Bank-FinTech Collaboration

A Win-Win Situation! More Important Than Ever...

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IN BRIEF

The banking ecosystem is in a state of transformation. New FinTech entrants are coming into the marketplace regularly, while traditional providers are trying to adjust to the realities of digitalization, advanced technology and increasing consumer demands. Moving from a competitive perspective, both commercial banks and FinTech firms now understand that collaboration is a win-win situation for both of them and more important than ever. But the path is far from simple due to varying cultures, vastly different infrastructures and an ever-changing compliance-playing field. So, many have adopted a "if you can't beat 'em, join 'em" attitude.

In Bangladesh, the FinTech ecosystem demonstrated gradual evolution in the last couple of years, mainly based on payment and clearing systems whereas other areas of FinTech are yet to be developed. FinTech may boost financial inclusion but concerns remain for operational risks, cyber threats and macro instability driven by too much use of smart cards and increased velocity of money.

So, the questions arise: Is collaboration a confusion or a win-win situation? Are you looking for a partner or a vendor? Where are the biggest opportunities in the market? Which value creation strategies have the best potentials of success? How could a bank find the balance between touch and technology?

We are living in the digital age where technology innovation is advancing at the fastest pace. So banking is changing too fast as FinTechs are disrupting financial landscape with technology innovation that typically offer digital or mobile-only financial services. The new generations are adopting these innovations quickly that has placed the banking ecosystem into a state of transformation. As customers are in the driving seat, banks see FinTech players are eating away parts of their profits.

But an interesting development we have seen over the last few years that banks are trying to adjust to the realities by working with FinTech. In 2018, FinTech investment increased substantially with total global investment across

M&A, PE and VC more than doubling from US $50.8 billion in 2017 to $111.8 billion in 2018. Different banks have approached the competitive FinTech sector in a variety of ways. Banks such as JPMorgan have teamed up with FinTechs. FinLeap's venture Save Do has established collaborations with several European banks. Wells Fargo has established an in-house FinTech lab center, so they can get ahead. Across the pond, Deutsche Bank recently teamed up with an accelerator to support FinTech startups. Other examples include FinReach's collaboration with DKB and Hypovereins bank. In Bangladesh, technology innovations like bKash, Sure Cash, i-Pay have partnered with a number of banks to keep themselves from being "Dinosaurs" termed by Bill Gates 25 years ago. These bank CEOs could see the future of banking.

Consumers are the ones who are real and clear winners. One can easily make an outcome from this collaboration between banks and FinTech that will make process faster, better, simple, efficient and above all customer-centric. This has opened new possibilities for consumers in Financial Services and Personal Finance. It is more like match made in heaven. Digital innovations have already changed the way we earn, learn, shop and play. Many consumers have turned to their mobile phones for basic banking tasks, such as depositing checks and transferring money between accounts. Cellphones offer people the convenience to perform these tasks whenever and wherever they want. So, banks realize that "FinTech partnering" is the new capability or competency they need to keep ROA.

And finally, banks and FinTech are realizing this potential and work for its uplift. So, moving from a competitive perspective, both of them now understand that collaboration is a win-win situation for both of them and more important than ever. With a digital-first and consumer-centric value proposition, banks are now realizing that FinTech firms have a significantly lower-cost structure than traditional banking organizations. This allows most FinTech firms to offer services at a much lower cost. From mortgage loan applications delivered on mobile devices to one-touch P2P payments, FinTech firms have changed the game around internal efficiency and external simplicity.

But the path is far from simple due to varying cultures, vastly different infrastructures and an ever-changing compliance-playing field. Banks are sprinting to keep ahead of IT security threats, which are constantly evolving and growing more sophisticated. Online banking has become a competitive test for banks. Regulations limit banks what they can communicate to customers and prospects. The privacy laws are strict and the penalties in case of a data breach is severe when effective data management is a vital first step toward improved collaboration between business lines and functions while streamlining compliance. So, banks and FinTech are struggling to find a common work space.

