



## Season1-Episode:

# Fintech industry in 2023 with Ole Rummel

### Journey to the future

Thursday is one of the days Xenia chose to work from her company's office. It is usually nice to see her colleagues and exchange work and life updates together. They chat during their break and keep themselves up to date. This Thursday the topic of digital investments was brought up by one of her workmates, Susan.

"Couple of days ago I came upon a really interesting Ad. for a digital investments platform" said Susan. Everyone starts to talk about the different options and fields of online investments. William has been investing online for some time now and he began to count the advantages of such approach to investment. „ An agent is always there to answer your questions and all details are at the tip of your finger“explains William. Xenia has always wished to raise her income or at least save up some money for the future, but she always found it a challenge. But now she is kind of convinced with the arguments her colleagues made. In any way she is not going so much to the bank as before Covid hit and finds the investment options at the bank kind of limited. The options of digital investments are surely wider than those at their rarely visited bank.

Later at night before dinner Xenia takes Thomas' opinion about the digital investment idea. „Today at work William mentioned that he had a pretty good experience with digital investments, do you think it is something we could also do, Thomas?“ Thomas answers „it depends on which field we invest in, property, real estate ,bonds, mixed investments and also which platform we use“ Xenia agrees „of course we need to find a platform that is trustworthy and also easy to monitor and use“ Xenia then tells which platform William uses and they both decide to search more in that matter later as Melanie and Christie enter suddenly saying loudly „we are hungry!! Let's put dinner on the table“.

**Agnes Kunkel:** Doctor Ole Rummel, welcome to part three of this threefold episode of 2023.

After a more general discussion about the impact of COVID-19 on central banks in Asia and all over the world and the possibility of increased influence of big tech companies like Apple Pay, Apple, Amazon, Google, Alibaba, Alipay, We Chat, on the financial system. In Part 2 the final question was, what is a bank? Is it still a bank as we have seen banks since the 12th century in Italy or do we have to create a new idea about what a bank is and to have now a close look on the so called Fintech. And of course, the problems typically associated with Fintech, like we had this big scandal of Wirecard here in Germany and maybe to lose control of these type of companies.

So, Ole, what do you think about Fintech and Fintech in COVID-19? Has Fintech speeded up during COVID-19.

**Dr. Ole Rummel:** So I have a bit of a reputation in my office and increasingly also amongst our members. I am very skeptical about Fintech companies; this is my own personal view and not the view of my



institution. But I'm happy to share my view, which is that these firms promise a lot and always under-deliver. And this goes back to their particular business model, that I'll talk about in a minute. You mentioned fintech and Covid 19 and I'm reminded of a wonderful quote by Warren Buffett, the US Investor who said that "only when the tide goes out do you discover who's been swimming naked". And this is exactly what happened now. The tide has gone out. COVID-19 has been a big crisis and Fintech has done pretty poorly, so it's been discovered that they weren't wearing swimming trunks. They were swimming naked and now the big secret is out. So what I was expecting from Fintech companies is to use the COVID-19 crisis to step up and showcase their viability and usefulness. For example in virtual banking, this would be, a digital only bank, a bank that does not have any bricks or mortar branches. I would have thought that, with the lockdown as bank branches closed, the digital services offered by Fintechs would be more in demand than ever. And we've already spoken about the decline in the use of cash, which has been a real benefit to companies involved in the area of contactless payments. But it turns out that even this super hyped super dynamic Fintech sector, is not immune to what happened during COVID-19. Even many of the Fintech firms have had to cut staff and cut wages of existing staff. Many of the Fintech firms had to pull back spending plans. Many of the Fintech firms had to hold any national or international expansion and many of the Fintech firms have had to spend their money very carefully. A lot of them get their funding from venture capitalists in the early stages, so they have had to recalculate how long their existing funding might last. It is true that the crisis has changed the financial behavior of consumers quite significantly, but maybe not in the way Fintech expected. There is still a very big step between being a secondary virtual bank for basic transactions, i.e., you pay for food to be delivered, you pay for a taxi, you pay for something, but that's very different from becoming a bank that gives out loans, mortgages, credit cards, that challenge remains as big now, as it has always been. The reason for this, I think, is those big techs firms basically, and being very unkind to Fintech firms, have three business models. The first business model is what we in the trade call regulatory arbitrage, so there are certain countries, jurisdictions where the rules are not clear cut, and the rules allow Fintech to enter a market. The rules are either very liberal by accident or very liberal by design. And again, some countries want to be Fintech hubs.

