

Fintech and Digital Security

Thematic Investing

With rising populations, scarce areas to develop, and deteriorating infrastructure, cities across the globe face extraordinary challenges that are only increasing in magnitude. The vision of “Smart Cities” and “Smart Homes” have been posited as the answer to such issues and have only become more prominent with the concept’s implementation across the world.

Introduction

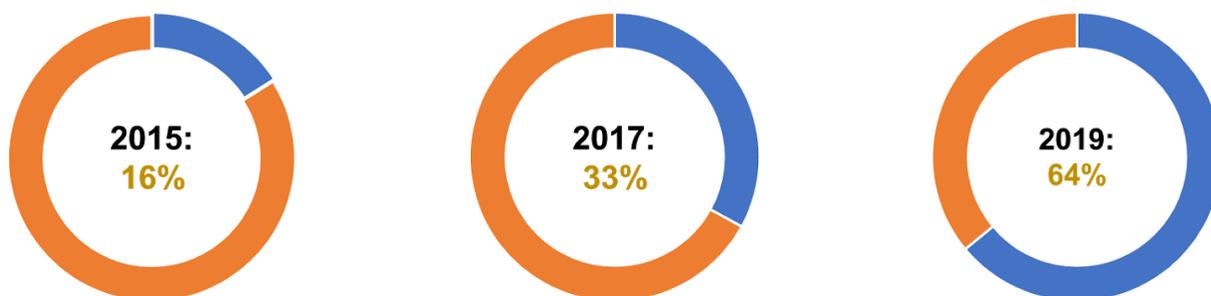
FinTech, a portmanteau of finance and technology, represents the collision of two worlds—and the evolution of the use of technology in financial services. Financial services and technology are locked in a firm embrace, and with this union comes both disruption and synergies.

FinTech start-ups have mushroomed to provide retail consumers with almost all the services that a traditional financial institution. Due to their digital business models and lean operations, FinTech services often provide these services more conveniently and at a cheaper price.

Growing adoption for FinTech services

FinTech firms are able to offer cheaper and more efficient financial services than traditional financial institutions. As a result, consumers like what they can offer.

EY’s annual Fintech adoption survey asked consumers about their use of 19 FinTech services across five categories (money transfer and payments, budgeting and financial planning, savings and investments, borrowing, and insurance). A FinTech adopter was defined as someone who has used two or more of these services. Based on the EY FinTech Adoption Index, adoption of FinTech services has moved steadily upward, from 16% in 2015, to 33% in 2017, to 64% in 2019 (Bull, Chen and Chiselita 2019).

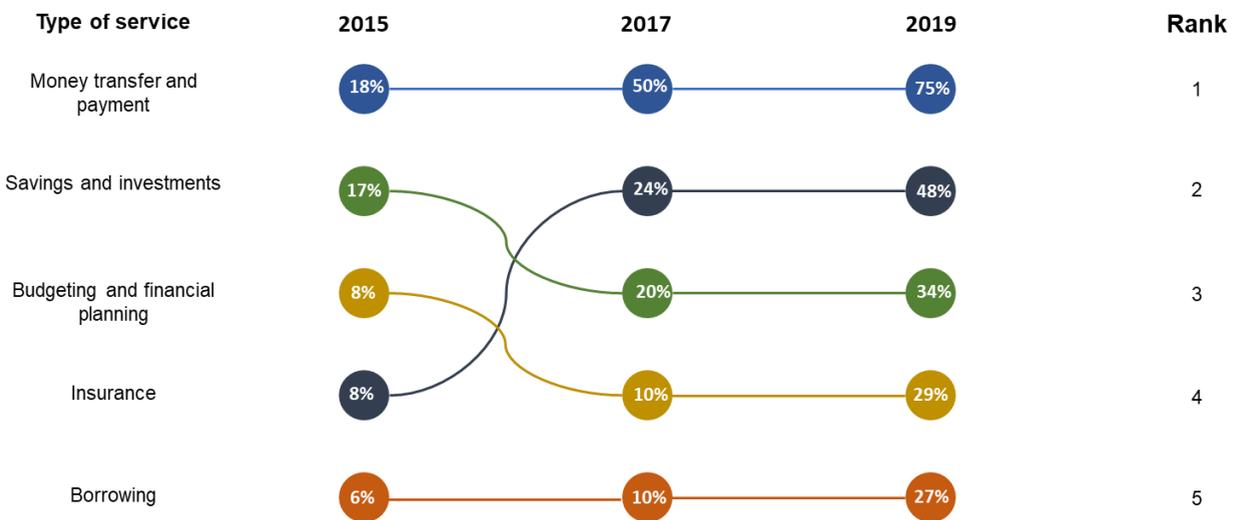


Source: EY FinTech Adoption Index 2019

Figure 1: FinTech adoption rates amongst global consumers

Within the services offered by FinTech firms, the most commonly used category is money transfer and payments, with 75% of consumers using at least one service in this category. In China, where money transfer and payment apps are pervasive, the adoption rate is 95% (Bull, Chen and Chiselita 2019).

