

The Fintech Financial Industry: A Theoretical Approach to its Sustainability and Social Value

June 2nd, 2023

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The Fintech Financial Industry

A Theoretical Approach to its Sustainability and Social Value

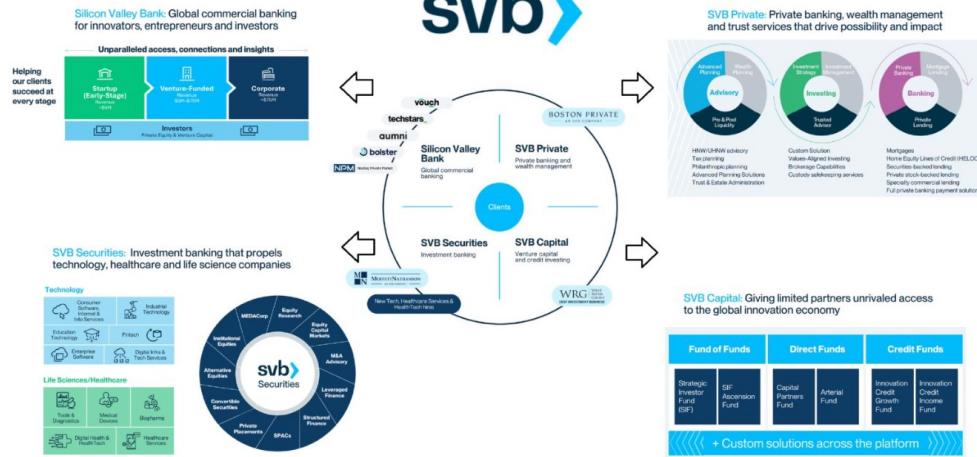
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4	Discuss and some expected Conclusions

Financial Industry, almost always in fashion

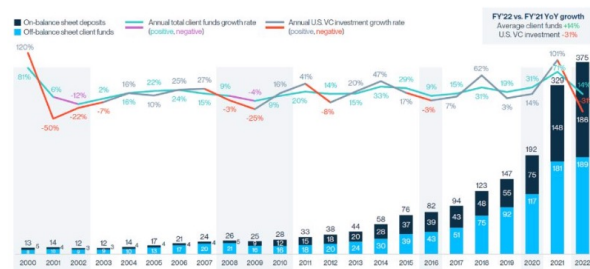
Recent history is characterised by its volatility

0.0 Previous

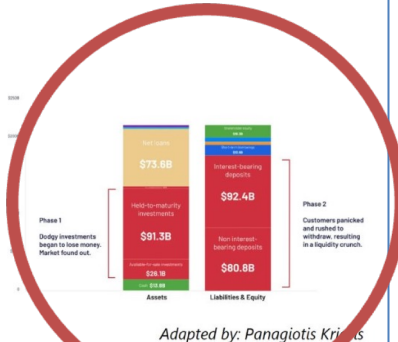
The Silicon Valley Bank Model



...and how it failed



Graphic sources: SVB, Genuine Impact



Adapted by: Panagiotis Krinos

Resumen Settle KBW NQ Bank

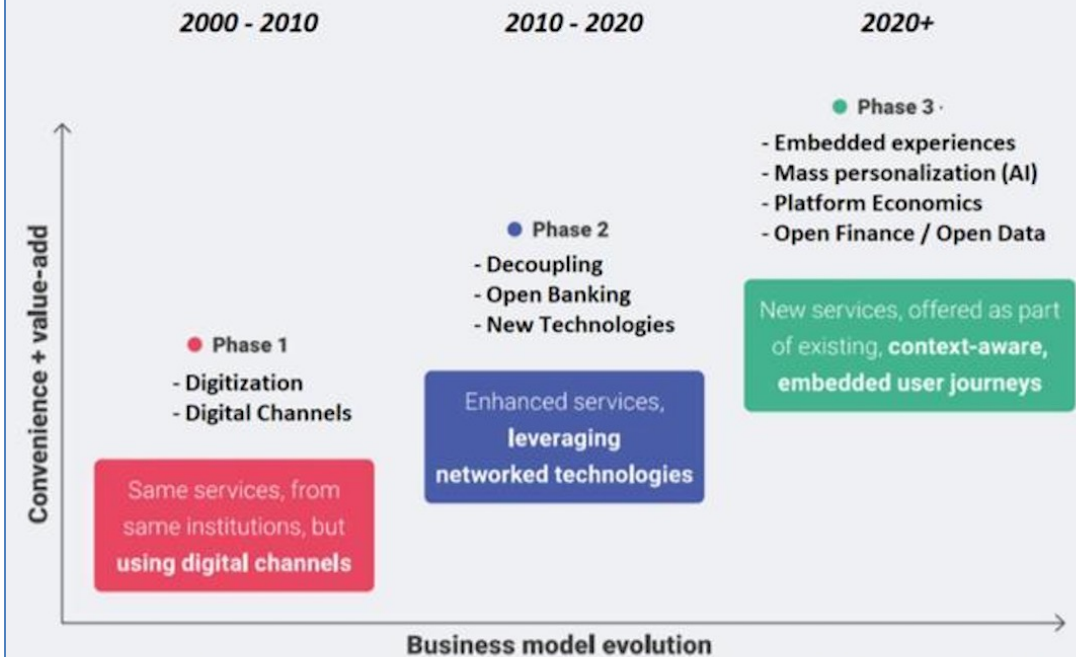


The most recent steps have to do with the Fintech Revolution

Technology enables new approach to financial business

0.0 Previous

The FinTech (R)Evolution and its impact...



