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FINTECH & BANK FUSION

There Are Certain Things In Life That You Expect To Be Boring.

FINTECH & BANK FUSION

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THERE ARE CERTAIN THINGS IN LIFE THAT YOU EXPECT TO BE BORING.

For example, rice cakes, waiting rooms, stories about rocks – and certain things that you hope will be boring like visits to the dentist and travel by plane.

Along the boring/non-boring continuum, we want our banks to be steadfast and reliable.

So, really, we kind of want banks to be boring. They control our life savings, mortgages, and college loans – you know, important stuff. So, it's hardly surprising that even during an explosion of Wall Street fintech investments, banks have stuck to what they've historically done best: store, protect, and loan money.

But now, new technologies and a changing consumer environment are forcing banks to act more like fintechs and vice versa. The result is a hazy fusion of the two, with new battle lines and even reluctant cooperation.

Early fintech pioneers like Quicken® and MS Money reimagined the banking experience for first adopters in the emerging digital age (Quicken first came out 34 years ago).[1] They relied on partner banks to make their data available in proprietary formats that could then be manipulated into electronic spreadsheets.[2] Over the years, these companies added services like electronic billing and online bill pay, but the banks themselves took a little longer.[3]

Now, changing consumer habits are making it clear to banks, either get with the times or lose business. "It's come into sharp focus that banks need to become relevant to the consumer," says Nigel Motyer, who heads up First Data's Direct Acquiring Business in EMEA and sits on the Board of Directors at First Data Europe. "Why did PayPal® become so all-pervasive? Because it was the only method of payment that you had on eBay – and the consumer loved eBay."

Consumers also love a new way to pay their friends and family, via person-to-person micropayments. Early versions allowed for easy payments via text messages. Now, person-to-person micropayments live on a platform nearly indistinguishable from social media, a no-go zone for banks.[4]

"Banks, traditionally, were very slow to adopt new technology. They were reluctant to jump into these new areas," says Motyer. "I worked at a bank for many years, and there was a great nervousness about social media. But that's all changing." Consumers today choose banks for their service, without bias as to whether they're traditional brick-and-mortar or all online.

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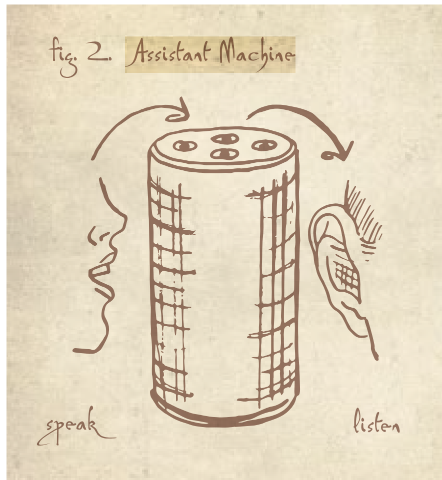
>
> **Nigel Motyer**
> Board of Directors | First Data Europe

So, banks have stepped up, have started to "shake off" the old stodgy perceptions and are beginning to innovate in response to consumer needs. Recently, major banks collaborated to create their own fintech P2P platform called Zelle®, which allows account holders to transfer cash instantly over apps or online.

Meanwhile, the fintech world is actively seizing ground once monopolized by banks. SoFi® is an online company that provides personal loans, mortgages, and student loan refinancing, mostly targeting Millennials.[5] GreenSky® offers instant loans for home improvements,[6] and Avant® offers loans to consumers with low credit scores.[7]

First Data®, a leading fintech and not a bank, is a player in the space as well, giving consumers more options for managing their money with Money Network®, their comprehensive electronic payment delivery solution. A consumer can receive their pay electronically, easily manage finances using the Money Network® Mobile App, and choose from multiple no-cost options for accessing wages.[8]

In Europe, there's been a massive acceleration in fintechs vying for a share of traditional bank services due to new rules that have come into effect. This January, the Revised Payments Services Directive (PSD2) ushered in mandatory open Application Program Interface (API) protocols for banks, allowing third-party vendors to push or pull payments and data directly to and from customer accounts.[9]



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Accenture

With PSD2, and an earlier effort in the U.K. called Open Banking,[10] regulators are seeking to break the monopoly on financial services enjoyed by banks and even major credit card providers such as Mastercard® and Visa® – both of which are based in the U.S. Now, any vendor with at least one EU-registered entity can apply to become a Payment Initiation Service Provider (PISP).

“PISPs have the ability to initiate a payment on behalf of somebody else,” says Motyer. “And, if you register as such, you can open up your checkout payments to allow that person-to-person or peer-to-peer payment. So, you can see bigger merchants like Amazon® becoming a PISP.”

Banks have been inundated with requests from all sorts of merchants wanting to register as PISPs and under strict rules governing their actions, they are obligated to provide the APIs. That’s raising serious concerns among traditional banks in regards to customer security and fraud. Have we mentioned First Data has a suite of best-in-class security and fraud tools for businesses of all sizes? – Yes, shameless plug.

“They’re quite nervous, as you’d suspect,” says Peter O’Halloran, First Data’s Vice President of International eCommerce. “They’ve got all of these companies coming in with requests, and now with their servers being interconnected, they’re on the lookout for anything nefarious.”

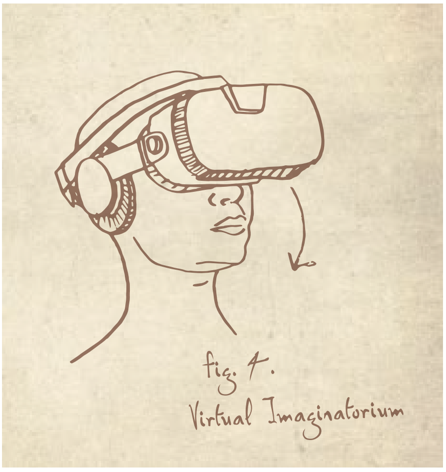
But despite the caution, banks are seeing great incentive to innovate. An Accenture study found “banks that embrace open banking will profit from a potential revenue uplift of 20 percent, whereas those failing to do so risk losing 30 percent to disruptive industry players by 2020.”[11]

With that much at stake, the number of fintech newcomers is growing. A Capgemini fintech report identified $110 billion in new capital since 2009. And nearly 90% of the fintechs surveyed, say they want collaborative partnerships with traditional firms.[12]

So, to reassert some control, and to avoid being disintermediated, most of Europe’s largest banks have created their own fintech incubators, from which they can home-grow and implement new technologies. Citi, Barclays and ING have some of the most prolific.[13] The EU is also working on a draft plan to create a regional fintech incubator with cybersecurity topping the list of its priorities.[14]

Based on the Capgemini report, banks believe this hybrid is a winning strategy because customers vastly prefer traditional bank brands over startups. “They are all focused on the idea of – if we have to publish these APIs, what can we do to leverage our own APIs to provide value-added services to our customers?” says O’Halloran.

But, becoming more like fintechs won’t be easy, according to a new report by Accenture and the Partnership Fund of New York. Not only does it confirm that their methodical corporate culture clashes with the entrepreneurial speed of fintechs, but it also shows they are reluctant to toss out decades-old infrastructure and update their technology.[15]



However, a separate study commissioned by First Data reveals a silver lining: greater challenges create greater opportunities. The report says the open API concept has applications that will lead to innovations in all areas of banking, and soon, third parties will begin to overlay their advancements in fraud protection, analytics, and even IT.[16]

If that’s true, bankers could soon be loosening their ties, unbuttoning that top button, and rockin’ some Aviators.

In This Article:

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