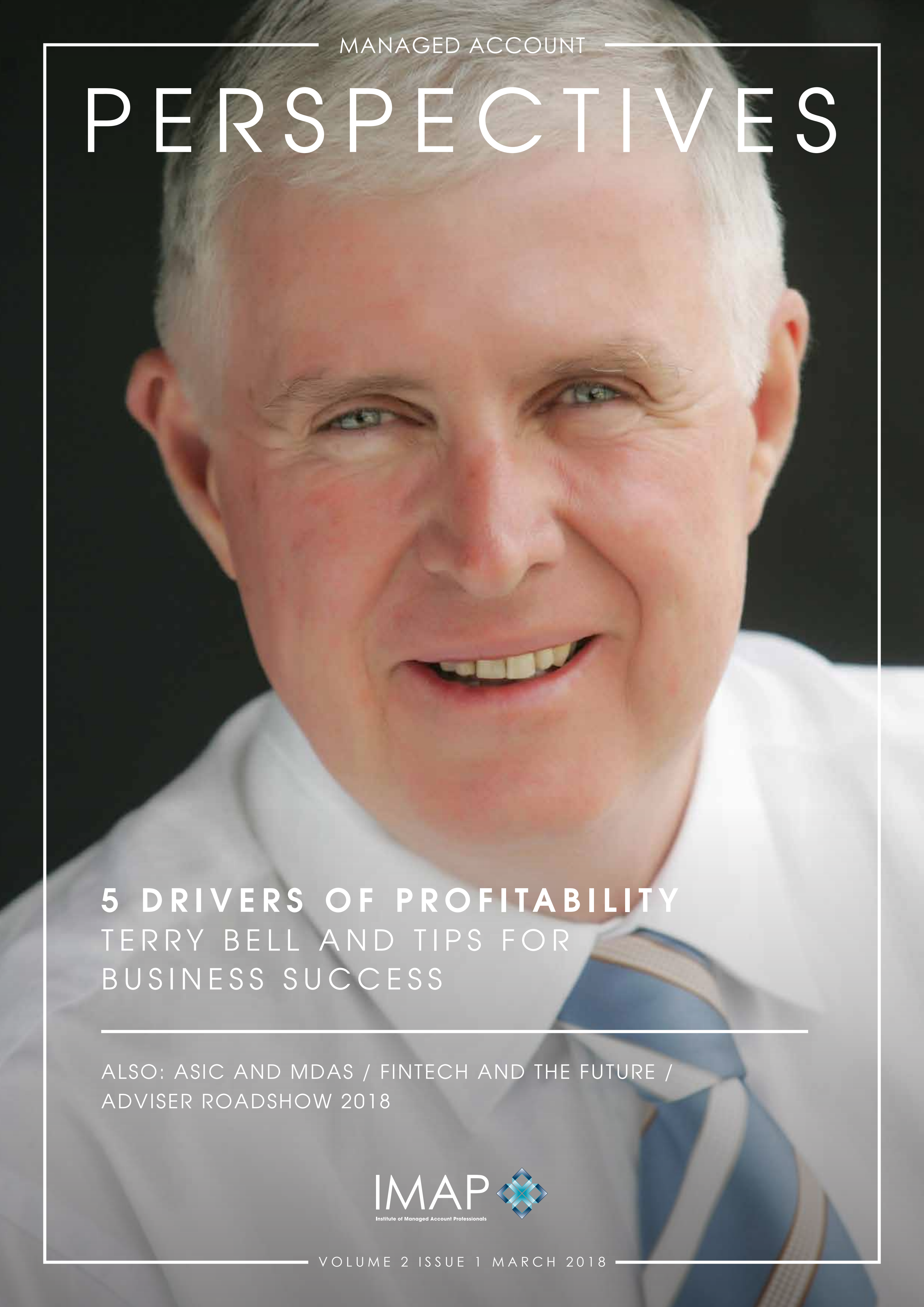

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PERSPECTIVES

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IMAP
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Fintech tomorrow and the future of advice

As Gihan Perera writes, fintech should be seen as an opportunity for planners to improve their service offering to clients.

As Henry walks from the train station to his office in George Street, his eye is caught by the black cashmere trench coat on display in the Burberry store. It's exactly what he needs for his trip to Prague next month! The store isn't open, but Henry holds up his phone camera to the shop window, and starts a virtual reality app that shows him wearing the jacket, 'trying it on' with other items from his wardrobe.

The app also shows him the price – just over $4,000 – which is more than what he would usually spend on a jacket, but is not beyond his reach.

