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The Age of Fintech – New York City Is Uniquely Positioned at the Crossroads of Finance and Technology

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The rapid replacement of technology for labor in the work processes of financial institutions has spawned an entrepreneurial start-up class of new fintech companies that are taking on the dominance of traditional financial institutions. Like the traditional financial community, however, these new-age digital companies are locating and growing in New York City.

New York City and its financial community have had a long-standing symbiotic relationship. Banks and securities firms have long housed their executive personnel in the iconic New York towers of noted world class architects. The world's great banks, investment houses and stock exchanges have been headquartered here, giving NYC the distinction of being termed the world's financial center. But things are changing – and changing rather dramatically.

The rapid replacement of technology for labor in the work processes of financial institutions has spawned an entrepreneurial start-up class of new "fintech" companies. They are taking on the dominance of traditional financial institutions, even the dominance of the central banks' control of currency, that have played such a critical role in the City's economy. But, thankfully, these new-age digital companies are locating and growing in NYC, as it is uniquely positioned at the crossroads of finance and technology.

This change to our City's economy was driven by the forces of technology that, in the past, allowed back- and middle-office personnel to be remotely located from their Wall Street headquarters, whether in Bangalore, Jersey City or Brooklyn. Along with bank and securities firms' closures and consolidations, cheaper office space followed. This allowed technology start-ups to proliferate, initially leveraging the newly available Internet delivery capabilities with the domain knowledge prevalent in NYC's magazine and newspaper industry. Media content comprised the first products found on the Internet, followed shortly thereafter by online banking and securities brokerage services.

A combination of NYC's vast domain knowledge, the availability of trained students from NYC's major universities, and the spirit of entrepreneurship unleashed by the free availability of the Internet led to a booming "Silicon Alley" competing with the more dominant San Francisco Bay area's Silicon Valley. First located in Manhattan's Flatiron district and then on Wall Street, NYC's technology entrepreneurs are now spread across the city in cooperative incubator workspaces. Innovation is now focused on new opportunities presented by unlimited data storage and computational and communication speeds accessible via computers, smartphones, mobile devices and social media platforms. These platforms have attracted billions of users across the world, presenting an accessible customer base for new services.

In 2011 NYC's government, under then-mayor Michael Bloomberg (himself a former Fintech entrepreneur), recognized the growing significance of technology to its future and incented academic institutions to come to the city. A competition to build a $2 billion graduate school of applied sciences on Roosevelt Island was won by Cornell University and the Technion (Israel's Institute of Technology). The goal was to transform New York City into the world's premier technology capital. Now, with the facility up and running and other transforming events occurring in the city since, this ambitious goal has been met.

NYC has now transformed its traditional strengths into new digital age strengths. From banking, communications, life sciences and media dominance; availability of multiple means of transportation; a large educated workforce; and a densely concentrated consumer base; to a technology-driven economy anchored by both new and ever expanding world-class universities; an evolving communications infrastructure with multiple transatlantic fiber optic cables terminating close to NYC (many terminate in Long Island and New Jersey); a young, mobile entrepreneurial work force that is supported by shared workspaces filling in the office towers vacated by older aged-out business models; and the social media platform operators that are expanding their presence in NYC, notwithstanding the recent illogical and foolish loss of Amazon building its second headquarters in Queens.

This year NYC has been recognized in the UK's Savills Survey as the world's global technology leader, having been ranked first over last year's San Francisco, home to Silicon Valley. The survey sponsor's key determinant to NYC's leadership was the city's access to a deep talent pool and the city's reputation as a global center of commerce.

New York City's tech industry is one of the fastest growing areas of the US economy. According to Forrester Research, the New York region is the largest tech talent market in the U.S. Its 333,000 tech workers beat out the San Francisco Bay Area's tech talent pool of 310,000. Most critically, New York has the most computer-science graduates, at 7,631 annually, and nearly 100 academic institutions, a dominant position over San Francisco's 25. Tech:nyc, an advocacy group for the New York technology community, reports that 10% of the nation's developers are located in NYC. In Brooklyn alone the start-up growth rate since 2008 was second in the nation, at 356%.

