RESEARCH INSIGHTS

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FinTech's
A friend or a foe to banks

In the recent years, the rapid rise of fintech firms has caught many incumbents flatfooted. Incorporation of technological innovations while provisioning and designing financial services has significantly altered the dynamics of the financial sector.

What is Financial Technology?

Fintech is a combination of the terms financial and technology. It is used to describe financial services that leverage technology, innovation, and data to enhance and automate the industry. Fintech now describes a variety of financial activities such as money transfers, depositing a check with your smartphone, bypassing a bank branch to apply for credit, raising money for a business start-up or managing your investments, generally without the assistance of a person. Many traditional finance companies have incorporated technology into their operations to respond to changing trends and become more innovative and inventive.

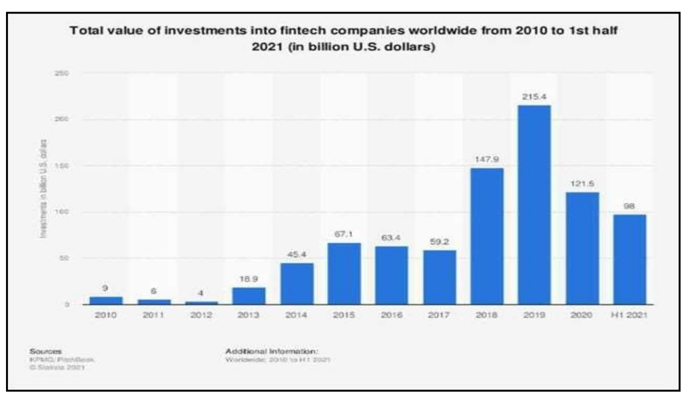
However, fintech still refers to new start-ups that have emerged in the last decade or so and are co- existing with established large finance companies. According to EY's 2017 Fintech Adoption Index, one-third of consumers utilize at least two or more fintech services and those consumers are also increasingly aware of fintech as a part of their daily lives.

Fintech Industry Valuation and Growth

The financial technology market is expected to grow gradually and reach a market value of approximately 324 billion by 2026 growing at a compound annual rate of about 23.14% over the forecast period 2021- 2026. The global FinTech market can be segmented into technology, service, application, and region. Based on technology, the market can be segmented into API, AI, blockchain, distributed computing and others, including big data and robotic process automation

Banking firms across the globe, are implementing advanced risk analytics and fraud detection capabilities to prevent the loss of sensitive customer information. Based on service, the market can be segmented into payment, fund transfers, personal finance, loans, insurance, and others including equity, and wealth management. Lastly, based on end use industry, the market is sub-segmented into banking, insurance, securities, and others including ecommerce and ITR.

Some of the biggest names in the fintech industry that have integrated both finance as well as technology are Visa, Mastercard, Ant Financial, Tencent, PayPal, Intuit, Stripe, Adyen, Block and Coinbase.

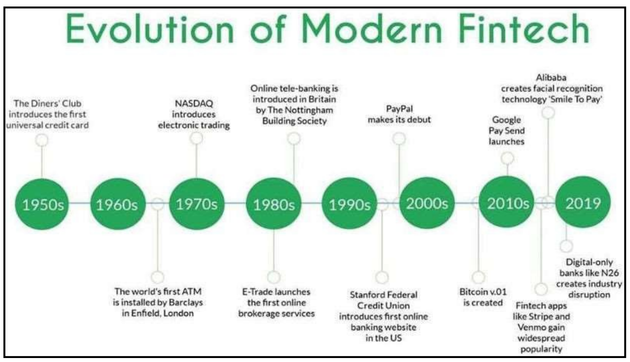


The Evolution and Users of Fintech

Initiated by the birth of the credit card (the 1950s) and the ATM (1960s), fintech has been growing ever since.

There used to be a time when fintech only pertained to the back- office operations of banks or stock trading companies. The Internet boom and the rise of mobile computing has propelled fintech to become a continuing global revolution.

