Irish fintech sector is banking on boom

The global financial crisis has ushered in a new wave of innovation as banking giants have been forced to rethink business models while tech start-ups reinvent ways to loan cash and transfer money. If Ireland can overcome the damage to its reputation from last week's Oireachtas report, it is uniquely placed to become an international financial technology hub for fintech, writes Simon Rowe

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'In Ireland, the banks weren't very good at IT. They also weren't very good at making credit risk decisions. There was insufficient expertise of IT at board level and banks' management information systems were inadequate.' Stock image

The ink was still drying on last week's damning report into the country's banking crisis when bosses from the world's biggest banks, insurers and regulators gathered at Dublin Castle for an IDA-sponsored conference to showcase Ireland's attractiveness as a global hub for international finance.

The decision to host the event on the same day an Oireachtas committee published its three-volume critique of banking and regulatory practices in Ireland was either a masterclass in PR chutzpah, or bad scheduling, depending on your point of view.

Billed as "an opportunity for key international and Irish decision-makers to debate the challenges facing the European and global financial services sector", the European Financial Forum was organised as part of the Government's commitment to its International Financial Services Strategy 2015-2020.

If the Banking Inquiry report was a history lesson - shedding light on how Ireland bet the house on a property bubble in a badly regulated boom, and lost - the organisers of the Dublin Castle forum wanted to shift the focus to the future: how the Government aims to harness financial technology to make Ireland a global financial services hub, to rival London, Berlin, New York, Silicon Valley and Hong Kong.

Over the next five years, industry experts believe 5,000 jobs could be created in Ireland's burgeoning fintech sector, a figure that would represent a doubling of jobs in the industry. IDA Ireland thinks Ireland is ripe to become an innovation hotbed for fintech and has prioritised job targets in three key areas: local start-ups, corporate R&D centres and US firms establishing European hubs.

Fintech is where the smart money is. It's a broad sector, comprising everything from back-end technology that helps banks and financial institutions manage their operations, to payments software and consumer-focused cloud banking. And it's growing at a rapid rate, driving 'technology disruption' in financial services in the same way that digital media has disrupted newspapers.

Financial institutions were already facing imminent threat from new disruptive technologies before the 2008 crisis, but the global economic crash transformed that economic threat into an existential one. To put it bluntly, developments in financial technology loaded the gun, but the banking crisis pulled the trigger.

Incumbent banking giants - who for centuries monopolised financial services - are now being forced to rethink their business models as financial technology start-ups reinvent new ways to loan cash, transfer money abroad, settle international commercial transactions and score credit risk. Many are struggling to remain relevant to a new generation of 'millennial' customers who are not afraid to dump their bank for a better deal or switch to online-only banks.

A number of well-established Irish fintech firms are spearheading the technological revolution sweeping through the sector (see panel) and are now reaping massive financial rewards.

One leading 'disruptor' in global finance is Trinity College graduate Anthony Watson. He is CEO of fintech start-up Uphold (formerly Bitreserve). Branded the 'Michael O'Leary of the financial services industry', Watson predicts that "money will be free as email to send and receive in 10 years' time".

Uphold lets users upload cash from traditional bank accounts and credit cards across 33 European countries, including Ireland, the US and China. Aside from storing money online, Uphold's big selling point is that it lets you transfer internationally and switch between currencies for free.

With a background in traditional banking, British-born Watson worked for Barclays, Citi and Wells Fargo - where he led the technology division of the bank across 44 countries - before growing disillusioned, leaving to pursue his fintech dream.

In an address to last week's forum in Dublin Castle, he issued a brief but stark warning to delegates: "Half the people in this room and half the companies in financial services right now won't exist in 10 years."

Gulp.

Watson believes the tried and trusted business model of traditional banking remains fundamentally unchanged since the financial crisis. While he acknowledged that banks are trying to play catch-up with fintech start-ups, they are still too slow in adapting to the new financial services landscape.

"If you look at traditional legacy banks, they won't be able to cannibalise their systems to move at the speed we move," he said. "Incumbents can't cannibalise to move at the speed of a start-up. We move in real time."

Peter Oakes, the founder of Fintech Ireland, an advocacy group for the sector, and a former director of the Central Bank, echoes Watson's blunt assessment.

"Traditional forms of banking are all now trying to jump into fintech but they've still got problems in their outdated back-office systems. They've still got problems in their payments systems. And perhaps they really should be spending their money on fixing these before jumping into new initiatives because those new initiatives are highly IT dependent."

"In Ireland, the banks weren't very good at IT. They also weren't very good at making credit risk decisions. There was insufficient expertise of IT at board level and banks' management information systems were inadequate to monitor their risks during the period leading up to the crisis. A big unanswered question is whether this has in fact changed."

But another big question is: can fintech start-ups really compete with the big banks?

IDA manager Denis Curran, who runs the development agency's international financial services division, predicts a lot more collaboration and convergence between the technology sector and the financial services sector.

"The lines are getting blurred as there is more and more technology-led innovation in financial services," he said.

"We are seeing a lot of disruption. There are a lot of young start-up companies that are disintermediating traditional business models that exist within financial services. From a start-up perspective, this level of disruption is high. In some sectors it is happening more quickly and is having more success, especially in the area of payments, retail banking and foreign exchange.

"Start-up companies are seeing those opportunities. A lot of the more established companies are upping their game in terms of investing in technology as a defensive play against this level of disruption."

The likely outcome of this disruption in the short-term is that the big global banks will start off being clients of innovative fintech start-ups, but eventually the better ones will be chosen to partner up or they will merge.

The banking crisis has helped to drive the current wave of fintech innovation, as institutions try to figure out how to do things faster, cheaper and more securely.

The financial services industry today is more focused on technology innovation than at any other point in its history; and it has serious buying power. Banking and securities institutions spent an estimated $485bn on information technology in 2014 - more than any other sector.

This growth represents a massive opportunity for Ireland.

Ireland has established a strong global reputation for innovative fintech start-ups. The start-up rate for Irish-owned fintech companies is accelerating rapidly. In 2014, three Fintech Accelerators (the National Digital Research Centre, Mastercard and Accenture Innovation Labs) were launched in the Irish market to help drive up the number of fintech start-ups.

Financial giants Citigroup, Mastercard and State Street have located their R&D innovation labs in Ireland.

Global insurers Aon and Munich Re have set up next generation analytics centres here. Zurich and Liberty Insurance have based their cybersecurity centres here, and Fidelity Investments and Pramerica (a subsidiary of Prudential Insurance) have located software development centres in Ireland.

This thriving tech start-up scene, combined with established research centres, has created an ecosystem for fintech research, development and innovation, said Denis Curran of IDA. "Ireland is uniquely positioned to become a leading global centre for fintech investment - where global multinationals can develop and implement their innovation strategies, while Irish-owned start-ups continue to scale up and succeed in global markets."

If Ireland succeeds in becoming a global hub for international finance, and manages to overcome the reputational damage inflicted by the banking crisis, it will be the biggest comeback since Lazarus.

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