The most used services in money transfer and payments category are peer-to-peer payments, non-bank money transfers, and in-store mobile payments due to the ease of setting up an account. Insurance shows strong adoption as well, with nearly half the consumers globally using a premium comparison site, feeding information into an insurance-linked smart device, or buying products such as peer-to-peer insurance (Bull, Chen and Chiselita 2019).



Source: EY FinTech Adoption Index 2019

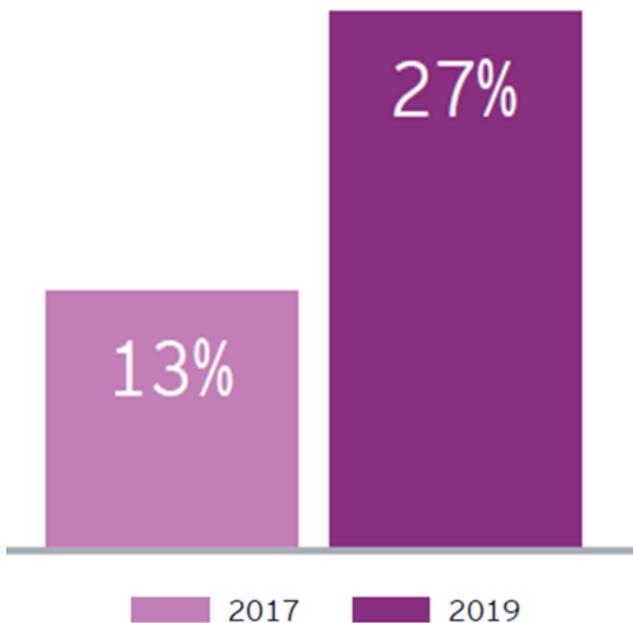
Figure 2: FinTech services ranked by popularity by global consumers

Consumers cite cost as a major factor in adopting FinTech services

Digital innovation is disrupting and reshaping financial services at a rapid pace, and incumbents and challengers alike need to be attuned to the evolving expectations of their customers.

Challengers have built themselves using a design-first approach and agile work processes. By keeping a technology-forward mindset, they can offer FinTech services that are at once personalized, accessible, transparent, frictionless and cost-effective, characteristics that are highly appealing to consumers.

Of these characteristics, cheaper fees tend to be the most appealing to consumers. In 2017, 13% of consumers surveyed by EY said attractive fees were why they chose to use FinTech services. This increased to 27% in 2019 (Bull, Chen and Chiselita 2019).



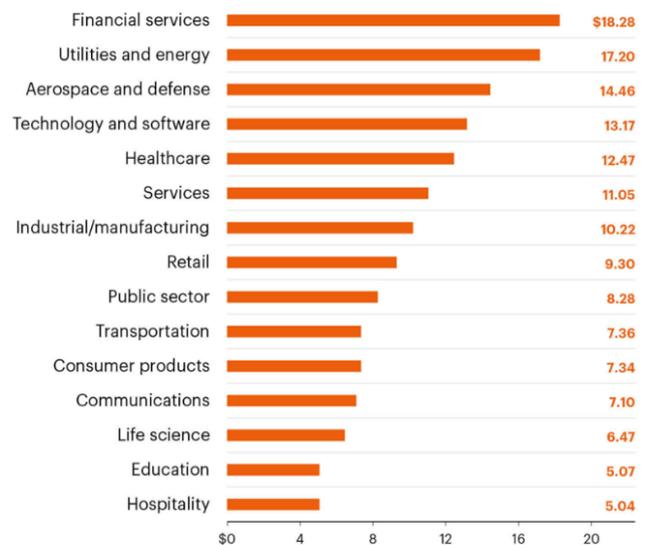
Source: EY FinTech Adoption Index 2019

Figure 3: Proportion of global consumers who use FinTech services due to cheaper fees

With more FinTech usage, the risk of cybercrime increases

Because FinTech firms operate online and handle sensitive information from their customers, they are also more susceptible to cyber-crime.

According to Accenture's Cost of Cybercrime study, financial services incurred the highest cybercrime costs among all industries studied in 2017. The cost of cybercrime to the industry globally reached close to USD 20 million, up by 9.6% from 2016 (Bissel, LaSalle and Dal Cin 2017).



Source: Accenture Cost of Cybercrime Study 2017

Figure 4: Average Annual Cost of Cybercrime by Industry Sector Globally in 2017 (USD mil)

The adoption of FinTech should thus go hand in hand with the adoption of digital security to safeguard the handling of sensitive data and mitigate the threat of cybercrime. As a result, it is not surprising that as financial services firms embrace digitisation through FinTech, they are also increasing expenditure to combat cybercrime.

