THE SUNDAY TIMES

Money

17.07.2016

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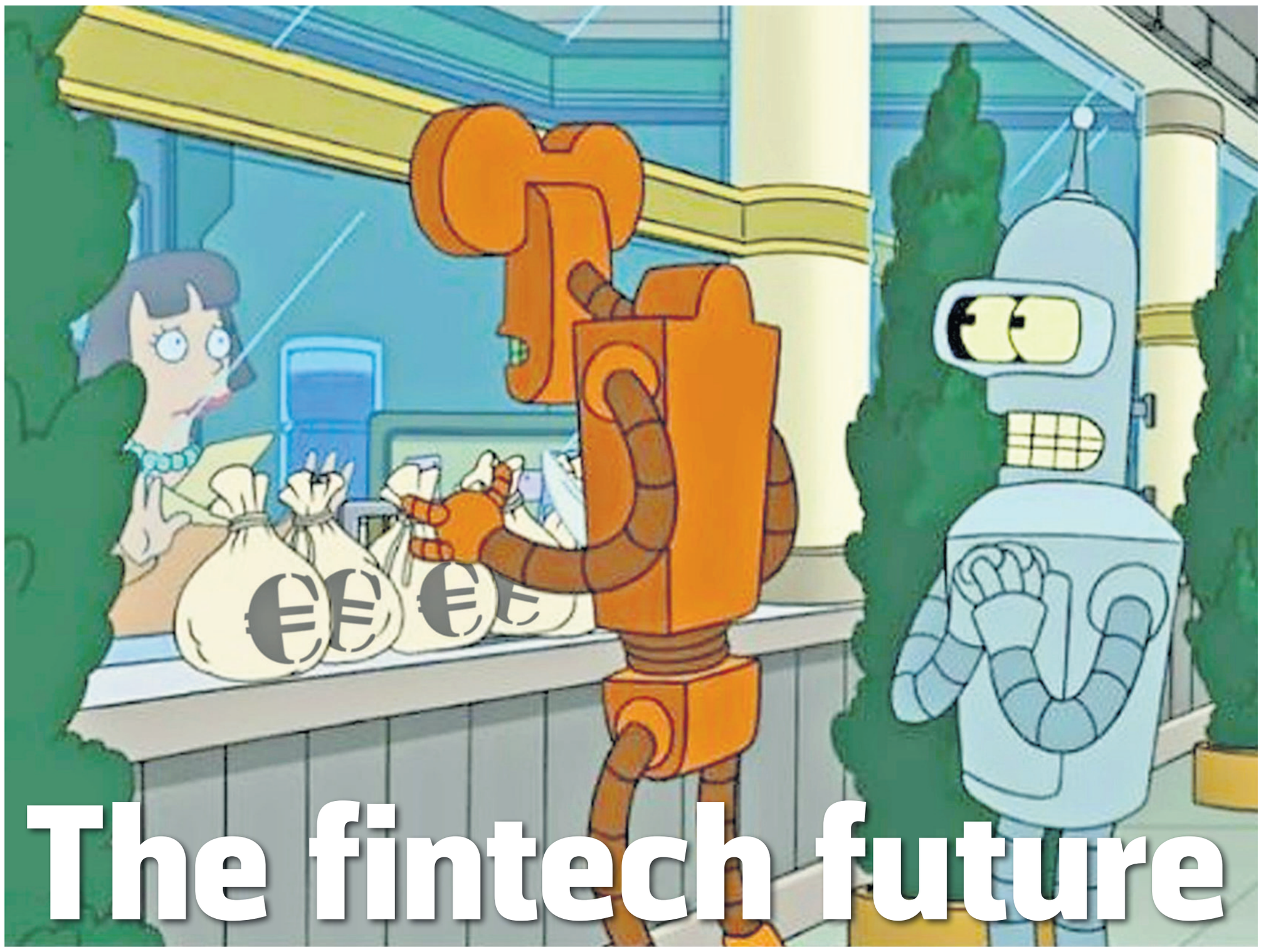

The fintech future

Rapidly evolving technology is revolutionising personal finance by bringing cheaper and quicker deals, **writes Mark Channing**

TECHNOLOGY is revolutionising how people manage their money, with alternative ways to bank, save, invest and pay.

