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The Fintech and Banking: Disruption or Collaboration- An Exploration

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ABSTRACT

With its huge potential of disruption in the financial world, the term FinTech has become a new buzzword. Its fast evolution has twin impact- a more innovative way of delivering the financial services and on the other hand existential threat to many in the financial world.

This paper is an attempt to explore the emergence of FinTech and how it is impacting the incumbents. The paper is based on the literature review. Many research papers, business reports, business reviews etc. were scanned and synthesized. It is evident that FinTech is expected to shake the financial world like never before. The survivors amongst incumbents would be those who adopt or collaborate quickly. On the other side, the challengers need to attain a critical scale to survive the coming onslaught.

keywords: FinTech, Financial Services, Blockchain, Bank, Digital, Collaboration, Technology, Customer

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http://heb-nic.in/cass-studies	Quick Response Code:
Received on 20/02/2019 Accepted on 25/02/2019 © HEB All rights reserved	

INTRODUCTION

The term FinTech which has caught the attention worldwide nowadays is being expanded as- “Financial Technology”. The technology was being used in the financial sector since ages. Core Baking Solutions, Automated Teller Machines, Online Banking etc. are some of the examples however barring few exceptions the focus was on the backend.

FinTech is used to describe the new tech that seeks to improve and automate the delivery and use of financial services’ (Investopedia). At its core, FinTech is utilized to help various stakeholders such as the companies, business owners and consumers better manage their financial operations, processes, and lives by utilizing emerging and specialized software and algorithms that are used on computers, laptops and, increasingly, smartphones. After its emergence in the last century, the FinTech was largely applied at the backend in the banks and other financial institutions to improve operational efficiency. The online banking with centralised servers being accessed by many for transactions in real-time is a classic example of the earlier application of FinTech.

In contrast to its earlier form, the Fin Tech in its new avatar is poised to make a huge impact on the front end ie customer facing point. And, unlike the past where it offered an incremental gain in the form of better efficiencies, this time it is posing a serious challenge for exiting player in the financial services sector in the form of possible disruption in their business models itself. The emerging technologies have the potential to redefine the way products and services are delivered in the financial world, improve operational efficiencies and internal process and eliminate or reduce the redundancies. The technologies such as automation, block chain, cloud computing, IOT, robotics etc have started rewriting the rules of the financial world. In near future, we may find a completely different way in which products and services such as savings, lending, insurance, investment, payments, fundraising, remittances etc are being offered by the existing players in banking and financial sector.

The most talked-about FinTech start-ups have a similarity: they are lean, agile and nimble, and have unlimited reach. They are creating their own markets by reaching the underserved and traditionally ignored segments. They are designed to be a threat to and challenge the incumbents by providing a better level and fast service.

The impact is visible and to improve the internal operations and customer experience, the financial service provider has started investing in newer models, systems, and technologies. In fy 2016, the global investment in AI alone touched \$5.1 billion, up from \$4.0 billion in 2015. The large commercial and investment banks are embracing AI and blockchain technology for both back-office and front end i.e. customer interaction points.

With its agility, lower operational cost, and vast reach FinTech offers a huge opportunity to developing as well as the developed world. Especially in the developing world, the countries can leapfrog and help their citizen in bringing them into the mainstream through financial inclusion by making good use of this FinTech.

THE OBJECTIVE OF THE STUDY

The objectives of the study are to explore the emergence of FinTech and its impact on the banking sector. The study is an effort to understand weather FinTech will enrich the customer experience in collaboration with the banking sector or will it play a role of a disruptor.

The study would also access the current strengths and weaknesses of both, FinTech companies as well as the Banks, and how these players are likely to interact in the future.

RESEARCH METHODOLOGY

The undertaken research is purely exploratory in nature. Many scholarly research papers, journals, business reports etc were studied, scanned and synthesized to understand the subject matter.

LITERATURE REVIEW

Tatjana Vasiljeva, Kristina Lukanova (2016) found in their study on FinTech that, despite the emergence of FinTech companies the Banks are holding their ground as they have the trust and faith of the general public and this is one area where FinTech companies have yet to prove themselves. The banks have shown a great concern on the digitalization and the automation of processes and keen to invest in this part. To cater to the newer demands, banks are also keen on investing in a secure centralized network.

