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Banking on a digital revolution

Blog Editor

The age of big data, combined with novel uses of cutting-edge technologies, has opened a new landscape for emerging businesses in the financial services. Modern finance applications are just emerging and there are divergent expectations of what will happen. In this post **Mike Laven***, CEO of The Currency Cloud, presents his view of the emerging financial services in light of the research that we have been conducting at the LSE under a NEMODE (RCUK Digital Economy) grant. Mike suggests that we shall expect to see disruptions and changes, mostly on the retail banking sector.*

Over the last few years a variety of technology firms have emerged looking to accelerate money's transition from the analogue to the digital. Historically, banks have monopolised the financial services industry and with little to compete against, the sector has been slow to respond to a complete digital revolution to reflect the internet economy. Up until the last few years, there had been no major innovation since the introduction of SWIFT in 1977, the first electronic credit card in 1958 and ATMs in the 1970s. Although there have been a number of other notable advances such as chip and pin and internet banking, these have only been upgrades to existing technology and services. However, the growing maturity of the internet is now changing the playing field and a number of true digital innovators are beginning to gain traction in the industry, giving traditional financial institutions a sobering problem.

Growth of the internet, particularly in recent years, has led us towards a progressively multichannel world; from widespread smartphone and tablet adoption, big data and cloud computing to the rise of social media, apps and ecommerce, internet technology has become incessantly entwined in our everyday lives. This digital revolution has finally begun to filter down into the financial services industry, triggering the emergence of alternative customer facing services or 'new finance' firms into the mainstream. These firms are in tune with the digital age and they provide cutting edge technology, improved customer service and lower costs. By seeking out inefficient segments of the financial value chain, they are able to use technology and big data to build out services based around the needs of their customers.

From peer-to-peer lending to mobile wallets and crowdfunding, innovators are redefining old verticals or creating entirely new ones – the likes of Azimo (allows consumers to send money overseas via Facebook or mobile) and Transferwise (peer-to-peer money transfer network) are transforming the way consumers send money abroad. Other companies such as Kantox and my own firm The Currency Cloud are offering real-time, transparent solutions for the international money transfer market minus the hidden fees and failed payments that come inherently with banks. Outside of the international payments industry, firms such as Zopa and Funding Circle are taking the peer-to-peer lending market by storm, offering businesses and consumers access to finance at a time when the banks have been reluctant to lend. Crowdfunding firms, Seedr and Kickstarter have also helped businesses get off the ground by providing a public platform for fundraising.

Banks, in contrast, have approached the digital world by providing the same services offered by physical branches through new channels. The problem with this is that the majority of bank processes still operate around product siloes, a system that works well for the branch but restricts any real integration beyond that, making it ill suited for a multichannel world. In other words, the banks are not designed to deliver the user friendly, low cost and convenient services which the businesses and consumers of today now demand. Brett King, author of *Banking 3.0* sums it up well:

> *"Banks should…be…looking at which types of transactions works best on which channel. Doing this in an integrated fashion is far more important than just blasting individual offers down a new pipeline because technology allows you to do so".*

Instead newer, leaner, more efficient firms are changing customer expectations.

While the dominance of banks in the capital markets is unlikely to be challenged, technology firms creating a new economic model in the digital economy are disrupting their position in retail banking. Banks might provide trust, liquidity and settlement but consumers and businesses no longer need them to handle all of their finances. Internet-financial technology firms are offering a genuine alternative to the customer-facing payments services of traditional institutions and in turn are acting as a catalyst to the digitisation of money. Their entry is forcing both businesses and consumers to redefine what they expect of financial services and as a result the way we are now able to interact with money is transforming for the better.

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This article gives the views of the author, and not the position of LSE Network Economy Blog nor of the London School of Economics.

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About the Author

Mike Laven – Chief Executive Officer, The Currency Cloud. Behind Mike's avuncular exterior lies one of the sharpest minds in the financial technology industry. Over the last fifteen years, Mike has held leadership roles at a number of a FinTech firms. He joined The Currency Cloud in 2011, growing the firm to processing over $4bn of international payments per annum. As home in Silicon Valley as in the financial services world in London, you will be unsurprised if you meet Mike to learn that he has several degrees, including from Harvard. In his early career, he even spent six years working for the United Nations. In his spare time, Mike plays classical and jazz piano, a topic on which he can bore even the most ardent music aficionado rigid.

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