Today, fintech has indeed taken an important space in the digital world. With an expanding family of robust technological tools for personal and commercial finance, it is poised to further grow in use and impact.



There are two main types of fintech users, namely consumers and business users. Nevertheless, today, there are four common function-specific fintech users.

They are:

A) Consumers
B) B2C for small businesses
C) B2B for banks
D) Bank's business clients

Fintech vs Traditional Banks: What's the Difference?

Once upon a time, traditional banks were the only place to open a checking or savings account, get a loan, exchange currency, or apply for a debit or credit card. A customer would have to visit a bank branch in person, fill out forms, and even meet face-to-face with a bank representative. But technology and mobile banking have changed all that.

Fintech emerged with the birth of the internet in the late 1990s. New technology was applied to backend banking systems to digitize information and processes.

With the advent of the smartphone and the Fourth Industrial Revolution, the modern consumer was introduced to the speed and convenience of shopping and paying through application programming interfaces (APIs) or apps.

Fintech start-ups identified gaps in the marketplace where they could jump in and offer more convenient and streamlined services better suited to modern consumers. Start-ups with innovative technology and access to big data offered platforms and solutions for banking, personal financing, wealth management, and payments.

When it comes to the way of doing business both traditional banks and Fintech companies operate as financial service providers but have different ways of doing business. Fintech is innovative, customer centric and streamlines complex financial processes making it more accessible to people. These companies use lean operating models that are free of legacy system issues and can circumvent unfavorable regulations.

Moreover, because of the flatter organizational structures in Fintech, it's easier to change, innovate and rebuild systems that aren't working. On the other hand, the legacy systems and regulatory framework that banks use restrict their ability to leverage new technologies in time. For this reason, banks can't introduce new services or products that address customer needs or issues at the same speed as fintech companies. Overall, banks are more process- oriented when compared to the other.

Secondly, Fintech's are agile and accessible. They work virtually, so consumers don't need to physically be present to transact or partake in financial services. This makes fintech a convenient option. They also offer 24/7 access, remote account opening, quick consultations, and better communication with customers overall. In most cases, banks require you to be physically present to open an account or to apply for financial services. Not all banks have the technology to verify your identity online. This makes traditional banking less convenient for consumers, leading to an unsatisfactory experience.

Lastly, traditional banks have the upper hand over fintech's regarding security. After all, they're highly regulated by the central banks and there are safeguards in place to protect assets. However, since the pandemic, which forced many people to do business remotely, security concerns with digital banking have been somewhat assuaged.

How relationships between fintech companies and banks will shape the future of finance

As the finance industry grapples with what the next generation of banks and payment systems will look like, it's clear that partnerships are a linchpin for riding the wave of change successfully, whether it's a multibillion-dollar traditional bank or a start-up looking to bring cutting-edge technology into the mainstream. Moreover, the collaboration of fintech's and banks can benefit each other by building up brand reputation, offering more function and features, increased ease of use, broadened consumer base and reduce costs.

The bottom line

Innovation typically improves inefficiencies and financial institutions are already leveraging strategic relationships with fintech's to remain compliant while providing customers with the quality of service they demand. It is important for both banks and fintech's to continue putting customer needs first, and it is their responsibility to adapt and grow.

Writers' opinion

Banks have dramatically evolved in the way it functions under the influence of new age technologies such as analytics and machine learning. FinTech start-ups too are fast picking up in the adoption of technologies.

Some of the banks are even acquiring FinTech start- ups to enhance their services. Many financial institutions including Barclays, Citibank, Goldman Sachs have accelerator programs for FinTech's whereas HSBC, UBS, and Deutsche Bank have invested into FinTech firms which offer solutions across personal finance, wealth management, lending, payments, blockchain, data analytics and other regulatory technology.

FinTech's and banks are not foes, however, amidst the global fintech boom Commercial banks and fintech companies should work together to provide faster and efficient financial services. Most of the fintech companies are small nimble and innovative, on the other hand banks have large distribution networks and large balance sheets, therefore a collaboration between banks and fintech's is a win- win.

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