**Agnes Kunkel:** Can you give examples for what you mean, especially by these holes in the regulation?

**Dr. Ole Rummel:** Yeah, so in terms of what activities fall under, and we spoke about this in the second presentation and you mentioned in the beginning, what is a bank and what activities does the bank do in general. The rules are fairly similar, but they may not be the same in every country. So, what is allowed? What a non-bank can do in one country might be different from what a non-bank can do in another country. The second business model as I see it is growth at all costs. And the idea here is that you establish yourself, as a snazzy, very sexy company, and then you get acquired by one of the big tech companies. And then after that you don't care, because the founders they get paid off and they start their next business model. It's only very few companies that really think honestly and hard about making finance work better. I really can't think of many Fintech companies, who really want to make the world a better place. I see most Fintech companies are falling into one of the two previous business models. We do something new; we do something that's not covered by regulations because we can. So, there's a gap



in the market and we fill that and the second one is, let's grow as quickly as we can. Let's make ourselves a nice target for one of the big tech companies to buy.

**Agnes Kunkel:** Just to ask a question about the first model. The first model would be to saving cost, as not to have the burden of regulation, or to maybe do gray or illegal things by being not regulated?

**Dr. Ole Rummel:** I would say it's a combination of the two, but not the criminal stuff. There is a promise of digitalization. It is the case that, going digital lowers the costs for many tasks. There could be a cost advantage to doing things online or in a digital manner now. In terms of the second point, and we've seen this in other businesses and in other branches, if you're quick enough and if you grow enough, regulation doesn't have much of a choice and my examples here would be, Airbnb. Now, technically, what Airbnb does, in many countries is illegal. But because they are so big, regulation had to respond to them being of such importance, and the same is true for Uber, for example. I know that in many German cities, Uber is not allowed and in other places is allowed. I think the hope is that these services take off to such an extent that regulators cannot afford to ban Uber or Airbnb. I think there may be some of this going on with the Fintechs' that they come in early. They grow like Alipay for example, and at some point, that is so big that regulators can't really do anything.

**Agnes Kunkel:** As so many customers are using it for the flexibility and the ease of use, they will react very disappointed to legislation against these companies.

**Dr. Ole Rummel:** Exactly, yeah.

**Agnes Kunkel:** When we go to this very prominent case of Wirecard, as you said, you would define Wirecard as Fintech and as far as I have understood, there is now the perception that Wirecard was earning money by being a payment channel for illegal poker games in the US and that from the moment that this, being payment channel for poker players in US was shut down via card, drifted away in a more fraud less scheme. How does this work? How can you miss 2 billion Euros? How can it be overlooked that 2 billion Euros are missing? That's a big enough question.

**Dr. Ole Rummel:** I should point out at the beginning, that this is still an ongoing case. We don't know all the facts yet, although the more facts we know, the more worrying it is for everyone, including the German regulators. I have firsthand experience with Wirecard, because they were big in Singapore. Before Covid, I used to go to Singapore quite a bit and the hotel I would stay at would always get my credit card, and the receipt had a big Wirecard sign on it because Wirecard was the payments system provider that the hotel used for my credit card payment. So, they had a very big footprint in Singapore. I think Wirecard is raising a number of issues starting off with, and this is something I mentioned before, being the darling of the German startup scene or the German Fintech national champion, it was a source of national pride, that Germany was able to generate a company of the international stature and reputation of Wirecard. So, this made it somewhat untouchable for whatever reason for the authorities. The second point, which is not unique to Germany, is we've seen this in other sectors before. I think



Wirecard was very clever in terms of courting politicians and being seen with politicians, and again that made interference much more difficult. It's also the case where, there was a complete failure of regulators. They really slept on the job, not only in Germany, but in other countries as well. And this may have to do with the fact that some countries are very welcoming to Fintech companies, I mentioned a particular country a couple of minutes ago. It's a small country that has a very big banking sector and that likes to be seen as a Fintech hub. So, what could be nicer than to have one of the darlings of the Fintech sector playing a big role in your domestic economy? There's also the cross-border issue which always makes things very difficult. In my work experience, we saw this with Lehman Brothers, I remember I was at the Bank of England when Lehman Brothers went past. And the first thing that happened is that regulators blamed each other. The financial regulator in the UK demanded of the financial regulator in the US, why didn't you tell us, who did what and why? And similarly, the US regulator pointed the finger at the UK regulator and said, why didn't you see it coming?

Whenever you have cross border issues, cross border regulation, you have regulators not necessarily talking to each other or talking to each other in a very simplistic manner; what do you think? Is it OK? Yeah, it's OK and then what do you think? Is it OK? Yeah, and then that's it.

I think there's an issue of not the accountant, but of the Ernst and Young not doing their job, this raises all sorts of issues. Is it OK only to have one accountant or should you have two? Perhaps there's been a bit of an improvement in the sense that at least now the accountants change every five years or something, but is that enough? Maybe the firms have to pay 2 separate accountants to do the books or independent assessment of the books, but there is this capture that the accountants depend on the firm for their business. How strenuous, how strict are you in your assessment of the books?