The fast-growing financial technology, or fintech, sector is disrupting traditional banking and payment models by using technology to make financial services cheaper and more efficient.

According to experts, new fintech services threaten to break the stranglehold banks hold over people and their money.

Martin McKenna, partner at BearingPoint UK and Ireland, a management and technology consultancy firm said: "Fintech is an extremely hot area at the moment and poses a big threat to banks. It's giving consumers so many alternatives that banks could end up being sidelined."

From banking on your smartphone to opening a cross-border savings account, we show you how to profit from the fintech revolution.

SAVINGS

Advances in fintech allow Europeans to open a cross-border savings account for better deposit rates than those offered by Irish banks.

Fintech start-up Raisin.com matches savers with deposit accounts across the EU. You open a Raisin account using funds transferred from your Irish bank account before choosing a savings accounts offered by one of Raisin's partner banks across Europe. "Theoretically, Europe is a single market but up to now it's been extremely difficult to open a savings account with a bank that is not active in your home country," said Katharina Lüth, head of Europe with Raisin. "With us, you can do it online in English."

The best deposit rate available through Raisin is offered by Austria's Euram Bank, which pays 1.5% AER on two-year fixed deposits. This beats the best two-year Irish deposit account from Nationwide UK (Ireland), which pays 0.85% AER. Savings placed with Raisin are covered by the EU's Directive on Deposit Guarantee Schemes that protects deposits up to a maximum of €100,000.

CURRENT ACCOUNTS

German fintech firm Number26 offers free current account banking all through a smartphone app.

Number26 opened for business in Ireland less than a year ago and offers a basic current account with no fees, charges or requirements for a minimum deposit or balance.

Customers get a Mastercard debit card for purchases and ATM withdrawals.

Number26 can compete on the same terms as Irish banks since the introduction of the single euro payments area (Sepa), which covers all countries in the EU including non-eurozone countries.

It means you can receive pay cheques from an Irish employer and pay bills by direct debit to Irish utility companies as quickly and easily as you can with a domestic current account.

Number26 does not charge commission for card payments made in foreign currencies.

The bank plans to offer other products such as overdrafts to customers. Helena Treeck, spokeswoman for Number26, said: "We are planning a range of credit, savings and investment options, which we hope to launch by the end of 2016 or the beginning of 2017."

Due to the popularity of the account there is now a waiting list for new customers but Treeck said that it is still accepting applications from Irish consumers.

TRAVELLERS

Fintech start-up Revolut gives those travelling outside the eurozone a cheaper and safer way to manage their money.

iPhone and Android users download an app onto their smartphone and get immediate use of an online Mastercard debit card, which can be topped up by transferring funds from your bank account. You can also have the physical card posted to you for free.

Banks take a percentage of all spending on cards used in the UK, America and other places outside the eurozone in the form of cross-border fees. Revolut is cheaper because it does not charge any fees for cross-border transactions.

Suppose you are a Bank of Ireland customer and use your debit card to make a purchase in a non-euro country. Bank of Ireland charges you 2% of the value of the transaction up to a maximum of €11.43. The same purchase is free using a Revolut card.

Revolut users save even more money because its exchange rates are more competitive than those offered by banks. Veronique Barbosa, head of partnerships at Revolut, said: "Banks take a cut on foreign currency transactions by adding a mark-up to the exchange rate. We give you access to the live exchange rate with no hidden fees added on."

For example, €500 converted into sterling was worth £415 with Bank of Ireland compared to £426 using Revolut when rates were compared on the same day earlier this month.

Barbosa said another big advantage to using a Revolut card abroad is its customisable security features.

You can instantly enable or disable the card for online shopping and ATM withdrawals. You can also set it so that it only works when in close proximity to your phone. If you lose the card, you can immediately block it and then unblock if you find it later.