The collaboration of existing banks and FinTech companies can lead to the creation of a digital bank, which will have the regulation compliance, trust, and faith of a bank, and the nimbleness of a FinTech Company. This form of banking would possibly offer a much better level of services to its customers.

Peter Gomber, Jascha-Alexander Koch, Michael Siering (2018) in their paper "Digital Finance and FinTech: current research and future research directions" have concluded that the rise of new competitors, which have the new and innovative business models, is changing the current industry dynamics. Newer concepts such as digital finance, more tech-savvy customers, newer and disruptive technologies, and the process of digitalization are posing some serious challenges for incumbents. The newer competitors are disrupting and disintermediating all functions of financial services and challenges are compounded with ever-changing economic environment, and a strict and a cost-effective regulation.

The most players in the industry try to design customized, intelligent, and flexible, however cost-efficient, financial products and services and strive to achieve new levels of customer centricity.

Jarunee Wonglimpiyarat (2018) in her study on FinTech found that the Innovators could adopt different strategies to exploit at various stages of innovation and this process will determine the level of adoption. The pursuit of collaborative strategy may result in the systematic characteristics of the innovation process changing irreversibly. It is quite evident that the future diffusion of FinTech based innovations will need Government support.

Peter Gomber, Robert J. Kauffman, Chris Parker, Bruce W. Weber (2017) suggested in their paper that it is more appropriate for the larger financial firms to outsource the work of developing the value creating FinTech application to smaller players as it is difficult to develop this capability in house as it needs a large investment and there is a scarcity of talent in the market.

With the passage of time, the FinTech sector is likely to grow and adjust itself to the demand of the industry. Its evolution will lead to the emergence of a newer industry sector and it will happen in a very near future.

Margaret Weichert (2017) in her paper “The future of payments: How FinTech players are accelerating customer-driven innovation in financial services” concluded that despite cash being the king at present, the impact factors such as machine learning, data analytics etc is driving the customer convenience and satisfaction thus propelling the FinTech growth.

Stefanie Gsell, Julia Mette (2017) concluded that out of the four pillars -Customer Interface, Product, Infrastructure Management, and Financial Management, the Customer Interface will get affected most by the digitalization. The banks have to focus on both, digital and analog channels. Also, there is a need for more personalized and less complex products for easy online access. The cost efficiencies can be achieved through digitalization in operations e.g. Robo advisors.

The banks have realized the potential and the benefits digitalization offers. This had led to the adaption of digitalization in their business models. The speed, innovativeness and a customer focus are the three key parameters needed to master the transformation. To ensure a great customer experience, she needs to be offered a seamless experience across all channels and touchpoints, including a smooth transition between the channels.

Anna Omarini (2017) in her paper “The Digital Transformation in Banking and The Role of FinTechs in the New Financial Intermediation Scenario” stated that the banks need to consider developing new forms of collaboration with FinTech players as their expertise lies in technology and they would need banks for things as access to consumer deposits or related account data, access to payment systems, credit origination, and compliance management.

While banks and FinTech players collaborate together in a given value network, the position of greatest value or power will lie at the control point of this value chain and, whosoever hold these positions will have a great deal of control over how the network operates and how the benefits are redistributed.

The standard practice of banks offering the full range of banking products also needs a revisit. Successful collaboration and impactful deployment of technology will make a difference in the future.

Tatiana Zalan, Elissar Toufaily (2017) in their unique work on “The Promise of FinTech in Emerging Markets: Not as Disruptive” concluded that there does not appear to be a sense of urgency among the financial services providers, with some banks being in denial about the potential threat from NBFIs. The possible reason is that the sector in the region, and particularly in the UAE, is relatively profitable, in part as a result of regulation that creates high barriers to entry. FinTech is a trend that is riskier not to monitor and the banking sector will be well advised to view its business through a disruptor’s lens, challenge its own assumptions and identify the segments vulnerable to disruption.

