FINTECH: HOW'S IT GOING?

Fintech will revolutionise the financial services industry. Won't it? Well, Yes and No.

Just for a moment, let's forget the paid propagandists, the FOMO crowd, the "Let's get rid of the banks" brigade, and let's look at the evidence. First, from the customer's point of view.

What's in it for me?

From this angle, it's not clear that fintech will be as transformative as the hype says. For most of us, a current account is the fundamental banking relationship. From that starting point, we're open to being cross-sold – and, not least, we provide valuable data on our financial behaviour. But only a handful of the retail start-ups have taken on the complex regulatory and financial challenges of offering a current account. And the numbers demonstrate clearly how inertia dominates consumer banking: since 2013, there have been around 4.5 million current account switches out of a total of 70 million. That's around 7% - and this after heavy advertising, and some very generous welcome offers from the banks (£200 from HSBC just now). Steering clear of the complications around current accounts, mobile-based Atom Bank has emphasised savings accounts. In a fiercely competitive market, since launch back in 2016 it has acquired just 14,000.

Or take integrators: we're told that there's a huge market out there for us to put all our financial relationship data in one place, so that we get seamless advice to manage our money better. The founder of Tandem, a financial services start-up, is quoted as saying "We're not going after banking, but everyone's personal finances. The opportunity as we see it is that your bank is not trying to help you with your personal finances." Well, maybe: but at least I know my bank. I don't know his. And given all the background mistrust of fsi's, and current noise about scam artists (flaky pensions advice is a big issue in the UK just now), how likely am I to trust my nest egg to a business I've never heard of? And this wariness probably goes double for the older and richer (equals more desirable) among us.

"Customers" also includes companies, most of whom need to accept payment cards. Again, it's not at all clear that the new payment processors offer significantly better pricing than current providers. Recent analysis from CardSwitcher provides some thought-provoking numbers:

Charge	Stripe	PayPal Pro
Monthly fees	Free	£20
Transaction fees	1.4% + 20p	1.9% + 20p
Sample £10 transaction	£0.34	£0.39
Sample £100 transaction	£1.60	£2.10

And these use the most generous assumptions around volume-based pricing: smaller businesses will pay significantly more. Established UK processors – Worldpay and FirstData, for example – deliberately don't publish their rates, which vary not only by volume but also by industry sector and other criteria. However, there's some evidence that Worldpay's standard transaction fee for credit cards is 0.87%, plus whatever set up, monthly and other charges they make. In fairness to the challengers, their price structures are a lot less opaque than the incumbents'. But apart from this, on the face of it there doesn't seem to be much blue water between the upstarts and the traditional players.

What do the numbers say?

As well as "What's in it for the customer?", there's a second dimension to consider. How robust are the business basics? Given the huge upfront investments in technology, rapidly reaching take-off scale is crucial. So let's take a quick look at what volumes the self-described disruptors are achieving.

Remember P2P loans? Platform operators were jubilant recently to have passed the £10 billion lending mark: but BoE figures show total outstanding consumer and SME loans to be around

£400 billion. With some well-publicised failures, one or two poor judgment calls, and big questions about how the business model will cope with the higher interest rates that are certainly on their way, it must be doubtful how far P2P really will bite into the traditional lenders' market share.

Across the Channel too, ambitions around penetration have become more subdued. In November 2017, Orange, France's largest telecom operator, finally launched a somewhat delayed mobile bank. It's too soon to tell how many customers will shift their financial affairs from a traditional bank – all of whom already offer mobile apps – to a phone company, but reportedly, it's looking to sign up 2 million customers over the next 10 years: according to analysts, that's just 2.5% of the market.

Again, for all the hoopla from Cupertino about Apple Pay ("Volumes up 450% over the past 12 months" crows Tim Cook), hard figures about transaction numbers and dollar values are simply not available. Unusual for Apple, which likes to ballyhoo its achievements. As to profitability, Apple Pay execs lay great emphasis on how well they're doing with P2P transactions; but it's an open secret in the payments world that at best they're a loss-leader.

On a different topic, look at the disruptors' transaction speeds – crucial to show a competitive edge in the tough world of operations: comparisons aren't entirely straightforward, but Ripple, a much-touted player being tested by American Express, MoneyGram and Santander, has been quoted as processing 1,400 transactions a second. By contrast, Visa routinely handles 24,000, with Visanet theoretically capable of 56,000. And PayPal? Er, 193.

So what's the verdict?

Summing up, when we look at fintech in the light of what customers actually show they want, as opposed to what the commentariat think they ought to want, there does seem to be a gap between the reality and the picture that's being painted. It's odd in 2018, firmly into the era of customer-centricity, that there should be a focus on solutions rather than problems, on what can be done, rather than what's needed.

From a strictly business investment perspective, too, for many of the players it's looking increasingly like a "Not proven" verdict. Share figures are modest or simply not provided, operational capabilities below par, take-up rates subdued. Becoming a bank is a nightmare; being not-a-bank calls for scale and trust that will elude many of the newcomers.

No question, the challengers are setting the agenda. And maybe GDPR and PSD2 and their equivalents will usher in the earthquake so very much hoped for. For sure, a great deal of investment money rests on it. But at this point, I'm not convinced.

What will the end game look like?

In the longer run, my guess is that we'll see a mix: smart banks will buy in whatever their customers need, from mobile banking to F2F servicing – though some may struggle to splice the spiffy new apps on to their creaking legacy systems. Among the start-ups, numbers of the most promising will swoon gracefully into the arms of the oh-so-old-fashioned banks; which is probably what their proud proprietors wanted in the first place. (Case in point: Atom Bank is now 30% owned by BBVA.) In this category, I'd put whatever the blockchain technology morphs into – but not the crypto-currencies. And alongside a lot of failures, there'll be a handful of genuine stand-alone successes who identify particular niches.

But it's not madly exciting to say so.