There's an incentive for the auditors to maximize their own benefit, which is sign-off on the accounts, hope for the best, but get paid. So, it's kind of a situation where everything that could go wrong did go wrong. And then of course you have the clear criminal intent of parts of management. And that I don't know, but maybe also one or more of the boards, the Board of Directors not doing their job. But again, this is an incentive question. What's in it for a Director of a company? Should they raise an alarm? Is that good for their own reputation?

**Agnes Kunkel:** Many, many sleeping people and too much politics and too much pride of a champion in a certain ecosystem that maybe resulted in this failure.

As I have learned from other sources and podcasts and so on, Covid-19 created a problem for criminals. First of all, when everyone is at home, burglary is a little bit difficult. Secondly, I guess even the flow of narcotics was interrupted, as when you don't have ships running and airplanes flying. Even these logistics go out of the step, and of course when you look at this very big narcotic business you have cash on one side and you have to transfer the cash and you have to wash it, widened to do money laundering, and therefore you typically need cash transactions. Do you have any information of this interruption, these restrictions have had any influence on the systems of laundering money? And if it's maybe increasing after Covid, as I have heard that maybe restaurants, were badly hit by COVID-19 might be more open and vulnerable to accept black money. And there might be other hit industries that might be prey to black money. Have you any ideas or have you heard about any discussions in your circles, on how to cope with this problem?



**Dr. Ole Rummel:** Let me start by saying, that I think we've made a lot of progress in terms of combating on money laundering, and then if I talk to my colleagues, the other is the financing of terrorism, so they're both lumped together as AML, anti-money laundering and then CFT which is the counter, the financing of terrorism. Just to give you an example, I occasionally have to send money abroad, there's a way of doing it online, but only up to a limit of 10,000 Ringgit. 10,000 Ringgit is about 2000 Euros or 2.5 thousand Dollars.

**Agnes Kunkel:** That's not much.

**Dr. Ole Rummel:** That's not much exactly. If I want more, I have to go to a bank branch. And I have to fill in four different forms. There is quite an onerous process already in place in terms of the anti-money laundering. Now of course, this is again up to the particular authorities, the central banks and the governments. And the treatment is not homogeneous across borders, so some governments might be more comfortable with the idea, or some governments may not have the same strict regulations than others. But I think the number of governments that do that is shrinking. It's more or less well known who these countries are, and they are public, named and shamed. But I think we've made a lot of progress in terms of regulating this.

Last time I was in Singapore. I was trying to open an account there, because I was looking for, and don't tell this to my Malaysian colleagues and friends, a safer place to put my money than Malaysia. So, I went to three Singaporean banks to ask whether I could open an account and all of them turned me down. Because I did not live in Singapore, I did not work in Singapore and they could not verify that my money did not come from any illegal activities. I think that's a change from previous practice. Maybe that didn't answer your question, but I'm not aware of any increase in black market activities that I have either heard about, or indeed even seen, I'm not saying that it doesn't exist. I actually hadn't thought about some of the issues you mentioned in terms of the supply of certain goods not being available.

**Agnes Kunkel:** It's just from the news, not from more detailed experience. You don't expect that there is something shifting. There is maybe black money flowing in certain industries. You would not expect that.

**Dr. Ole Rummel:** Again, it's very difficult at the moment. Especially, many countries still have closed borders, so you can't even take a suitcase. But you can always take a suitcase out of Malaysia, but it's difficult to bring the suitcase back in. You would even have to go the old-fashioned way at night in a boat or in a small plane flying to remote area of Malaysia and then land there. (laughs)

The interesting question, is that going to change once the borders open again? For example, by its nature, it's a difficult sector of the economy to measure.

**Agnes Kunkel:** Exactly, so you would say Fintech did not deliver during COVID-19?

**Dr. Ole Rummel:** No. I think what happened is that those Fintechs' that have a good business model, that have sound finances will make it through the Covid episode. As we said earlier, it's survival of the



fittest. It's those Fintech companies that really make finance work for us better. Rather than those, I think those companies will have survived and will survive. I think it's the more frivolous or those who don't have a business model that have fallen by the wayside and that will fall by the wayside going forward; because they've been found not to be fit or, not to be viable.

**Agnes Kunkel:** So, you say it's just like the divided division between the bad ones and the good ones, or the interesting models, and just me too and not so interesting models. But as I understood, you say that Covid-19 did not make this Fintechs' run, or it was not a push, it's for them, it was a crisis as it was for everyone else.

**Dr. Ole Rummel:** Indeed, yes, that would be my very biased, very subjective, very opinionated POV.

**Agnes Kunkel:** Yeah, it's maybe as people were concerned about groceries and where to buy food, but it was not about doing more banking business online. Maybe it was just not a moment where people were open to try new banking models or so.