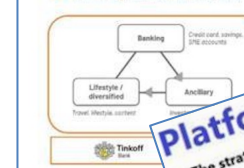
The digital bank playbook

A. Most successful players globally



B. Two ways to do it

Start as a digital bank, build up ecosystem

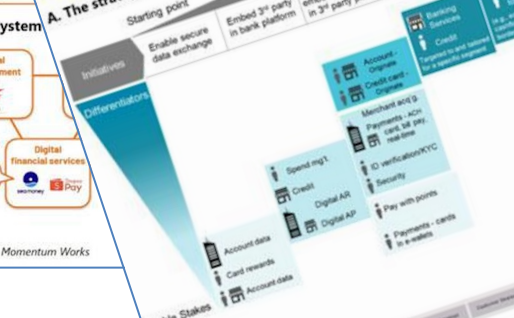


C. The ecosystem



Graphic source: Momentum Works

Platform strategies in Banking



Graphic sources: Celent, Accenture

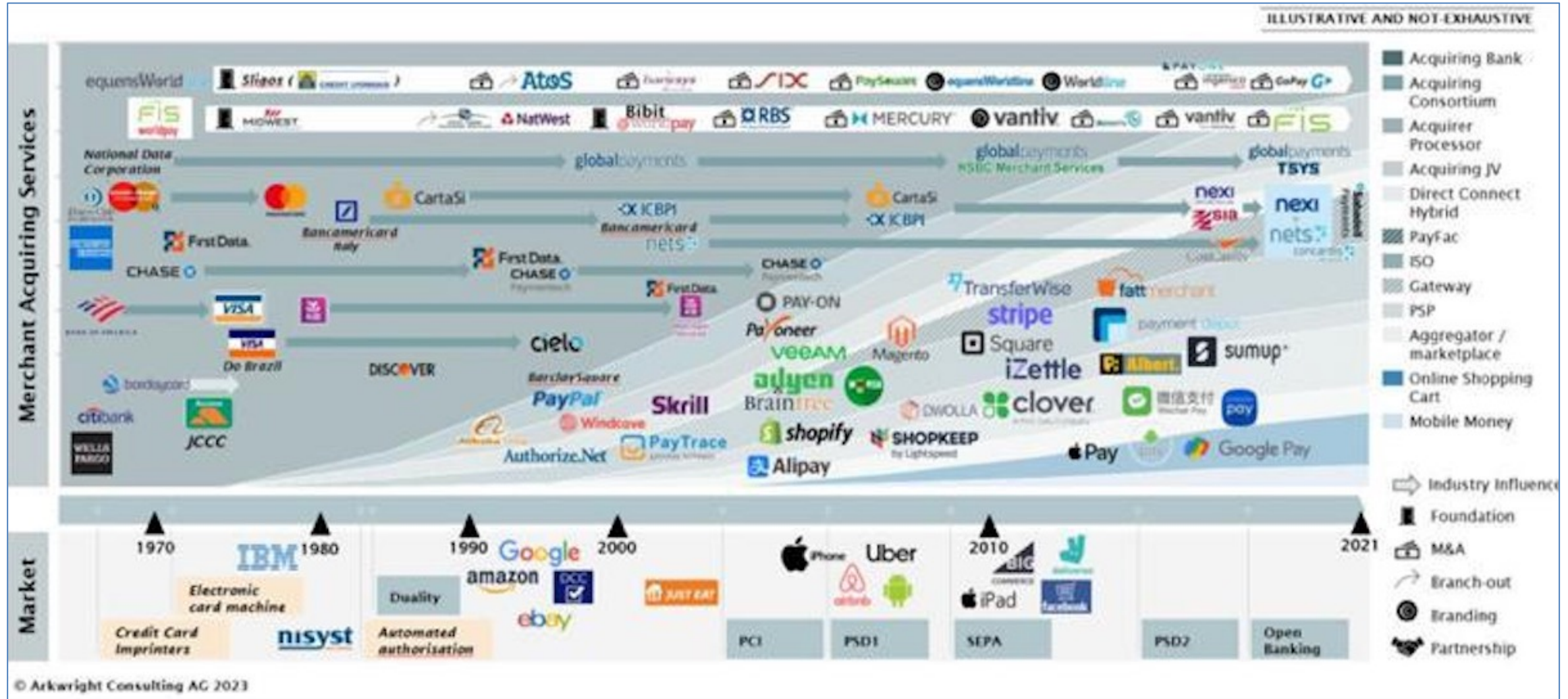
LAS MEJORES HERRAMIENTAS DE INTELIGENCIA ARTIFICIAL



But technology is not a novelty

It has been the mark of the Financial Industry since World War II

0.0 Previous



Fintechs have brought a new vision to the financial industry

Customer convenience has become the priority

0.0 Previous

The FinTech iceberg

Front-end (customer view)

Customer Centric View

Infrastructure & IT
(cloud-based)

Product stack

Operations &
Processes

Compliance & Risk

Regulation (licenses,
supervision, etc)

Source: Panagiotis Kriaris / adapted from Dealroom.co

Technology and customer experience are the reasons for their success

More than 25,000 fintechs have emerged in just a few years worldwide

0.0 Previous

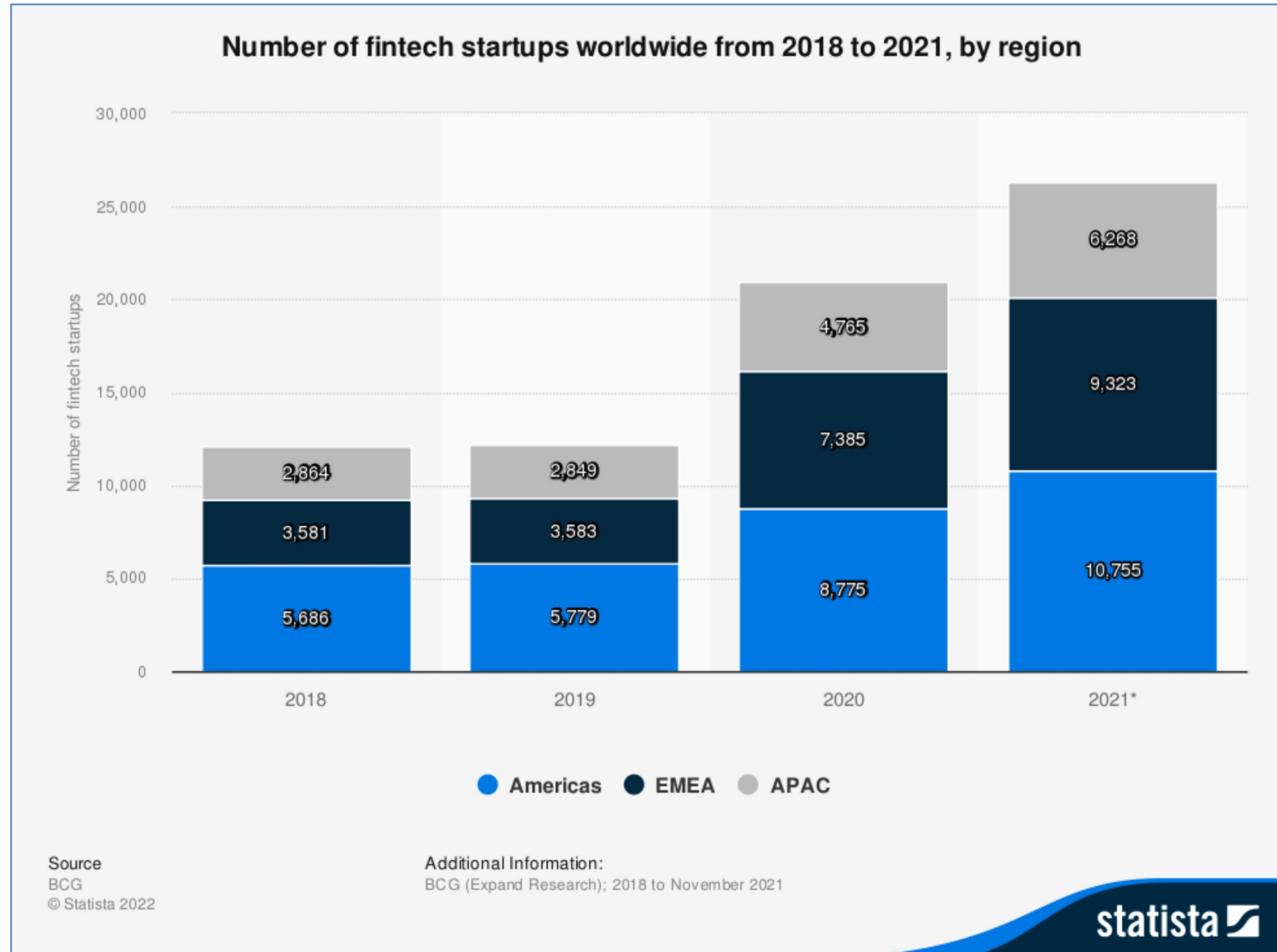
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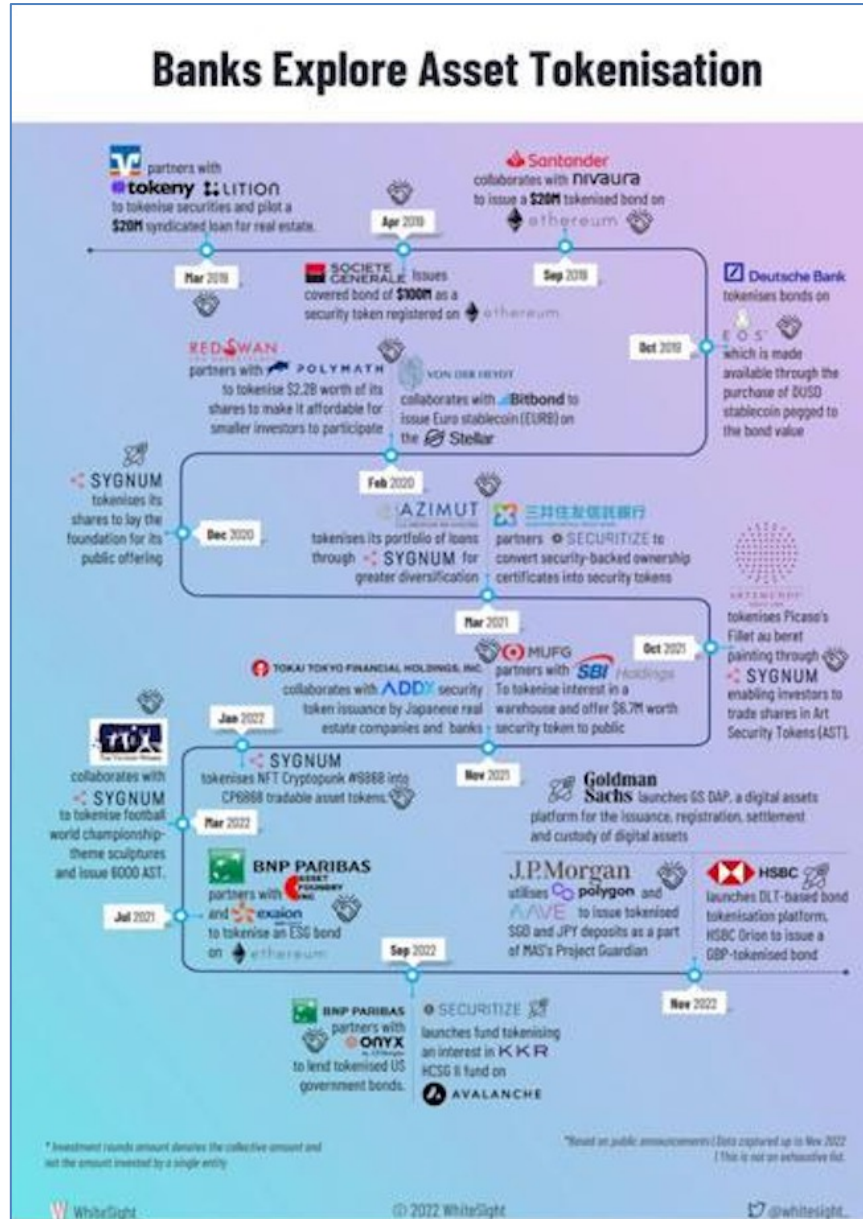
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But the traditional Financial Industry has been quick to react