A recent survey by Deloitte on financial institutions' IT expenditure found that firms surveyed spent about 10.9% of their IT budget on cybersecurity on average, up from 10.1% a year earlier. This equalled about 0.48% of company revenue on average, again up from 0.34%. Within the financial services industry, most of revenue spent on cyber security was by financial utility firms such as clearinghouses, exchanges and payment processes, followed by firms providing retail and corporate banking services (Bissel, LaSalle and Dal Cin 2017).

	2019	2020
 Retail/corporate banking	0.3% 10.1% US\$2,074	0.6% 9.4% US\$2,688
 Consumer/financial services (nonbanking)	0.3% 9.7% US\$2,817	0.4% 10.5% US\$2,348
 Insurance	0.3% 9.3% US\$2,245	0.4% 11.9% US\$1,984
 Service provider	0.6% 8.9% US\$1,956	0.6% 7.2% US\$3,226
 Financial utility	0.8% 15.2% US\$3,630	0.8% 8.2% US\$4,375
 Aggregated total	0.3% 10.1% US\$2,337	0.5% 10.9% US\$2,691

■ Percentage of revenue ■ Percentage of IT spending ■ Per FTE

Note; FTE – Full time worker

Source: Accenture Cost of Cybercrime Study 2017

Figure 5: Cybersecurity Expenditure Within the Financial Services Industry Globally

Potential winners from the “FinTech and Digital Security” trend

Paypal

PayPal is the undisputed leader in online payments. Its P2P payment platform has emerged as an industry leader and continues to grow its user base. PayPal has also been acquiring complementary businesses, such as e-commerce tool Honey, and has been building up partnerships that could greatly expand its addressable market.

PayPal has over 346 million active accounts as at 2Q2020, but CEO Dan Schulman believes that the company can grow this figure to a billion in the near term as more people are choosing to shop online and send money to friends and family electronically.

Zscaler

Zscaler provides cloud-based internet security controls for both fixed and mobile devices. It is a gatekeeper for companies around the U.S., protecting customers from all of the usual threats and attacks.

Zscaler is one of the more respected cybersecurity stocks in the market with a good track record and a wide customer base. Over the past five fiscal years between FY16 and FY20, the company's recorded a revenue CAGR of over 50% to US\$431mil.

Investing in the “FinTech and Digital Security” trend with Crea8

As financial technology becomes widespread, FinTech firms are likely to see a surge in future earnings. Digital security firms are also likely to grow hand in hand, as consumers and FinTech firms seek to mitigate the threat of cybercrime.

Crea8 has put together an investment strategy to take advantage of this. The “Global FinTech and Digital Security” investment strategy lets you ride on this trend by investing in incumbent financial services firms that are adopting FinTech within their existing services, new entrants within the financial services industry that are pushing their FinTech services and leading digital security firms.

Through Crea8's Factor Based Investing Service, you get the opportunity to invest in this trend.

Put your own spin on things

Crea8 allows you to adopt our professionally built strategies, such as “Global FinTech and Digital Security”, and put your own spin on things.

If you are concerned about sustainability, Crea8 has also incorporated Environmental Social and Governance (ESG) factors into our portfolio construction, thereby, ensuring that your portfolio is consistent with your ESG principles.

Alternatively, with Crea8's Analytics, you can use our screener to identify other stocks to add to the strategies, while Crea8's Advisory allows you to use our algorithm add factor tilts to these strategies.

We monitor your plan to ensure you can sleep easy

When you set up an investment plan or strategy with us, your investment plan or strategy is rebalanced automatically, or we will send you a reminder to do so. This way, you can relax knowing that your investment plan is diversified and on track to meet your goals.

Crea8 offers free and automatic portfolio monitoring

In between the rebalancing date, we suggest that you enter cut loss and take profit orders. By using smart algorithms, we aim to cut your losses and let your profits run. Hence, you can sleep well knowing that your portfolio is monitored and up-to-date.

Backtest your strategies with 'what ifs' before investing

For any of the investment plans or strategies that you create, we let you backtest them and evaluate 'what-ifs' before committing your capital.

Crea8's Suite of Thematic Strategies

FinTech and Digital Security

Ageing Society

Electric Vehicles and Driving Technology

Smart Cities and Smart Homes

Millennials and Sharing Economy

AI and Blockchain

Smart Factory

Bibliography

Bull, Tom, Sharon Chen, and Doina Chiselita. 2019. "EY Global Fintech Adoption Index 2019". *Ey.Com*. https://www.ey.com/en_gl/ey-global-fintech-adoption-index.

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