

Are bankers just rearranging deckchairs?

I had a really interesting evening this week, moderating an industry roundtable with panel participants including:

- Cliff Moyce, Strategic Adviser, DataArt
- Chris Barker, Managing Director, Global Head of Digital & Engineering Services, RBS,
- Mike Powell, Managing Director for enterprise capabilities, Financial & Risk, Thomson Reuters
- Scott Eblen, Chief Product Officer, Nutmeg
- Frank Neumann (COO, Quantstore)

and organised by [DataArt](#). It took place in the Armourer's Hall, a place that resonates of wars and battles, which was a fitting location for a discussion about Fintech versus Banking.



The theme of the meeting was whether the financial industry is being transformed by technology or evolved. To put this in context, a transformational change was positioned as one where the existing financial industry would be replaced by a new business model, whilst an evolutionary change would adapt the existing model.

Cliff kicked the discussion off with a view that incumbent institutions struggle to innovate and change because they have thousands of people to organise and years of legacy to manage. However, you only have to look at today's world of Google, Facebook and Alibaba to realise that these are the icebergs that are out there already today. Are banks just moving deckchairs around on the Titanic and not seeing these icebergs or, even more telling, choosing to ignore them?

This theme of icebergs and Titanic remained throughout the evening, with Cliff summarising that the new world of finance has been transformed by technology and today, we need to be focused upon using platforms to build financial communities but, all too often, banks are fixed with a view focused upon products and channels.

There was general agreement that the business model is changing, but most of the panel felt it was both an evolution and a transformation. It is an evolution for those who embrace the change, and can make the change to a different structure based upon digital platforms. It will also certainly be a disaster for those banks that choose to resist the change.

So what is the change?

It's so far been mainly an erosion of the relationship at the front-end between the bank and the customer. There's been a lot of movement on disintermediation and, to a great extent, the Simple, Moven and the Facebook, Apple and Google's, have all been moving to step into the front-end relationship view. But, until the back-end infrastructure is transformed, this is not a significant change to how the financial markets operate.

However, the back-end is also now under attack. Shared, federated, open ledger technologies based upon the blockchain protocol are now eating into the core market structures. This was made clear when Bob Greifeld, CEO of NASDAQ, announced their developments using Chain software is allowing the exchange to clear and settle in ten minutes. This puts in question the whole structure of the other back-end operations. For example, US equity markets operate in T+3 - 3 days to clear and settle. If new technology based structures can clear and settle in minutes, then the risk in trading disappears. The way in which collateral management, custodial services, central counterparty clearing and more is fundamentally challenged. Operators like the DTCC, Euroclear, TARGET2, Clearstream and more are fundamentally challenged. This is where the next wave of transformation will take place.

There was some discussion about whether we are in a Fintech bubble. There's a lot of hype out there about the unicorns, much of which might be misplaced, but there is also a reality out there that some firms like Stripe, Square, Lending Club, SoFi and Prosper are really making a difference. None of these threaten the core of the financial markets yet but ... one day? And, if you look at these developments so far, the disrupters are actually also enablers. They are reaching parts of the markets that haven't been reached before, such as higher risk small business lending or payments in places you could never pay before.

I think the key point here is the customer. The customer really doesn't care about Big Data, blockchain, artificial intelligence, peer-to-peer lending or such like. All the customer cares about is ease of access and a great experience. Whoever is the most agile at embracing change, incorporating new technologies and adapting to provide the best user experience will win out.

At the end of the discussion, we all agreed that this is both transformational and evolutionary, and will be a win:win for those banks that embrace the Fintech future and make the change. Those that don't will just be moving chairs on the Titanic instead of looking for icebergs.



Original article — <http://thefinanser.co.uk/fsclub/2015/11/are-bankers-just-rearranging-deckchairs.html>