6 Banks and FinTech: towards a collaborative ecosystem

The corporate model is changing: from large corporations that used to directly control all the steps along their value chain (even though they could outsource some of their non-critical functions), to the model of the internet majors (such as Google, Amazon, Facebook and Apple), which are organised as collaborative ecosystems that allow them to offer a broad diversity of services around their core business, while they keep tabs on the inter-relationship with the customer (and therefore the data that emerges from such interaction).

In the world of financial services, disruption comes from a whole constellation of new companies that use technology to great effect to offer financial services which address customers’ real needs in a straightforward and, almost exclusively, digital way: the so-called FinTech companies. The value they offer is, in most cases, of the niche variety. It focuses on a single segment or product, attaching great importance to the relationship with the customer, and occasionally calling on the services of financial institutions or payment services providers which meet the regulatory requirements to step into the back-office role. FinTech companies received investments worth USD12.1bn in 2014 (0.02% of World GDP), tripling the 2013 figure\(^2\). Although, generally speaking, the business volume they generate is no match for that of the major banks, such investment figures underscore this particular sector’s importance and potential.

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Figure 4
Disaggregation of the package of banking services

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Both the FinTech companies and the major technology companies often choose not to charge customers when they offer financial services, since their aim is not to make such services profitable, but instead to broaden their consumer base by competing in terms of price and usability. On the other hand, new entrants are taking advantage of not being subject to such strict regulatory control as the banks. These factors facilitate cutting out the middlemen (disintermediation) in financial services.

The abundance of free, customer-friendly services on offer is disaggregating the range of services which banks offer and opening up cracks through which financial institutions that do not adapt might lose not just their profits from such business, but also their role as key point of contact with the customer when it comes to their financial affairs. In theory, a customer could enjoy all of the services that a bank offers (saving, payments, loans, investment), by cherry-picking from what all the various start-ups have to offer (Figure 4).

Customers of traditional banks are increasingly open to using such alternatives, and 55% of millennials would actually use such services, according to a survey run by Ipsos Media. The major banks are aware of the threat which new competitors of this kind potentially pose to their business model, for which reason they are tailoring their strategies and turning to partnership models. Examples of strategies of increased cooperation by the traditional banks with the FinTech world are:

- Sponsorship of incubator programmes for financial start-ups (such as by Barclays or Wells Fargo), competitions (BBVA Open Talent) or laboratories (for example, the UBS Blockchain Research Lab). In the specific case of the blockchain, an alliance of banks has been set up to look into the potential of this technology in their business (R3).
- Strategic alliances with FinTech companies, such as BBVA’s agreements with Dwolla, or those of Citi with Lending Club.
- Investment in or acquisition of such companies. American Express, BBVA, HSBC and Santander have set up venture capital divisions. The major banks such as Citi, Goldman Sachs or JPMorgan are committing to such investments, especially in the payments, big data and interpersonal loan segments, according to CB Insights.

Such strategies allow banks to supplement the range of services they offer, as well as to learn how the new competitors work and understand customer needs in the digital world. On top of this, new products could be bolted on more quickly, as the current IT systems of the major banks are highly complex and developing new solutions would be extremely expensive.

This trend opens the doors to the transformation of the organisational models of banks, and moving away from structures that offer a one-stop shop using their own resources towards setting up ecosystems built around their core activity that are more akin to the model used by the larger technology companies. Through this kind of new structure, that features greater proximity to both customers and the areas of expertise of the start-ups in the digital world, the major banks can reinvent themselves as aggregators of the services which the new technology companies have disaggregated before them, so as to continue being the reference point for customers as far as their financial affairs are concerned.

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4: Swamy, Avinash, "How are banks reacting to FinTech". Medium. 21 January 2015. 20 Oct. 2015 [https://medium.com/@avinashswamy/how-are-banks-reacting-to-fintech-891617c69321]

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