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# STUDY ON IMPORTANCE OF FINTECH (FINANCIAL TECHNOLOGY) IN CAPITAL MARKETING GROWTH

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**ABSTRACT**

Technology has long been the engine driving capital markets efficiency—both for investors in the markets, and for the capital markets infrastructure providers (CMIPs) that operate the exchanges and other trading venues, central counterparties, securities depositories, index providers, and data and analytics companies. More lately, fintechs are bringing new technologies to market even faster and with a greater impact. Hundreds of fintechs are focusing their development on capital markets infrastructure (CMI), and while CMIPs recognize that fintech will have a significant influence on the industry, many remain unsure of which technologies to adopt and to what degree, and how best to engage and interact with fintech companies. The role and importance of CMIPs in the markets has grown in the past decade along with their revenues owing to changes in the regulatory environment (e.g., a push towards mandatory central counterparty [CCP] clearing In the coming years, many CMIPs will seek to protect their businesses, and achieve even higher levels of efficiency, service provision, and growth, through innovation and adoption of new technologies, some of which may prove revolutionary. These technologies will come from current technology leaders that tailor their services to Capital Marketing growth and Infrastructures applications, from firms' internal development, and from the new generation of fintechs as discussed in this research paper.

***Keywords****: Capital Market, Risk in Capital Market, FinTech, Capital Marketing, Financial Technology, Capital Marketing Growth.*

## 1. INTRODUCTION TO FINTECH

The COVID-19 pandemic has accelerated the trend toward digitalisation of retail financial services. Comprehensive data on market shares of FinTechs, BigTechs and incumbent financial institutions in retail digital services are lacking, but proxies in the form of revenue and app downloads, and insights from market outreach suggest that BigTechs and larger FinTechs have further expanded their footprint in financial services. In some markets, concentration measures are high, but there is no evidence yet of a generalised increase. The observations in this report broadly support the conclusions of previous FIN reports. BigTech and FinTech firms' expansion into financial services can bring benefits such as improved cost efficiencies and wider financial inclusion for previously underserved groups. BigTechs' financial activities in emerging market and developing economies (EMDEs) bring particular benefits in this regard. At the same time, there is potential for (rapid) market dominance. There could be negative financial stability implications from dependence on a limited number of BigTech and FinTech providers in some markets, the complexity and opacity of their partnership activities, and potential incentives for risk taking by incumbent financial institutions to preserve profitability. Consumer protection risks could arise from greater dependency on technology and potential data protection issues, e.g. the unauthorised use or the misuse of users' personal data. Cloud computing by third-party service providers not subject, in many cases, to financial regulation can introduce cost efficiencies and access to innovations in artificial intelligence (AI). But the limited number of providers of cloud services could magnify the impact of any operational vulnerability. The growth of BigTechs in particular may give greater urgency to financial stability issues previously discussed, such as the potential for greater systemic importance of new players that may not be subject to financial regulation. This underscores the need to address data gaps that currently hamper the assessment of the financial risks and systemic importance of BigTechs. Such data gaps make it difficult for authorities to decide whether and how to include BigTechs in the regulatory perimeter. Authorities have taken a range of policy actions during the pandemic that may impact market structure and the role of FinTechs, BigTechs and incumbent financial institutions. These actions relate to financial stability, competition, data privacy and governance issues. In parallel, there is international work on third-party dependencies of the financial sector, for instance in cloud computing. This highlights the importance of cooperation between regulatory and supervisory authorities, including those charged with overseeing the bank and non-bank sectors, and where relevant, with competition and data protection authorities.

### RELEVANCY OF FIN TECH WITH CAPITAL MARKET

The McKinsey Panorama Fintech database covers over 6,000 of the more than 12,000 fintech innovations in the global marketplace. Based on their activities and technologies, about 700 fintechs are relevant to the CMI industry. Through steady growth totaling 277 percent, this number has almost quadrupled since 2010, and has outpaced other areas of fintech within financial services, such as corporate banking (growth of 186 percent), and payments (184 percent) (Exhibit 1). In this report, we look at where fintechs reside on the CMI value chain, and analyze the technologies they rely upon. The distinction between location on the value chain and technologies used in development is essential to a full understanding of the CMI fintech universe. Certain technologies, such as DLT, are a component of CMI fintech products and services, rather than end products in their own right. In other instances, significant product innovation can be achieved without the use of new technologies—one prominent example being the crowd funding platforms that have emerged in the last several years.

