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Euclid Opportunities is supporting young financial technology companies

With the recent focus on distributed ledger-based technology, it can be easy to forget that there's much more to the world of financial technology than the blockchain; the managing directors of Icap subsidiary Euclid, spoke to FOW about their view on the future of this rapidly evolving market space.

"Blockchain has taken the majority of the attention, but we believe it is just one of the technologies that will bring efficiency and robustness to the market," Steve Gibson, managing director of Euclid Opportunities, part of Icap's post-trade business, told FOW.

Euclid has taken on the role of a late-stage start up incubator, acquiring and supporting young financial technology firms. The inter-dealer broker has sought in recent years to reduce its reliance on its traditional voice broking business and invest in electronic broking and post-trade solutions such as those fostered by Euclid.

"We are seeing businesses employ technologies that have been making a difference in the consumer market for a longer time, like software as a service, cloud-computing, machine learning and big data analytics. The short term impact on the market will be by technologies that have been around for a while," Michael McFadgen, managing director of Euclid, added.

McFadgen joined Euclid in May this year, (<http://www.fow.com/3554221/Icaps-Euclid-hires-Michael-McFadgen-from-Barclays.html>) after serving as strategic investments director at Barclays in London. He and Gibson take a long-term view when it comes to blockchain, and do not necessarily expect use of this technology to be implemented imminently.

"Because of the nature of financial markets – they are heavily regulated and systemically important - they are always going to lag on adoption, while also being on the leading edge of thinking about new technologies. Technologies that are now having a significant impact on the markets were being talked about five years ago," McFadgen added.

The early adopter disadvantage is especially poignant when it comes to technology like distributed ledgers. The initial interest in cryptocurrencies came in 2012, but it didn't take very long for the market to move on to Bitcoin's underlying technology, the blockchain. As the blockchain was quickly rejected as inappropriate for institutional markets, now the focus lies on distributed ledger-inspired technologies.

"The market doesn't really settle on a solution until it's appropriate," said McFadgen. Gibson added that, when it comes to Icap's efforts on blockchain implementation, they are focused on evolution, not revolution.

"Getting trapped in the technology argument or being sceptical about the blockchain isn't the point. Even the sceptics are sure that the markets will not continue to operate as they have," said Gibson

Another technology gaining traction in capital markets at the moment, is artificial intelligence (AI).

"We're seeing a lot of excitement over AI, but we have yet to see a strong use case outside of compliance; we expect the real impact of AI to be in capital markets optimisation." McFadgen

Artificial intelligence technology may seem like science fiction, but most people in the tech sphere distinguish between two types of artificial intelligence: 'hard AI' and 'soft AI.'

Hard AI is found in artificial brains such as Skynet in the Terminator, and technological progress is years away from bringing it out of fiction and into reality. Soft AI is much closer to home, and can be found in algorithms used by the likes of Facebook and Amazon which suggest friends or products you might like, based on the data they have about you.

"AI is another example of technology we've seen in consumer technology, and the application of the technology to market structure is essentially the same. There are elements of soft AI in companies in our portfolio, like Duco. The line between processing data to make it malleable and AI is blurring," Gibson explained.

A recent addition to the Euclid stable (<http://www.fow.com/3545593/lcap-acquires-remaining-stake-in-Enso.html>) is Enso Financial Analytics, a data analytics firm for hedge funds and prime brokers, acquired last month.

"We're seeing evidence in all investment institutions that the modernisation of their architecture is a priority. Whatever you think is short or long term, ends up changing. We have yet to receive a call from one of our portfolio companies to inform us that they're ready a year early," Gibson said.

In Brexit, Euclid sees both a challenge and an opportunity. In the initial days after the result of the UK referendum became known, the market was awash with fears that leaving the EU could hurt London's status (<http://www.fow.com/3566453/Brexit-will-not-hurt-fintech-sector---lawyer.html>) as a fintech hub. Gibson, on the other hand, noted that these times of uncertainty may advance a certain type of fintech firm.

"With Brexit, for example, agility and speed will be more prized. Fintech Firms that have that elasticity and immediacy in their models will have an advantage. A three year process for software installation is harder to decide on in an environment that is so uncertain," Gibson concluded.