As he closes the app, another app automatically starts, beeping and flashing in red, 'Warning – Exceeds budget!' This financial planning app, connected to his bank accounts, credit cards and financial plan, has noticed his activity and determined that he can't afford to buy the jacket this month – at least, if he wants to stay on track with his plan.

Henry is startled, but not annoyed, because he installed the app himself.

Henry is a high earner – not rich yet, but working towards it. He knows he can afford to buy the jacket, but he's also aware of his other responsibilities. He's a single father with two teenage daughters, he has a mortgage on his own home and an investment property, he's engaged to be married again, and he wants to continue thriving for many decades. So, he has engaged a highly proactive financial adviser, Fatima, who offers financial advice with technological integration of money and other assets.

Henry really wants the jacket, so he clicks the 'Advice' button on the app to ask Fatima for help. Within two minutes, she responds with a text message (At least, he thinks it's Fatima, but he wonders whether it's one of her team or even an AI chatbot).

"Henry, you can't afford it this month," she says.

"But it's only the 5th, and I have hardly spent anything," he points out. But Fatima knows better, and replies with a list of other expenses due later in the month, leaving him well short of funds for discretionary spending.

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> Fintech companies truly give their customers power over their money – how they access it, use it and control it.

"But I'll make it up next month," he writes back.

"We both know you won't," she shoots back immediately.

Henry knows she's right. His financial DNA profile indicates a preference for short-term rewards over long-term investment. Besides, his past spending patterns are available to him and Fatima, and – combined with big data analysis of clients with a similar financial profile – they both know that Henry is unlikely to stick to his resolution.

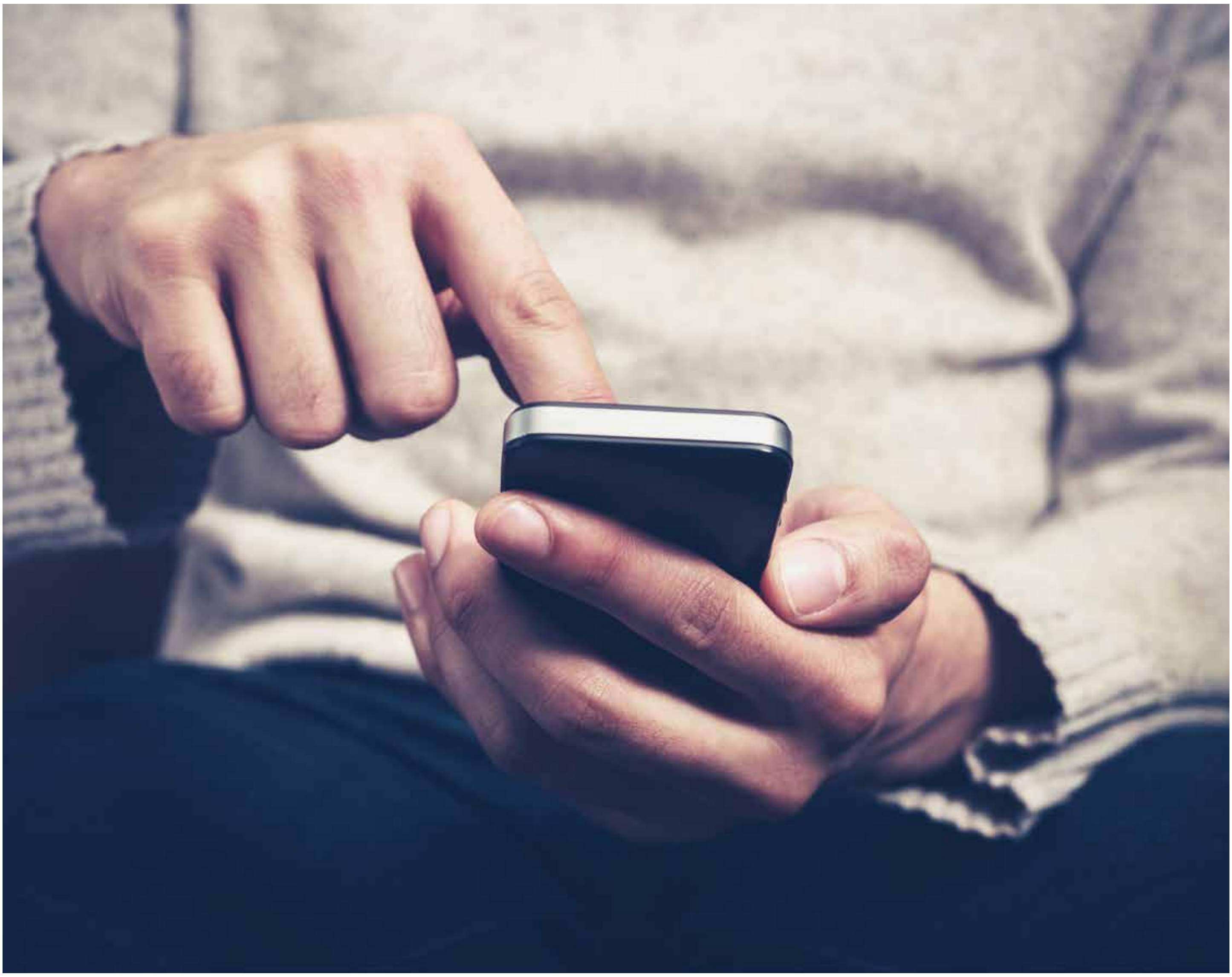
"Other options?" he asks, still determined to own that jacket.

