3 Ways Technology Is Revolutionizing Financial Services

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If you haven't yet been introduced, now is a great time to get to know financial technology – better known as fintech.

Fintech describes new technology with a purpose to improve and automate the delivery of financial services, everything from how you pay for things, manage your money, and get a loan, to stock and bond investing, crowd-funding, data collection, and more.

And while technology has been disrupting financial services for a long time (think of the humble ATM machine), right now it is an industry on fire, accelerated by a pandemic that has made us all reluctant to touch physical money and to venture outside our homes to do financial transactions.

"In general, the pandemic expedited the process of taking financial transactions online," notes Itay Goldstein, a finance and economics professor at the Wharton School. "With people staying at home, online banking grew and other online transactions, as well. This probably sped up the process that would otherwise take longer to develop. These are changes that will persist beyond the pandemic."

With that, we give you 3 tech trends that are likely to affect your financial future.

Investing. The ability to invest in the stock market has never been more accessible. Companies like Robinhood have burst on the fintech scene, offering commission-free trades of stocks and other securities through mobile apps. The investing story of the pandemic was GameStop, which looked like a hot investment and prompted lots of new investors to get in on the action through their Robinhood apps, only to lose money when GameStop's stock price plummeted.

In general, we see this "combination of technology and increased interest from small investors who have money to invest and more free time during the pandemic," says Goldstein "It brings to the surface a fierce debate. On the one hand, it brings increased participation to the stock market, which is a goal that was always deemed important. On the other hand, we all saw the kind of trading frenzies it can generate. I think there will be more scrutiny looking into the costs and benefits of having such easy access, and maybe some attempt to throw some sand in the wheels so that markets don't go out of control."

By the way, adds Goldstein, the cryptocurrency bitcoin "continues its wild ride." The digital form of currency has captured the interest of high school students worldwide. People can choose to pay for things using their bitcoins and/or they can invest in the bitcoin currency as they would invest in the stock market or in gold, and earn a return on their investment as the price in U.S. dollars per bitcoin rises. "Given the general inflation in asset prices and concerns about increased money creation by central banks, Bitcoin attracted a lot of investors thinking it is an attractive store of value and an opportunity to generate returns," says Goldstein. Prices skyrocketed for a time, but more recently tumbled after negative remarks from former Federal Reserve chief Janet Yellen about the lack of efficiency in Bitcoin as a currency for transactions. "Overall, I expect volatility to continue in the coming months," notes Goldstein. "There are many speculations about what Bitcoin can and cannot do and what the ultimate source of value is. This leads to volatility."

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There's an app for that. According to the Mobile Finance Report 2020, a global benchmark of banking, payment and investment apps, COVID-19 "considerably accelerated the already exponential growth of fintech apps in 2020." That is to say that when it comes to managing your finances, it's likely there's an app for that – in fact, several. And this is truly changing the way you interact with money. Venture capital firms that finance start-up businesses are pumping money into young fintech companies, many of them promising to make financial services simpler and more accessible to everyone. And even companies that you don't think of as providing financial services are trying to capitalize on the pandemic-driven spike in digital money services. For example, Walmart recently announced it is entering banking with Ribbit Capital.

"A lot of the financial services that seemed stable when I was growing up, like banking, insurance, lending, and money management, are completely changing," observes David Musto, a Wharton finance professor and faculty director of the Stevens Center for Innovation in Finance at Wharton. "We've moved to a world where you can Venmo people and never touch the currency."

The explosion of financial-services apps has inspired the Stevens Center to focus on using technology to improve a personal-finance pain point, taking out a student loan to pay for college. "Ultimately, we want to produce an app that will help you think through your borrowing decisions," says Musto, whose colleague Nikolai Russonov, along with his MBA students, is also teaching an "Essentials of Personal Finance" course for high school students during this spring's Wharton Pre-Baccalaureate Program. "There's a whole complicated thing you're getting yourself into by taking out a student loan. It could be a good idea to do that to finance your higher education, but you need to go into a loan with your eyes open and to understand the consequences."

For an overview of fintech startups hitting the scene globally, check out this blog from Wharton Fintech, a student-led fintech initiative that has its fingers on the pulse of the industry.

Big data-driven decision making. With technology comes data, and more specifically, data analysis and decision-making. In many ways, the ease of collecting data through technology is transforming the financial landscape – and your life — in profound ways.

Musto points to two key examples: providing loans and insuring new drivers. "Typically, you would have the three credit agencies and a credit file on you at each of these agencies that would help determine how credit-worthy you are to lend money to," says Musto. "Now lenders are using big data [pulled from different sources], and I don't necessarily know what sources they are going to look at when they make a decision about lending money to me." Data, he adds, is also influencing the rates you will pay for insurance as a new driver. "A lot of insurers these days will track your driving in different ways potentially by putting a device in your car or by putting out a signal or tracking your phone," he says. "This is a lot more information than an insurer ever got about my driving when I first got a car. Now they're watching and can see if you're reckless. The upside of that is that safe driving means better rates."

And with data, comes great responsibility, as we've seen when private data is breeched by hackers. A lot of energy is going into data protection and privacy, from both big institutions as well as small startups. For an interesting innovation snapshot, check out Shane Curran, a 20-year-old from Ireland who started his data-privacy business while still attending his Silicon Valley, California high school a few years ago. His company Evervault helps software developers provide data privacy for their customers without hiring a lawyer. The company raised $16 million in financing in 2020.

The explosive growth of fintech is putting money and all its related services at your fingertips. An important takeaway, say the experts, is to appreciate the accessibility, do your research and proceed with caution.