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FinTech Revolution - Banks Partnering with FinTech Start-ups to create a Unified Customer Experience

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Resumen

Las nuevas empresas de tecnología financiera están amenazando con suplantar al sector bancario. Esto sin duda tiene un impacto en la generación de ingresos y el valor de la empresa. Las startups tienden a concentrarse en una línea de negocio, dándoles la ventaja del enfoque frente a los megabancos más diversos. Y casi todos los servicios que ofrecen los bancos están ahora bajo el ataque de algunos iniciadores. Aquí ofrecemos un análisis de las competencias de las primeras start-ups y cómo los bancos se asocian con ellos para crear una experiencia integrada del cliente. Hay una oportunidad para que los bancos comiencen a trabajar en colaboración con estas compañías, pero deben formular un plan de respuesta rápida para hacerlo antes de que el entorno bancario que evoluciona rápidamente supera su ventana para el cambio. Los bancos y fintechs tienen fortalezas que son complementarias y que deberían ser apalancadas para crear una experiencia financiera central más fuerte para los clientes, según Capgemini y Efma. Mientras que los fintechs sobresalen en la agilidad, la innovación y la explotación de la nueva tecnología, los bancos ofrecen capital, profundas bases de clientes y experiencia en el trabajo con los reguladores. Anks necesidad de "pensar en grande" como se esfuerzan por satisfacer las demandas de los clientes en evolución en la era digital. La renovación de los sistemas centrales y el establecimiento de competencias completas en el desarrollo de software basado en API2 serán prioridades importantes. Los bancos sólo podrán alcanzar su pleno potencial de crecimiento aceptando plenamente el papel creciente de los proveedores de fintech y creando vías para trabajar con ellos a medida que la red financiera digital continúa evolucionando

Startups, Fintech, Banca, Tecnologías Disruptivas

Abstract

New Financial Technology Startups are threatening to supplant the banking industry. This certainly has an impact on revenue generation and the value of the firm. The startups tend to concentrate on one line of business, giving them the advantage of focus vs. the more diverse megabanks. And nearly every service the banks offer is now under attack by some startup. Here we offer an analysis of the competencies of the top Start – ups and how banks are partnering with them to create an Integrated Customer Experience. There is opportunity for banks to begin working collaboratively with these companies, but they must formulate a rapid response plan to do so before the swiftly evolving bank environment outpaces their window for change. Banks and fintechs have strengths that are complementary and that should be leveraged to create a stronger central financial experience for customers, according to Capgemini and Efma. While fintechs excel in agility, innovation, and exploiting new technology, banks offer capital, deep customer bases, and expertise in working with regulators. Tanks need to "think big" as they strive to meet evolving customer demands in the digital age. Revamping core systems and establishing full competency in API-based software2 development will be high priorities. Banks will only be able to achieve their full growth potential by fully acceptin g the growing role of fintech providers and creating pathways to work with them as the digital financial network continues to evolve

Startups, Fintech, Banking, Disruptive Technologies

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Introduction

While retail banks have begun a tentative financial recovery worldwide, disruptive challenges are accelerating and will force banks to develop digital capabilities that "radically simplify" operations and reinvent customer service. That mandate for "digital simplicity" is the central finding of the expanded research behind BCG's annual report on global retail-banking excellence—or REBEX—titled Banking on Digital Simplicity. Global retail banking revenues rose 3 percent in 2015 to nearly $1.6 trillion, the report says in an overview of the industry's financial performance. It cites wide disparities in regional banking results and continuing pressure on profit margins globally.

Banks that develop digital and data capabilities to radically simplify their businesses while dramatically improving customer experience through greater efficiency, quality, and speed can achieve 50 percent more revenue per customer than peers, the report says. A committed, full-scale digital implementation is the only way for banks to achieve four goals that will allow them to rise above the median, according to the report:

- Understand, strengthen, and deepen customer relationships.
- Reimagine customer journeys from front to back using digital technologies.
- Create agile, simple, and highly collaborative organizations.
- Enhance digital capabilities.

Banks can either face disruption and the negative impact it entails, or reimagine themselves in a world of innovation based on customer-centric, omnichannel strategies.

The positive news is that the report, "The Future of FinTech and Banking," found 40 percent of U.S. banks already have some level of technical innovation projects under way, while another 56 percent have plans for such projects within the next two years. In addition, 60 percent of respondents said they were "somewhat" or "extensively" open to transitioning to a new business model, even if it meant sacrificing revenue to achieve this model.

