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Fintech Could See Adoption Bump After Outbreak Eases

By **Philip Rosenstein**

Law360 (March 19, 2020, 9:51 PM EDT) -- The COVID-19 pandemic has produced brick-and-mortar closures and social distancing on a large scale, but one result once the crisis abates could be a jump-start of widespread adoption of fintech solutions across industries.

Contactless and mobile payments, smart contracts and online trading on exchanges have all seen increased use in the past few years but some have not received widespread adoption. The impact of COVID-19, however, could boost these technologies' mainstream use, attorneys told Law360.

The pandemic has in short order highlighted the benefits of many fintech solutions as governments around the world urge people to practice social distancing, and the World Health Organization has said that the virus can remain on surfaces for up to several days, making the use of cash and credit cards a considerable transmission threat. Likewise, as stresses are placed on the global supply chain, the use of blockchain-based smart contracts that can be executed automatically once encoded conditions are met becomes increasingly attractive.

"If we had smart contracts, a decentralized method where you could have peer-to-peer execution of transactions, that certainly would be very helpful," Latham & Watkins LLP partner Stephen Wink told Law360.

"Now, there are all sorts of challenges because we don't have the infrastructure in place yet to do this on a large scale," he said. "It's not going to work for this emergency, but maybe for the next one."

The use of smart contracts and blockchain to enhance global supply chains has had some success in recent years, and its application in the supply chain world "is a no brainer," Wink said. We can also expect to see their use in manufacturing, he said.

At a time when staff is thinned out, automating processes becomes significantly more appealing.

"I'm not sure companies are immediately planning on hiring a bunch of coders to build new blockchains, but when things cool down a bit I do think people will get back to planning for such situations," Wink said.

On the consumer-facing fintech product front, the United States has largely lagged behind China, India, Russia and some other countries.

According to an EY study first published in May, fintech adoption in the United States, measured by respondents who have used two or more kinds of fintech products, is at 46%, well below the average across the globe. By comparison, fintech adoption in both China and India is 87%, and it's 82% in Russia.

The average of the 27 nations surveyed came in at 64%. The results were based on respondents' use of fintech products in five categories: money transfer and payments, budgeting and financial planning, savings and investments, borrowing, and insurance.

"Certainly we are far behind the Chinese in implementing contactless payments; pretty much every transaction there goes through some kind of digital wallet — the payments infrastructure is different," Stephen Aschettino, chair of payments technology at Loeb & Loeb LLP, told Law360.

Whereas many companies had been investing in contactless and mobile payments before the current crisis, Aschettino said the coronavirus outbreak could serve to spur the adoption of new payment technologies.

"I see that trend continuing and potentially escalating in light of [the virus], depending on what their needs are," he said. "And there is going to be an added push for companies that were on the fence to react and develop new seamless mobile solutions."

Aschettino suggested that the use of cash and credit cards has remained a mainstay for the American consumer largely because there's been no compelling reason to move to contactless payments. He also pointed to a lack of understanding among the general population about their safety and security.

"Now with businesses and consumers insisting on safer and seamless transactions, especially in the current climate of COVID-19, I think people are going to feel pressure to adapt to these solutions," he said. "And once they do, they're going to see that they are smoother, safer and in many ways better."

Traders across the globe have also had to face dramatic changes to their work environment. The New York Stock Exchange announced Wednesday that it is moving to fully online trading by Monday and will close its trading floor.

"The NYSE has robust, regularly tested contingency plans in place to initiate fully electronic trading on its exchanges that have physical trading floors," the exchange's parent company Intercontinental Exchange Inc. said in a statement.

Despite the rout in markets across the globe, and the occasional trading halt, exchanges and regulators have sought to keep the major markets open.

The U.S. Securities and Exchange Commission said it has taken measures to provide relief to market participants affected by the novel coronavirus after a week of transitioning to a "full telework posture." The regulator said it has remained fully operational throughout the transition.

Jeffrey Steiner, the co-head of Gibson Dunn & Crutcher LLP's derivatives practice and its digital currencies and blockchain technology team, said we've seen a shift to online trading for a lot of products over the past few years, but some questions still remain about access to data during crunch times like this.

Whether there is going to be a strain on available data and data extraction is yet to be seen, but technologies like blockchain could alleviate these concerns during other times of crisis, Steiner said.

"Automating processes so that we don't have to scramble, especially when people are no longer in their offices" could be an important result of this crisis, Steiner said. "Using distributed ledger technology to do that, to ensure there's not a crunch on data, is likely to be one of the biggest impacts from the fintech space."

There may also be concerns about how traditionally floor-traded products, like certain options and equities, will be able to handle the move to fully online trading.

"Another question will be whether trading largely shifts online for the products that are traditionally on trading floors," Steiner said. This shift has been seen with agricultural products where they have evolved over time to rely heavily on floor trading but have shown the move toward electronic trading in recent years, he added.

The Chicago Mercantile Exchange, which serves various trading products including those related to energy, agricultural products and metals, closed its Chicago trading floor March 13.

While Steiner said he hasn't heard of any serious deficiencies in online trading operations thus far, it still remains to be seen how quickly products traditionally trading on trading floors will return to the floor after the crisis recedes.

"Folks have been doing this for a while, and those trading floor products feel comfortable doing that," Steiner said. "But we've seen a move toward more electronic trading, and that move will continue."

--Additional reporting by Dean Seal. Editing by Brian Baresch and Emily Kokoll.