



WHY THE CAYMAN ISLANDS NEEDS TO BELIEVE IN UNICORNS

10 April 2019

by Brandon Caruana

Fintech (financial technology) is widely seen as a disruptive force in the financial services industry. But as billion-dollar companies in the fintech space (“Unicorns”) look to scale and expand their operations to robustly regulated and secure jurisdictions such as the Cayman Islands, Brandon Caruana, Co-Founder of Cartan Group, explains why the future looks bright for Cayman as an “Innovation Island” and the evolving role of technology in financial services.

Modern media would have us believe that financial services and fintech startups go together like fire and ice. Ever since rapidly growing, highly nimble fintech firms broke into the mainstream, many regulatory bodies and financial institutions have regarded them cautiously – sometimes even with hostility. More recently, however, forward-thinking financial centers have transformed the way they engage with these new technologies, leveraging their islands’ legislative and regulatory frameworks and depth in expertise to attract some of the best-structured fintech companies.

The Cayman Islands needs to embrace this new economic model, foster innovation through programs like Code Cayman (women.codecayman.com) and attract other scalable startups that have the potential to scale into billion-dollar behemoths. In short, Cayman needs to strengthen its financial service dominance by becoming a software-based Innovation Island.

10 YEARS OF TECHNOLOGICAL BOOM

In 2011, American tech entrepreneur Marc Andreessen, declared that, “software is eating the world.” The cost of computing power had dropped to the point where: \$25 computers could be built; a global communication network had been deployed; more than 2 billion people were connected to the internet; huge data centers had been fully automated; and anyone, anywhere now had access to the infrastructure that could transform any industry. Data was the new gold and building rapidly scalable business models that could now be developed by a micro team of geographically distributed individuals.

Fast-forward to 2019 and software has indeed devoured huge portions of many established industries – or, in some instances, created entirely new ones. Now these software development teams have set their sights on the biggest industry in the world, the finance industry. Previously, the capital and resource requirements of entering a regulated industry, such as payments or financial services, kept most of this disruption to non-regulated industries and didn't have a significant impact on the Cayman Islands' business model. However, this is now rapidly changing as investors and venture capitalists realize huge gains from the disruptive success of the past decade. Large capital allocations are being deployed to software companies that promise to build tools which will revolutionize the entire financial sector (including banking, payments, pricing, capital markets etc.).

WHY THE FUTURE LOOKS BRIGHTER TOGETHER

The outcome of not adopting an integrated software approach can be seen through the lens of the early battle of smartphones. In 2008, early smartphone adopters declared they could not live without their Blackberry, but by 2009 nobody knew what a Blackberry was. It wasn't that Blackberry's largest competitor, Apple, made a better hardware device; it was that Apple made better software and allowed everyone else to create better software on top of their software. A decade later 5 billion people have mobile phones, of which, almost half are fully integrated smartphones that connect to the internet.

That is an enormous addressable market which continues to grow at an unprecedented rate. Each individual in this market streams millions of data points to systems that aggregate and analyze the information to make better decisions and provide better advice. These systems are distributed around the world, integrated into other systems, managed by a workforce that is disconnected from the outputs, and owned by corporations that are further distributed around the world. Cayman does not need to be a datacenter hub for global data flow, it simply needs to leverage its current financial and legal expertise and grow the software talent pool to create a better data driven ecosystem for high growth businesses to thrive.

The power of data driven decisions is magnitudes more efficient than the current committee processes that still dominate many incumbent organizations. For example, many service companies still rely on a committee to review and decide whether a new client poses a risk of nefarious activity and represents a profitable opportunity. This process is typically driven by an onboarding form that is analog in nature and poorly identifies enough data to power a statistical based analysis. If a bad actor is going to engage in nefarious activity a vendor can be assured that the actor will have no hesitation to use easily accessible software to manipulate or circumvent an outdated analog requirement specification. A manual, checkbox driven workflow does not provide a sufficient stream of data to capture, identify and report suspicious activity.

SUCCESS THROUGH INNOVATION

A more efficient means to manage this process is to collect structured data, integrate it into multiple niche systems and devise an algorithm that can aggregate all data points to make a probability-based prediction on the risk and reward a potential (or current) client poses. The beauty of this system is that it would not need to stop after the onboarding process is completed but rather continuously collect and adjust against all new data points and continually update its probability score.

As companies worldwide start to operate at the speed data driven infrastructure allows them, analog service providers will become a bottle neck of inefficiency. Legitimate clients will simply begin finding more efficient service engines to power their infrastructure while nefarious clients will grow as they find it easy to outsmart the process. Capital flows like water down a hill, it will always find the path of least resistance. If the inefficiency costs are greater than the structural benefit (the sum of the tangible and intangible resources committed), clients will simply find more efficient vehicles to operate from.

THE FUTURE OF FINTECH IN CAYMAN

Unicorns (billion-dollar companies) are started with little more than an idea, access to capital, a stable economy and a few smart-innovative individuals who have the confidence and vision to build industry changing systems. They rely on data, talent and the global computing infrastructure to adapt to market conditions in real-time and iterate their service to capitalize on opportunity. Small ambitious teams are able to move faster than large institutions and solve market inefficiencies with pinpoint accuracy.

Cayman offers many of the advantages of a modern city as well as the lifestyle, first class talent and capital access that affluent technology entrepreneurs and engineers look for. By attracting nimble and scalable unicorn companies and combining their data driven models with the experience and expertise incumbent institutions have, Cayman can provide a seamless integrated software-based experience that will fuel economic growth, provide jobs and establish Cayman as first-class innovative island.

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Recognized for building bridges between technology and business divisions, Brandon forges successful working relationships with all levels of team members, encouraging communication and cooperation to effectively provide easy to use systems which improve efficiency and increase profitability.

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