"It is clear that the digital revolution in financial services is under way," the report reads, "but the impact on current banking players is not as well-defined. Digital disruption has the potential to shrink the role and relevance of today's banks, and simultaneously help them create better, faster, cheaper services that make them an even more essential part of everyday life for institutions and individuals.

Determining Options

The ease of partnering with a FinTech company does depend on what the product or feature is a piece of online banking functionality might be difficult while a standalone mobile application might be easy. Banks would do well to find ways to test whether a piece of functionality will provide value before doing the hard work. As an example, our Eastern Labs Express platform is capable of integrating into a bank's systems and operations via nightly file transfers. After a bank has had the chance to understand its potential loan volume and operational cost savings, it can make the decision on whether to upgrade to a direct core connection."

Musso agrees with Lively and Antonakes that a bank needs to consider FinTech connectivity to a core system. But he points out, as do others, that many FinTech applications are additive enhancements.

In other words, the applications do not require integration with the core system. As a result, there is nothing to prevent any bank from exploring.

FinTech partnerships with what he calls "augmenters and assisters" that have worked with, or want to work with, banks.

Most agree that the potential for the most disruption is in payments. But the reality is that at the front end of payments and at the back end of payments is a bank. And payments constitute a single service, while consumers have — and will always have — a wide range of banking needs: loans, deposits, investment advice, retirement advice, tax advice, a medium of exchange, and so on. Where FinTech is going to instrumentally change banking is the way financial institutions deliver those products and services.

Section 1

Startups with Major Growth Potential

Digital Assets Holdings

Year founded: 2014
Notable Investors: Citigroup, IBM

High-frequency traders can swap stocks in milliseconds, but it still takes a day or more for the money to move in many of Wall Street's markets. Digital Asset Holding plans to speed that using blockchain—the technology behind Bitcoin.

Blythe Masters, a pioneer of credit default swaps at JPMorgan Chase, joined as CEO last year

Kensho

Year founded: 2013
Notable Investors: Goldman Sachs, XFund

It's Siri for Wall Street. The AI software uses big data to analyze new events, answer traders' questions, and spit out reports predicting where markets are headed. Kensho has the potential to replace the Street's trove of market strategists, and its ability to crunch data and offer advice should make investment bankers nervous too.

Sofi

Year founded: 2011
Notable Investors: Peter Thiel, Softbank

SoFi, the online lending platform, made a splash earlier this year with a Super Bowl commercial trying to appeal to upwardly mobile millennials. The lender has drawn scrutiny for using an internal hedge fund to fund its loans. But SoFi has a lower default rate than its rivals, and Moody's recently rated the company's debt triple A.

Stripe

Year founded: 2011
Notable Investors: Andreessen Horowitz, Elon Musk

Stripe's platform allows any company to begin accepting customer payments in minutes—either by credit card or directly from a bank account. And Stripe wants to compete globally. In early June, when rival PayPal said it was pulling out of Turkey, Stripe CEO Patrick Collision tweeted in Turkish that his company was open for business.

Section 2

Banks approach

Despite the common threat, each of the big banks are attacking fintech differently. Bank of America, for instance, has consolidated its efforts under the leadership of one executive, Cathy Bessant, who serves as the head of technology and fintech for the entire bank. She has an "innovation budget" of $3 billion to spend on fintech and other new technology projects this year. If anyone in consumer banking at BofA wants to upgrade the bank's mobile app or partner with a fintech company, for instance, he must go to Bessant for approval. JPMorgan Chase appears to be looking more to partner with fintech companies rather than to build its own technology. In December, Chase signed a deal with business fintech lender OnDeck Capital, one of the most significant partnerships yet between a big bank and a finance startup. Chase also has a partnership with blockchain startup Digital Asset Holdings. (For more on promising fintech startups, see box.) Citi, meanwhile, is tackling fintech with a decentralized approach—and Bird's team in retail is just one piece. Unlike BofA, Citi has no single fintech czar for the whole company. Each division of Citi is allowed to make its own strategic decisions on how to counter the challenge from fintech and how much to spend to do so. Bird and Cox say that the plan in the retail division is to do a mix of partnering and developing technologies themselves. Things are very different in the Citi institutional payments business. There is no dedicated fintech unit inside the group. More than one arm of Citigroup is investing in financial startups directly. Citi's head of fintech for the investment bank, which is based in New York, runs a fund that invests in startups, including fintech companies.

Then there is Citi Ventures, a venture capital operation based in Silicon Valley that is very much focused on fintech opportunities. The investments that these units make in startups don't necessarily lead to partnerships with Citi. It's the responsibility of the individual business units to negotiate those deals. For now, Citi's try-everything approach seems to be working. The bank has consistently been in the vanguard in terms of tech innovation among its peers. It was one of the first to offer check depositing from a phone, though nearly all banks offer that now. And it continues to rapidly get more digital.

