

4 Trends That Will Rewire the Inner Workings of the Fintech Industry



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Financial technology (fintech) refers to the infrastructure for modern digital payment rails, payment processing, back-end settlement of assets on capital markets and many other financial pieces of software and hardware.

With a lot of different software and hardware needs on the part of financial institutions, the past few decades have seen entrepreneurs sprinting to innovate and exploit outdated

process gaps for riches.

These four impending trends won't just rewire the inner workings of the fintech industry, they'll create space for further innovation on the part of agile startup entrepreneurs.

1. Quantum computing

Modern computers are based on binary code that is interpreted by the computer as ones or zeros – each binary digit represents a binary state (on or off). Quantum computers turn that notion on its head by leveraging quantum phenomena such as quantum entanglement and superposition.

Suffice it to say, they're like supercomputers on steroids.

Where quantum computing has a potential impact on fintech is with processing and settlement of transactions, faster data processing, risk and performance modeling and better security. Even JP Morgan and Barclays have been dabbling with IBM's quantum computing tools, according to *Wired*, looking to the future for practical applications. While quantum computers aren't yet perfected, if they turn out to work like fintech giants *hope* they will, that will mean lower energy costs and vastly improved performance.

2. Artificial intelligence

AI is making big splashes in almost every industry. When robots can do the work instead of humans, the advantages are obvious: lower overhead costs, faster processing and more seamless user experience.

In fintech specifically, AI offers a highly practical tool for major financial organizations to manage portfolio risk and help institutions with regulatory compliance – a task which has become increasingly time-consuming and complicated over

the past several years. One CNBC reporter, for instance, expected an impending wave of regulators to scare off investors altogether back in 2016. In the future, AI can likely help ensure that fintech companies are adhering to their vast network of boundaries and regulations.

Pacific Wealth Solutions is a perfect example of a fintech company that uses quantitative computing and AI to break down which investments in insurance and asset protection programs have high odds of producing strong returns. Nelson Lee, the managing partner of Pac Wealth, has released a new project using similar AI that gives consumers and institutional investors transparency as to which programs will provide a return versus those which will result in low value.

AI and other advanced tech such as quantum computing will reduce the need for salespeople and advisors in the financial industry altogether. Technology will continue to reduce costs and streamline access to information, providing improved returns for investors, consumers and firms providing more effective programs.

By example, the major exchange infrastructure on Wall Street is already almost entirely managed by automated machines. This is a continuing trend, as *Wired* explained this back in 2010. It is a trend that won't be slowing anytime soon, and may eventually completely replace humans – why pay someone to do something when you could buy an equally adept robot to do it instead?

3. Cryptocurrency and decentralized finance

Decentralized finance (DeFi) is one of the prevailing narratives in the cryptocurrency and blockchain niche. Based on open protocols, DeFi projects such as MakerDAO on Ethereum

for decentralized lending of the Dai stablecoin and insurance products such as Nexus Mutual provide decentralized alternatives to traditional financial institutions.

The sheer scale of pioneering in DeFi was recently outlined by Ethereum development firm, Consensys. In its simplest form, DeFi strives to offer a more accessible, powerful and less censorship-prone set of financial products to a diverse group of people.

DeFi is not limited to just blockchain based companies. There are many up and coming non-blockchain fintech incumbents establishing themselves through decentralization. Chargezoom by example has used two-way syncing to make accounting easier by syncing payment information to many popular existing accounting software packages. This empowers their users with minimum manual input so that they do not have to waste a lot of time or resources by employing an accounting expert, shifting the power back to the user.

Additionally, platforms such as TomoChain have positioned themselves as a foundation for DeFi applications with near-zero transaction fees, fast confirmation times and scalable infrastructure for a new ecosystem of open financial protocols.

Another area of ongoing innovation in open finance is with the flood of stablecoins (cryptocurrency designed to mitigate financial risk). Tether remains the dominant stablecoin in the cryptocurrency realm, but stiff competition is emerging with projects such as Stably. In an effort to provide the utmost transparency, the Stably team provides real-time bank data to prove their reserves back the circulating supply at a one-to-one peg with the dollar while also conducting regular attestations through third-party auditors.

Stablecoins are a vital tool in the volatile cryptocurrency markets that can be used for everything from smart escrow to

margin lending. As open financial products on blockchains continue to develop, look for stablecoins to play a role in building the bridge to decentralized finance.

4. Big tech

One of the more evident trends in fintech is the continual entrance of big tech firms into the financial sector.

Apple Pay, Google Pay and Samsung Pay are all becoming enormously popular among smartphone users. Alibaba, China's massive online retailer, has made significant progress with its fintech partner, Ant Financial. According to *The New York Times*, Facebook is developing a stablecoin for its platform. Add in the fact that major social media platforms are planning on integrating with ecommerce stores, such as the certain-markets-only Shopping on Instagram feature, and more flexible payment methods offered by big tech firms may come to dominate online retail in the future.

Big banks are not taking the pending competition from major tech firms lightly either. According to a quote by Peter Gordon, CEO of Payment Relationship Management, in a *Bloomberg* piece, he detailed: "The large banks want to reclaim the payments and do not want Amazon, Apple, Google and others to displace them. The banks understand that the current payment system infrastructure is broken, like our roads and bridges in the U.S. They'll work to create new rails that are more efficient."

Payment rails are long overdue for a speed upgrade, so perhaps the increased competition from big tech can move the needle for the benefit of consumers and entrepreneurs burdened by high fees and slow transaction processing times.

As an entrepreneur, whether you're looking to position yourself for the future of open finance, AI tools or even the long-term promise of quantum computing, one thing is clear –

fintech is ripe for disruption. Will you be the one to disrupt it?

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