Beyond Fintech
Disruptive innovation in lending

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.

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

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

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.

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.

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.

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

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

Trends

Where distribution has occurred?	Individual and small-business borrowers expect their lenders to deliver the seamless digital origination and rapid adjudication that financial technology (fintech) companies pioneered.
	Non-financial platforms are emerging as an important source of underwriting data and a point of distribution for credit.
Where it hasn't	Funding economics put marketplace lenders at a cost disadvantage compared to traditional banks, raising questions about the model's sustainability.

Open questions

How can platforms cooperate to improve access tools and standardize "market language"?

How will disruptive technologies affect the value chain and individual roles in market infrastructure?

How close to production are technologies like artificial intelligence and distributed ledger technology?

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

What will make industry players work together to establish new business models?

Possible futures

Different evolutionary paths	Marketplace lenders must develop more sophisticated capabilities or compete on price with established banks.	Clients will benefit from a fragmenting lending environment thanks to greater competition and sophisticated niche lending.
Shared service providers	The desire for cost-commoditization drives growth in B2B service providers, as two needs come together in one solution.	Outsourcing will improve industry cost structures, but also create new sources of risk.
Distribution 2.0	Non-financial firms move into financial services either revolutionising or disintermediating the traditional broker channel	As partnerships between banks and non-financial firms proliferate, customers will enjoy more choices and a better experience.

Key takeaways

The lowest funding costs win

Despite their innovations in origination and adjudication, online lenders have limited ability to compete with banks due to high and unstable funding costs. This will drive online lenders to acquire banking licenses – unless alternative funding becomes available.

Lending goes (mostly) digital

Marketplace lenders and technology firms have reoriented customers. In the future, customers will expect a frictionless application experience and a swift response.

Lenders use data effectively

Leading lenders use new data sources to underwrite applications whose risks they couldn't assess before (e.g. thin-file customers). They also reduce underwriting costs by automating the collection and analysis of key data (e.g. using data gathered directly from a small business accounting platform). Moving forward, lenders will look for more ways that data can inform lending decisions.

Key contacts

James Hickey
Partner, Financial Services
E: jahickey@deloitte.com.au

Heather Baister
Partner, Financial Services
E:hebaister@deloitte.com.au

To view the full report, visit https://www.deloitte.com/au/beyondfintech