

New World in Banking and Finances

Fintech as an Engine for Changing the Financial
Landscape: Some Insights From Israel

7th regional meeting of Governors

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Outline

- The Potential of FinTech to change the financial landscape
- Conditions for the emergence of a Fintech Echo-system
- Risks— old risks, new risks, enhanced risks
- Regulatory response

What is Fintech and why is it important?

Fintech refers to technologies which provide a new/alternative financial offerings or technologies which enable financial players to optimize & improve their existing services

**Accessibility,
Democratization and
Inclusion**

**Experience:
Simplicity, Speed and
Fun**

Taking Control

**Transparency and
Trust**

Cost Reduction

Efficiency

3

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Thus, Fintech has the potential to:

For the bank's clients to...

- **Reduce prices**
- **Improve customer experience**
- **Enhance Transparency**

For the banks and the industry to...

- **Improve efficiency**
- **Help manage risks (Fraud, compliance)**
- **Enhance competition**

Thus, Technology adoption is a must to manage strategic risk:

Need to update banks' business model as New, faster and lower cost competitors are set up

4

Technology has always played a key role in the finance industry

The evolution of Financial Technology

Pre-computer **Computer Era** Internet Age Mobile & Apps Big Data & AI

- Pre-computer**
 - Precious Metal
 - Bank Notes
 - Pen & Paper
 - F2F Business
- Computer Era**
 - Credit Card
 - ATM
 - POS
 - Digital Stock Trading
- Internet Age**
 - e-Banking
 - Octopus Card
 - Algo Trading
 - P2P
- Mobile & Apps**
 - Apple Pay
 - Mobile Banking
 - P2P
 - Bitcoin
 - 24X7 Service
- Big Data & AI**
 - Robo Advisory
 - Crowd Funding
 - Dynamic Underwriting
 - Digital Banks
 - Predictive analytics

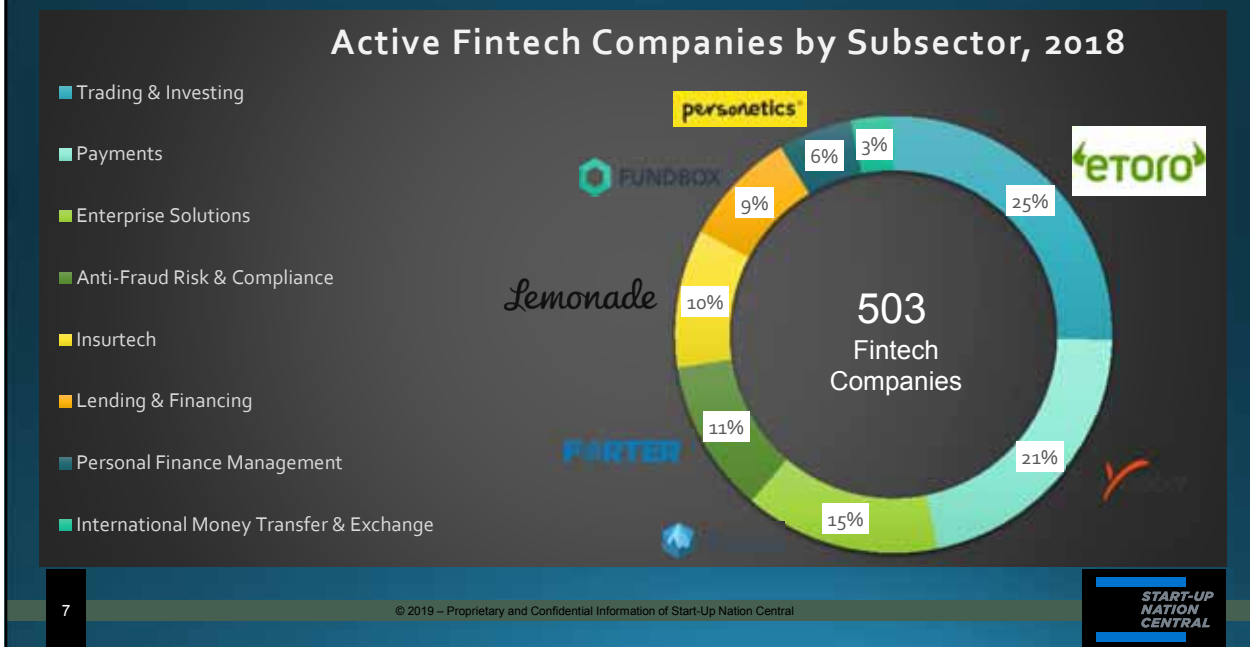
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Areas of Fintech Innovation:

- Lending (underwriting ,P2P, using big data for assessment)
- Payments
- Reg-tech (Fraud prevention & compliance Digital KYC)
- Asset management (Robo advising)
- Insurance
- Data services (e.g. cloud storage and analytics)
- Customer Engagement

