

Blurred lines: How FinTech is shaping Financial Services

Global FinTech Report
March 2016



20%

More than 20% of
FS businesses at risk
to FinTech by 2020

57%

are unsure about or
unlikely to expand to
blockchain technology

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73% of traditional Financial Institutions in Singapore believe they are at risk of losing business to FinTechs

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73% of traditional Financial Institutions in Singapore believe they are at risk of losing business to FinTechs

A report published today by PwC, assessing the rise of new technologies in the financial services (FS) sector and their impact on market players, reveals 73% of traditional FS firms in Singapore believe that part of their business is at risk of being lost to standalone FinTech companies. Globally, this figure stands at 83% with a staggering 95% in the case of banks.

The report, '[Blurred Lines: How FinTech is shaping Financial services](#)', features the responses of 544 CEOs, Heads of Innovation, CIOs and top management involved in digital and technological transformation across the FS industry in 46 countries. Incumbents globally believe 23% of their business could be at risk due to further FinTech developments. What's more, globally, FinTech companies themselves anticipate they could capture 33% of incumbents' business.

Banking and payments feel most heat from FinTech

The survey shows the banking and payments industries are feeling the most pressure from FinTech companies. Globally, respondents from the fund transfer and payments industry anticipate that in the next five years, they could lose up to 28% of their market share to them, while bankers estimate they are likely to lose 24%. This compares to around 22% in the case of asset and wealth management and 21% in insurance.

Top threats from FinTech

Globally, two-thirds (67%) of FS companies ranked pressure on profit margins as the top FinTech-related threat, followed by loss of market share (59%). One of the key ways in which FinTechs support the margin pressure point through innovation is step function improvements in operating costs. For instance, the movement to cloud-based platforms not only decreases up-front costs, but also reduces ongoing infrastructure costs.

Antony Eldridge, Financial Services and FinTech Leader, PwC Singapore comments:

“FinTech, which has a strong and growing centre of excellence in Singapore, is shifting the paradigm of traditional intermediary roles and making them obsolete. While FS organisations have previously acted as intermediaries in the financial system by providing an invaluable service to clients, their functions are being usurped by new technology-driven business models.”

Blockchain untapped and underestimated by FS

Blockchain, a distributed ledger technology, represents the next evolutionary jump in business process optimisation technology. According to PwC, it could result in a radically different competitive future for the FS industry, where current profit pools are disrupted and redistributed towards the owners of new, highly efficient blockchain platforms. Not only could there be huge cost savings from blockchain but also large gains in transparency. Yet, it ranks low on the agendas of survey respondents.

While the majority of respondents globally (56%) recognise its importance, 57% say they are unsure or unlikely to respond to this trend.

“When faced with disruptive technologies, the world's leading companies succeed by rapidly weaving them into their DNA, as part of their ‘business as usual’ process,” says Greg Unsworth, Digital Business & Risk Assurance Leader, PwC Singapore

“Blockchain and disruptive ledger technologies offer a once-in-a-lifetime opportunity for financial services companies to transform the way they do business. In our view, the lack of understanding of blockchain technology and its potential for disruption poses significant risks to existing business models and firms that do not take the time to understand the impact will underestimate the opportunities and threats that blockchain can provide.”

To put this into perspective, PwC’s Global Blockchain* team has identified over 700 companies entering this space, 150 of whom are classified as ‘ones to watch’ and 25 classified as likely to emerge as market leaders.

Challenges for FinTech companies and incumbents

PwC’s survey shows that, globally, the most widespread form of collaboration with FinTech companies is joint partnership (32%), which, says PwC, is

indicative that FS firms are not ready to go all in and invest fully in FinTech.

Asked what challenges they face in dealing with FinTech companies, 53% of incumbents cited IT security, regulatory uncertainty (49%) and differences in business models (40%).

In the case of FinTech companies globally, differences in management and culture (54%), operational processes (47%) and regulatory uncertainty (43%) were deemed the top three challenges when dealing with traditional FS firms.

John Shipman, Asia FinTech Leader, PwC comments:

“FinTech is changing the FS industry from the outside. PwC estimates within the next 3-5 years, cumulative investment in FinTech globally could well exceed US\$150bn, and financial institutions and tech companies are stepping over one another for a chance to get into the game. As the lines between traditional finance, technology firms and telecom companies are blurring, many innovative solutions are emerging and there is clearly no straightforward solution to navigate this FinTech world,” says Shipman.

Antony Eldridge, Financial Services and FinTech Leader, PwC Singapore, concludes that: “Given how fast technology is developing, incumbents cannot afford to ignore FinTech and its disruptive impact on the market. Nevertheless, our survey has shown that a non-negligible 25% of firms do not deal with FinTech companies at all. With the pace of change now accelerating, no FS business can afford to fall behind. ”

ENDS

Notes to Editors:

All results are global unless otherwise specified.

PwC’s Global FinTech report, [‘Blurred Lines: How FinTech is shaping Financial Services’](#), assesses the rise of new technologies in the financial services sector, the potential impact of FinTech on market players and their attitudes regarding the latest technological developments. Additionally, it offers strategic responses to this ever-changing environment.

The report is based on a survey of 544 respondents, across 46 countries, comprising CEOs, Heads of Innovation, CIOs and top management involved in digital and technological transformation across the FS industry: Payments, Asset & Wealth Management, Banking and Insurance. The survey also encompasses other companies such as consultants, national supervisory and international financial institutions.

For a copy of the report and to see the full results, please visit www.pwc.com/fintechreport

***DeNovo** is PwC's dynamic strategy consulting platform including content based on the evaluation of over 1,000 blockchain start-ups and new market entrants. PwC subject matter specialists curate and analyse information from a wide variety of sources to identify the blockchain companies and trends with real substance, then highlight the ones of potentially systemic importance. DeNovo delivers this insight in real time, so clients can spot the most critical trends, understand their impact on the value chain, and generate opportunities to leverage change and fend off threats. The platform has come off beta and launches today, 15 March 2016.

About PwC

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