The second key finding is that FinTech innovations in emerging markets are likely to be disruptive in some customer segments (SMEs, millennials and the unbanked) and in selected financial services/products (crowdfunding, peer to peer lending, wealth management, and advisory).

More flexibility from the regulatory body and government is required for proliferation and adaptation of FinTech. The threat from large technology firms such as Google, Apple. Facebook, Amazon etc is underestimated.

OBSERVATIONS

As said earlier, the existing wave of financial technology is unlike the earlier one where it had an incremental impact and was focused around the back end. The FinTech this time is gearing up to disrupt the banking at its core and is on the cusp of redefining the way products and services are delivered in the financial world.

Few of the key observations are as follows:

The financial services providers and banks are staring at a massive transformation. Emerging newer technologies, the digital form of finance, highly tech-savvy customers, and the digitalization of the industry challenges the existing business models.

Despite cash being the still king at present, FinTech players riding on technologies such as automation, blockchain, cloud computing, machine learning, data analytics etc are driving customer convenience and satisfaction

FinTech innovations in emerging markets are likely to be disruptive in some customer segments (SMEs, millennials and the unbanked) and in selected financial services/products (crowdfunding, P2P lending, wealth management, and advisory).

FinTech technology is an early phase of its life however evolving very fast. FinTech players are asset light, lean and mean machine riding on the power of tech. They do not carry any legacy and does not have any regulatory burden at the movement.

The banks do have an advantage in the form of the huge customer base, time tested business models and scale of business. However, they need to work in a strict regulatory framework. The legacy system and the prevailing culture may be a hindrance in adaptation.

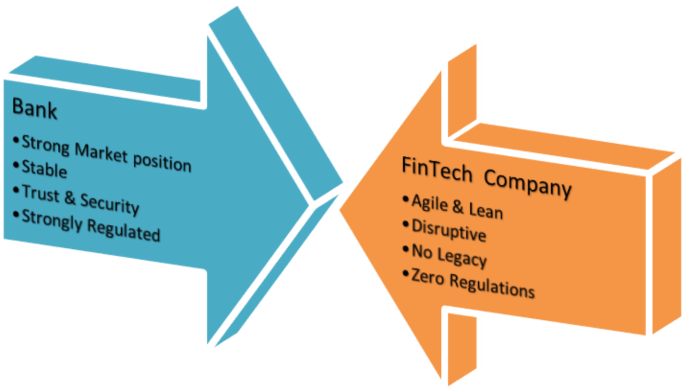

Figure 1: USPs of a Bank and FinTech company

Realizing the huge potential of digitalization, the banks are deepening their presence in it and are in the process of adapting the newer and better business models. Considering the limited available talent and in-house expertise, a cost-effective way for the banks would be outsourcing and/or building partnerships with FinTech players. A collaboration, where bank and FinTech player come with their own respective strengths may be the best way forward.

The banks or FinTech players holding the control points in the value network chains will have a great deal of power and control over how this network operates and how the overall benefits are redistributed.