Main incumbents are developing action plans to rebuild their positions

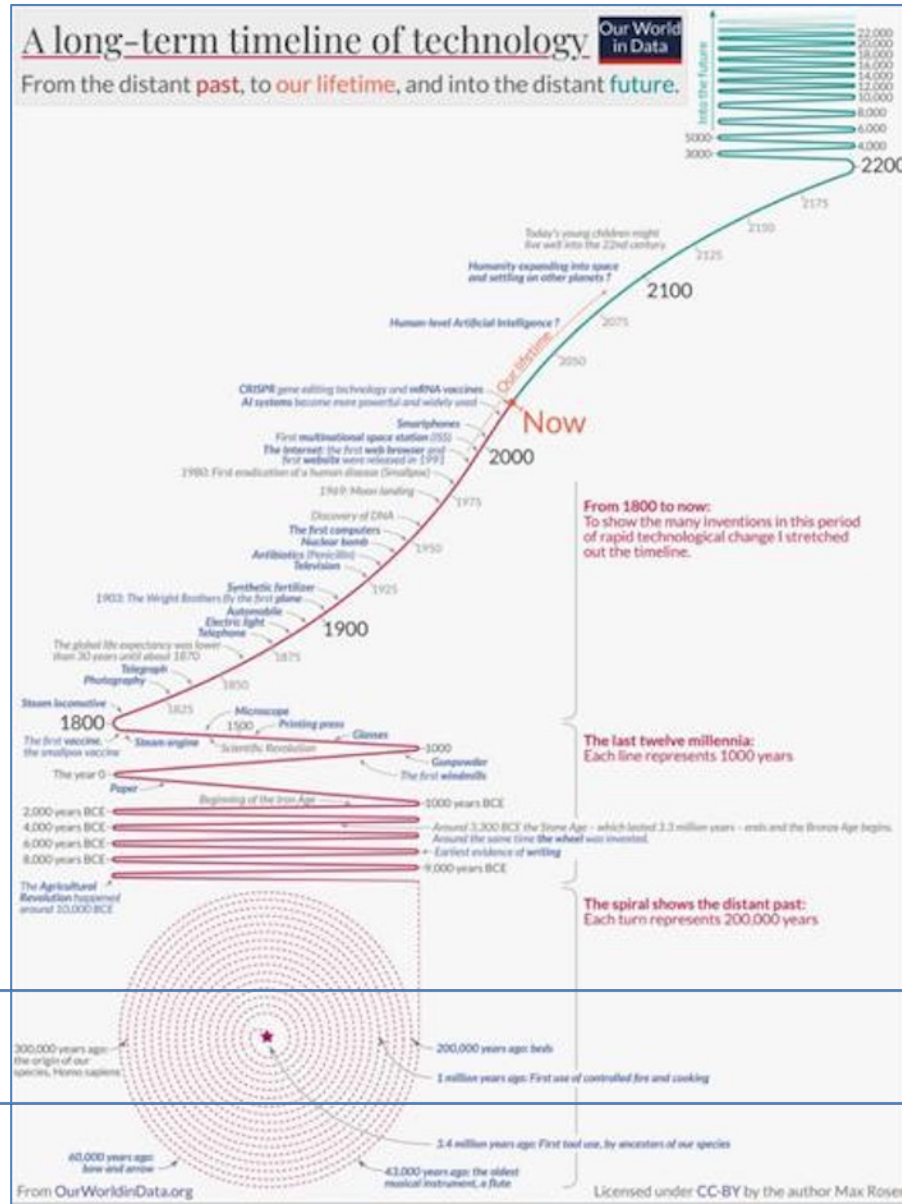
0.0 Previous



In this competitive context, some questions need to be answered

Why were Fintechs born at this particular moment in history?

0.0 Previous



What is the main social value contribution of Traditional Financial Industry?

Growth Financing

What is the differential social value contribution of Fintechs?