This time the response takes longer – about 30 seconds – but Fatima has a suggestion.

He can buy the same jacket online using points from his bank's loyalty rewards program. He doesn't have quite enough points, but can transfer some of his airline frequent flyer points to top up the balance, and then pay $450 (which is within this month's discretionary spending budget) to make up the difference. There's a small tax implication because he's using business funds for a personal purchase, but Fatima ensures this is recorded accurately, so it will be reflected in his tax return.

Henry clicks 'Confirm' to proceed with the string of transactions, and continues his walk to work.

In Fatima's office, the AI chatbot – for it was indeed a chatbot, not Fatima herself – makes a file note in Henry's blockchain record, and moves on to the next client ...



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The future of fintech

Virtual reality ... augmented reality ... AI ... DNA profiling ... big data ... instant advice ... blockchain ...

These might be far removed from the current day-to-day operations of your work, but they are the future – and in some cases, the present – of fintech. And that means they need to be on your radar as well.

Most banks and other financial institutions are struggling to come to terms with the fintech revolution, and are caught unawares when smart, savvy, agile fintech companies start intruding on their turf – sometimes seemingly with not much more than a smartphone app and smart back-end software.

But fintech – an obvious combination of the words 'finance' and 'technology' – isn't just about technology. And it's not really about money, either.

For financial institutions, fintech is about three fundamental shifts in the way they do business:

1. From Finance to Money: Ordinary people don't care about 'finance', but they do care about money. Fintech companies help them with their money – budgeting, saving and spending it. Yes, and even investing it, but in smaller portions (such as the Acorns app for investing rounded-up credit card amounts) or for shorter terms (such as social enterprises like Kiva, for lending money to people in developing countries).

2. From Controlling to Empowered: Traditional financial institutions might claim to be tailoring banking to your needs, but they just play around the edges of customisation, stopping when they think they have enough of an edge over their other traditional competitors. Fintech companies truly give their customers power over their money – how they access it, use it and control it.

3. From Private to Connected: Traditional financial institutions have kept everything private, tightly controlled, and hidden behind multiple layers of security. Fintech still provides privacy and security, but also gives customers the ability to selectively connect other people to their money.

In summary, traditional financial institutions are about privately controlling your finances, and they are being disrupted by fintech companies empowering and connecting clients with their money. This is a profound change in the world of personal finance … err, money.

As just one example, today's customers don't care that their bank sponsors the Australian cricket team, but they want a banking app that lets them make micro-payments to selected Facebook friends who want funding for their own junior cricket teams.

What fintech means for financial advice

The financial planning industry is one step removed from financial institutions, so it hasn't been as disrupted by fintech … yet. But it is only one step removed, so the disruption isn't far away.

In fact, the three features of 'old' financial institutions are common to traditional financial planning practices as well: finance, control and private. In other words, you create a private Statement of Advice for a client's finances, and keep the assets under your control.

But clients will want the same three features that fintech companies offer:

1. Tell them how to do more with their money (rather than just advising them about 'finance').
2. Give them a suite of tools that empowers them to manage their money every day (not just a static SOA they only review once a year).
3. Help them connect all their financial instruments – not just super and long-term investments, but bank accounts, credit cards, loyalty points, store discount cards and the like.

Here's the test: If Henry was your client and wanted that jacket, could you have provided the same level of financial advice as Fatima? If not, what would you need to change to get there?

Gihan Perera is a futurist, conference speaker, author and consultant who gives business leaders a glimpse into what's ahead – and how they can become fit for the future.

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