

Innovate or Die: Lenders Must Partner with Tech Providers...or Face Disruption

BY RITA E. GARWOOD

Blockchain and AI may seem like mere buzzwords, but these technologies are already being implemented. For lenders who want to avoid disruption, now is the time to form relationships with innovators.



Pablos Holman of Bill Gates Intellectual Ventures encouraged lenders to form relationships with innovation, pointing to the fintechs as potential partners.

What will financial services look like in the future? Speakers and attendees tackled this question at the 2018 Commercial Equipment Marketplace Council (CEMC) FinTech Innovation Summit, held at the Ritz-Carlton Laguna Niguel in June.

"It was amazing to see so many attendees who are adopting programs to start leveraging artificial intelligence and machine learning and upping investment in big data infrastructure," said Charles Anderson, CEMC executive director and CEO of Currency Capital. "Several attendees also seem to have a solid grasp of the implications and promise of blockchain as it applies to transaction settlement and equipment tracking across transactions. All signs indicate the industry is aligning and moving in unison toward a future that fully embraces innovation. We're poised for some big changes in the competitive landscape over the next 12 to 18 months."

When IoT and Blockchain Converge

In a panel focused on utilizing blockchain technology to improve supply chain efficiency, Siemens Financial Services CEO of Commercial Finance - Americas Gary Amos discussed his company's journey with blockchain and IoT, which involved examining predictive savings around performance contracts and connecting people, processes and products in one solution. Amos said this holistic approach enabled his company to monitor equipment and factory use in real time.

Bart Cant, partner of Financial Services and Blockchain at IBM, encouraged attendees to ask, "What is the problem we're trying to solve with blockchain?" In traditional business processes, each entity in a supply chain has a ledger. Cant said this method works well until the time comes to sell an asset and you run into reconciliation issues. Blockchain simplifies the process with a common ledger shared across every entity involved in the business. Since users can only append to the database in blockchain, the result will be a historic record of the asset, streamlining the supply chain process.

Jim Toffey, CEO of LiquidX, stressed the importance of digitizing assets at the purchase order level. "If you get that right, and turn it into an original invoice with the right counterparties, everyone is in sync," he said, noting reconciliation and dispute processes would become a thing of the past since all parties would be on the same page during the entire lifecycle of the asset.

In addition to promoting collaboration, Amos said blockchain answers questions often asked by those in financial services: "How do we do things differently? How do we add more value to the OEMs, the manufacturers and the integrators?" Amos said onboard diagnostics are an entry point, representing "the art of possible," but encouraged attendees to think about compatible apps that could be built into the cloud to optimize performance and sell equipment differently.

"I think we're about to enter the next phase [of blockchain], which is more commercialization, creating the right ecosystem at scale because the technology works," Toffey said.

Part of creating that ecosystem involves keeping regulators in mind. Cant said IBM invited regulators in on the development process, making them an active participant so the information they needed could be built into the network.

Amos closed the session with a call to those who are reluctant to embrace emerging technology, asking, "How do you embrace these things that seem to have so

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— Keith Letourneau, Partner, Blank Rome

much ambiguity? Why should we do this? Everything works right now, but we feel we have no choice. People aren't going to buy the way they did yesterday."

"Based on what we saw at the CEMC this year, ignoring digitization would be a mistake," Anderson said in a comment after the conference. "We truly are entering an innovate-or-die environment that will leave those who fail to embrace the future struggling to keep pace. Either you're going to be part of the disruption, or you're going to be disrupted yourself."

Smart Contracts and Blockchain Technology

Keith Letourneau, partner at Blank Rome, provided four examples of smart contracts in trade finance, supply chain transactions, commodities transactions and equipment leasing.

Using flow charts to illustrate the steps in a traditional versus a blockchain line of credit transaction, Letourneau demonstrated how blockchain accelerated a process, which normally took five to 10 days, to mere hours, eliminating many process steps and the role of intermediaries.

"If you haven't considered the implications of blockchain and smart technology, then you definitely need to, because you don't want to be the intermediary that's left out in the cold at the end of the day," Letourneau said. "It does have the potential to be very disruptive."

Innovation: Solving the World's Biggest Problems with Science

In a keynote on day two of the summit, Pablos Holman of Bill Gates Intellectual Ventures shared a hacker's approach to technology, which involves asking, "What can I make this do?" before taking it apart, breaking it into pieces and figuring out what to build from the rubble. Holman said this process is fundamental to invention.

Taking this approach to the world's problems, Holman discussed innovative approaches to solving long-standing global issues, such as using remote-controlled laser beams to hunt and kill malaria-carrying mosquitos, inventing a more effective reactor to run on recycled nuclear waste and designing a super thermos to keep vaccinations cold enough to remain effective when used by doctors at makeshift clinics in Africa.

Although innovating financial services has been difficult because of the regulatory environment, Holman said "innovation always finds the cracks" and changes are coming. He reminded attendees that Silicon Valley will not fix their business. Instead, it will build a parallel business to disrupt their business.

"My job is not to convince you to become an innovator or act like a startup. We can't all become innovators, but you still want to have a relationship with innovation," Holman said, pointing to fintechs as a potential partner. "They need a Trojan horse... a way in to prove that their thing is going to work. They need a first customer. That's a relationship with innovation that's waiting for you."



Photos are courtesy of the CEMC

Left to right: Justin Wheeler of Currency Capital, Mike Armstrong of ZestFinance, Srinivasan Bharadwaj of RAGE Frameworks, Joel Luxenberg of DeepCurrent and Pablos Holman of Bill Gates Intellectual Ventures re-envision professional services through AI.

Re-Envisioning Professional Services through AI

In a panel focused on reimagining business processes, Holman said AI is often confused with machine learning, and it's important to understand what machine learning is and what it can do for your business. Joel Luxenberg, founder and CEO of DeepCurrent, explained the different roles played by data science (produces insights), machine learning (makes predictions) and AI (produces action).

Luxenberg said companies spend \$520 million on the 11 million employees who perform front-line jobs such as data entry and underwriting, and these workers can be replaced by AI. Mike Armstrong, president of ZestFinance, which offers a platform for lenders to leverage machine learning in underwriting, said the technology is great at detecting fraud.

Before trying to integrate technology, Srinivasan Bharadwaj, CTO of AI Products at Genpact's RAGE Frameworks, said it's important to ask, "How can we make technology

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serve the business?" He said companies often hear buzzwords and want to build emerging technologies in-house while they would be better off examining existing processes to determine how technology could improve efficiency.

Many fear the thought of AI replacing workers, but Holman encouraged attendees to adopt a new perspective. "We're good at imagining how a robot is going to take a job and it [the job] will disappear. We're bad at imagining the new kinds of jobs we will create," he said, pointing out that our parents could never imagine having the job experiences we have today.

"This is a watershed moment for our industry," Anderson said. "I'm excited every day about the opportunities to better serve customers and get capital deployed to market. There are huge implications for millions of businesses around the world. We're making the overall finance experience better for buyers, sellers and lenders and making transactions easier than ever. Nothing is more gratifying."

CEMC will continue its discussion of the indirect impact of innovation at its East Coast Executive Roundtable on November 14, 2018 at the Yale Club in New York City. ■

RITA E. GARWOOD is managing editor of *Monitor*.