To Be Researched

"3,4 million years ago, first tool used by ancestors of our species"

The Fintech Financial Industry

A Theoretical Approach to its Sustainability and Social Value

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Previous Aspects

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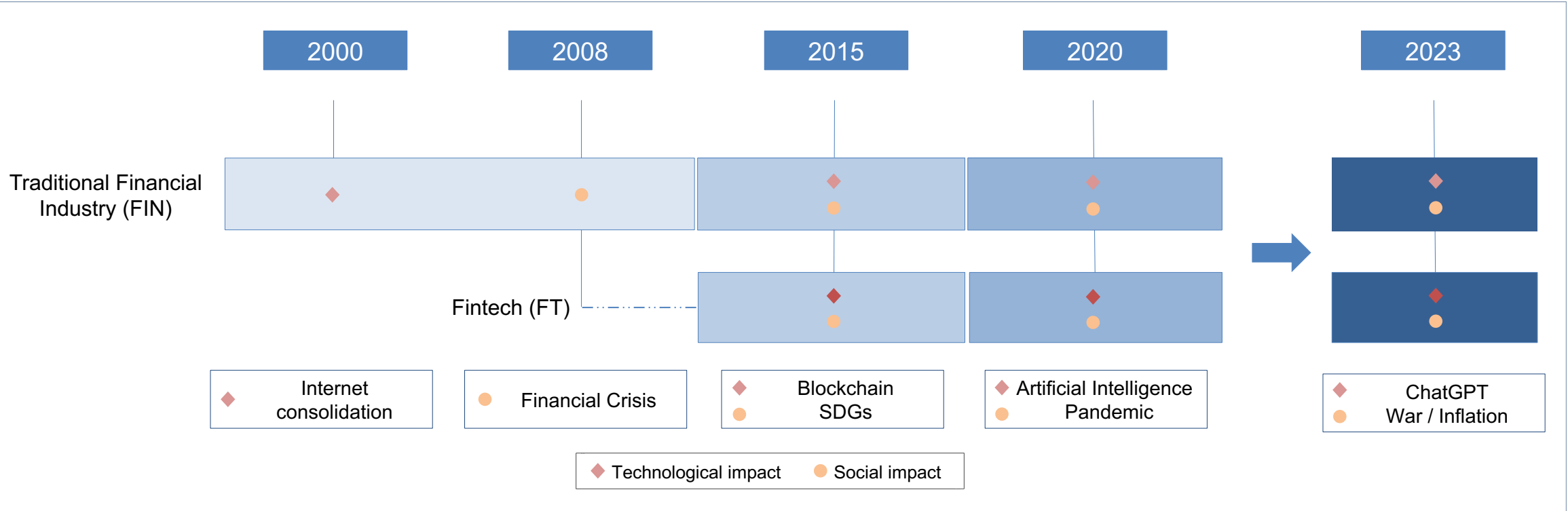
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Discuss and some expected Conclusions

Financial Industry, recent history along 21st century

A period characterized by a continuous succession of technological and social disruptions

1.1 Motivation



Fintech Industry

- **Technological** developments and the 2008 financial **crisis**: two key elements behind its birth.
- Not enough if the loss of **trust** had not arose amongst customers (Cojoianu et al., 2021)
- Literature has paid increasing attention to fintech research since **2015** (Sun et al., 2022).

Since 2015 the term “Fintech” has become widespread (Sun et al., 2022)

Its definition was one of the first topics of debate (Arner et al., 2015; Milian et al., 2019; Thakor, 2020)

1.1 Motivation

Alternative Fintech Definitions

- Official definition by the Financial Stability Board (FSB) (February 22nd, 2023), focused on **innovation**.
- Tello-Gamarra et al. (2022, p. 725) identify different perspectives in academia, focused on (a) **products and services**, (b) **firms**, or (c) **agents**.
- Schueffel (2016, p. 45) offers the simplest definition, summarising in ten words the **essential elements**.

Definition adopted in the research

“New financial industry that applies technology to improve financial activities, which could lead to new business models, products & services, functionalities, and processes, within a relaxed regulatory framework”

Schueffel’s essential elements

“New financial industry that applies technology to improve financial activities...”



FSB’s focus on innovation

“Technologically enabled innovation in financial services that could result in new business models, applications, processes, or products with an associated material effect on financial markets and institutions and the provision of financial services.”



New

within a relaxed regulatory framework.”

Despite their success, the future of Fintechs is not guaranteed

The research will work on the identification of the elements that can foster their sustainability

1.1 Motivation

The Gap

- Explanation is needed about features to guarantee not only its **birth** as a new industry, but its **survival** in the long run.
- Its current success depends on **2 key elements**:
 - Its **high level of services**, though this is a differentiation that could disappear when traditional financial industry adjusts to the new landscape.
 - The existence of a **relaxed regulatory framework**, though it could also disappear when institutions decide.

Elements that could guarantee their sustainability
are connected to **Value Creation**

There are elements that can consolidate Fintech as a sustainable sector

The research seeks to understand which of them are available

1.2 Problem Statement

Elements Connected to Value Creation

- **Economic Value perspective.** It depends on Fintechs' ability to offer **lending** broadly, which requires two essential capabilities:
 - Capital
 - Risk Management (data & algorithms)
- **Social Value perspective.** Fintech model generates both positive and negative **externalities**, that impact on:
 - Costs of Transaction (Coase, 2013)
 - Its Social Efficiency (San-José et al., 2014)

The research proposal is placed in the context of institutional (Scott, 2008) and stakeholder theoretical positions (Parmar et al., 2010)

Fintech industry sustainability will depend on its social value contribution

But the social value is conditional on its prior long-term economic viability

1.3 Research Question

Research Question

What is the socio-economic value contribution of the Fintech Financial Industry?

Two secondary questions have to be answered

Related to Economic Value

What are the elements that contribute to the long-term **economic sustainability** of Fintech as a differentiated sub-sector within the financial industry as a whole and what role does the **regulatory framework** play in it?

Related to Social Value

What are the mechanisms for the creation and distribution of **social value** amongst **stakeholders** and how does **trust** regulate them?

The research has three objectives

Two related to economic sustainability of Fintechs and the third to their social value contribution

1.4 Objectives

Objectives

1. To investigate the levels of **performance** and **costs** that may facilitate the competitiveness of the EU Fintech Financial Industry relative to the traditional financial industry, under alternative **regulatory** scenarios.
2. To understand the ability of the EU Fintech Financial Industry to raise sufficient **capital** and access customer **data** to address the incurred risks, under alternative **regulatory** scenarios.
3. To assess the value contribution to society of the EU Fintech Financial Industry relative to the EU traditional financial industry, in terms of **economic and social value**, from the perspective of both **shareholders** and **stakeholders**.