Fintech-led innovation can be found in all five major parts of the CMI value chain (Exhibit 2):

Access to capital—creating innovative ways to reach and serve issuers and investors, and broadening the range of asset classes offered

Trade execution—gaining new efficiencies

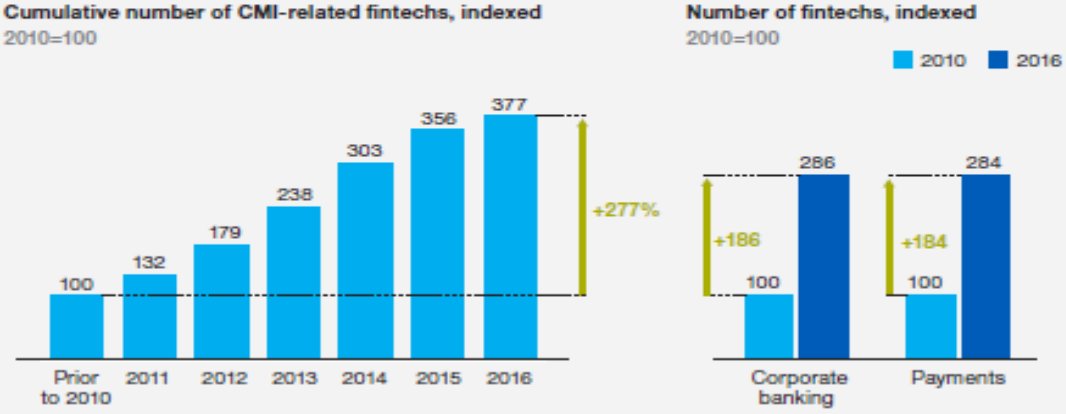
Post-trade services—bringing simplification, automation, and improved security to incumbents' operations

Data, analytics, and information services—developing new techniques to mine and interpret data to its full potential

Operations and technology—creating greater cost efficiency, lower latency, and reduced operational risk

Exhibit 1

Fintech activity within capital markets infrastructure has grown by almost 300% since 2010



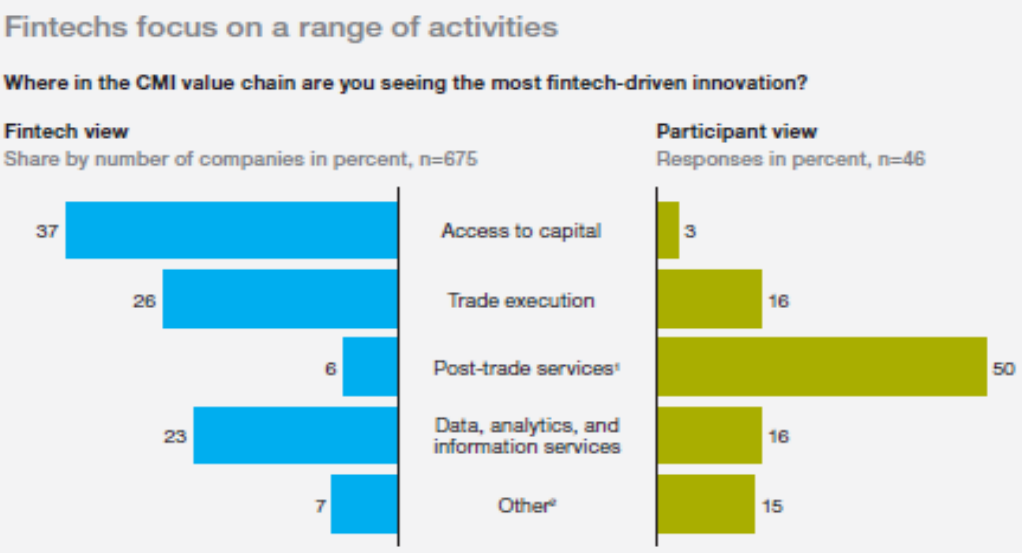

Source: McKinsey Panorama Fintech database

According the McKinsey Panorama Fintech database, the density of fintechs is greatest in access to capital, at 37 percent of all CMI fintechs, followed by trade execution, data, analytics and information services, and posttrade services. By contrast, WFE members perceive little fintech activity in access to capital (just 3 percent), and ranked post-trade services as the most active (Exhibit 3). The difference in emphasis is understandable, however, in view of the broad media attention over the past few years to developments in blockchain and other DLTs, as well as the high-impact potential of the technology, particularly in the post-trade realm of clearing and settlement. Moreover, in separate interviews, WFE member executives mentioned that investment in post-trade technologies has historically lagged investments in other parts of the value chain, and currently draw greater attention than access to capital.