6

Trading, Investing and Payments are the largest subsectors



Technology changes the Financial world in a fundamental way

Some parts of the world move faster than others— a few examples from Asia

Payments' world moved to the smartphone, people go out without a wallet

Wechat pay



9

Payments' world moved to the smartphone, people go out without a wallet

Wechat pay



8

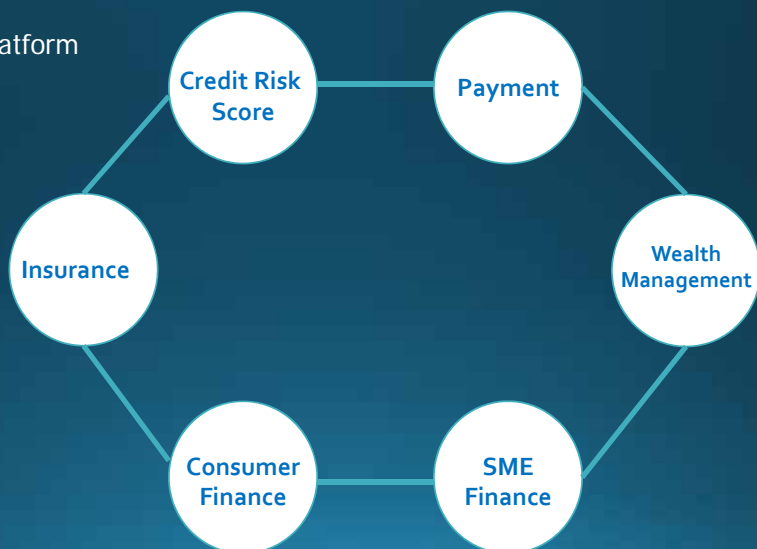
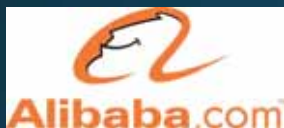
Payments' world moved to the smartphone, people go out without a wallet

Wechat pay



New Competitors to Banks: Tech companies (BigTech) are becoming Fintech Platforms that substitute banks

Ant Financial: A Fintech Platform



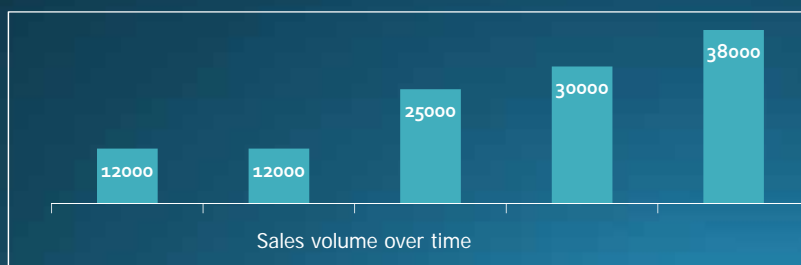
Credit is Growing: micro-firms who couldn't get credit are now getting credit from FinTech Platforms

Ali-pay

Example: Noodles place owned by a 23 years old gets payments

Via QR code

The app identifies monthly income of 20,000 Yuan and provides credit of that amount to open another branch



Digital banks are much leaner than traditional banks; Innovative technologies can transform incumbents

Efficiency ratio of Webank is 40% (compared with 60-70% in traditional banks)

The digital bank DBS of Singapore answers 85% of calls using **Chat-bott**

Innovation changes internal processes in the organization: customer service, digital KYC ,risk monitoring, operations etc.

Conditions for the Emergence of a Fintech Eco-System: The case of Israel

15

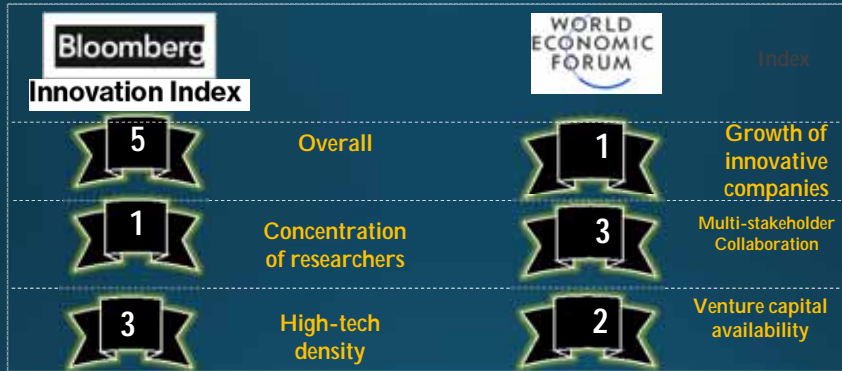
Innovation promoting environment: Israel's Innovation Map



SOURCE: Startup Nation Central.