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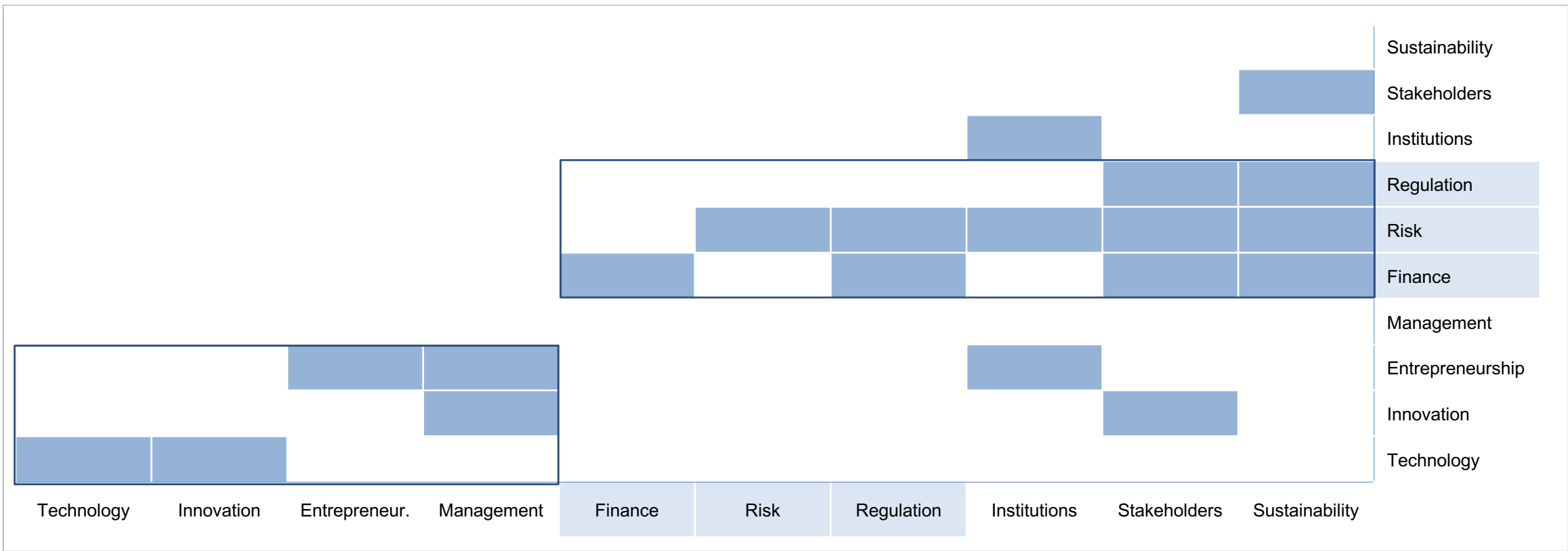
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Discuss and some expected Conclusions

Ten dimensions can be identified as the main architecture of Fintechs

So far, researchers have specialized more on novelty and regulation than on social aspects

2.1 Conceptual Framework



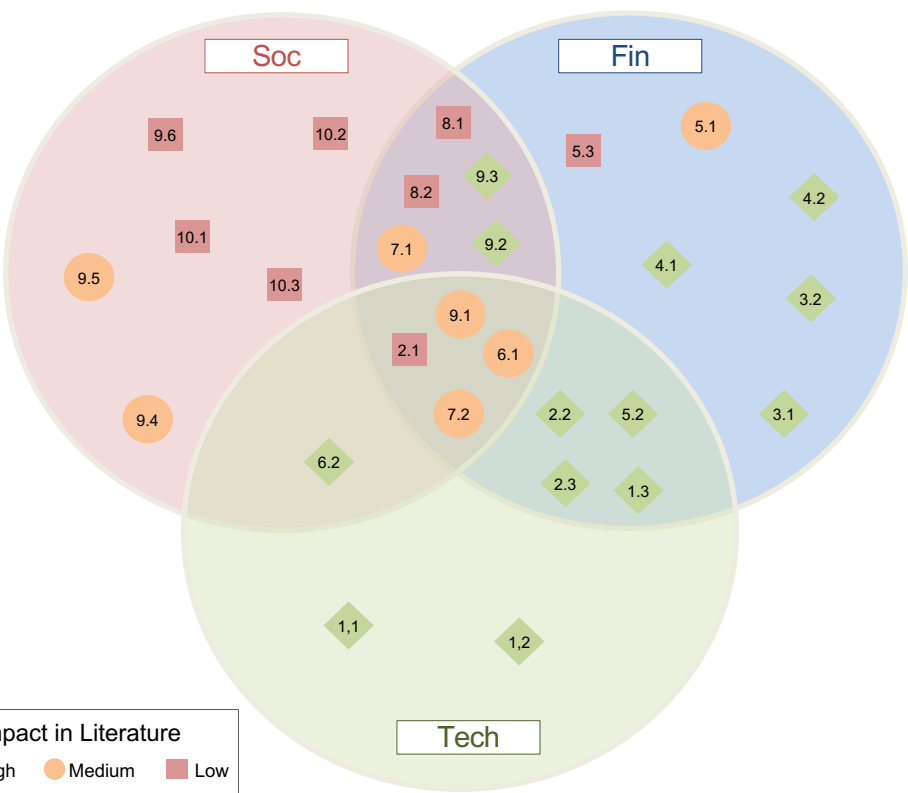
Source: Elaboration by the author based on Arner et al. (2016), Arner et al. (2020), Bollaert et al. (2021), Carbo-Valverde et al. (2022), Chen et al. (2019), Cojoianu et al. (2021), Daud et al. (2022), Fung et al. (2020), Gomber et al. (2018), Gozman et al. (2018), Haddad & Hornuf (2019), Kolokas et al. (2022), Lee & Shin (2018), Li et al. (2020), Moretto et al. (2019), Ozili (2018), Palmie et al. (2020), and World Bank and International Monetary Fund (2018).

Due to the recent irruption since 2015 and its quick evolution, these dimensions have achieved uneven levels of progress over the years

As seen, Fintech is the synthesis of “finance” and “technology”

But, on a deeper level, at least 28 underlying sub-dimensions can be found

2.1 Conceptual Framework



1 Technology	◆	1.1 Underlying Innovations
	◆	1.2 Processes
	◆	1.3 Effectiveness
2 Innovation	■	2.1 Business Models - Loans
	◆	2.2 Business Models - Rest
	◆	2.3 Products & Services
3 Entrepreneurship	◆	3.1 Finance
	◆	3.2 Management
4 Management	◆	4.1 Competitiveness
	◆	4.2 Opportunity

Impact in Literature		
◆	High	
●	Medium	
■	Low	

5 Finance	●	5.1 Incomes
	◆	5.2 Efficiency
	■	5.3 Performance
6 Risk	●	6.1 Financial Risks
	◆	6.2 Technological Risks

7 Regulations	●	7.1 Credit Regulations
	●	7.2 Compliance
8 Sustainability	■	8.1 Economic Sustainability
	■	8.2 Social Sustainability

