What makes a successful FinTech hub in the global FinTech race?

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Financial technology, or FinTech, refers to the application of disruptive technologies in the financial services industry. Although FinTech is not new, it has been under the spotlight in recent years as advances in exponential technologies and new business models have challenged existing products, services and processes, and enabled faster, cheaper or more engaging solutions to be created. FinTech innovations can come from both start-ups and incumbent financial institutions.

A FinTech hub is the focal point for FinTech activity within a region or a network. It is the ecosystem encompassing the entire infrastructure, organizations and people within the hub, as well as how those elements are organized and engage with each other. Hubs are often defined as cities, as is the case with this article, but can also be wider regions (e.g. Silicon Valley), countries, or narrower locations (e.g. Level39 in London).

Just as organizations have distinctive traits that differentiate them from competitors and peers, FinTech hubs possess inherent attributes that make them unique based on their history and local intricacies. However, as with organizations, there is a common set of identifiable and interrelating factors that contribute to the overall success of the hub.

In this article, we look at the key factors contributing to the success of FinTech hubs across the globe and draw a connection to the key factors that CIOs and management need to consider when creating an innovative environment in their organizations.
Four key factors contributing to the success of FinTech hubs

In partnership with the Global FinTech Hubs Federation, Deloitte released the Connecting Global FinTech report in April 2017 that analyzed 44 hubs from around the world according to a number of qualitative and quantitative factors. These factors comprise the fundamental building blocks for a hub to thrive, and include:

**Talent**
Peripheral talent pools are key as well; legal, marketing and business development skillsets all serve to bolster the talent mix within a hub. This mix, in turn, nurtures a culture of innovation that is an extremely powerful pull factor and serves to attract and retain talent on a global stage.

Although our report found that most European hubs agreed there is good access to talent within their hubs, access to talent was less consistent across other areas of the globe. In particular, a number of emerging hubs across Asia cited a technology skills shortage (specifically software developers and engineers) as a specific challenge in their hub.

With the recognition of the importance of developing and sustaining the talent pipeline, some hubs have implemented specific policies and programs to improve access to FinTech talent. Examples include the UK’s Tech Nation Visa, which enables tech talent from across the world to work in the UK’s digital technology sector, and Hong Kong’s FinTech Career Accelerator Scheme, a government-led program that co-ordinates the placement of highly educated students in financial services organizations, FinTech start-ups and regulatory authorities.

Once hubs have established themselves globally, they have the natural advantage of becoming a magnet for talent and creating a virtuous cycle of attracting and retaining talent. Creating this ‘culture of innovation’ is an organic and unpredictable attribute for a hub to attain; and leads to different niches and strengths across hubs. For example, talent from army-trained technicians in Israel have enabled the hub to lead in cyber security FinTech innovations.

**Capital**

**Demand**

**Policy and Regulation**

Overall, we found that the strength of a FinTech hub is directly related to the ability of FinTech organizations to access talent, capital, and demand, as well as the effectiveness of progressive policies and regulations designed to enable FinTech growth.

01. Talent
The ability to attract, develop and retain talent in three key domains is crucial to a FinTech hub’s success on a global scale. These domains are:

- **Finance**
  Domain expertise within financial services: an understanding of not only the products and services but also the pain-points and opportunities within existing processes.

- **Technology**
  Technical expertise: the ability to develop the software and hardware required to turn ideas into solutions.

- **Entrepreneurship**
  Less tangible than the other two domains, entrepreneurial talent is the ability to identify commercial opportunities and bring together resources required to materialize ideas. This is a key factor that distinguishes successful hubs from less successful ones.

http://Deloitte.co.uk/fintechhubs
02. Capital
Start-ups need access to seed and scale capital to develop and grow their ideas, and will move to where they can raise investment. Therefore, access to capital, whether it comes from private investors (e.g. angel investors, venture capital, and private equity communities), governments or corporates, is a key driver of FinTech activity across hubs. As Venture Capital (VC) investment deals are the best documented of these sources of capital, they are viewed by the industry as a credible barometer for the state of FinTech activity across hubs. Higher values and volumes of VC investment activity is therefore a proxy for higher levels of FinTech activity.

In addition to start-up and scale-up funding for FinTech companies, investment is also required to fund initiatives such as not-for-profit accelerators, sandboxes and incubator programs that foster collaboration within the FinTech ecosystem.

In some areas, entrepreneurial patriarchs who have actively built and exited companies also serve as a strong source of capital, re-investing further into the hub. Peter Thiel and Elon Musk in Silicon Valley are examples of this trend.

Globally, US$17.4 billion of VC investment was put in to FinTech across 1,436 deals in 2016. China and the United States accounted for the majority of these investments, with US$7.7 billion and US$6.2 billion being invested respectively.

Since a large value of VC investments come from a small number of hubs, it’s unsurprising that our report found 32 percent of hubs surveyed identified low access to capital as a primary challenge in their hub, while 25 percent cited low exit opportunities as a major challenge.

However, on a positive note, a more recent report issued by Innovate Finance in July 2017^2, shows that in the first half of 2017, VC investment from countries other than China increased significantly. Excluding exceptional “mega-rounds” of Chinese investments in 2016, global VC investment in FinTech in the first half of 2017 increased by over 28 percent year on year.

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Global Fintech VC deal value 2016^3

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03. Demand
As with any other industry, demand drives supply in the FinTech space. Demand for FinTech products can come directly from consumers (business-to-consumer or B2C) or other businesses (business-to-business or B2B).

The more established a financial services industry is within a hub, the more likely it is for the hub to have a stronger FinTech market. This is because consumers within those markets are likely to be more educated about financial products and are therefore less averse to trying new financial products and services. Secondly, established financial institutions looking to expand or improve their own offerings can provide a source of investment for B2B FinTech companies. This is why, for example, Barclays has invested in setting up its RISE program in key financial services centers such as New York and London.