There is no one-size-fits-all approach to successful collaboration because participants select from among various engagement models to best suit their strategic objectives. According to a PWC study, the most common engagement models are white labeling, in-house solutions, and leveraging APIs. While some legacy organizations attempt to drive innovation from inside their organizations, most work externally through incubators, accelerators, hackathons, and venture funds. The greatest concern from the perspective of FinTech firms in working with traditional banks is their lack of agility and struggle to move quickly.

When it comes to FinTech versus banks, it is not only the comparison between banks and FinTech but it is also a comparison of innovation and traditional concept, asset managers and Robo-advisors, lenders versus peer to peer marketplaces, Traditional point of sales versus point of sale as apps. So, picking the right FinTechs to collaborate with and successfully implementing new technologies remain challenging for banks that have weak innovation cultures. Many banks have adopted a "if you can't beat 'em, join 'em" attitude. FinTechs feel the pain as they see a “perception gap” among some banks when it comes to working with third parties.

So, the questions arise: Where are the biggest opportunities in the market? Which value creation strategies have the best opportunities of success? How could a bank find the balance between touch and technology?

There is no single answer. Industry experts are still studying to find the best answer as bankers are divided over the issues.

It’s not jumping on bandwagon

As the adoption of technology has skyrocketed over the last decade, FinTechs have been stealing the spotlight. A shift in consumer behavior has left banks playing catch-up, while taking cues and drawing inspiration from FinTechs that typically offer digital or mobile-only financial services. Last year, the Alibaba Group reported $25.3 billion of orders as people globally are dumping cash in digital wallets. On 15 February 2018, Chinese New Year's Eve, 688 million people -- roughly half of China's population -- used WeChat to send and receive virtual hongbao (traditional red packets used to gift cash). So, many bankers see FinTech collaboration, and innovation more widely, is not about jumping on the latest bandwagon – it is about finding the best, most efficient way to deliver your business strategy and ultimately better serve your customers.

Collaborating with FinTech firms is integral to innovation, but most large institutions are poorly equipped for this. According to a global study, three-quarters of respondents accept they need to improve partnerships with outside firms, such as FinTechs, to accelerate innovation. Yet, they are not geared up for such collaboration, with complex decision-making processes and their approach to intellectual property causing problems. And only 19% consider their procurement processes to be ‘highly effective’ in enabling collaboration with FinTech firms. According to Deloitte, financial institutions are far more likely to collaborate than compete with FinTech, with some estimates suggesting that 82% of incumbent financial service providers expect to increase their FinTech partnerships in the next three to five years.

The prime reason is that FinTechs have a reputation for superior customer service, user experience, transparency and communication — all high-priority qualities that consumers are looking for. So, the growth of the industry has strengthened the common belief that FinTech will disrupt banking. But collaboration — not competition — will be the primary driver of disruption. The biggest near-term threat to most banks comes not from FinTechs but from traditional competitors better leveraging those FinTechs. A PWC study among 45 major global banks reveals that while all banks are engaged with FinTechs one way or another, only around a quarter are extensively engaged due to barriers to collaboration with FinTechs.

And this was admitted by the CEO of ANZ, Shayne Elliotttouched upon an old argument in the FinTech space – disruption vs. collaboration at the recent Sibos conference in Australia. Initial perceptions of FinTech startups pegged them as standalone disruptors of the financial ecosystem. The consensus within the financial sector is shifting though and, as Elliott indicated, there is a different trend starting to emerge across the board. So, the interesting development we have seen over the last 18 months or so is a shift to the view banks will work with FinTech – rather than FinTech replacing banks.

It’s an opportunity

FinTechs are providing three key sets of features that are attracting these consumers. Firstly, the ability to convert cash into digital payments, because young people often get paid in cash or get money from their parents, but spend the funds on Amazon or other digital platforms. Secondly the ability to gain visibility into where they are spending their money through financial education. And finally, the ability to make and receive peer-to-peer funds transfers, which allow them to access emergency funds from family or friends. So, bank-FinTech partnership is an opportunity for the economy and society. Some FinTechs, for example mobile financial service (MFS), offer banks ways to reach and acquire unbanked and underbanked segments of the population.