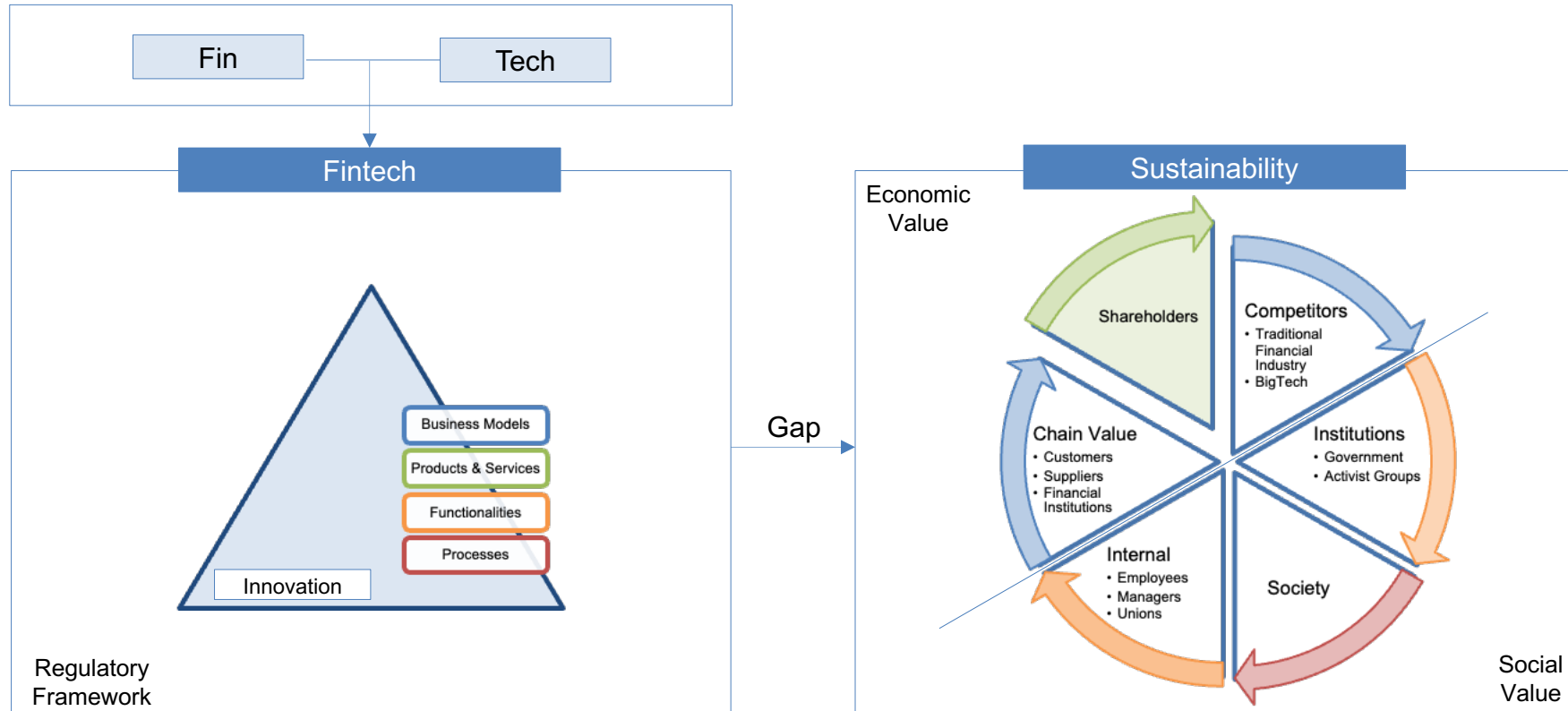
9 Stakeholders	●	9.1 Shareholders
	◆	9.2 Competitors
	◆	9.3 Costumers & Suppliers
	●	9.4 Employees
	●	9.5 Institutions
10 Institutions	■	10.1 Externalities
	■	10.2 Costs of Transference
	■	10.3 Economies of Scale

These sub-dimensions bring to light a third area of interest, leaving a three-dimensional map
(1) entrepreneurship, (2) financial structure and (3) social sphere

Fintechs have disrupted the financial industry (Gomber et al., 2018)

Business Models, Products & Services, Functionalities, and Processes

2.1 Conceptual Framework

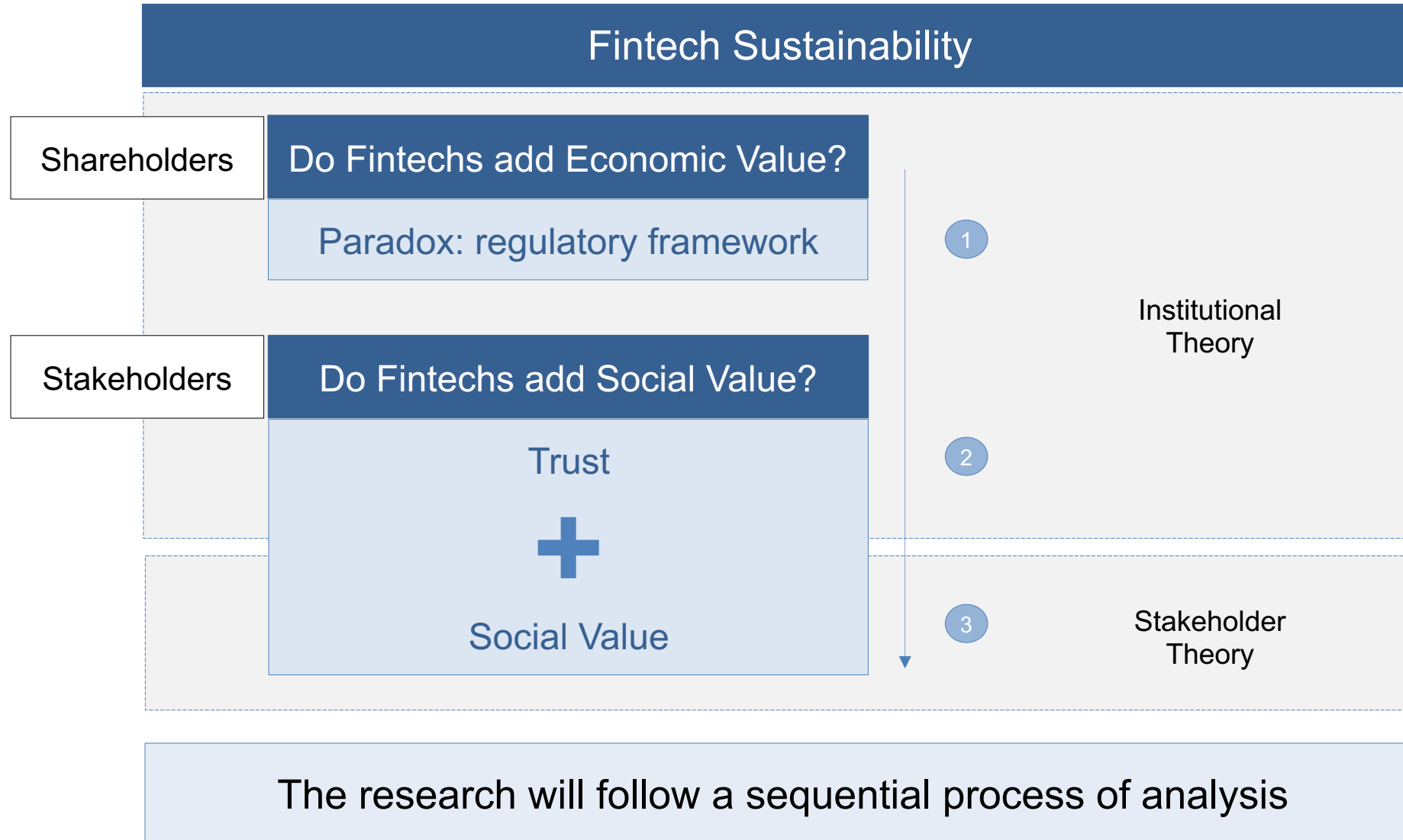


Nevertheless, if they want to ensure their long-term competitiveness and sustainability, they will have to improve their value proposition for both **shareholders** and **stakeholders**

Institutional & Stakeholder Theories

Both will provide the theoretical framework for the research

2.1 Conceptual Framework



Long-term advantage requires VRIN^(*) resources (Teece, 2014)

Despite their regulatory exemption (Fung et al., 2020; Ozili, 2018), Fintechs cannot ensure the former

2.2 Proposition 1

Proposition 1: The Fintech Economic Unsustainability Paradox (FEU Paradox)

The establishment of beneficial contextual regulatory environments that seek to protect the consolidation of the Fintech industry may result in the paradox of preventing its long-term sustainability.

The FEU Paradox

- If Fintechs continue to enjoy the relaxed regulatory exemptions, they will find it **difficult** to access the core of the financial business model, i.e., **lending**.
- If the exemptions disappear, they will need access to **critical resources** that are **hard** to come by: capital (**funding**), and data and algorithms (**knowledge**).

