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Research Paper

PART 1 - 4 WAYS FINTECH NIPS YOUR MARKET

FINTECH Funding Reached $36B

FINTECH is an emerging industry sector that uses web collaboration, data consolidation and advanced analytics technologies to build new business models (i.e. unique ways of delivering benefits) for the delivery of certain financial services in a faster, cheaper and more enjoyable manner than banks, credit unions, insurance companies and investment firms.

The web, media, research houses and technology pundit blogs are brimming with news and analyses of the burgeoning FINTECH sector. Run the term "FINTECH" across Google Search and you shall receive a whopping 23 million hits at a heartbeat!

This research paper is not another *Thriller* on how FINTECH companies swat certain financial services sectors, or worse getting squashed while attempting to do so. Living to our spirit of providing concise and practical research, we will veer from the "FINTECH Lauding" and "Banks Dismay" to navigate four proven business strategies FINTECH deploy to crack and nip the Financial Services market.

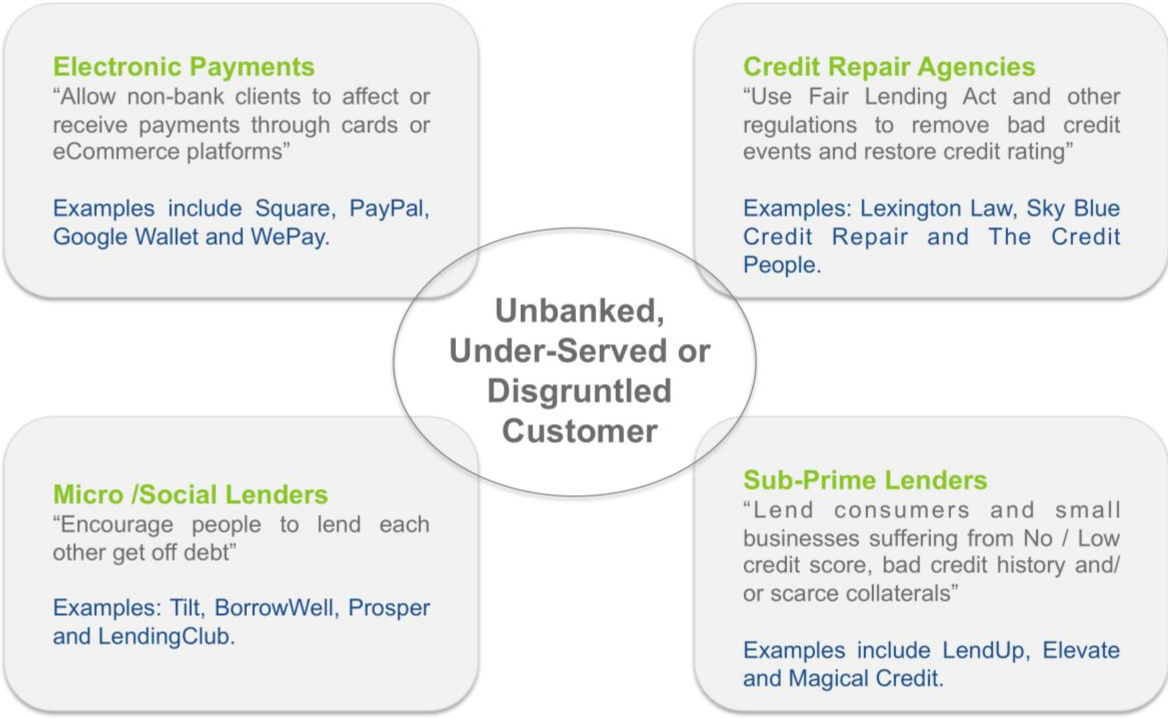
Strategy 1 – Serve The Disgruntled & Under-served

In 2016, 14% of polled Wells Fargo customers decided to leave the bank

Many FINTECH start-ups target customers who are typically *underserved* or *generally downplayed* by classical financial services institutions due to low net worth, low credit score, age misalignment, remote location, etc. These customers often have trouble accessing some financial products and as a result develop a raft of negative sentiments towards the financial services industry ranging from apathy, through greed to sheer embezzlement. The sentiments accelerate the adoption of those customers to the new FINTECH services and form an every growing virtual market.

Attending to a needy, injured customer is a no easy task. Hence, FINTECH companies adopting this strategy swear by 3 key principles; being- (i) *focus* resources on a specific segment and few products to deliver the WOW factor (e.g. access to credit for sub-prime customer in 2 days), (ii) *engage* customers *intimately* across all channels (e.g. word of mouth marketing, product designs) and (iii) *harvest analytics* to improve processes continuously (e.g. use web analytics to re-design web site, use online transaction patterns to detect early churn signs). Figure 1 overleaf provides examples of these companies.

