

Mid-Year Check-In

July 2016

It has been an active and rapidly changing 2016 for Financial Technology (FinTech), and many themes emerged over the first six months. Below we highlight a few of our favorites sourced from conversations with various market participants. We then pose a few questions to consider as the rest of the year gets underway.

Peer-to-Peer (P2P) Lending

This area has taken it on the chin so far this year. Ironically, hedge funds and other buy-side participants serve as a large source of the funding, despite very few people considering them "peers." So far this year, a well-documented CEO [resignation](#) occurred at the largest P2P player, regulatory bodies in the [UK](#) and [China](#) increased scrutiny of P2P participants (closing down those who do not pass muster), and stock prices [plummeted](#) across the sector.

While many still believe in the objective of P2P lending (connecting borrowers who fall outside of traditional credit criteria with sources of capital), how the industry reacts to these setbacks and which main players remain are yet to be determined.

Domination of Core Processors

There are hundreds of FinTech firms that serve, or would like to serve, the community banking sector, and community banking executives are [open to exploring](#) FinTech. When speaking with both bankers and FinTech CEOs, a common theme is the importance of banking core processors in this process. When it comes to community banking innovation, core processors play a critical role as the backbone of a bank's technical infrastructure.

The processors are up against the "buy, build, or partner" question when it comes to innovating, and the "partner" portion is where the conversation primarily lies with FinTech firms. For example, if a FinTech firm that provides a small business lending platform for community banks is not integrated with one of the main core processors, it will be extremely difficult to sell into banks served by those core processors. Core processor contracts are often extensive and difficult to alter. A community bank may ultimately find itself wanting to work

with a FinTech provider, but is unable to do so because the provider lacks integration.

Core processors are proactively looking to tackle this issue, be it through FinTech accelerator and incubator [partnerships](#) and/or dialogue with various [bankers associations](#). The sooner headway is made, the sooner true FinTech innovation can blossom in the community banking space.

Blockchain - Big, Scary, & Exciting

Blockchain gained significant traction and general understanding over the last 6 - 12 months. Not that long ago, most people in finance did not know the difference between BitCoin and Blockchain (us included). Today, some of the largest financial institutions in the world are partnering with, and in some cases purchasing, Blockchain companies to tackle [trade finance](#), [syndicated lending book-swapping](#), [trading](#), and more. Despite the current "figuring it out" stage, some very smart individuals recently declared that Blockchain will be [as important as the internet](#) (if not moreso). Don't be surprised to hear more in the coming months.

"Fifty-five percent of community and regional bank executives have not met with potential FinTech partners, despite aspiring to do so."

-Jon Marino, CNBC Wall Street Reporter

Food for Thought

We expect these questions will be included in our ongoing FinTech communications with financial services executives:

- Is technology available that addresses growing regulatory oversight and compliance costs?
- Are financial institutions amply focusing on and embracing cyber-security technology? Are post-breach plans in place?
- Will robo-advisors be a replacement for or a tool used by wealth advisors?
- Is sentiment analysis being sufficiently utilized as a new way to understand data?
- Given the vast number of FinTech firms that serve the equities market, will more fixed income-focused firms emerge to serve that much larger market?

We're excited to engage in these discussions and work through how technology can play a larger and more important role across the financial services industry. We hope you'll consider being part of these discussions, too.