Exhibit 2


Source: McKinsey Panorama Fintech database

Exhibit 3




[1] Includes clearing, custody and settlement, risk and regulatory solutions.
[2] Operations and technology, corporate solutions.
Source: WFE-McKinsey Fintech survey 2017; McKinsey Panorama Fintech database

## IMPORTANCE OF FINTECH IN CAPITAL MARKETING INFRASTRUCTURE

The capital markets infrastructure (CMI) industry comprises a global network of organizations that handle and safeguard the world's investments. These organizations carry out the execution of trades, clear securities positions and settle payments, take custody of assets, and facilitate these functions with secure networks for transactions, communications, data analytics, and value-added services (e.g., regulatory services and corporate solutions). CMI providers (CMIPs) include traditional exchanges and alternative trading venues, interdealer brokers, broker-dealer trading platforms, providers of order management systems, central counterparties and clearing houses, securities depositories, and securities services firms. An important opportunity, for both exchanges and independent firms, arises from information services, ranging from streams of data on market transactions and market indices via financial and economic news to advanced analytics that develop value-added information.

### FEASIBILITY STUDY- CAPITAL MARKETING GROWTH USNG FINTECH

The bank has traditionally sat in the center of the financial world. The changing regulatory environment and the explosion of data have allowed fintech firms to capture market share in traditional banking endeavors such as payments, lending, investments, and financial planning. Firms with no asset base or legacy banking infrastructure have made significant inroads into challenging banks in their core businesses. Banks have reacted in a variety of ways to these challenges with disparate degrees of success, but only those actively partnering with and supporting fintech innovators have gained a competitive edge. Access to connectivity, alternative models, and acceptance, combined with the earth-shaking changes in the ability of firms to access capital and a global regulatory model that has focused on risk mitigation, have created an ideal world for disruptors to partner with capital market firms. Fintech in the capital markets is driven by the needs of incumbent market participants who want to gain deep insight into technologies and alternate business models. Recent funding and innovation are centered on creating a better and more robust financial center, impacting the core of trading, markets and security servicing — the entire value chain of the capital markets.

Many of these fintech disruptors are modeling entirely new conceptions of investing, trading, clearing, settlement, and custody in the search for a means to create a robust infrastructure; some of these players have created technology solutions in other verticals, or other parts of financial services, and are bringing their solutions to the capital markets. Others are creating more effective point solutions to address critical pain points in market infrastructure, post-trade, and access to capital to create new efficiencies. Fintech is a term used to describe how a new generation of cloud and mobile technologies impact processes in financial services. Fintech is closely related to open service architectures using application programming interfaces (APIs) along with business models found in the internet economy. In the first phase, fintech was seen as a disrupter for large established financial companies. Now that these companies as well as regulators are responding to raise the level of customer protection, we are at the cusp of a next wave, where the financial incumbents become platforms-hosting and interoperating with newer, smaller players. Without a doubt, the financial industry will change its technology model, and will foster the integration of services, as long as the customer protection is maintained. Technology has been a source of structural change for exchanges. In recent years, the pace of change has dramatically increased as a confluence of regulatory, capital, and business model factors has disrupted the financial market ecosystem This looks at the value accretion that can be achieved through partnerships between fintech firms and market infrastructure players, in terms of connectivity, distribution, technical, and regulatory expertise across areas that are core to the future of a well-functioning financial system.

### CAPITAL FLOW

Since 2008, capital flow into fintech investments has grown sixfold. Last year, there was a drop from the record fund raising in 2015, with about $19 billion in capital was invested in fintech across approximately 1,200 deals, nearly doubling funding flows in 2014. At the same time, strategic firms have developed innovation centers of excellence, laboratories, and their own CVC funding vehicles to invest and guide in areas of core interest to these firms. CVCs now represent 25% of global fintech capital flows. European CVC rates are closer to 15% and expected to rise. We have seen banks partnering with fintech, filling gaps and bringing critical experience and enterprise scale to these endeavors. Major parts of the financial services ecosystem run the risk of being transformed by pioneering financial technology firms.

## 2. CONCLUSION

In this review paper I would like to conclude Fintech in the capital markets has lagged its counterparts elsewhere in finance, and in some areas the technologies and benefits seem far off. But the level of investment in CMI fintech I gaining, to the benefit of the early movers. Those incumbents that do not recognize its impact on their business, and fail to take a proactive stance, face a future that will be shaped by their peers and competitors. For investment in fintech, time is of the essence. There are roughly 700 fintechs in various stages of development across the CMI value chain. An unfocused investment approach would be both unmanageable and expensive, and while fintech start-ups will not ultimately own the industry, over time, the typical CMIP will likely benefit from dozens of fintech innovations. Thus, fintech investments and partnerships must be chosen wisely—two prerequisites are a thoughtful set of priorities and an understanding of fintechs potential impact on the industry. Fintech is not a strategy, but a means to reach strategic priorities. Firms that can devote considerable resources to fintech may consider a corporate venture capital approach that invests in multiple targets, with the shared goals of leveraging their technologies and a return on financial investment. Such an approach, however, calls for still more specialized talent to properly manage the effort, and a more tolerant mindset toward the rate of success, or failure, of technological experimentation.

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