

FinTech, Accounting, Audit

...and the future!

by Cillian Leonowicz

In this article, Cillian considers the impact that FinTech and exponential technologies will have for clients, professional services firms, governments and regulators.

Overview

FinTech is an amalgamation of the words “financial” and “technology”. It refers to the use of new technologies in the financial services industry to improve operational and customer engagement capabilities by leveraging analytics, data management, digital innovation and in some instances exponential technologies. The area has typically been characterised by small agile start-ups attracting investment funds for the development of new solutions which solve a particular problem or create value for a specific user type or customer segment. The sector is developing at a substantial pace with reports that FinTech funding in 2017 exceeded \$31 billion.

In Ireland the FinTech sector is vibrant. The area has received support and attention from Government who state in the IFS 2020 report that “FinTech is now a horizontal sector, affecting most areas of the international financial services industry. It is driving disruptive improvements both within traditional financial service providers and through technology companies promoting new business models. It is evident that what we now call FinTech will become the mainstream of financial services into the future”. For this reason, IFS 2020 calls out a “Strategic Priority 3” to “Drive Research, Innovation and Entrepreneurship in the IFS sector, with a particular focus on financial technology and governance, risk and compliance”. Government and

ecosystem support is driving sector development to the extent that it is reported by the Irish Venture Capital Association (IVCA) that Irish tech firms raised close to €1billion in venture capital in 2017. The IVCA go further to detail that venture capital investment in 2017 was concentrated on software (28pc), life sciences (23pc) and FinTech (18pc), with many innovations underpinned by artificial intelligence (AI) and analytics.

Ireland’s Trail Blazers

Ireland’s vibrant ecosystem, industry and governmental support, as well as funding, are allowing Irish firms to take their place among the world’s leading FinTechs. A point recognised by Silicon Republic who included five Irish firms in their category of “20 of Europe’s Hottest Fintech Start-Ups to watch in 2018”. The firms are:

Circle – a peer-to-peer payments company allowing for simple transfers, like a text message.

CurrencyFair – a payments company facilitating individuals and businesses to exchange currencies and to send funds to bank accounts worldwide.

Fenergo – a solution provider for financial services firms to support client lifecycle management, anti-money laundering, regulatory compliance and client data management.

TransferMate – offering services to send and receive business payments

internationally.

The fifth named Irish firm was Plynk which entered liquidation earlier this summer. It was reported at the time that this was in part due to increasing customer numbers not being achieved. This is a key message and demonstrates just how reliant FinTech’s are on the delivery of core capability in line with customer adoption for success.

In addition to our European recognition, Irish firms and diaspora are also attracting global attention. The recent 2018 FinTech100 named Dublin based company Future Finance #37 whilst the Collison Brother’s Stripe ranked #15, Circle #40 and Anne Boden’s Starling Bank #15.

To what can we attribute our FinTech success? There is no definitive or scientific answer to this question but we can say that there are a number of often cited factors:

1. Financial Services Experience

Domestic banking and activity in the IFSC has given Ireland tremendous exposure to the international banking and fund management industries. This provides us with a pool of people with the knowledge of industry processes and perhaps more importantly pain points, which can be addressed with new FinTech solutions.

2. Technology Experience

In a similar vein to the financial services industry, Ireland and the IDA have managed to attract large global technology firms to our shores. This has provided our market with strong technology resources and more recently digital innovators, from the likes of Facebook and LinkedIn, who can create and market new services and solutions.

3. Diaspora

Our immigrant past has provided us with a global network through which we can spread our message and success stories to financial centres like London, New York, Hong Kong and Singapore. A factor compounded when we consider the Irish diaspora sitting in high places in the world's largest financial institutions in these cities.

4. Geographic Size and Location

As a small island nation, we have a blend of rural and urban population centres and balanced demographics which serve as a good "test market" for new innovation. Moreover, our cities are relatively small allowing people to connect, ideate and create new value within the ecosystem relatively easily.

Accounting and Audit

The proliferation of new capabilities has not been limited to FinTech. Ireland is also seeing development in areas such as regulatory technology "RegTech" and medical technology "MedTech" as well as applications for accounting and audit. The Ireland FinTech Map identifies twelve firms offering services and solutions for accounting and audit. These firms can be broken into two categories:

1. Accounting and Business Management Platforms

This is the largest category with eight of the twelve identified firms in this space. These are:



- **AccountsIQ**
- **Big Red Cloud**
- **Billfaster**
- **Bullet**
- **Surf Accounts**
- **Thesaurus Software**
- **Yendo**
- **PayCheck Plus**

These platforms typically include a number of features including book-keeping, payroll and business dashboards with many deployed in the cloud, meaning there is no requirement for firms to maintain on-premise hardware.

