox, 'If you're not embarrassed by your first iteration then you've launched it too late.' "And we were embarrassed, but now we have over ten thousand people using the product, and the product is great."

Can you even imagine a 'conventional' bank being so human as to be open about its flaws? To say: hey, look, we're launching something, we want you to point out all our bugs and things that don't work, so you can be part of fixing them with us."
Tom talks freely and openly and says what he knows to be true. Accessible, real, just no bullshit. I love it. And here I am. Back in fanboy mode.

Mondo has commercial charisma. Tom tells me of a guy who travelled from Edinburgh to London to get a card. And in March, when they went on Crowdcube to raise an extra million, the demand surge took Crowdcube offline for half a day. Mondo arranged an alternative system, and did nought to a million pounds in 96 seconds. We The People seem to Love This Company.

"We keep hitting these milestones very quickly", say Tom. "Although the measure of success really is that your customer support volume scales at a lower rate than your customer volume, ie, the service is constantly improving."

Mondo does have a serious advantage. A traditional bank needs branches, postal services, websites, an app, multiple channels of engagement, and hundreds of products. The challengers need only an app. One channel, one product. I'm pretty certain the services these new banks provide will be modular. A loan from Mondo will be provided through a partner. A mortgage from Mondo via a partner, a credit card from a partner, a payday loan through a partner, invest in a peer-to-peer platform, through a partner, buy insurance, though a partner. Perhaps multiple partners will bid in real time for the opportunity to service each customer requirement. Goodbye loan comparison sites. Mondo has it built in. I'm speculating here, but I suspect this is what the future looks like. **A current account as gateway to every other financial service. Like Google to the Internet.**

Mondo has 100,000 customers on the waiting list and has the potential to utterly reshape personal banking. Taxis worked fine until Uber came along.

Will they attract millions of customers out of the traditional banks, all the young people, all the digital natives, all the future? They really might. All it takes is to get it right. And if they do, a billion customer bank is achieveable, and Tom knows it.