

## Banking 2015: Is digital even more of a priority than regulation?

Go to any financial services event these days and there is a very good chance that “financial innovation” has found its way onto the programme or even bagged the keynote spot. Indeed, from the water cooler to the boardroom, it is one of those topics of increasing influence.

What exactly do we mean by the term “financial innovation”? According to Investopedia, “financial innovation” is broadly defined as “advances over time in the financial instruments and payments systems used in the lending and borrowing of funds.” The impact of financial innovation on traditional institutions is potentially of great significance: “These changes, which include innovations in technology, risk transfer and credit and equity generation, have increased available credit for borrowers and given banks new and less costly ways to raise equity capital.”

The global credit crisis, sparked in 2008, dramatically impacted in-house business innovation, which meant that startups were able to come to the fore with innovative financial products, focused on solving the industry’s biggest problems. Since 2008, global fintech investment has more than tripled – from under \$930 million in 2008 to more than \$2.97 billion in 2013, according to research from Accenture.<sup>1</sup> The volume of fintech deals in London alone has tripled since 2011 and now accounts for more than half of all European activity.<sup>2</sup>

A recent report from the Economist Intelligence Unit states that digital has overtaken regulation as the top priority for global banks.<sup>3</sup> Since the financial crisis, regulation has been the primary concern for bank management but priorities are changing. Shifting customer behaviour and the arrival of new competitors, such as fintech startups that have risen rapidly up the agenda, are prompting banks to prioritise the speedy implementation of digital strategies.

Advancements in digital technology are constantly evolving and adapting, making payments – specifically digital payments – one of the most scrutinised and fast-paced sectors in finance. Advances in real-time payments, P2P technology and digital currencies are driving change. In 2014, societies continued to move away from cash and in 2015 this trend is set to continue, with new payment options emerging as popular alternatives to traditional banking and impacting consumers globally. The effect of payments innovation will be particularly apparent in emerging markets such as India and across Asia Pacific where high rates of mobile adoption and reliance will push the boundaries of mobile payments.

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<sup>1</sup> Accenture, *The Boom in Global Fintech Investment Report*, 2014: <http://www.accenture.com/Microsites/fsinsights/capital-markets-uk/Documents/Accenture-Global-Boom-in-Fintech-Investment.pdf>

<sup>2</sup> *ibid*

<sup>3</sup> The Economist Intelligence Unit, *How regulation, client expectations and technology are transforming retail banking*, 2014: [http://www.economistinsights.com/sites/default/files/Future%20Factors\\_0.pdf](http://www.economistinsights.com/sites/default/files/Future%20Factors_0.pdf)



The topic of lending continues to gain pace, particularly around peer-to-peer (P2P) lending. Small business owners are increasingly turning to P2P lending and the current services available to the SMB market are allowing this trend to gain traction. That's not to say that more traditional forms of lending to business and individuals have been disintermediated. The most recent quarterly trends in lending report from the Bank of England, states that net capital market issuance by UK businesses in the year to November 2014 was the highest in five years.<sup>4</sup>

As we look ahead to 2015, it is evident that technological innovation in financial services will continue at a rapid pace. And at the heart of this crossroads sits the fintech sector, attracting a rising amount of venture capital investment. A thriving fintech sector is critical to the future of global financial services. Startup accelerators and similar competitions run by banks ensure that the financial services ecosystem benefits from fresh thinking from fintech innovators.

From the vantage point of the SWIFT Inn Tribe programme, we can see these trends translating to tangible products and services. The tagging of companies applying to this year's Inn Tribe Startup Challenge highlights where startups are focusing their innovation efforts. Topics identified among this year's applicants range from lending to payments, big data to e-commerce, investment management to forex (see diagram). And as innovation is not only about ideas but also about execution, we look forward to working together with these startups over the next few months to hone their ideas and convert inspiration into concrete pitches ready for investment or partnership, from an industry hungry for innovation.

<sup>4</sup> Bank of England, *Trends in Lending* Report, January 2015:  
<http://www.bankofengland.co.uk/publications/Documents/other/monetary/trendsjanuary15.pdf>

**About Innotribe**

Launched in 2009, SWIFT Innotribe is about innovation and connecting people, networks and ideas. We bring together global innovators and investors, strategists, and influential decision-makers from leading financial institutions across the globe, providing them early insights into innovations that could disrupt current business models and create new opportunities. Through the Startup Challenge competition, we bridge the gap between the startup ecosystem and the financial service community.

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SWIFT is a member-owned cooperative that provides the communications platform, products and services to connect more than 10,800 banking organisations, securities institutions and corporate customers in more than 200 countries and territories. SWIFT enables its users to exchange automated, standardised financial information securely and reliably, thereby lowering costs, reducing operational risk and eliminating operational inefficiencies. SWIFT also brings the financial community together to work collaboratively to shape market practice, define standards and debate issues of mutual interest.

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