PAYMENTS

Fintech is rapidly changing how consumers pay for everyday goods and services. Contactless payments usage, where you use your debit card to "tap and pay" without needing to enter your pin, is soaring.

The number of contactless card payments in Ireland has doubled in six months according to Visa Europe. Using your debit card for contactless payments is cheaper than entering your pin number or using it to withdraw cash from an ATM.

Contactless payments are free with AIB, KBC and Permanent TSB, while Bank of Ireland charges 1c per transaction. This compares with charges of up to 20c for traditional debit card transactions or up to 35c for ATM withdrawals for bank customers who do not qualify for free fees.

Consumers will also soon be using their smartphone to pay in shops, with Apple and Android due to launch payment services here.

By utilising the same near-field communication technology used for contactless payments, consumers will be able to pay by holding their smartphone in front of the point of sale terminal.

Using your smartphone for purchases is safer than using cards. Anybody who finds or steals a contactless card can use it because no pin is required.

Paying with your smartphone eliminates the possibility of this because the security on a smartphone is extremely robust.

For example, Apple Pay transactions using your iPhone require you to scan your fingerprint.

"There is a fear among consumers that if your phone gets stolen someone will be able to spend your money," said McKenna. "Smartphones have so many layers of encryption that paying using your smartphone will probably be more secure than using a card."

Apple Pay launched in the UK earlier this year and says it plans to launch in Ireland in the near future.

P2P

Peer-to-peer (P2P) websites are another branch of the fintech sector that can save you money on foreign currency transfers or earn you better investment returns.

Irish crowdfunding websites such as Grid Finance and Linked Finance match businesses seeking finance with individuals prepared to lend their cash, for a high-risk, high-reward investment. The average Linked Finance investor earns a 9.7% APR return on the any cash lent.

Dublin-based CurrencyFair matches those who want to exchange currencies at a fraction of the cost that they would pay if they did the transfer through a bank.

CurrencyFair charges 0.35% of the amount exchanged plus a flat fee of €3. It claims it can save customers up to €400 in fees on the cost of transferring €10,000 into sterling.

MARKET MOVERS
DAVID BINT

David Bint is investment director at Standard Life Investments. His responsibilities include the Enhanced-Diversification Growth Fund (EDGF), which has assets under management valued at £110m (€131m). As part of Standard Life's Synergy fund range, it is open to those with at least €175.

Investment philosophy
EDGF invests in a range of assets, including traditional ones such as shares, bonds and property, as well as interest rates and currencies.

"The aim of the fund is to invest in a broad range of assets while giving you the necessary diversification to reduce volatility," said Bint. "Over the long-run you should get equity-like returns but with just two thirds of the volatility of global equities."

Currently 20% of the fund is invested in European equities with 4% held in both Japanese and global equities. As part of its enhanced-diversification strategies, 20% of the fund is in currency positions while 15% of the fund is allocated to interest rate positions.

The fund is unconstrained in which strategies it adopts. "If we didn't feel we could generate a strong return from European equities we wouldn't be obliged to hold them," said Bint.

Performance
The fund is new to Irish investors, as it launched on the domestic market earlier this year, but it has been available to UK investors since 2013. The fund's one-year performance is -2.8%, however it is up 6.2% annualised since launch.

According to Bint, the fund's max drawdown — its maximum peak-to-trough decline since launch — shows the fund is less volatile than equities.

"The max drawdown over EDGF's fairly short lifespan is 10% while for equities it is about 18%," he said.

Buying and selling
EDGF doesn't hold individual shares and gets its equity exposure by investing in an index or through one of Standard Life's equity funds. It achieves its European equity exposure through an investment in Standard Life's European Equity Income fund, which counts Danske Bank, Siemens and Nokia among its top holdings.

The fund has also taken a number of relative positions where it aims to exploit differences in the price or value of equities, currencies or interest rates. "When we're looking at strategies of this nature, they can perform even as markets are going down," said Bint. "This is one of the things that make EDGF different from other funds."