Figure 1 – FINTECH Players Adopting "Serve The Disgruntled / Under-Served" Business Strategy



Strategy 2 – Deliver Faster, Cheaper Or Easier Service

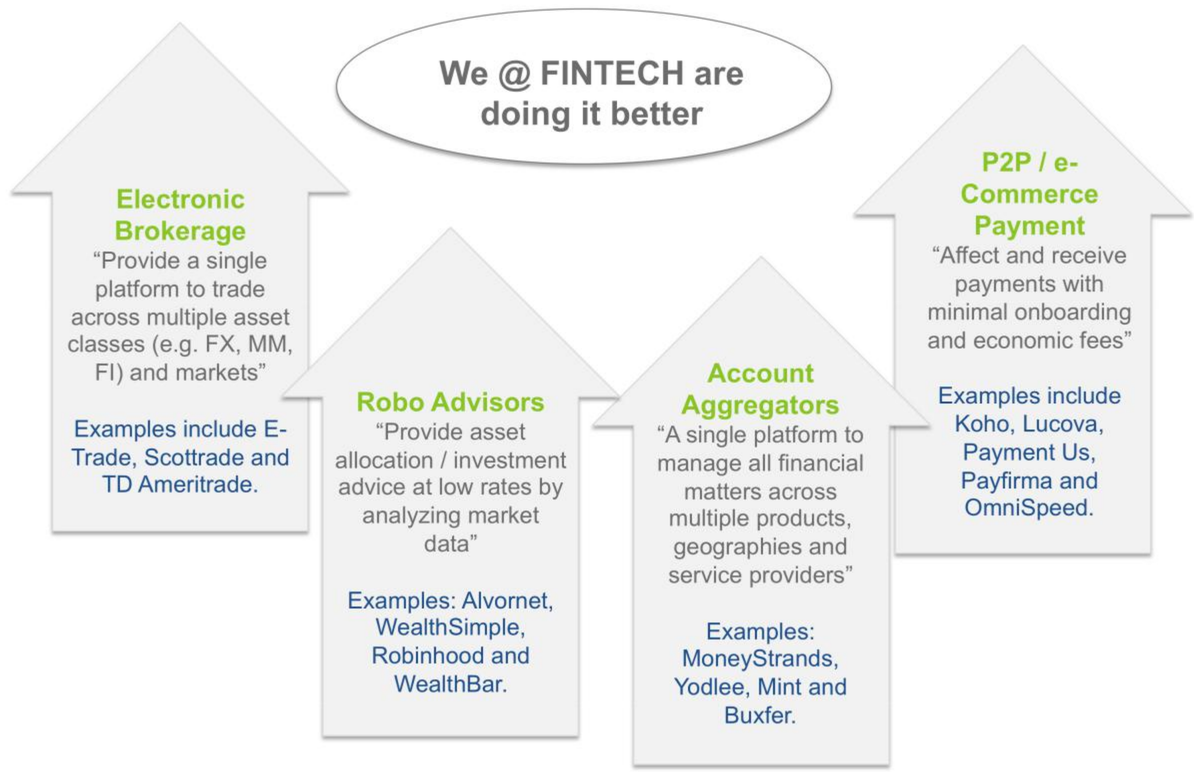
Convenience is about removing obstacles, not just delivering a good service

It has long been vowed that "Need Breeds Creativity". Instead of re-inventing the wheel with a brand, new product, some FINTECH companies re-invent the experience around existing financial products and processes to deliver clear gains in fees, service times and/or client's convenience.

This is an old, proven business strategy that traces its historical roots to Loan/Mortgage brokers who relieve customers from the hassle of negotiation and get the lowest market rates available, or the Credit Unions who have turned around farming loans at a fraction of the administrative fees and processing times of Commercial Banks.

In the digital age, FINTECH companies use digital assets to achieve that. Automated Loan Pricing Engines that use publicly available credit scores, social media listening platforms, peers feedback and past transaction history to better estimate a Customer's Credit Risk and price it accordingly. Figure 2 overleaf provides examples of these companies.

