

Seven signs of over-hyped Fintech

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In 2015 Dan Davies wrote an [excellent guide](#) to Fintech business models (the “Fin”) that provided a very effective tool for looking beyond the hype. The other side of Fintech that the non-technologist (and even many experienced IT professionals) have trouble with is the actual “Tech”. A great many people in finance have now reached the point where they would like a way to identify Fintech technologies which are unlikely to solve real problems, work any better than existing technologies, are generally impractical or simply need a lot more explanation. The following are seven ways to identify Fintech technologies that do not deserve the hype.

1. The technology claims to solve a problem that did not exist before and was actually created by the nature of the new technology.

Perhaps the best example of claiming credit for a problem that did not exist before is Bitcoin. Bitcoin enthusiasts claim it solved the “double spend” problem. A music MP3 can be copied multiple times so how do you stop digital money being spent multiple times? Very simple, you do not create a form of money that lacks a central authority. The electronic money spent in the modern financial system cannot be spent twice because in the modern world money mostly exists as a liability on the balance sheet of commercial banks (and they will not let you spend it twice) or as central bank reserves. Central banks have a similar attitude to people who attempt to use the same funds twice.

2. A small part of the functionality of an existing system is implemented using the new technology and is claimed as a great success.

It is genuinely hard to create a technology based on computers that cannot be used to re-implement existing business logic. Even the most amateurish Blockchain solution supports some form of programming logic, data storage and data distribution. With those core components, you can re-implement pretty much anything in the financial system. The big question is whether you have re-implemented in a way that is cheaper, quicker or more secure.

3. No thought has been given to the costs and complexities of integrating the new technology with existing infrastructure.

Some minimum degree of interoperability with the rest of the financial world is required to make any new Fintech technology work unless you really are proposing it will grow up in parallel and replace everything. In which case the technology (and related business models) require even closer scrutiny.

4. The technology is new and original but the creators are incapable of explaining how it would be any better at solving real world problems than existing technology

Computers and software can be used by smart hard working people to create amazing things. However the general purpose nature of computers and programming languages mean that incompetent people can always produce awful systems. Creating a new technology does not easily get away from this general truth. Technologies become more obviously pointless when their proponents cannot even explain why their technology is better. Bearing in mind an explanation of “better” should ideally be in terms of mechanisms for improvement as opposed to mere assertions of virtue.

5. The technology would fail to meet legal and regulatory requirements if treated on the same basis as existing technologies

In spite of the recurrent problems in the infrastructure of some individual banks and occasionally market infrastructure there are a great many very strict rules (both legal and internal to organisations). Regarding security, resilience, privacy, transparency to regulators. Those rules are generally there for very good reasons that do not simply become irrelevant because the technology changes.

6. The advocates of the technology claim you “do not need to understand how it works, you just have to believe that it will change the world”.

Every day many human beings make use of a myriad of technologies without understanding how they work, aircraft, computers, microwave ovens to name a few. However there is big difference between those technologies and some fintech technologies (particularly those related to distributed ledger technology). Each day airliners successfully take people across the Atlantic, microwave ovens heat food and computers are used to post videos of cats to YouTube. While all this genuine use of technology goes on many Fintech related technologies seem to just generate hype. Where a Fintech technology cannot be demonstrably shown to work in the real world

(maybe is it simply too new) people really need to understand how it works in order to make judgements about its worth. Otherwise you end up relying on faith or magical thinking.

7. Criticism or even just questions are dismissed by referring to adoption/hype cycles that show you are going through a period of negativity before ultimate success

There are multiple variations of these curves including the famous Gartner Hype Curve. The way these types of curves are used to attempt to silence critics is by proclaiming that criticism (or even just questions) are due to being in the “Trough of Disillusionment” and that eventually you will reach the “Plateau of Enlightenment”. It just takes persistence, give it five or ten years (and a few hundred million dollars) and the preferred technology will be mature enough to do something useful. In many cases this will be true. It can take a long time for a technology to mature enough for widespread adoption. However, many technological ideas are just plain stupid and will never work. Human beings unsuccessfully worked for centuries trying to turn lead into gold, until they invented the IPO. For technologies that genuinely add value, asking questions, even being critical, are key to helping turn an immature idea into a mature, useful product.

Also by Martin Walker:

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