Onboarding lower-income customers via traditional means has been a mainstream finance challenge for decades. Building physical branches in remote areas, for a dispersed population with low-value accounts, for instance, is not viable in most circumstances. Digital technologies, however, make it more cost-effective to acquire and serve low-income populations, overcoming physical barriers and long distances. MFS tools have provided lower distribution and operational costs, greater scale, faster and more convenient service, more affordable and accessible products for low-income individuals, and ultimately a larger customer base for financial institutions. A series of developments in recent years has resulted in a ray of light in the not-too-distant future that could finally result in a consumer surge that will lead to a boom in a digital transformation.

The cashless journey by Gen Z

A wave of financial technology firms, many of them just a few years old, are changing the ways in which people borrow and save, pay for things, buy foreign exchange and send money. In doing so they are finding and mining rich seams of profit, challenging the business models of existing institutions and inflating a bubble of excitement among investors that technology and the internet are about to change banking for good. So, banks are racing to adopt mobile commerce and payment solutions, and can only do so with best-in-class technology talent. Amazon factor driving the mobile payment market is that they can be easily integrated with loyalty and incentive programs. The consumers are not required to keep cards or cash as all the necessary information gets stored in the app with every purchase they make.

In a report on mobile wallet adoption released recently, Juniper Research estimated that consumer spending through digital wallets would rise 40% this year in North America and Europe to $790 billion in 2019. The increase is due to a continued migration from consumers using cash, the transition by major banks to contactless cards as well as a surge from millennials and younger consumers who are increasingly using the iPhone, where the firm estimates that one third of the devices are being used to make contactless purchases. So, the value proposition issue is beginning to change, as mobile wallets are increasingly being used for online purchases and in-app payments, while added value is being realized from offerings like the bill payment tool from ACI Worldwide, which recently acquired Western Union's Walletron business and allows consumers to view and pay their bills through Apple Wallet and Google Pay.

The global mobile payment market was worth US$ 715 billion in 2017 and it is expanding rapidly. Mobile payment makes it easier and more convenient for consumers to pay for products compared to credit card or cash payments. As shopping is changing with mobile pay, banks have no option to collaborate with big mobile payment operators to keep customers who are doing banking with their smart phones and leave any bank within a single touch to enjoy better service from others.

Time to think outside the box

We are living in the digital age where technology innovation is transforming everything from retail shopping to banking financial landscape. Almost all markets across the globe are moving towards a cashless society as more brick-and-mortar businesses become cashless. Most new generation customers are doing banking with their smart phones and leave any bank within a single touch to enjoy better service from others. So, customer on-boarding communication is now an integral part of banking operations.

What once was a very tedious process of new customer on-boarding communication can now become highly personalized interactions based on individual activity post opening thanks to technology innovation. Data is constantly being collected, processed, organized and examined. In the coming days, banks will utilize the power of AI and machine learning to streamline their processes, lower costs, deliver better customer satisfaction and increase revenues. So, banks must keep up with technology and strive to be innovative. Be it through FinTech cooperation or even coming up with their own in-house innovations, this might include integrated chat platforms in order to solve customer problems or requests on the fly or algorithms to make trading smoother.

The ultimate low-cost solution is technology innovation brought out by FinTech operators. However, FinTech startups can provide the technology, knowledge, workforce and innovative thinking, and most importantly, they can build trusted relationships with potential clients. Partnerships like that can completely change the customer experience focusing not only on the product but the overall service provided. So, banks will need to shift from a hierarchical structure to an agile one, where leadership enables networks of teams to achieve their missions. FinTechs, for their part, need to better articulate the clear benefits of their technology and work with banks to deliver change. Even though some FinTech firms may not be regulated, as part of the banking ecosystem, they must understand regulations and conduct business in accordance with local laws.