Figure 2 – FINTECH Players Adopting "Offer Faster, Cheaper & Easier Service" Business Strategy



Strategy 3 – Set-up A Digital Convenience Store

LendingTree acquired CompareCard s for an estimated

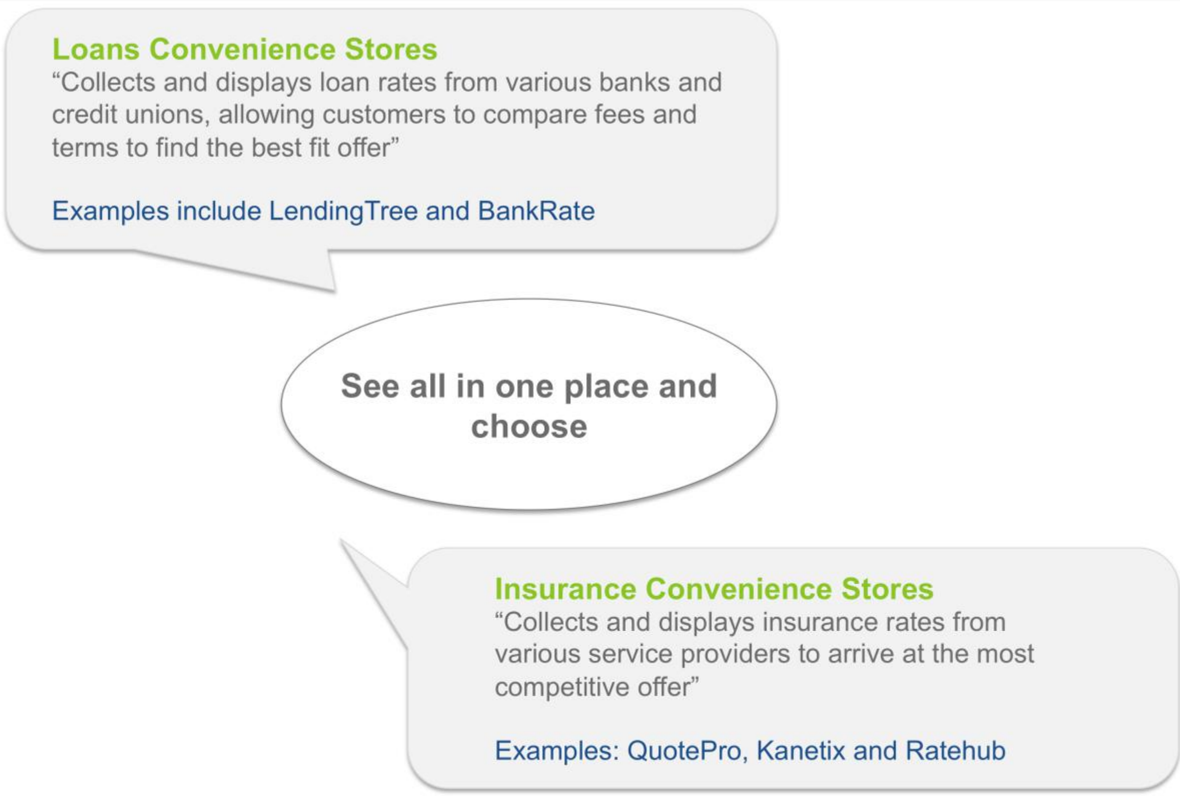
$130M

Some FINTECH companies are not in the mood of satisfying the needs of disgruntled / underserved customer segment, or re-engineering the experience around an existing product. Their lethargy spews a *Digital Financial Services Convenience Store* that provides customers with a one-stop-shop to compare, contrast and select their next financial product among the many players in the market.

Holding independence and transparency dearly, customers rely on these convenience stores and abandon banks' proprietary digital marketing and sales channels (e.g. outbound call centers, email campaigns, web sites).

In doing so, these digital financial services convenience stores expedite the commoditization of the industry where price becomes the prevailing buyers' value. Figure 3 overleaf provides examples these companies.

Figure 3 – FINTECH Players Adopting "Set-up A Convenience Store" Business Strategy



Strategy 4 – Sell Them The Shovels To Dig Themselves

DPS Bank and MasterCard use artificial intelligence-driven chatbots to interact with their customers

Some FINTECH companies opt for a friction-less business strategy. Instead of mining directly for gold (i.e. selling financial products), they sell shovels (i.e. digital business capabilities) to current and prospect gold miners. Such *digital business capabilities* include; credit risk analysis models, market risk analysis models, asset allocation balancers, transaction clearing and matching platforms, access authentication services, know-your-customer verification and due diligence, bad debt investigation and digital channel enhancements.

Offering business capabilities reduces the barriers to entry and speed-to-market of new players, while allowing existing players to accelerate their digital transformation.

Figure 3 overleaf provides examples of these companies.

Figure 4 – FINTECH Players Adopting "Sell Digital Capabilities (Shovels)" Business Strategy

In summary, the core of any business strategy is to fulfill a client need in a competitively differentiated manner to achieve sustainable profit and growth. FINTECHs are doing just that. Each FINTECH zeros on a <u>specific</u> customer segment of the financial services market and deploys technology to fulfill the customer needs in a faster, cheaper and/or more convenient manner than existing service providers. Figure 1 overleaf summarizes the value chain of the financial services industry and the FINTECH business strategies to encroach the existing value chain. ■

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End of report.