**Dr. Ole Rummel:** I should point out that the most successful Fintechs' all those that cooperate with the banking system that don't try to revolutionize the banking system, that don't try to take the place of a bank. I think the ones that have thrived are those that work together with banks. That provide the interface for the banks, the ones that have thrived are those that get involved in the payment system. We can always need an easier way of transferring money, of wiring money, of paying people. It's those Fintechs' we have that have done quite well, but not the more outrageous ones who want to revolutionize finance as we know it, who completely aim to have a much better business model for a bank than the one we've had for the last 600 years.

**Agnes Kunkel:** These complete online banks, I guess you are speaking about. Yeah, Ole, that was a wonderful broad picture, you brought to us and so we have.

**Dr. Ole Rummel:** Can I stop you here, because I'm in the flow and I'm opinionated, do we want to talk about the US Dollar as well?

**Agnes Kunkel:** Yeah, we will talk about the US Dollar exactly.

**Dr. Ole Rummel:** So, what is it you want to know about the US Dollar?

**Agnes Kunkel:** The question is, if we will see some accelerated technological change and that we see maybe Alipay in Europe in Germany, will this accelerated change in the banking world favor or not favor a global leading currency like US Dollar?

**Dr. Ole Rummel:** Let's have a look at these contenders' currencies that are out there. I've been a big fan, a big supporter of the Euro for many years. I wrote my PhD thesis on the Euro. The Euro celebrated 20





years last year. It has had its ups and downs. It's had a fair number of quite serious crises. It's kind of established as a global leading currency, but not to the same extent as the US dollar, and that has a lot to do with the euro area or the European Union more generally, being a very unique institution that's not always firing on all cylinders. There are frequent concerns about the future of the European Union, future of the Euro area, and so on and so forth, with which are weighing down on the prospects of the Euro going forward. Just by sheer size, I think the Renminbi should be considered at some point a reserve currency, of course. The problem at the moment is, it's not convertible outside of China. That doesn't help when maybe being a leading currency. So, what are we left with, will be left with the US Dollar? Again and again, we see that in terms of crises, what do people buy? People buy the US Dollar. We saw it in 2007, 2008 during the Great financial crisis, that started in the US, but the US Dollar appreciated it. We've seen it in terms of Covid as well, that in the initial phases of Covid, people bought the dollar as a safe haven currency. So, I think any talk of the death of the demise of the US Dollar is

**Agnes Kunkel:** premature in some way

**Dr. Ole Rummel:** and premature is an exaggeration. In fact, one of the issues in the region I live in, is that a lot of the companies in Malaysia, in Indonesia, in Thailand, in the Philippines, wherever you go, they borrow in Dollars. So, you have big corporates in our member countries, who are sitting on extremely large dollar loans which need to be repaid. We have despite many attempts by the likes of China and Russia and Venezuela, most of the major commodities, be it oil or be it gold, all invoiced in US Dollars. If you want to convert from the Mongolian tögrög into the South African Rand, how do you do this? You first convert the Mongolian tögrög into US Dollars, and then you convert the US dollars into South African Rand. So, in all of these areas in trade in Commerce, in foreign exchange markets, the dollar plays a leading role and I think it will continue to do so for a while.

**Agnes Kunkel:** Thank you for this big broad picture of the world of currencies, monetary systems, banking systems. What might be the benefit for big tech? Putting a foot into the business of giving loans to other people and all that stuff, it's really overwhelming, in any case. And as you mentioned, maybe we will do an update in a few months about the topics we were speaking about. In the end only I always have a personal question. Your personal life was hit very hard. You have not seen your family for seven months. And this was really, as I understand a very hard restriction for you. In the contrast, is there a change where you say OK, I have changed my life in this point and I want to stick to in the next month, years, whatever so, is there a change that was caused by Covid-19 where you say yes, that's a better way to handle it and I will stick to this personal change?

**Dr. Ole Rummel:** And there is. I have to say that I was positively surprised. I think one of the things I would like to continue to do when this ends, is to work from home for two days per week. I was very skeptical about working from home for a long time and I used to be this second or third person in the office in the morning and one of the last to leave, but I think I've become very different, I don't want to be here five days a week or seven days a week as we have been for a long time for all sorts of reasons. I



can't open any windows and I don't have a balcony; at times when I would have killed for a balcony. But being able to maybe do one or two days working from home I think this makes a better work life balance.

**Agnes Kunkel:** You are not alone with this idea, that you say I want to stay one or two days at home and work from home or not to go to the office. Ole, Thank you very much. This was absolutely wonderful, and it was a great pleasure to talk to you and to learn so much from you. Thank you from our side.

**Dr. Ole Rummel:** No, thank you for having me. It was a real pleasure and to all the listeners. Stay safe and stay healthy.

**Agnes Kunkel:** Bye.