Why we need Fintech 2.0

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Has Fintech transformed financial services by providing a safer, less risky home for money, lower costs, better more responsive service and transparency on charging? Has it put the customer in the driving seat? We believe Fintech has yet to deliver what was promised or needed.

Perhaps it is better to regard what has been achieved so far as Fintech 1.0: building the infrastructure and creating market expectation of something new. To date, Fintech has focused on payments and recreating investment and loan products that replicate the existing services provided by legacy financial institutions. It has not made investments or loans safer or returns more predictable. Putting people directly in contact with end borrowers or investors and disintermediating banks and fund managers may be an attractive proposition but without the key ingredient of risk assessment volumes have not taken off in the way predicted and many P2P and Crowd platforms are in reality no more than brokerage sites.

To deliver the promise we need a Fintech 2.0 that can transform the asymmetric access to information about risk. Fintech needs to provide consumers with the tools and understanding that levels the playing field.

The financial crisis was caused in part by poor risk tools in banks that failed to understand or measure the cyclical nature of certain asset classes, mainly real estate. In other words banks did not pay sufficient attention to *market* risk. Even those institutions, where market risk was appreciated, warnings were not acted upon or reported to investors, regulators or other stakeholders.
Our observation is that for most P2P lenders and Crowd Funders there is a lack of management appreciation of how best to provide risk tools and insight – or even

understanding the urgency of doing so. A survey of lending and investing platforms reveals that those sites that do provide a risk metric do not explain the method or meaning of the ‘grade’ which appears often to be no more than a subjective judgement – funny how most loan proposals posted on these sites are either ‘A’ or ‘B’ rated - whatever that equates to?

To make a real difference we need a singular focus on improving the tools used to measure risk and to put these tools where they are needed – with end customers and their advisors who are taking the risks. We passionately believe there is a need to provide more sophisticated data and risk analysis systems, such as those used by hedge funds and investment banks, to Cloud investors and P2P lenders so that they can properly understand the volatility of investment returns and the lending risks they are taking. More importantly they need to communicate these risks in meaningful measures - such as the odds of achieving a given investment return or the average expected loss rate on a loan. Without these analytical tools consumers will always be at a disadvantage to finance professionals in large institutions with access to sophisticated and expensive systems to measure risk and return. These tools must be powerful predictors of risk while at the same time easy to use and understand by non-professionals.

The digital lending and investing market is developing rapidly around the world, and with it comes a heightened requirement for investor protection and risk modelling. For Fintech to revolutionise the provision of debt and equity to the, popular but highly volatile, Real Estate sector it must provide consumers with the most advanced technology available for assessing their investments. Platforms need to provide the tools that generate the necessary metrics for assessing credit and market risk for loans and understanding volatility for direct investors.

The availability of powerful cloud computing and Big Data means it is now possible to simulate the market risk of loans or individual properties and portfolios. These tools can be made accessible on P2P and Crowd platforms enabling lenders and investors to judge the level of risk they are prepared to take. Not only can these types of solution help identify less risky investments they also measure the risks of movements in interest rates and the cyclical nature of rents and capital values and turn these into standardised metrics that can be easily understood.

Software and web based applications can provide intuitive and easy to use interfaces putting investors in charge of their own risk management. We need to re-boot and understand where the effort is required to create Fintech 2.0.