2. Data and Actionable Insights

A number of firms are emerging in the data space. Their aim is to sit on top of solutions and apply their data and analytics engines to mine actionable insights from existing data sets. Firms in this category are:

- **BankHawk Analytics** – insights to reduce a firm's banking and payments costs
- **Cash Analytics** – insights for better cash flow and liquidity management
- **Calcfox** – provides an interface to build and publish calculation systems
- **Ezora** – both a data and accounting platform to enhance corporate performance and decision making in the Food and Beverage sector

Overall the above firms are seeking to help their customers automate their processes, create the overviews and insights to manage their business more effectively and provide the tools to improve future forecasting. As Des O'Donohoe, Managing Director at FundRecs, a reconciliation software for the funds industry, states "the Fund Recs Velocity platform automates the Audit reconciliation process as well as file transformation for audit inputs. The user is given the power to both process any file type including PDFs, Swift, XML etc. and to enrich that data. Using the Fund Recs parsing technology this process is seamless. The user is then free to focus on data analytics and auditing the fund rather than manually collating / manipulating data."

Another feature of these solutions is that they typically combine cloud deployment with transparent pricing models making procurement easier as they are usually categorised as operational expenditure rather than capital expenditure, that is if they cost at all. Many of the fore mentioned firms employ a "Freemium" model meaning that the base technology and functionality is free with "add on's" such as advanced management dashboards being paid for.

In addition these firms, unlike their larger rivals, have flatter corporate structures and closer proximity to their customers meaning that new features can be developed quickly and rolled out across the customer network at pace. As Noel Carr, Managing Director DIOMAC,

a Tralee based ERP provider, states “we firmly believe that we are gaining new business in the face of tough competition with our: truly single solution (Factory and Back Office) that is easy to use, unrivalled traceability of movement of goods and cost build demonstrated in a digital tracing map, and, genuine commitment to understand the customer’s business and to implement a solution that resolves their key pain points”.

The Future

As time advances technological capability is increasing to the extent that we are currently witnessing the emergence of new “exponential” technologies in parallel to the fourth industrial revolution. These technologies including artificial intelligence, machine learning, augmented and virtual reality, robotics and Blockchain have the ability to fundamentally change the way we conduct industry processes and commerce today, the world of accounting and audit will be no exception.

Artificial intelligence, machine learning and robotic process automation, collectively termed the “cognitive technologies” will be used to do much of the manual data entry, validation and checking that humans do today. More interestingly, patterns in behaviours and activities will be assessed by artificial intelligence and machine learning algorithms allowing for the identification of anomalies as well as improvement points. This will provide auditors with higher quality data leading to higher quality audits while the client C-suite will be provided with actionable insights like never before.

Perhaps of more impact to auditors is Blockchain technology. In its simplest form, a Blockchain can be considered to be a distributed ledger which contains the relevant details for every transaction that has ever been processed on the chain. The validity and authenticity of each transaction is governed by a

consensus mechanism and protected by digital signatures (cryptography). By design, Blockchain’s are inherently resistant to modification of any stored data. Blockchain is effectively immutable. Moreover, Blockchain can be used as a source of verification for reported transactions. An example might be where, instead of asking clients for bank statements or sending confirmation requests to third parties, auditors can easily verify the transactions on publically available Blockchain ledgers such as blockchain.info or blockexplorer.com.

Discussing such capability Sandro Psaila, Deloitte Malta states that “the automation of this verification process will drive cost efficiencies in the audit environment. The days of sample based substantive testing will soon be challenged, as auditors will resort to Blockchain technology to test the whole population of transactions within the period under observation. This extensive coverage will drastically improve the level of assurance gained in affected audit engagements”.

Meanwhile Deloitte Germany published a paper “Blockchain Technology: A Game Changer in Accounting” in which it envisages that “at the end of the Blockchain road, fully automated audits may be a reality. The assessment of financial statement assertions such as existence, occurrence, accuracy and completeness of information, are amongst the prime candidates for audit automation as well as potential benefits from a timing perspective”.

Successful adoption of Blockchain will also be highly dependent on the security of the underlying environment. In order to be in a position to provide the necessary level of assurance, the Audit processes need to shift further towards the assessment of operating effectiveness of the internal IT controls. As Sandro Psaila goes on to state;” In adherence with the requirements driven by the International Standards on Auditing (ISAs), auditors are required to

understand the specific risks to an entity’s financial statements arising from IT, and how the entity is responding to these risks through implementation of IT controls. With the rising adoption of Blockchain technology, auditors will need to raise the bar by providing increasingly complex assurance services in more agile business environments”.

Preparing for the Future

Without the benefit of a crystal ball it remains unclear as to the exact impact that FinTech and exponential technologies will have for clients, professional services firms, governments and regulators. What is clear is that new technologies are being adopted, firms are being established to take advantage of their capabilities and to solve industry pain points. These enhancements in data management and actionable insights, operational efficiency and the reduction (or elimination) of manual processing will alter the role of the auditor pushing their focus further up the value chain. With this a different professional audit mindset and additional expertise will be required to satisfy the expectations of stakeholders and business owners in this new world. The message is clear: remain agile, flexible and embrace new technologies, like the FinTech’s, after all it is our evolution and our ability to adapt to change that will ensure our relevance into the future.



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