16

Israel stands out in international innovation rankings



ingredients of innovation promoting environment

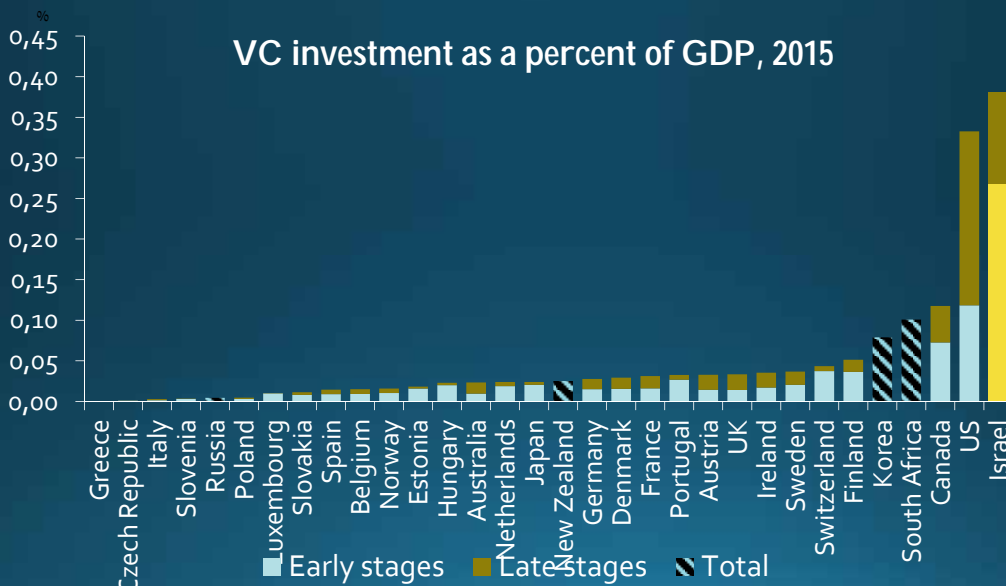
- ✓ Top quality universities that provide human capital, scientific power and technological abilities
- ✓ Cooperation between industry and the universities
- ✓ Governmental support for R&D
- ✓ Developed venture capital industry

+ need & culture

Source: World Economic Forum 2018. Bloomberg 2019

17

High availability of financing: Top in VC investments



SOURCE: OECD.

18

The Israeli Fintech ecosystem components



Israel as a Beta Site



Expertise in FinTech Related Technologies



Active FinTech Community

Almost 5% Of the world's best Fintech companies



But, there are Risks too...

- **Competitive impact** of Big-Techs and unbundling of services may **undermine traditional banks' business model**, erode profitability and induce pressure to reduce lending standards & increase risk taking
- **Regulation on Big-tech provision of financial services** may lag behind
- Growing **reliance on third-party data services** and high concentration among providers could **disrupt activities of multiple financial institutions** due to operational failure, cyber incident or insolvency, thus **posing a systemic risk**
- Reliance on new technologies introduces new **operational risks & enhanced cyber-risks**

21

Initial Conclusions: The financial system is undergoing major transformation (to different degrees) led by financial innovation

- In some countries: **the future is here**
- Tech innovation creates **Financial Inclusion**
- Clients get a **more accessible and convenient** service
- Innovation creates **new competitors**
- The business model of new players is **more efficient**
- Existing banks need to **accelerate adjustment** to the new world
- Need to **monitor** and **address risks**

22

Regulatory Response: the case of Israel

BOI's Banking Supervision is fostering innovation and the adoption of new technologies while addressing risks: acquiring the expertise and developing processes and tools for managing technological risks and cyber defense.

23

Added a new section: "technology and innovation" that acts to:

- **Reduce Regulatory Barriers** that inhibit innovation
- **Ensure Risk Management** that is adjusted to the new environment (e.g. heightened Cyber Risk)
- **Leading Technological Infrastructure Projects** (e.g. "open banking", transfer from one bank to another "at a click", digital guarantees etc.)
- **Promote Digital Education:** advising and leading digital financial training to banks' employees and the general public

Enhancing cooperation between banks and Fintech companies enables:

- ✓ **For Banks:** to absorb innovation and become more efficient
- ✓ **For Fintech Companies:** experimental environment; access to data
- ✓ **For Customers:** innovation improves service, more competition

Potential for further cooperation in areas such as Reg Tech, automatization of internal processes, payments C2B

Regulator has direct dialogue with the Fintech Industry to identify barriers and potential

25

Technology Changes Traditional Banking:

Move to Digital, Robo advisor, Closing Branches, Reducing Number of Employees

Need to Ensure Adequate Service to "Non-Digital" Population

26

In Sum:

- We are on the fast track to a new world in Banking and in the financial world more broadly
- Regulation should embrace the change while making sure risks (old and new) are properly identified, monitored and addressed.

27

Thank you

28

Fintech: disrupting or empowering Financial Incumbents?

Disrupting



Empowering

Trust

Data

Capital

- Most Fintech companies are B2B companies (Israel – 75%)
- 82% of FIs are expected to increase **Fintech partnerships** over the next 3-5 years
- Shifting to **collaboration models**