NYC now has an even brighter technology future at the juxtaposition of finance and technology. A new set of capabilities is being delivered by a new breed of "Fintech" companies with a mantra of delivering financial services the "4A Ways" – anywhere, anytime, anyway and on any terms. The domain knowledge of news, fashion and magazine content that was prevalent in NYC's media companies gave birth to the Internet's initial commercial usefulness. Now the domain knowledge found in banks and other financial institutions, which the city still has in abundance, should play a similar role in powering the digital Fintech age.

According to The Global Financial Centres Index, NYC has surpassed London as the world's most attractive financial center even though New York's traditional bricks-and-mortar financial sector is shrinking. The City University Graduate Center Economics Group reported that in 2017 the finance sector generated about 30 percent of the earnings of workers in the city. The finance sector employs about 460,000 workers, a little less than 10 percent of city employment, with banking and securities comprising about three-fourths of the jobs within the sector. Since 2000, employment in the finance sector has declined by about 30,000 jobs.

In July 2018, the Treasury Department released a report identifying improvements to the regulatory landscape that it believes will better support nonbank financial institutions, embrace financial technology and foster innovation. That report stated that from 2010 to the third quarter of 2017, more than 3,330 new Fintech companies were founded, 40 percent of which are focused on banking and capital markets. In total, global investments in Fintech companies reached $22 billion in 2017, 13 times what they were in 2010. According to KPMG global, Fintech investments reached a record $111.8 billion in 2018.

This Fintech opportunity has not gone unnoticed. The Fintech Innovation Lab New York was founded in 2010 by Accenture and the Partnership Fund for New York City. It provides early and growth-stage Fintech companies with access to the world's leading financial institutions. The Lab was established to help make New York a leader in Fintech and grow technology jobs by leveraging the concentration of large financial services institutions and deep domain expertise that exists in the city. Since the New York Lab's inception, its inaugural two partners have been joined by 44 others. Its alumni companies have raised more than $1 billion, created more than 1,100 jobs, defined 241 proof-of-concept businesses, and created 69 companies, of which five have been acquired.

But NYC cannot be complacent. It needs federal government support in the form of "regulatory sandboxes" – a "regulatory light" financial regime to compliment Fintech incubators. These regulatory sandboxes first gained government support in major overseas banking centers, including those in the UK, Singapore and Hong Kong. Most recently, the Bank for International Settlement (BIS), a global financial institution owned by 60 central banks representing most of the world's industrialized economies, announced the establishment of three Fintech centers in Hong Kong, Singapore and Basel, Switzerland. Its aim is to collaborate with central banks in identifying financial technology trends that could lead to necessary changes in regulation that assure continued global financial stability.

The US regulators – most notably the Office of the Controller of the Currency, the Federal Reserve and the Commodity Futures Trading Commission – have since gotten on board and created their own Fintech-light regulatory regimes to spur innovation. For all its fits and starts, U.S. leadership in global financial markets has been the lynchpin of our economic strength. Along with the U.S. dollar as its backbone, it continues to provide a crucial global framework for strong, sustainable growth, long-lasting prosperity and the shaping of a global order around free markets and democracy. These two stalwarts, a global dollar reserve currency and a global financial network dominated by the U.S.'s financial institutions, has long been the backbone of financial stability.

With financial institutions now threatened by faster-to-market Fintech companies, along comes a new threat, that of the supremacy of the US dollar challenged by the advance of cryptocurrencies. The most prominent cryptocurrency is Bitcoin but the latest is a Facebook-created cryptocurrency called Libra. Facebook's ambition for Libra is to enable a simple global currency and financial infrastructure that empowers billions of people. It sees its effort as a giant leap forward toward a lower-cost, more accessible, more connected global financial system. Facebook's ultimate objective is for it and other "Bigtech" companies to move away from the dominance that central banks and financial institutions have over the financial system. This concern was recently expressed by the BIS in its 2019 annual economic status report "Bigtech in finance: opportunities and risks."

[Related: "What Libra IS & What It IS NOT"]

NYC appears to be well positioned to retain its premier status at the center of world finance. It needs to continue to support its burgeoning tech sector, as that sector transforms the financial services industry and the global financial system. Adapting to change is what the U.S.’s free market competitive capitalistic system does well. Farsighted NYC governments need to keep up the momentum of the transition to its digital-age future.

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