According to Citi's latest numbers, which were put together by a third-party consultant and are now nearly a year old, just over 46% of its customers use some sort of online banking, either on desktop or mobile. That was ever-so-slightly better than 45% for peers. But an impressive 36% of Citi's consumer-banking-product sales volume came from one of Citi's digital platforms. That compares with around 15% at the other big banks. Over the past year Citi's number of mobile users rose nearly 26%. Several fintech entrepreneurs say that Citi does tend to move faster than many of the other big banks. But it's not always clear who is the decision-maker at the bank—a possible downside of the decentralized approach.

Section 3.

Trends in Fintech

Increased Sophistication and Collaboration in Technology

In 2015, we saw the success of fintech companies transforming customer experiences by focusing on convenience, efficiency and user interface.

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As we head into 2016, we see the public markets continuing to embrace new categories of financial disruption, with an increased collaboration between companies, traditional financial institutions and Fintech challengers.

Artificial intelligence, virtual reality and robo-advising

Robo-advisers will be the biggest trend as the cost associated with traditional advisors does not make sense for clients who don't qualify as ultra-high-net-worth. Therefore, I anticipate robo-advisory demand to go up quite a bit.

While the rest of the tech world is moving toward virtual reality, in the fintech world, videos are going to be the biggest trend in 2016. With the ever-shrinking attention span of the millennials, we have seen with major players such as Nasdaq, BankMobile and all up-and-coming startups focusing their efforts on video production." Invest Di

The rise of big data

The biggest trend will be the continued democratization of data. Data in the financial markets — especially when it comes to decision support and alpha generating data — has often been captive to proprietary platforms or withheld completely from the diverse eco-system of financial market participants

Rise of alternative products and the sharing economy

The biggest trend will be that alternative finance products will continue to go mainstream. Public awareness of alternative finance options like peer-topeer (P2P) lending and equity crowdfunding is increasing.

And governments are updating regulations to allow more investors to participate in these types of markets.

Increased automation

The year 2016 will be all about ease-of-use. It will manifest in different kinds of applications, from automated investment management to new user on-boarding. A lot of new investors will join the markets this year driven by technology built to increase transparency of information and imaginative interfaces

Fintech IPOs

The most visible trend in the past year was the public market's appetite for fintech IPOs, most noticeably: Square, Shopify, FirstData and TransUnion. While 2015 was a year of many winners, there will likely be some shakeout in 2016 with certain companies breaking out and other, undercapitalized businesses falling by the wayside.

Security Management

With all the recent data breaches, security within financial services is one of the most talked about trends recently. It's one of the things that has the power to affect us the most. With mobile banking and payment technologies growing at record-breaking speeds, security management is growing at equivalent paces to keep up with these innovative products that need security technology to perform the way they should.

Regulatory actions

In addition to advancements in the robo-space, the continued ramp-up toward implementing the Department of Labor's (DOL) proposed fiduciary rule [also will be a trend]. If the DOL rule becomes effective in 2016.

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We will transition from evaluating its impact to planning for the implementation of the new regulations. It's a material shift for the industry, and could be the cause of both significant disruption and opportunity.

Blockchain adoption

The biggest trend is data services on the Blockchain. Blockchain is just a technology that does not do anything without a service connected to it. In the financial technology sector important players will (continue to) recognize what can be achieved by using this technology. Blockchain technology will provide this (public) accountability and help gain more trust and secure easy adoption in the financial sector.

Mobile Expansion and Greater Connectivity

We consider connectivity will be the biggest fintech trend in 2016. Connectivity means that anyone or anything will be able to interact, trade or exchange information anywhere and anytime. API technology is an enabler of this process. Integration with third parties significantly extends the range of capabilities of each fintech solution.

Conclusion

Some banks and fintech companies are in the early stages of collaboration, but for the partnerships to fully take hold, the companies need to fundamentally understand how they each operate and what they are hoping to achieve.

The release time of a product, its quality and price are not completely independent of each other. There is a trade-off between releasing a low-quality product early or a better product later.

Development time and quality are often more crucial factors than price. If the product is available one year earlier than the competitors' products, the commercial and financial benefits by being early in the market could be constrained by a slow rate of adoption resulting from poor product quality. In contrast, if the product is released one year later, the potential growth due to better quality could be compromised by higher adoption rates of competing products, switching costs or entry barriers. A detailed analysis of these issues is necessary to quantify the uncertainty ot different market timing strategies and their impact on revenues.

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