



Beyond Fintech

Disruptive innovation in equity crowdfunding

Background

A 2017 report from Deloitte and the World Economic Forum, “Beyond Fintech: A pragmatic assessment of disruptive potential in financial services,” examines disruptive innovation in financial services.

The report identifies 8 key forces impacting all aspects of financial services:

1. Cost Commoditisation

Financial institutions will accelerate the commoditisation of their cost bases, removing them as points of competition and creating new grounds for differentiation.

3. Experience Ownership

Power will transfer to the owner of the customer interface; pure manufacturers must therefore become hyper-scaled or hyper-focused.

5. Platforms Rising

Platforms that offer the ability to engage with different financial institutions from a single channel will become the dominant model for the delivery of financial services.

7. Financial Regionalisation

Diverging regulatory priorities and customer needs will lead financial services in different regions of the world down distinct paths.

2. Profit Redistribution

Technology and new partnerships will enable organisations to bypass traditional value chains, thereby redistributing profit pools.

4. Data Monetisation

Data will become increasingly important for differentiation, but static data sets will be enriched by flows of data from multiple sources combined and used in real time.

6. Bionic Workforce

As the ability of machines to replicate the behaviors of humans continues to evolve, financial institutions will need to manage labor and capital as a single set of capabilities.

8. Systemically Important Techs

Financial institutions increasingly resemble, and are dependent on, large tech firms to acquire critical infrastructure and differentiating technologies.



Trends

Where disruption has occurred?	Crowdfunding platforms have grown rapidly, driven by strong demand from both investors and entrepreneurs.
	The quality of regulation has been a defining factor in the success of equity crowdfunding.
Where it hasn't	The crowd has proven less wise than expected, highlighting the need for further education and commercial due diligence tools to assist investors.
	Equity crowdfunding remains disconnected from the broader financial system, limiting its longterm scalability.

Open questions



What partnerships are important to developing new products and expanding distribution?



Will changing market conditions (e.g. rising interest rates) significantly affect investor demand for early-stage equity?



How can platforms use emerging technologies (such as artificial intelligence and machine learning) to educate investors and help them perform due diligence?



How will regulators balance investor protection with ensuring that platforms remain an attractive source of capital?

Possible futures

Social driver	Platforms fizzle in profit-oriented industries, but catch on as vehicles for social impact.	Social enterprises will gain stature and attract more funding as the ecosystem develops.
International expansion	Regulators converge to allow cross-border investment and crowdfunding platform growth.	Crowdfunding platforms will go international, leveling access to venture capital across geographies.
Shooting star	Crowdfunding platforms forge partnerships and become big enough to lead the late-stage offerings that venture capital firms traditionally manage.	Crowdfunding will become more important for seed stage funding, but individual investors will participate only through their wealth managers.

Key takeaways

Improved liquidity at seed stage

Leading crowdfunding platforms will increase the amount of seed-stage funding available to entrepreneurs, filling a valuable niche, especially in parts of the world with less venture capital investment.

Regulator balance

Whatever direction equity crowdfunding takes – direct to consumers or as a partner to incumbents – regulators will strongly influence the industry. As such, regulators must weigh their encouragement of crowdfunding against a responsibility to provide for adequate due diligence.

Integration with broader financial ecosystem

To be sustainable, equity crowdfunding platforms will need to broaden their funding by working with other parts of the financial system (such as by tying into wealth management platforms). They also will need to establish secondary markets with sufficient liquidity.



Equity crowdfunding

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