Although this generalization is true for the major financial hubs noted in our report such as London, New York, Chicago, San Francisco, Hong Kong and others, a strong financial services industry does not always equate to a strong FinTech hub. For example, although Tokyo has a strong financial services industry, regulation and other factors have meant that FinTech has been slow to take off, compared to some of the other financial hubs.

Our report also found that most hubs surveyed from across the world believed they have good access to FinTech demand. However, around a third of hubs identified that much of the demand comes from outside of their local markets, thus highlighting the global nature of FinTech. This was particularly in the case of smaller hubs, such as Lisbon, or more geographically remote hubs, such as Auckland.

04. Policy and Regulation
Policy and regulation are key factors that contribute to the success of a FinTech hub. Governments and regulators need to strike a balance between promoting innovation and effective competition, while protecting investors and consumers. These bodies provide the framework, policies and procedures that both encourage and safeguard FinTech within the hub.

Testament to how important supportive regulations are to FinTech growth, are two of the world’s leading FinTech hubs, London and Singapore, also known for their progressive regulatory bodies: the Financial Conduct Authority and the Monetary Authority of Singapore, respectively. These regulators have put in place initiatives that foster FinTech collaboration within their hubs such as FinTech offices, accelerator programs, international agreements and sandbox environments where FinTech and financial institutions can ‘test’ innovations in a safe production environment with less onerous regulations.

The FCA and MAS are regarded as pioneers, leading the new wave of FinTech growth. The UK in particular has benefited from first-mover advantage in setting up a regulatory sandbox to support FinTechs. However, with their model being adopted across the globe and as regulatory sandboxes and inter-regulator co-operation agreements become more commonplace, progressive regulators will need to continue regulatory reforms in order to maintain an edge in supporting FinTech growth.

Our report indicated that by March 2017, six regulators had replicated the FCA’s and MAS’ regulatory sandbox regimes in their jurisdictions while eight other regulators had proposed similar initiatives. By August 2017, a number of additional regulators had also announced sandbox regimes, e.g., Bahrain and Lithuania. The trend is likely to continue, especially given that the European Union Commission is presently reviewing the possibilities of a Europe-wide regulatory sandbox.

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4. For example, two substantial pieces of regulation that will come into effect across the EU in 2018 are the revised Payments Services Directive (PSD2) and General Data Protection Regulation (GDPR), which aim to put customers in control of their own data and keeping that data safe. More information on the impact of these regulations on FinTechs can be found here: http://blogs.deloitte.co.uk/financialservices/2017/08/psd2-and-gdpr-friends-or-foes.html
Regulator aside, governments also play an important role in supporting FinTech growth. The government in India, for example, has established policies and programs and provided investment to support the development of FinTech and start-ups in the country. The Start-up India program, which provides simplified regulatory processes, tax exemptions, patent reforms, mentorship opportunities and increased government funding for start-ups is one such example. Other initiatives led by the central government in India include the introduction of a nationwide Unified Payments Interface, a central digital identity base that enables e-KYC to be completed economically and the demonetization of bank notes in 2016 — all of which are expected to benefit FinTech growth.

As a CIO, what does this mean for me?

As can be seen above, the success of FinTech hubs depend on a variety of interdependent factors. While there is no magic formula, we discussed four key factors that need to be taken into consideration when creating a successful FinTech ecosystem. These factors are equally important for management looking to create a supportive environment for FinTech innovations within their organizations.

The more established a financial services industry is within a hub, the more likely it is for the hub to have a stronger FinTech market.


Talent

Just as successful hubs need to secure a pipeline of FinTech talent, innovative organizations need to develop FinTech competencies through a combination of attracting new blood, training existing talent pools and creating an environment that retains high-caliber innovators and technologists and begins to adopt the DNA & start-ups.

Key considerations for CIOs and management:

- What are the talent gaps in your organisation? How are you going to address those?
- How do you develop a culture and set of performance metrics and frameworks that attracts and retains, rather than drains, talent?
Capital
In the same way that access to capital investment can make or break a start-up’s success, the ability for innovative teams to access internal funding and resources is crucial to an organization’s ability to innovate. On the flip side, simply throwing money at ‘innovations’ does not guarantee success and organizations with the largest innovation funds are not always the most successful. For example, although Tesla is widely regarded as a forward-thinking innovative company, Tesla reportedly only spent US$232 million on R&D in 2013 \(^6\), in contrast to automotive competitor Volkswagen’s reported 2013 R&D spending to be US$13 billion \(^7\).

Demand
If there is no demand, there is no viable product or service. Successful innovative organizations pay attention to their customer’s needs and know where and how they fit in their customers’ lives. More than that, successful organizations know where other companies’ products and services fit in their customers’ lives and know when to partner with other parts of the ecosystem to provide a seamless experience for their customers.

Policies and Regulations
As we saw previously, policies and regulations can both enable or constrain FinTech developments within hubs. Governance structures, policies, and procedures all serve to support or restrict an organization’s ability to innovate. Successful organizations need to balance, on the one hand, robust governance and controls to manage risk and compliance with regulations, and on the other hand, flexible procedures and policies that support rather than stifle innovations.

Key considerations for CIOs and management:
- What funding is available for innovative initiatives?
- How are investments structured?

Key considerations for CIOs and management:
- How well do you know your customers? And the wider ecosystem?
- What networking or partnering opportunities are there? What is the process for establishing collaboration opportunities?

Key considerations for CIOs and management:
- What are the risks and governance processes in place to make decisions?
- What are the reporting lines for innovation arms or acquisitions? Are there conflicting governance models and policies between innovation practices and the main organization?