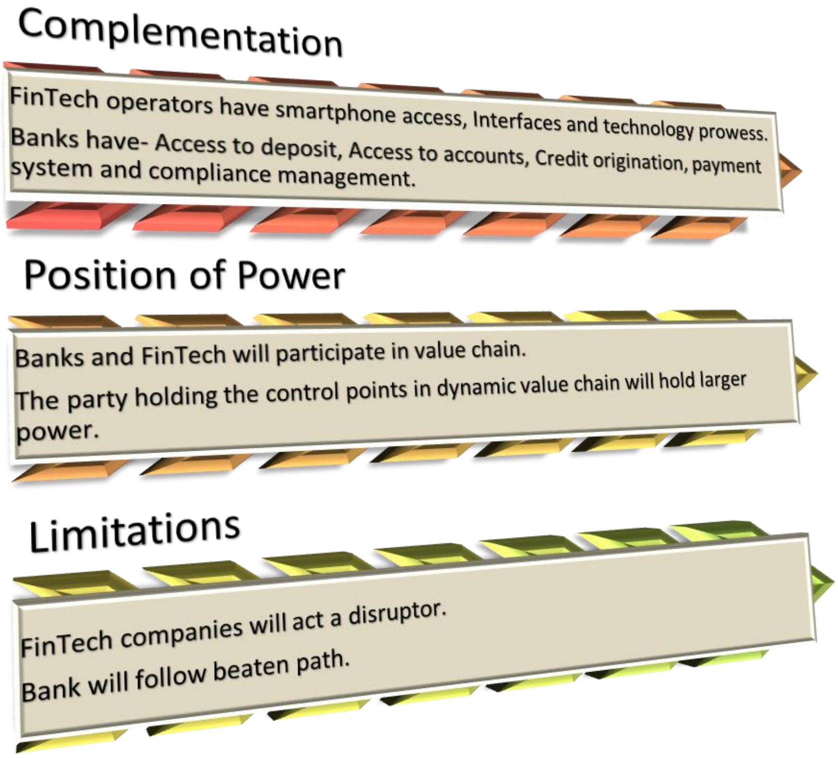

Figure 2: Complementation, Power Position & Limitations

The standard practice of offering the full range of products by banks need a revision. The USP needs to be built around the effective implementation and application of the available technologies. Evidently, the future diffusion of FinTech based innovations and to optimize the outcome, it would need the support of the Government.

CONCLUSION

It was rightly said that; Digitization often lowers entry barriers, causing long-established boundaries between sectors to tumble. At the same time, the "plug and play" nature of digital assets causes value chains to disaggregate, creating openings for focused, fast-moving competitors. New market entrants often scale up rapidly at a lower cost than legacy players can, and returns may grow rapidly as more customers join the network" (Hirt and Millmott, 2014). It does not predict the death of the bank. The banking sector has shown remarkable resilience in the past.

The FinTech revolution where financial institutions and banks face new competitors with different and more specialized business models forcing disaggregation of the existing value chain. With technology driven solutions, FinTech players offer alternatives to banking services including payments, insurance, investment, lending etc. Few important questions at this juncture- Can the banks and financial institutions be at the forefront of new developments by absorbing FinTech players and their innovations? Will banks and FinTech be complementary and collaborative? Or will banks fade away, with new technology driven players assuming prominence in the financial sector?

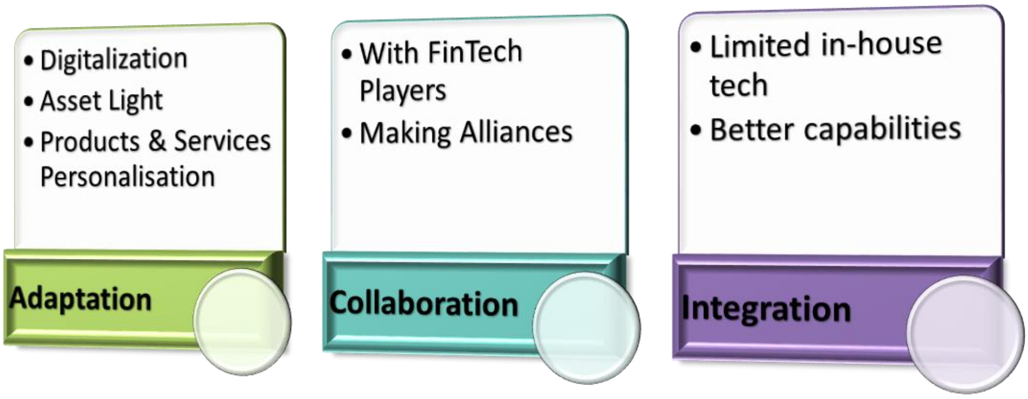

Figure 3: Emerging options for the banks

Banks have already started strengthening their presence in the digital world and the FinTech companies have come with product and services which are far more consumer friendly and attractive than the existing one, and have started gaining the much desired traction. Adaption, collaboration, and integration are going to be the mantra of success. Playing on their strengths, the quick movers from both sides, banking, and FinTech are likely to gain strength and stay in the game, and the rest are likely to be trampled in the stampede.

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