The emergence of FinTech firms has included the emergence of new business models such as peer-to-peer (P2P) payments and lending, crowdsourced solutions, social network scoring models and other innovations impacting all sectors. With a digital-first and consumer-centric value proposition, FinTech firms have a significantly lower cost structure than traditional banking organizations. This allows most FinTech firms to offer services at a much lower cost. But the FinTechs feel the pain when banks are reluctant to link their systems as the privacy laws are strict and the penalties in case of a data breach is severe. So, time for both is to think outside the box.

Partner or perish

Unless banks and FinTech firms get better at working together, neither will reap the full benefits of innovation. industry experts say they must partner, or they may perish. They say FinTech companies and banks can solve the market and consumer challenges together, not replacing one another. They need to complement each other to create more efficient products. Jean-Philippe Vergne, strategy professor at the University of Western Ontario in Canada, suggests that banks must leverage the technology developed by FinTech startups to compete against big tech by using licensing agreements, acquisitions, partnerships or direct investment.

Partnerships can be equally beneficial for both sides. The opportunity is perhaps bigger than the opportunity in pure disruption, especially in the era of Open Banking that is taking hold in Europe and elsewhere around the globe. Changes in consumer behavior, advances in cloud-based technology, the growing power and availability of mobile devices, and the emergence of data science are challenging the business models of traditional financial institutions. Partnerships between FinTechs and banks will bring strategic value to both sides – the philosophy of partnership will add strategic value, insight, and management proficiency.

In an era where millennials are the largest generation in the workforce, banks need to take into consideration that most of them would be more interested in a mobile financial product from Amazon or Google than a traditional bank. So, globally financial institutions are embracing the disruptive nature of FinTech and 56% of them have included it in the heart of their strategy, according to the global FinTech review by PwC. Adopting one of many solutions FinTech startups can provide, banks and other financial institutions can gain additional returns on investment (up to 25%), expand their product services and create a new clientele.

BANGLADESH
Moving a head with mobile apps

Bangladesh is moving forward with high growth speed with a vision to become a middle-income nation through financial inclusion strategy. The government is promise-bound to build the country a Digital Bangladesh where digital transformation and collaboration are crucial. But large-scale corporate and commercial banks are being held back by siloed stacks of data and technologies, poor collaboration, and even conflict between departments and legacy systems.

The banking sector significantly lost trust in the past few years, and we are now seeing widespread efforts to transform conduct and transparency. This is being driven by regulations and changes in the C-suite. Rebuilding trust is likely to take time. However, business models and ecosystems are rapidly evolving and will require collaboration to mitigate reputational risks.

The FinTech ecosystem has demonstrated gradual evolution in the last couple of years, mainly based on payment and clearing systems whereas other areas of FinTech are yet to be developed. FinTech may boost financial inclusion but concerns remain for operational risks, cyber threats and macro instability driven by too much use of smart cards and increased velocity of money. Regulations permit banks to make partnership with FinTech, so most banks hired technology partners to leverage benefits of technology innovations. Over the course of the past year, we have seen a dynamic shift in the relationship between FinTech and more traditional bankers. Simply put, the two have started playing nice.

Mobile financial services (MFS) is the most successful area of bank-FinTech collaboration in Bangladesh which made a revolution after the launch of bKash, the largest MFS operators in the country and second largest global MFS player in terms of number of customers. Bkash is a unique success of Brac Bank-FinTech collaboration which has turned millions of unbanked people into bank customers within a span of time under a conducive regulatory environment. More than 32 million people are using this unique technology innovation to meet their daily financial needs and study terms bKash a game changer for poverty reduction. Sure Cash of Rupali Bank is another success in the MFS field where Pragati Systems Ltd, a Canada-Japan-Bangladesh joint venture firm ensures delivery of stipend money to hands of millions of students living in remote areas.

Industry experts say the proliferation of mobile phoneshas, in some developing countries, allowed payment systems to leapfrog those in more advanced economies. In the coming days, retail shops in Bangladesh would simply prefer not to handle cash any more, like the Crown and Anchor of UK and Hema store in China as their client base is young and comfortable with technology. If banks want to survive, they must build MFS technology which needs huge investment and special talent pool. The best and cost-effective option for them is partnership with MFS operators already tested in the market.

Partnership drives financial inclusion

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