Among its currency positions, the fund is long the Indian rupee relative to the euro. "This is a currency pair that you wouldn't find in many portfolios," said Bint. "Interest rates in India are 6.5% higher than in the eurozone, so if you own the rupee relative to the euro you can earn a considerable return even if the currencies don't move."

Another currency pairing where the fund sees an opportunity is the South Korean won and the US dollar. "We prefer the dollar to the won because we feel the Korean economy is under stress," said Bint. "We're pairing it with the currency that is the traditional safe-haven."

Outlook
Looking ahead, Bint expects global growth to be tepid and uneven.

"The outlook for global growth looks a bit patchy and sub-trend," he said.

On Brexit, Bint said that while it was a "very negative scenario", EDGF wasn't specifically exposed to it.

It is time for a sane banking system that is fit for purpose

JOHN LOOBY COMMENT

As the saying goes, insanity is doing the same thing over and over again and expecting a different result. On this basis, those responsible for regulating the global banking and financial system should be locked up in an asylum.

The financial collapse in the autumn of 2008 was devastating and by many measures the contraction was greater than that experienced at the onset of the Great Depression of the 1930s, with some arguing plausibly that a greater cataclysm would surely follow.

This was thankfully avoided as the main central banks embarked on an increasingly extraordinary journey of easier monetary policy.

Almost a decade later we are still grappling with many of the negative consequences.

The shock was famously captured by a vocal champion of the prevailing system, the long-serving, then retired, Federal Reserve chairman Alan Greenspan.

"Those of us who have looked to the self-interest of lending institutions to protect shareholders' equity, myself especially, are in a state of shocked disbelief," he told a congressional committee in October 2008. "The crisis has turned out to be much broader than anything I could have imagined."

In the wake of the collapse, the evidence that something fundamental had gone wrong with the global banking and financial system was undeniable, and a rare consensus emerged that fundamental change was necessary and inevitable.

Incredibly, we are still waiting for that change.

For most of the past 300 years the Bank of England has played a central role in the development and management of the global banking and financial system.

While modern counterparts in Washington, Frankfurt and Tokyo wield more power today, they are all broadly modelled on the old lady of Threadneedle Street.

Small wonder that the most penetrating analysis of the global financial crisis, and its fundamental flaws, has arguably come from Lord King, the former governor of the Bank of England who retired in 2013.

Among much else that he says in his recently published book The End of Alchemy — Money, Banking and the Future of the Global Economy, King is characteristically clear about the continuing vulnerabilities of the unreformed system.

"Frenetic activity among the official community cannot conceal the fact that although much useful repair to the fabric of regulation has been made, nothing fundamental has changed. The alchemy of our banking system remains," he writes.

Bank assets, mostly loans, are still supported by a relatively tiny sliver of equity, with the vast bulk still funded by debt.

Across the banking landscape of the developed world, the sliver of equity is still leveraged around 23 times such that a fall of just 4% in the value of bank assets would entirely wipe out shareholders.

There remains a massive mismatch between the generally long-term maturity of bank assets and the generally short-term maturity of bank debts.

Almost uniquely therefore, banks are still businesses that cannot survive without the backing of central banks and ultimately governments.

This unchanged and universal reality is likely to be confirmed once again in the coming weeks, this time in Italy which faces a financial crisis caused by €360bn of bad bank loans.

The fact remains that as taxpayers and investors, we are all still hostage to a fundamentally flawed global banking and financial system.

Notwithstanding the trauma of the post-Lehman period, there has been precious little progress in addressing the risks faced.

It is still difficult to argue with the stark conclusion of King as governor in 2010 that "of all the many ways of organising banking, the worst is the one we have today".

Before the metaphorical men in white coats swoop, let us hope that his successors at the key central banks finally begin the difficult task of giving us a banking and financial system fit for purpose.

For many who have struggled since the autumn of 2008, the ransom to be free of the current flawed version has been more than paid.

John Looby works for KBI, a global investment manager based in Dublin. The views expressed are his own