The intangible investor

Start-ups, big tech and… banks

With investment in financial technology at a five-year high, Banks and credit card companies will need to rely more on patents to stay on top

By Bruce Berman

Private equity and venture capital investment in financial technology now exceeds $50 billion, and at least some banking patents will be extremely valuable. With leading financial players and some established technology companies also spending aggressively, the financial technology or fintech patent crown is till up for grabs. Two things are certain: there will be a range of victors; and traditional players such as MasterCard and JP Morgan will not be left behind.

Fintech, among the few bright spots in the patent landscape, includes inventions that cover authentication, mobile payments and wealth management. Banks in this space are competing with a broad range of new entrants, including:

- traditional banking industry vendors such as Fiserve and IBM;
- scores of venture funded start-ups, some supported by former banking executives; and
- established technology players such as Apple, Google and Amazon looking to capitalise on their consumer recognition by expanding into banking and payments.

Sea change

The banking and financial services industries are undergoing a sea change and patents will play a significant role. The banks say that they welcome the competition and have even invested in some of the players, as well as in their own proprietary solutions (eg, Wells Fargo has a new enterprise unit in San Francisco). Some banks are likely to take a page from the pharmaceutical industry playbook and look to acquire a few carefully selected companies, even if they must wait and overpay.

Fintech upstarts have attracted billions on the premise that they will disrupt banking and finance in the same way that Uber and Airbnb have done to the taxi and hotel industries. However, after a decade of stumbling, the banking sector has proven a tougher business to crack than some had initially thought. Investors include former executives from Morgan Stanley, Citigroup, JP Morgan and Visa.

"After years of staking out combative positions," reports *The Wall Street Journal*, "many would-be challengers are rethinking their relationships with the likes of J.P. Morgan Chase & Co., Citigroup Inc. and Goldman Sachs Group Inc."

As of September 2015, the six largest US banks or their clients had participated in 25 fintech investment deals last year, including Prosper Marketplace Inc and Circle Internet Financial Inc, compared with 26 in the first nine months of 2014 and 14 for the same period in 2013, according to Dow Jones VentureSource. At Bank of America Corp's annual Technology Innovation summit, around 16% of the more than 230 start-ups that attended went on to sell their services to the bank.

"Some fintech patents are already valuable and a few could be worth a fortune"

"It's too simple to say all these banks are stupid", said Qasar Younis, a partner at the Silicon Valley seed fund Y Combinator.

Research conducted by IP analytics firm Relecura shows that the financial IP focus is "around technology that delivers financial products and services more conveniently, with better customer experience and at lower costs". The leading patent holder in this space, Bank of America, has been joined by companies such as Visa and even Hitachi, best known as a component supplier and active patent licensor. Close behind are leading Korean companies Shinhan Bank and Bizmodeline Co, Ltd, with a total of 2,700 patents, 1,000 patents related to Financial and Billing, 1,400 patents related to mobile, authentication and other technologies. No single patentee appears to be dominating in any one area. (For the complete Relecura report, "FinTech – An IP Perspective", visit IP CloseUp.)

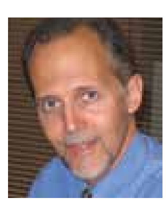
Combinations of technology – such as data and analytics, the Internet of Things, mobile platform, security, cloud computing – look likely in the near future. Japanese tech companies are on the list of top patent holders (eg, Hitachi, NEC, OKI, Fujitsu, Sony, NTT and Toshiba), with IBM, Microsoft, and JP Morgan Chase also are top patentees. Japanese tech companies known more as cross-licensors than as monetisers, could re-focus if banking-related patents take off.

Already valuable

Some fintech patents are already valuable and a few could be worth a fortune. The banks are astute enough to know that they will not be able to come up with all of the technology solutions that they need to compete. However, they have the capital, market presence and regulatory experience that the start-ups and tech leaders lack. Some believe that the upstarts – including big technology players with transaction experience and consumer loyalty – will not be going anywhere without them.

Cash is still king and so is good credit. I would start to worry when an Apple or Google – AAA-rated and with a strong balance sheet – consider buying a mid-sized bank. Apple has been rumoured to have its eye on an auto company, notably Ford. Amazon, the e-commerce giant is barely profitable, but stranger partnerships have occurred.

Perhaps the best IP news to come out of fintech to date is renewed respect for good software patents. The largest banks and tech players are not ignoring the patent filing opportunities in this area. It is important to remember that not all bank innovation is expressly financial in nature. It will require some old-tech or mid-tech inventions to deliver and scale, including hardware held by non-banks. The question is which banking organisations will have the cash and the savvy to pull off the deals necessary to maintain their leadership? The alternative may be for big tech to morph into what are effectively banks that are not too big to fail.



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