(*) VRIN: valuable, rare, in-imitable, and non-substitutable resources

In both cases **cash-flows** are **not** sufficiently **ensured**, making it difficult to guarantee its long-term economic value

Sustainability of Fintechs cannot be ensured solely on economic grounds

But they can also exploit their strong resources in the sphere of social value to underpin it

2.3 Proposition 2

Proposition 2: Trust and Social Value, Two Key Elements of Fintech Competitiveness

In a context of lack of confidence in the traditional financial industry, Fintechs have the opportunity to develop a sustainable competitive advantage by exploiting their trust resources and differential capabilities to create significantly greater social value than incumbents.

Two features to solve the uncertainty created by the FEU Paradox

Trust

Confidence, as a powerful resource, offers an opportunity for Fintech to flourish.

Social Value

Reduction of **transaction costs** and increase of **stakeholder benefits** are key drivers in fostering Fintech sustainability.

Assuming its economic viability (first pillar), combination of **trust** and differential **social value** represents the second pillar on which Fintech long-term sustainability is built

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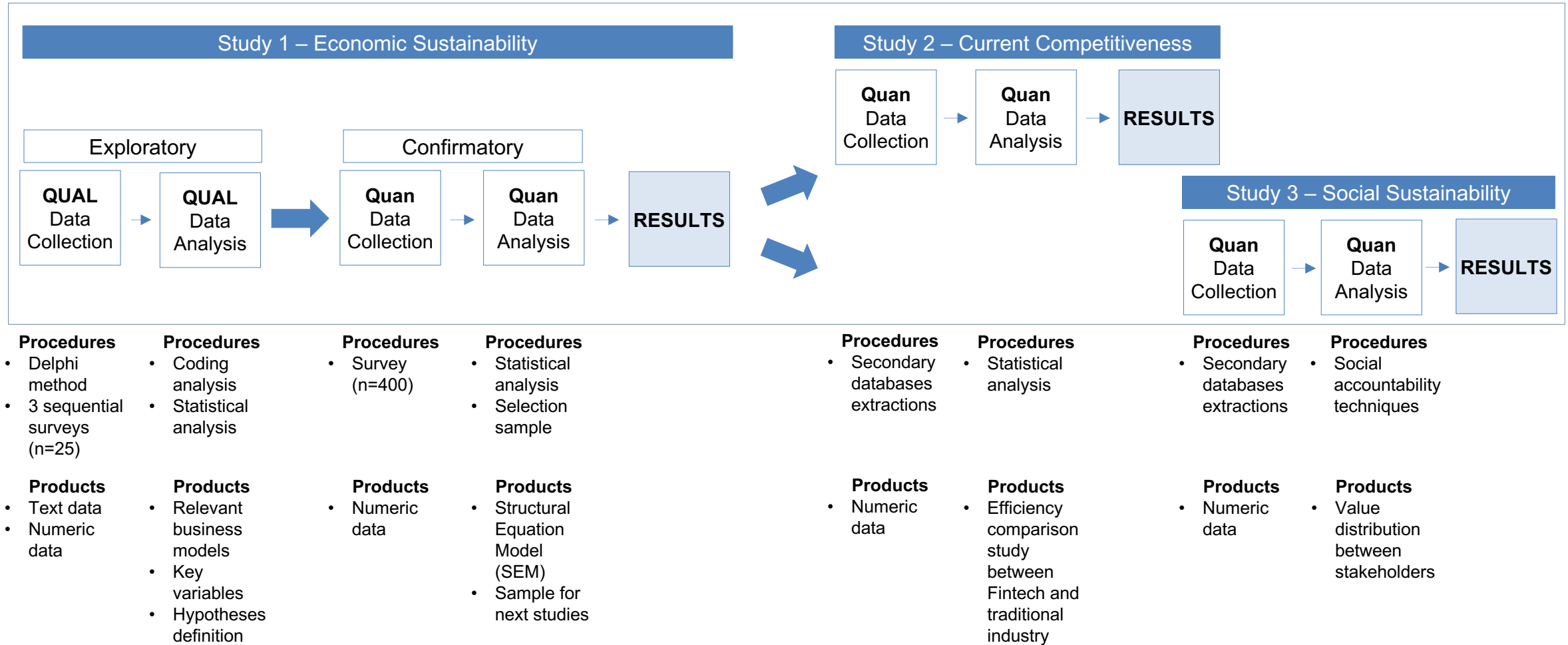
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Discuss and some expected Conclusions

A Mixed Methods (MM) research will be adopted

Three studies will be carried out in four successive stages, first qualitative and rest quantitative

3.1 Methodology



A sequential data collection will be followed, both primary (surveys) and secondary (Dealroom, Crunchbase, Orbis and Sabi databases)

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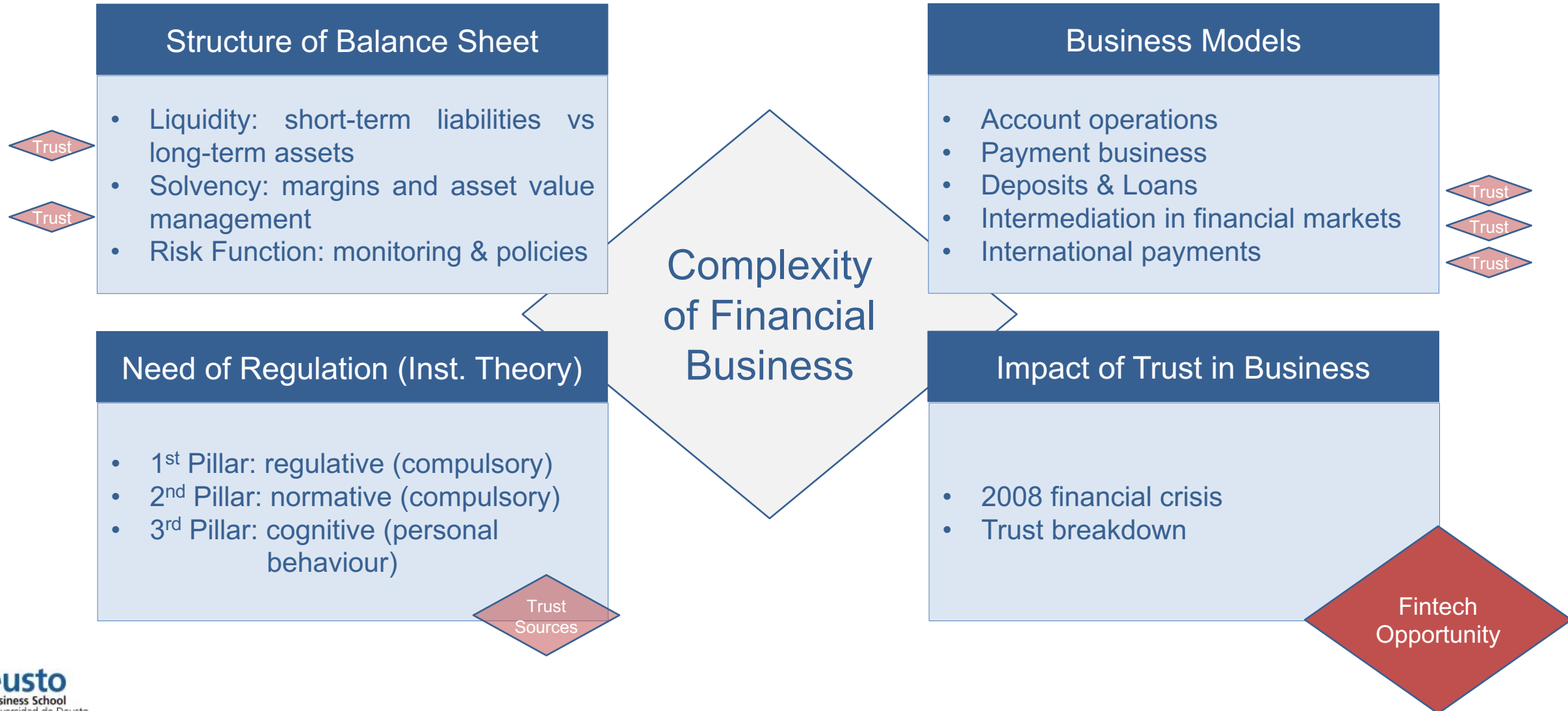
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Discuss and some expected Conclusions

