

How big data, AI and blockchain are changing finance

The marriage of finance and technology has given rise to new players. Here's how pioneering fintech business models are transforming the financial industry.



July 1, 2018

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In late 2017, the struggling beverage company, Long Island Iced Tea Corp., suddenly changed its name to Long Blockchain Corp. At the time, the mania for all things blockchain —

the technology on which bitcoin and other cryptocurrencies are based — was at a peak and bitcoin's value was going through the roof. The mere announcement of a pivot into blockchain saw the unprofitable company's stock rise nearly 300%. Although this prompted stern warnings from the U.S. Securities and Exchange Commission about cheap attempts to capitalize on cryptomania, the fact that blockchain would give any business such a bump just goes to show the market appetite for it.

Fintech is disrupting the financial industry, adding a glossary of exotic new terms to our business vernacular. What exactly is the fintech revolution all about? Is it a bubble or will it generate true, lasting value?

While *fintech* is a new term, the existence and use of financial technology is not. Financial technology has been around since at least the mid-1990s, with the banking industry being its largest buyer and user. Incumbents frequently used the technology as much to create market barriers and maintain their dominance as to provide better financial services.

Since then, things have changed. The mass use and adoption of the internet and smartphones, the emergence of cost-cutting technologies, greater regulatory flexibility and radical demographic shifts have all facilitated the entry of disruptive new players. These are what people refer to when they talk about fintechs today.

The arrival of these new market players has benefited not just the end user but also businesses, for whom banks have ceased to be the only access point to the financial system. For small and medium-sized enterprises (SMEs), fintechs offer a wide variety of solutions — from new forms of affordable financing, to faster, more efficient payment methods, to better customer service.

For the past few years, we have conducted research on this topic and interviewed fintech executives. In this article, we will look at the main drivers of this disruptive new phenomenon and analyze some of the potential benefits for companies of all sizes and sectors.

The fintech ecosystem

Driving the fintech revolution are six key forces that interact within a dynamic ecosystem.

1. The first big driving force is **consumerization**. Technology is no longer the sole preserve of IT specialists. Today's consumers are increasingly well versed in technological tools, skills and language, forcing companies to adopt models that originate in the consumer space. The more that technology becomes democratized

and consumerized, the less loyal people feel to traditional financial service providers.

2. A second force is **startups** — the fintechs themselves. These are the new, entrepreneurial, innovative market entrants that have taken an age-old industry by storm. They deliver more economical, flexible, user-friendly services, disintermediating financial services and capturing a considerable part of traditional banks' market share. According to a 2017 PwC Global Fintech Report, over 80% of incumbents believe their current business is at risk, with nontraditional financial service providers already offering payment solutions, transfer services and insurance to 84%, 68% and 38% of their customers, respectively.
3. **Tech developers** are the third force. These are the ones who develop the digital platforms and core technologies — such as artificial intelligence, data analytics and cloud computing — that have made it easier for fintech innovators to enter with alternative solutions.
4. The next force is **platforms**. The dominant platforms of Facebook, Amazon, Apple and Google have been able to leverage the data they constantly accumulate on their users to offer ever more powerful services. These leading platforms, with their considerable experience and scale, make fearsome competitors, not just for small fintech startups but, disturbingly, for large, established institutions, particularly banks. In fact, these platforms seem to be forming their own self-sufficient digital ecosystem that could well supplant that of banks.
5. Fifth is the **traditional financial service providers**. Threatened with losing market share, they have been forced to reevaluate their business models in order to find new competitive strategies and attract millennial customers the way that innovators have done.
6. Monitoring all these constantly changing forces are **governments**, which try to formulate an appropriate regulatory framework for emerging market players without becoming so bureaucratic as to stifle their initiative.

New business models

A common feature of many fintechs is their ability to generate new business models. As our IESE colleague [Javier Zamora](#) has pointed out, the reduced cost of tech allows fintechs to create value propositions with fewer resources than established companies require to launch new solutions onto the market. This democratizing phenomenon has given rise to what's known as unbundling, whereby different financial services are able to be offered by small, separate players, each of which can focus on very specialized propositions. These smaller

businesses are integrated within a larger ecosystem, thanks to the coordinating possibilities resulting from greater connectivity among all the players involved in the value proposition.

As such, in each of the different segments of the fintech industry, we find advantageous solutions for companies of all sectors in their daily operations. Let's consider each of these advantages in turn.

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