The Financial Industry is a business full of complexity

But at its core, its main asset is simple, intangible, and volatile: confidence

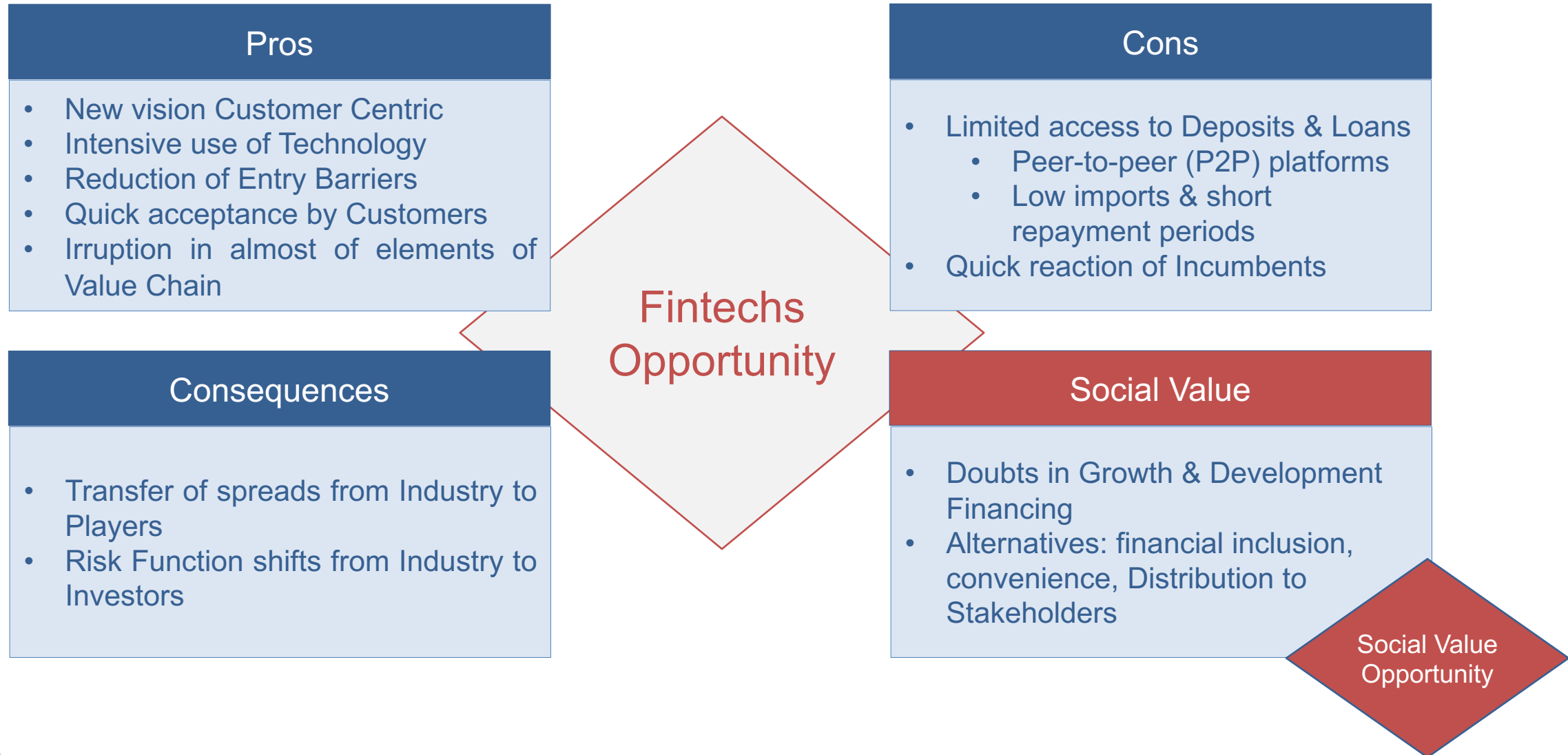
4.1 Discussion



Fintechs have entered (almost) all elements of the value chain...

... except Deposits & Loans

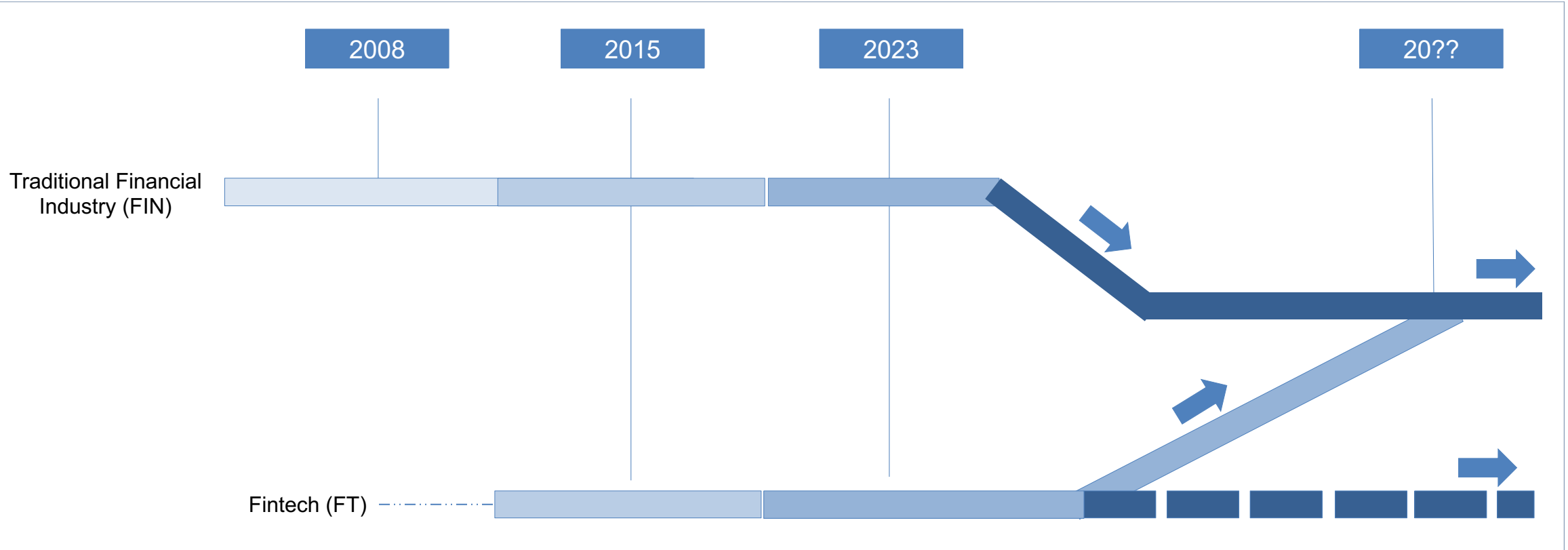
4.1 Discussion



Obviously, the future is not designed

But something seems to have changed, for now, and, for ever?

4.2 Expected Conclusions



The End

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